

Study of Accounting from an Analytical Approach

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Abstract: *With a major focus on accounting valuation, this study provides a selective, analytical overview of the financial accounting literature. This review covers implied costs of equity capital, empirical accounting proxies, and frictions in accounting theory. According to this author, too much complacency and a lack of critical thought typically characterise accounting research in these fields. Complacency stifles innovative research in the field of financial accounting and undermines the long-term viability of the accounting academic community. Examples of issues covered in this paper include (but are not limited to) the problem of structural modelling and model falsifiability; determining whether a firm is overpriced or underpriced based on valuation models that do not take into account such phenomena; arbitrarily "merging" two disparate models, one for valuation and one for the discount rate; failing to recognise the empirical limitations induced by risk-neutral valuation models in estimating costs of capital; and using valuation models that do not account for such phenomena.*

Keywords: Cost of capital, accounting research, and financial accounting

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