

**FINANCIAL ACCOUNTING III
ACCOUNTING THEORY II (26:010:680)**

Spring 2017

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Seminar Objective

The Accounting Theory III course is an extension of Accounting Theory I and II courses. The primary objective of this course is to discuss ongoing and emerging issues in financial accounting and prepare students for conducting empirical research in financial accounting. A number of financial accounting topics are selected for presentation and discussion in the classroom, and several papers are suggested for reading on each topic.

Students are required to read the suggested papers for every meeting, and they are encouraged to do their own research to identify additional research papers on the topic of discussion in each meeting. The students are expected to come prepared on the topic that will be discussed in the classroom. We will cover at least two/three papers in each meeting. Students are required to submit a written report on the assigned papers.

Students are requested to pick a topic for research and submit their reports by the end of semester. The guidelines for writing and presentation of the paper are given below: The paper should clearly state its motivation, provide background on the topic (including literature review) and develop hypotheses for the paper, provide details on sample selection and data collection, develop proper methodology to test the hypotheses, and discuss the findings. The conclusion section should discuss how your findings will add to our better understanding of the issue discussed in the paper.

Grading

Participation in class room discussion	-	20 %
Written reports on assigned papers:		20%
Research Paper		40%
Presentation of the paper		20%

Guidelines for reports on the assigned research papers:

1. What is the research question? What is motivation for this research paper?
2. Discuss theoretical arguments in support of the research question.
3. Discuss existing research on this topic.
4. Research Methodology:
 - Discuss the research methodology used to examine the question?
 - Is this methodology appropriate? Is there any alternative methodology that could have been used?
 - What type of data are used? What is the source of data?
5. Discussion of Results
 - What are the main findings?
 - Interpretation of the findings?
 - Are these findings consistent with the hypotheses
6. What is paper's contribution to the literature?

**FINANCIAL ACCOUNTING III SEMINAR III
SPRING 2017**

OUTLINE

Meeting - Jan 27, 2017.

Accounting Information and Market Research & Research Methodology

1. Accounting Information and stock markets
2. Price and Return Models
3. Earnings Response Coefficient
4. Post-Earnings announcement Drift

Required Readings

1. Bernard V. and J. Thomas "Post-earnings announcement drift : Delayed price response or risk premium?" Journal of Accounting Research, 27 (Supplement) 1989: 1-48.
2. Collins D. and S.P.Kothari, "An Analysis of intertemporal and cross sectional determinants of earnings response coefficients," Journal of Accounting and Economics, 11 (July 1989) : 143-181.
3. Andrew A. Christie. "On cross sectional analysis in Accounting Research.

Additional Market research-oriented Papers:

1. Holthausen and Leftwich, "The Economic Consequences of Accounting Choices", Journal of Accounting and Economics (1983) 77-117.
2. Holthausen and Watts: Relevance of Value relevance of financial accounting standards. JAE, 2001
3. Eli Bartov, "Patterns in Unexpected Earnings as an Explanation for post-announcement drift", The Accounting Review, Vol. 67, No. 3, July 1992: 610-62.
4. East P. and T. Harris, "Aggregate accounting earnings can explain most of security returns: The case of long return intervals. Journal of Accounting and Economics, 14 (July/September 1992): 19-142.
5. Ball and Kothari, "Security Returns Around the Earnings Announcements", Accounting Review, October 1991, 718-731.
6. East P. and T. Harris, "Aggregate accounting earnings can explain most of security returns : The case of long return intervals, Journal of Accounting and Economics, 14 (July/September 1992): 19-142.

7. Bernard V. and J. Thomas, "Evidence that stock prices do not fully reflect the implications of current earnings for future earnings", *Journal of Accounting and Economics*, 1990, 305-340..
8. Kothari SP and J.L. Zimmerman, "Price and Return Models", *Journal of Accounting and Economics*, September 1995, 155-192.

Events and Association Studies and Earnings Response Coefficient

9. Kormendi & L Ball and Brown, "An empirical evaluation of accounting Ball and Brown, "An empirical evaluation of accounting income numbers" *Journal of Accounting Research* 6 (Autumn) 1968: 159-178.
10. Baruch Lev, "On the Usefulness of Earnings and Earnings Research : Lessons and Directors from Two Decades of Empirical Research, *Journal of Accounting Research*, Vol 27, Supplement 1989.
11. Lipe, "Earnings Innovations, Earnings Persistence, and Stock Returns, *Journal of Business* 1987, pp. 323-
12. Strong and Walker, "The Explanatory Powers of Earnings for Stock Returns", *Accounting Review*, 1993, 365-399.
13. Baruch Lev and Paul Zarowin, " The Boundaries of Financial reporting and How to Extend Them,"

Papers on Empirical Research

14. Abdel- Khalik, R, and B.B. Ajinkya, *Empirical Research in Accounting: A Methodological Viewpoint*" (chapters 2 & 3, pp. 9-48). Accounting Education Series, Vol. No. 4, AAA, 1979.
15. William Kinney, "Empirical Accounting Research Design for Ph.D. Students", *Accounting Review* (April 1986): 338-350.
16. Beaver, W.H. "Directors in Accounting Research, NEAR AND FAR", *Accounting Horizons* (June 1996): 113-124.
17. Smith E, Dan, "The Effect of the Separation of Ownership from Control on Accounting Policy Decisions, " *Accounting Review* (October 1976) pp. 707-723.
18. May and Sundem, "Research for Accounting : An Overview," *Accounting Review* (October 1976) pp. 747-763.

Meeting No. 2 : Feb 3

Experimental Design

Meeting No. 2 : Feb 10

Experimental Design

Meeting No. 4 – Feb. 17

Earnings Quality

1. What is earnings quality
2. Why should we be interested in earnings quality?
3. Link between earnings and accruals quality
4. Market reaction to earnings quality and accruals quality

Required Readings

1. Dechow, Ge and Schrand, JAE 2010. Understanding earnings quality : A review of the proxies, their determinants and consequences.
2. Francis, Olsson, and Schipper. Foundations and Trends in Accounting. 2006. “Earnings Quality”.
3. Bradshaw, Richardson, and Sloan, Working Paper, 1999. Earnings Quality and Financial Reporting Credibility: An Empirical Investigation.

Additional readings:

4. Verdi, Rodrigo. Working Paper 2006. Financial Reporting Quality and Investment Efficiency.
5. Ecker, Francis, Kim, Olsson, and Schipper, AR. 2006. “ A Returns-Based Representation of Earnings Quality.

Meeting No. 5 – Feb 24

Accruals Quality and Pricing of Accruals

REQUIRED Reading:

1. Dechow and Dichev , AR 2002, The Quality of accruals and earnings. The role of accrual estimation error.
2. Francis, LaFond, Olsson, and Schipper, 2005. The market pricing of accruals quality. JAE, 39(2): 295.
3. Subramanyam , 1996, The pricing of discretionary accruals. JAE 22 (1-3).

ADDITIONAL READINGS

4. McInnis, J. and D.W. Collins, 2011. The effect of cash flow forecasts on accrual quality and benchmark beating, JAE 51, 29-239.
5. Sloan, R. “Do stock prices fully reflect information on accruals and cash flows about future earnings, AR, July 1996, 289-313
6. McNichols, 2002, AR-61-69.
7. Barth, M.E., D. Cram, P. and K. Nelson, 2001. Accruals and the prediction of future cash flows. AR 76(1): 27
8. Dechow, P.M. 1994. Accounting earnings and cash flows as measures of firm performance : The role of accounting accruals. JAE 18 (July): 3-42.
9. Chen, Lin, Lin, 2008. Tenure and Earnings Quality, CAR, 25(2) : 415-445
10. Dechow and Schrand, 2010. Review: Earnings Quality, JAE, 50: 344-401
11. P.W. Ge and C. Shrand, Understanding of Earnings Quality....., JAE 2010, pp. 344-401
12. Francis, Nanda, and Olsson, “Voluntary Disclosures, Earnings Quality and Cost of capital. JAR, 2008, 53-99

**Meeting No. 7: March 3
Managerial Accounting**

**Meeting No. 7: March 10
Managerial Accounting**

**Meeting No. 8 – March 17
Managerial Accounting**

Meeting No.9 & 10 – March 31 and April 7

Accounting Conservatism

Required Readings

- Basu, S. 1997. The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting & Economics* 24 (1):3.
- Givoly, D., and C. Hayn. 2002. Rising conservatism: Implications for financial analysis. *Financial Analysts Journal* 58 (1):56.
- Penman and Zhang, 2002. Accounting Conservatism, the quality of earnings and stock return, *The Accounting Review*, 77 (2002): 237-264.
- Beaver, W. H., and S. G. Ryan. 2005. Conditional and Unconditional Conservatism: Concepts and Modeling. *Review of Accounting Studies* 10 (2-3):269.

Additional Readings

- Ahmed, A., B.K. Billings, R.M. Morton and M. Standford-Haris. 2002. The Role of accounting conservatism in mitigating bondholder-shareholder conflicts over dividend policy and in reducing debt costs, *The Accounting Review*, 77(2002):800-890.
- Pae, Jinhan, and Dan Thornton. 2003. Do Analyst Earnings Forecasts Allow for Accounting Conservatism. WP.
- Ball, R., and L. Shivakumar. 2005. Earnings quality in UK private firms: comparative loss recognition timeliness. *Journal of Accounting & Economics* 39 (1):83.
- Base, S. 2005. Discussion of "Conditional and Unconditional Conservatism: Concepts and Modeling". *Review of Accounting Studies* 10 (2-3):311.
- Ball, Ray, Ashok Robin, and Gil Sadka, 2005. Is Accounting Conservatism Due to Debt or Equity Markets ? An International Test of "Contracting" and "Value Relevance", *Theories of Accounting*, WP.
- Givoly D, C.K. Hayn, and A. Natarajan. 2007. Measuring reporting conservatism. *The Accounting Review*, 82 (2007): 65-106
- LaFond R. and R.L. Watts. 2008. The information role of conservatism, *The Accounting Review* 83 (2008):447-478.
- Hui, Kai Wai, Steve Matsunaga and Dale Morse, 2009. The Impact of Conservatism on Management Earnings Forecasts, *Journal of Accounting and Economics*, 2009.
- Basu, S. 1999. Discussion of international differences in the timeliness, conservatism, and classification of earnings. *Journal of Accounting Research* 37:89.
- Pope, P. F., and M. Walker. 1999. International differences in the timeliness, conservatism, and classification of earnings. *Journal of Accounting Research* 37:53.
- Gigler, F and T. Hemmer. 2001. Conservatism. Optimal Disclosure Policy and the Timeliness of Financial Reports. *The Accounting Review*, 76(2001):471-493.
- Kwon, Y.K., D.P. Newman and Y.S. Suh, 2001. The Demand for Accounting Conservatism for Management Control. *Review of Accounting Studies* 6: 29-51.

Topic 11 : April 14

Earnings Forecasts

Analyst Earnings Forecasts
Management Earnings Forecasts

Required Reading List:

1. Li, Wasley, and Zimmerman. WP, “Should Management Earnings be Pooled? Classifying Management Earnings Guidance into Capital Market, Opportunistic, and Disclose or Abstain Rationales : Implications for Research.
2. Kim and Park. RAS 2012. Are all management earnings forecasts created equal? Expectations management versus communication.
3. Bartov, Givoly and Hayn. JAE 2002. The rewards to meeting or beating earnings expectations.

Additional Reading List

4. King, Pownall, Waymire. JAL 1990. Expectations adjustment via timely management forecasts : Review, synthesis, and suggestions for future research.
5. Brown, L. International Journal of Forecasting 1993. Earnings forecasting research: its implications for capital market research.
6. Koh, Matsumoto, and Rajgopal. CAR 2008. Meeting or Beating analyst expectations in the post-scandals world: changes in stock market rewards and managerial actions.
7. John Hassell and Robert Jennings, “Relative Forecast Accuracy and the Timing Earnings Forecast Announcements”, The Accounting Review, January 1986, pp.58-73.
8. Schipper, Katherin, “Commentary on Analysts Forecasts”, Accounting Horizon, Dec 1991
9. Davis, Soo and Trompeter, 2009. CAR. Earnings Forecasts and Auditor Tenure

Meeting No. 12 – April 21

International Accounting.

1. Differences in Earnings Quality across countries
2. Differences in Disclosures across countries
3. Difference in the use of Accounting Conservatism across countries
4. Impact of cultural environment on accounting decisions across countries

Required Readings:

1. Ray Ball, S.P. Kothari and Ashok Rob, “ The Effect of Institutional Factors on Properties of Accounting Earnings : Internal Evidence”
2. Alford A., J Jones, R. Leftwick, and M. Zmijewski, “The Relative Informativeness of Accounting Disclosures in Dfferent countries”, Journal of Accounting Research, Supplement 1993: 183-223
3. Chan, K.C. and G.S. Seow, “The Association Between Returns and Foreign GAAP earnings versus earnings adjusted to US GAAP”, JAE, 1996: 139-158

Additional Readings

Ball, Robin, and Sadka, “ Is Accounting Conservatism Due to Debt or Equity Markets: An International Test of “Contracting” and “Value Relevance, WP 2005.

Ole-Kristian Hope, “Disclosure Practices, Enforcement of Accounting Stanrds, and Analysts’ Forecast Accuracy : An International Study”, JAR 2005.

Jaggi and Low, “Joint Effect of Investor Protection and Securities Regulations on Audit Fees”, The International Journal of Accounting, 2009

Barth and Clinch, “International Accounting Differences and their Relation to Share Prices : Evidence from UK, Australian, and Canadian firms, CAR 1996

Ashbaugh and Pincus, “Domestic Accounting Standards, International Standards, and the Predictability of Earnings”, JAR 2001

Meeting No. 13 - April 28

Corporate Governance

1. What is corporate governance?
2. How important is corporate governance for firm performance, equity prices, analyst expectations, and executive compensation
3. Does better corporate governance leads to better earnings quality (lower earnings management)
4. Role of corporate governance in mergers/acquisitions, etc.
5. Role of corporate governance in restructuring
6. Corporate governance and institutional investors.

Required Readings

1. Anward S. Ahmed and Scott Duellman. Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics*, 43 (2007)411-437.
PRESENTATION.
2. Richard Sloan. Financial accounting and corporate governance : a discussion. *Journal of Accounting and Economics*, 32(2001): 335-347.
3. Anderson, Ronald, Sattar Mansi and David Reeb. Board characteristics, accounting integrity, and the cost of debt. *Journal of Accounting and Economics*, 2004, 315-342.

Additional Readings

4. Anup Agrawal and Sahba Chadha. Corporate Governance and accounting scandals. *Journal of Law and Economics*, Vol. XLVIII, Oct. 2005, 371-405
5. Mark Beasley. An Empirical Analysis of the Relation Between the Board of Director Composition and Financial Fraud. *The Accounting Review*, 1996. 441-465.
6. Jere R. Francis, Inder K. Khurana, and Raynolde Pereira. The role of accounting and auditing in corporate governance and the development of financial markets around the world. *Asia-Pacific Journal of Accounting and economics*, 2003 1-29.
7. Kevin Chen, Zhihong Chen, K.C. John Wei. Legal Protection of investors, corporate governance, and the cost of capital. *Journal of Corporate Finance*, 2009, 273-289.
8. John Bryd and Kent Hickman. Do outsiders monitor managers? *Journal of Financial Economics*, 1992: 195-221.
9. Stuart Rosenstin and Jeffrey Wyatt. Outside directors, board independence, and shareholder wealth. *Journal of Financial Economics*, 1990: 175-191.
10. Larcker, David, Scott Richardsion, and Ifrem Tuna. Corporate Governance, Accounting Outcomes, and Organization Performance, *The Accounting Review*, 2007, Vol. 82, No. 4, 963-1008.

Meeting No. 14 – May 5

Students' presentation of their term papers.