Seminar Objective

The Accounting Theory II course is an extension of Accounting Theory I course. Students in this course should have taken Accounting Theory I (financial accounting research). If they have not taken the Accounting Theory course, they are responsible to learn on their own the material covered in Accounting Theory I. The primary objective of this seminar is to discuss the 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 of the meeting for discussion in the classroom. We will discuss at least two/three papers in each meeting. Students are required to submit a written report on first two papers on the required reading list.

Students are requested to pick a topic for research in first two meetings. They will be required to complete the research on this topic before the end of semester and present their findings in the form of a research paper during the last two meetings. The guidelines for writing and presentation of this 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

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<th>Component</th>
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<tr>
<td>Discussion Participation</td>
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<td>Written reports on assigned papers</td>
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<tr>
<td>Research Paper</td>
<td>40%</td>
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<tr>
<td>Presentation of the paper</td>
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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?
MEETING 1
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 Meeting 1


Additional Market research-oriented Papers:

Events and Association Studies and Earnings Response Coefficient


Papers on Empirical Research

MEETING 2: Positive Accounting Theory and Accounting Choice

Accounting research theories: Normative Theory and Positive Accounting theory.
What is positive accounting theory
What is contribution of the positive theory to accounting
How positive accounting theory is used in accounting to have a better understanding of accounting issues
Main Hypotheses of PAT
Economic Consequences and PAT

Required Readings:

MEETINGS NO. 3 and 4.

Earnings Management

1. Why managers engage in earnings management
2. Which types of decisions are impacted by earnings management
3. Accruals Based Earnings Management – Different types of Accruals
4. Accruals Models for Earnings Management
5. Real Earnings Management and Model for Real Earnings

Required Readings for Meeting 3:

Required Readings for Meeting No. 4:
2. Roy Chowdhury. Earnings Management through real activity manipulations. JAE 42(3) pp 325-370

Additional Readings:
2. Patricia Dechow, Richard Sloan and Amy Sweeney, "Detecting Earnings Management",
4. Watts, R.L. 2003, Earnings Management, Accounting Horizon, 17 (September and December)
MEETING No. 5 AND 6

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


Additional readings:
Meetings 7 & 8: Accruals Quality and Pricing of Accruals

REQUIRED Reading:

ADDITIONAL READINGS
MEETING NO. 9 and 10

Accounting Conservatism

Required Readings

Meeting 7

Meeting 8:

Additional Readings
Pae, Jinhan, and Dan Thornton. 2003. Do Analyst Earnings Forecasts Allow for Accounting Conservatism. WP.
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.

MEETING NO. 11

Disclosures

Disclosure format – where disclosures are made
Information Asymmetry and Disclosures
Analyst Forecasts and Disclosures
Mandatory versus voluntary disclosures
Voluntary disclosures – why management make voluntary disclosures. What are advantages of these disclosures? What are costs and limitation of such disclosures?
Voluntary disclosures and litigation risk, political and agency costs
Impact of voluntary disclosures on stock returns, cost of capital and executive compensation

Required Readings

1. Francis, Nanda, and Olsson, “Voluntary Disclosures, Earnings Quality and Cost of capital. JAR 2008: 53-99

Additional Readings

Chen, Chenga and Lo, JAE, 2010
Sengupta, AR 1998. Disclosures and cot of debt
Kothari, Li and Shofr, AR 2009, Effects of Disclosures………………
Leuz and Verrechia, JAR2000. Economic consequences of increased disclosures
Gelb and Zarowin, RAS 2002. Disclosures and stock prices
MEETING NO. 12

Earnings Forecasts

Analyst Earnings Forecasts
Management Earnings Forecasts

Required Reading List:


Additional Reading List

Meeting No. 13.

**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:**


**Additional Readings**

Leuz,
MEETING NO. 14

Executive Compensation
1. Different types of compensation
2. Executive compensation and firm performance
3. Executive compensation and agency problem
4. Stock options and executive compensation

Required Reading:


Additional Reading

MEETINGS 15

Presentations by students on their research projects.