

PAAC 1601 – FINANCIAL ACCOUNTING RESEARCH
BENTLEY UNIVERSITY
SPRING 2015
THURSDAYS 9:45am – 12:45pm
MORISON 330

INSTRUCTOR: Dr. Anne Leah Schnader

OFFICE: Location: Morison 119
 Office Hours: Thursdays 1:00 – 3:00 am and by appt
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COURSE MATERIALS:

Beaver, W., Financial Reporting : An Accounting Revolution, 3rd Edition, Prentice-Hall

Academic journal articles as needed (see attached schedule)

COURSE DESCRIPTION:

Financial accounting primarily focuses on communicating financial information about a firm to external parties. We will examine classical streams of financial accounting research, most of which will be capital market centered, and we will focus our attention on the underlying theories of the different research streams. We will consider research design, i.e. hypothesis development, data selection, and how various empirical models are (or are not) helpful for answering these research questions. You will also work on a project which requires exploring traditional financial accounting databases (e.g. Compustat, CRSP etc ...) in an effort to help you develop an understanding of their content, and a workable level of comfort in using them. Lastly, we will also consider how theories, tools, and techniques from financial accounting research can be woven in to other research areas of interest and you will design a research project accordingly.

COURSE REQUIREMENTS:

Class preparation: Each student is expected to read each paper assigned for this course in its entirety, and has a presentation responsibility for each class session. One student will be assigned to present each of three required papers, and to also complete and upload a 'Kinney form' (see the course blackboard website) for this article to the course blackboard website. Please make every attempt to boil the paper down to its core, keeping the Kinney forms to a manageable length. A summary that is as long and as detailed as the paper itself is of little use. The student who does not have a traditional presentation responsibility for the session is instead responsible for leading the session, which includes managing the session's presentations and sharing with the class a recently published manuscript that extends the literature of the day in some way.

It is strongly recommended, though not required, that each student complete their own Kinney form for each assigned paper, as it will help you to zero in on the important elements of the research project and should be extremely helpful to you as you study for this course's final exam as well as your comprehensive exams at the end of your coursework. All students will be expected to make a meaningful contribution to the discussion on each paper whether or not they have been assigned to formally present.

Additional readings have been noted on the syllabus where appropriate. These readings will not be specifically discussed in class but you may find them helpful for understanding the papers which will be formally discussed in class.

It is possible that some of the readings on this syllabus will change as the semester progresses. I will inform you of any such changes.

Research Blogs/ Original Research Idea Explorations: At each session, each student will be responsible for turning in a one page outline with an original idea for a research project inspired by at least one article of the day. There are no restrictions on the research topic (as long as it is somehow accounting related) nor any restrictions on exactly how the research idea ties in with the literature presented. The connection to the day's article(s) could be a theoretical construct, modeling technique, or any other aspect of the article which you find interesting. There is no expected format for this one page outline, you are free to present and explore the idea in any way you feel is most appropriate. The idea is not to come up with an extension specific to the

papers that we read, but for you to take what you have learned from these papers and find a use for them in your own area of interest.

Database Exploration Project: Details for this project will be handed out separately.

Class Sessions: The student assigned to a given article will be responsible for making a presentation of the article at the noted class session. The goal of the presentation is not to reiterate every detail of the assigned paper (as everyone in the room will have already read it), but to provide a summary of the project (its stated goals, major theoretical underpinnings, empirical approaches, and important or useful results and conclusions), and to highlight any particularly interesting aspects of the project. Your presentation materials should be uploaded to blackboard at least twenty-four hours before the class session so that I can review them, and the other students can print them out in anticipation of the discussion. Article assignments will be made on the first day of class.

I anticipate that class session time will generally be allocated approximately as follows: Three half hour article presentations, fifteen minutes for discussion of the recent research extension, half an hour for discussion of research blogs, fifteen minutes for an introduction to the following week's material, and a fifteen minute break as time allows.

Colloquium/Conference Attendance: There will be several presentations of financial accounting related research at both Bentley and at other Boston area schools which you will be expected to attend. Attending these sessions is the best way to learn what colleagues are currently working on in any research area, and to get an understanding of what it means to be an active participant in the scholarly aspect of your career.

Project proposal: Each individual student will be responsible for submitting a research proposal. This proposal should include theory, hypothesis development, and a data/empirical plan. There will be an in-class presentation of these research proposals at the end of the semester. The hope is that this proposal could be the basis for a research paper to be completed over the coming summer months, or alternatively part of your dissertation paper package. The details for this assignment will be discussed later in the semester.

Final Exam: There will be an in-class final exam on the last day of class. The details for the final exam will be discussed as we approach the end of the semester.

ACADEMIC HONESTY / INTEGRITY

It is important to stress that all assignments for this course are to be completed as assigned. If the assignment is an individual assignment then you must complete the work start to finish on your own. If the assignment is a paired assignment, then you are expected to fully confer with your partner on all aspects of the assignment, but you may not discuss intimate details of the

assignment with other student pairings. While you may benefit from talking to each other about general issues regarding the assigned papers or the data and replication projects, the detailed work must be your own. If you have any questions at all about these expectations, please do not hesitate to discuss it with me.

The following is taken from the Bentley College webpage. See <http://www.bentley.edu/ugcatalogue/honesty/index.cfm>

“At Bentley College, students and faculty are members of an academic community that supports honesty and integrity in the classroom and in research and scholarship. The opportunities for personal and intellectual growth are diverse and always expanding. The college is steadfastly committed to the pursuit of academic excellence, for students and faculty alike, and supports all scholarly activity consistent with that objective.

Learning is an opportunity and a privilege that demands responsibility and an uncompromising level of honor, integrity and trust. The expectation at Bentley is that students and faculty will take advantage of the opportunity for intellectual development, and that they will conduct themselves in a manner consistent with the standards of academic honesty. When these standards are violated or compromised, individuals and the entire Bentley community suffer.”

GRADING

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|--|-------------------|
| In class presentations | 20% |
| Class participation, research idea explor. colloquium/conference attendance | 20% |
| Data exploration project | 20% |
| Project proposal | 20% |
| Final Exam | <u>20%</u> |
| Total | 100% |

1/22 : Session 1 : An Historical Perspective: Is Accounting Information Useful

1. Ball, R. and P. Brown, "An Empirical Evaluation of Accounting Income Numbers", *Journal of Accounting Research* (Autumn 1968) : 159-178
2. Beaver, W., "The information content of annual earnings announcements", *Journal of Accounting Research* (Supplement 1968): 67-92

Helpful but not required:

Watts, R. and J. Zimmerman, "Positive Accounting Theory: A Ten Year Perspective", *The Accounting Review* (January 1990): 131-156

Nichols, D.C. and J. Whalen, "How Do Earnings Numbers Relate to Stock Returns? A Review of Classic Accounting Research with Updated Evidence", *Accounting Horizons* (December 2004): 263-286

1/29 : Session 2 : Market Efficiency/Inefficiency

1. **Kara:** Ball, R. and Bartov, E., "How Naïve is the Stock Markets' Use of Earnings Information", *Journal of Accounting & Economics* (June 1996), 319-337
2. **Jenna:** Bernard, V. and J. Thomas, "Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium", *Journal of Accounting Research* (Supplement 1989): 1-48
3. **Andrew:** 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

Helpful but not required:

Beaver, W., "Market Efficiency", *The Accounting Review* (January 1981): 23-37

2/5 : Session 3 : Accruals/Mispricing

1. **Candace:** Dechow, P., "Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals," *Journal of Accounting and Economics* (1994) : 3-42
2. **Kara:** Sloan, R., "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows About Future Earnings?", *The Accounting Review* (July 1996): 289-315
3. **Jenna:** Subramanyam, K., "The Pricing of Discretionary Accruals", *Journal of Accounting and Economics* (August-December 1996): 249-281

2/12: Session 4 : Earnings Management

1. **Andrew:** Brown, L. and M. Caylor, "A Temporal Analysis of Quarterly Earnings Thresholds: Propensities and Valuation Consequences," *The Accounting Review*, (2005 April).
2. **Candace:** Cohen, D. , A. Dey and T. Lys, "Real and Accrual-Based Earnings Management in the Pre- and Post-Sarbanes-Oxley Periods", *Accounting Review* (May 2008), 757-787
3. **Kara:** Dechow, P. , R. Sloan and A. Sweeney, "Detecting Earnings Management", *Accounting Review* (April 1995): 193-225

Helpful but not required:

Schipper, K., "Commentary on Earnings Management", *Accounting Horizons* (December 1989): 91-102

Healy P. and J. Wahlen, "A Review of the Earnings Management Literature and its Implications for Standard Setting", *Accounting Horizons* (December 1999), 365-384

2/19 : Session 5 : Database Project

2/26: Session 6: Earnings Quality * meet in AAC 254 *****

1. **Jenna:** Dechow, P. and I. Dichev, "The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors", *Accounting Review* (October 2002 Supplement): 35-60
2. **Andrew:** McNichols, M. "Discussion of The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors" *Accounting Review* (October 2002 Supplement): 61-70
3. **Candace:** Bailey, W., Li, H., Mao, C. and R. Zhong, "Regulation Fair Disclosure and Earnings Information: Market, Analyst, and Corporate Responses", *Journal of Finance* (December 2003): 2487-2514

Helpful but not required:

Schipper, K. and L. Vincent, "Earnings Quality", *Accounting Horizons* (2003 Supplement) 97-110

Bamber, L., Barron, O., and D. Stevens, "Trading Volume Around Earnings Announcements and Other Financial Reports: Theory, Research Design, Empirical Evidence, and Directions for Future Research", *Contemporary Accounting Research*, (Summer 2011): 431-471

3/5: Session 7 : Earnings, Value, and Returns * meet in AAC 254 *****

1. **Kara:** Dechow, P. , A. Hutton and R. Sloan, "An empirical assessment of the residual income valuation model", *Journal of Accounting and Economics* (January 1999) : 1-34

2. **Jenna:** Kormendi, R. and R. Lipe, "Earnings Innovations, Earnings Persistence, and Stock Returns", *Journal of Business* (1987) : 323-345
3. **Andrew:** Lundholm, R. and L. Myers, "Bringing the Future Forward: The Effect of Disclosure on the Returns-Earnings Relation" *Journal of Accounting Research* (June 2002) 809-839

Helpful but not required:

Bernard, V., "The Feltham-Ohlson Framework: Implications for Empiricists", *Contemporary Accounting Research* (Spring 1995): 733-747

Lundholm, R., "A tutorial on the Ohlson and Feltham/Ohlson Models", *Contemporary Accounting Research* (1995): 749-761)

Nichols, D. and J. Wahlen, "How Do Earnings Numbers Relate to Stock Returns? A Review of Classic Accounting Research with Updated Evidence" *Accounting Horizons* (December 2004) 263-286

3/12: Spring Break

3/19: Session 8: Accounting Information and Unsophisticated Investors

1. **Jenna:** Allee, K. D., Bhattacharya, N., Black, E. L., & Christensen, T. E. (2007). Pro Forma Disclosure and Investor Sophistication: External Validation of Experimental Evidence Using Archival Data. *Accounting, Organizations, and Society*, 201-222.
2. **Andrew:** Beneish, M. D., & Yohn, T. L. (2008). Information Friction and Investor Home Bias: A Perspective on the Effect of Global IFRS Adoption on the Extent of Equity Home Bias. *Journal of Accounting and Public Policy*, 433-443.
3. **Candace:** Lawrence, A. (2013). Individual Investors and Financial Disclosure. *Journal of Accounting and Economics*, 130-147.

3/26 : Session 9 : Fundamental Analysis

Beaver book – Chapters 6 & 7

1. **Candace:** Abarbanell, J. and B. Bushee, "Fundamental analysis, Future Earnings and Stock Prices", *Journal of Accounting Research* 35 (Spring 1997): 1-24
2. **Kara:** Lev, B. and S. Thiagarajan, "Fundamental Information Analysis", *Journal of Accounting Research* (October 1993): 190-215

3. **Jenna:** Ou, J and S. Penman, "Financial Statement Analysis and the Prediction of Stock Returns", *Journal of Accounting and Economics* (January 1989): 295-329

4/2: Session 10: Research Proposals

4/9: Session 11: Risk and the Cost of Capital

1. **Andrew:** Baginski, S. and J. Wahlen, "Residual Income Risk, Intrinsic Values, and Share Prices" *Accounting Review* (January 2003): 327-351
2. **Candace:** Gebhardt, W., C. Lee, and B. Swaminathan, "Toward an Implied Cost of Capital", *Journal of Accounting Research* (June 2001):135-176
3. **Kara:** Dhaliwal, D., S. Heitzman, O. Li, "Taxes, Leverage, and the Cost of Equity Capital" *Journal of Accounting Research*, (2006): 691 – 723.

Helpful but not required:

Ryan, S., "A Survey of Research Relating Accounting Numbers to Systematic Equity Risk, with Implications for Risk Disclosure Policy and Future Research" *Accounting Horizons* (June 1997): 92-95

4/16 : Session 12: Accounting as Truth

1. **Kara:** Akmal, M., Syed, A. G., & Shaikh, F. M. (2012). Decision Usefulness, Truth and Accounting: A Philosophical Approach. *Journal of Business Strategies*, 40-56.
2. **Jenna:** Bayou, M. E., Reinstein, A., & Williams, P. F. (2011). To Tell the Truth: A Discussion of Issues Concerning Truth and Ethics in Accounting. *Accounting, Organizations and Society*, 109-124.
3. **Andrew:** Cowan, T. K. (1983). Accounting in the Real World. *Accounting and Business Research*, 251-261.

4/23 : Session 13 : Tax Empirical Research with Tim Rupert and Tracy Noga

1. **Candace:** Kadous, K., Magro, A., and Spilker, B., "Do Effects of Client Preference on Accounting Professionals' Information Search and Subsequent Judgments Persist with High Practice Risk?" *The Accounting Review* (2008) Vol. 83, No. 1 pp. 133–156.

2. **Andrew:** Falsetta, D., Rupert, T. and Wright A. “The Effect of the Timing and Direction of Capital Gain Tax Changes on Investment in Risky Assets” *The Accounting Review* (Forthcoming 2013) Vol. 88, No. 2 .
3. **Jenna:** Dai, M., Shackelford, and Zhang, “Capital Gains Taxes and Asset Prices: Capitalization or Lock-in?” *The Journal of Finance*, (April 2008) LXIII:2
4. **Kara:** Blaylock, Shevlin, and Wilson. “Tax Avoidance, Large Positive Temporary Book-Tax Differences, and Earnings Persistence”. *The Accounting Review* (2012) Vol. 87, No. 1 pp. 91–120

4/30 : Session 14 : Research Proposal Presentations

5/7 : Session 15 : Final Exam