

# Accounting 593

Ram T S Ramakrishnan

Accounting  
Research

2012  
Fall



Course  
Description

Schedule

Readings

Notes



PCAOB  
Public Company Accounting Oversight Board



ACCOUNTING STANDARDS CODIFICATION™

U.S. Securities and Exchange Commission



Cases <sup>FF</sup>

Mid-term Exam. Final Exam

Project • [Links](#) • Yahoo-Fin

wrds

• [Cartoons](#) • <http://blackboard.uic.edu/> • 120827  
<http://www.uic.edu/classes/actg/actg593/>

**UIC**  
UNIVERSITY OF ILLINOIS  
AT CHICAGO

Department  
of Accounting

COLLEGE OF BUSINESS ADMINISTRATION

## Course Objectives & Description:

Instructor: Ram T. S. Ramakrishnan

Office hours: Mondays and Thursdays 1:00-4:00

2300, University Hall; [rramakri@uic.edu](mailto:rramakri@uic.edu) (312) - 996 - 3270; [Directions](#)

Course page: <http://www.uic.edu/classes/actg/actg593>

## Required Materials:

No Book. All materials posted or site-links given (e.g. SEC, FASB, AICPA)

FASB Accounting Standards Codification:

<http://aaahq.org/ascLogin.cfm>; [AAA51452 ; \_\_\_\_\_]

Wharton Service: <http://wrdsx.wharton.upenn.edu/> [a593f; \_\_\_\_\_]

This course is intended to serve as an integrative capstone to a professional accounting degree program and geared towards students in their graduating semester, having completed most if not all essential courses which includes the intermediate sequence, tax and auditing. SPOzWaw

The class introduces you to professional and scientific research in accounting. The course will deal with research methods, issues, research appreciation and evaluation together with practice in conducting, and reporting professional research projects in accounting. It will establish the relevance of research in the context of accounting. It will also make extensive use of research on current topics in accounting to provide exposure to the importance of comprehending research for the practice of accounting. 120827

The primary emphasis of the course will be on developing skills for conducting research and comprehending research output in an applied and professional accounting context. This will be achieved through the use of a series of existing research papers in accounting that have immediate real world relevance and also use simple methodologies. Knowledge of basic statistical tools such as regression, correlation etc. will be useful though not necessary, and wherever necessary will be addressed in the class. After completing the course you will:

- understand the purpose, process, and products of professional and scientific research in accounting settings
- be able to identify and use common accounting research resources
- understand the role of theory in research (both professional and academic)
- understand the authoritative research in accounting and the structure of the US accounting standards code and the SEC reporting framework. actgUIC12
- understand the value and limitations of applied and academic research for the professional practice of accounting.

bhgqdBw

This class works best when you prepare the assigned readings and actively participate in group and class discussions. The basic tools with which we work are stating facts, ideas, and opinions, and, discussing and challenging one another's facts, ideas, and opinions. Doing well in this class requires that you express your thoughts, defend them and gracefully criticize the misconceptions and lack of clarity in your own and other's reasoning (when appropriate). FC

## Course Evaluation

**Group:** Article reports 15%, Case Analysis 10%; ; Course Project 5%

**Individual:** Examination I 30%; Examination II 30%, ASC reports and class participation 10%

**Recommended: Available in the UIC Library:**

- Understanding Research Methods, by M. L. Patten, (Fourth Edition); Pyrczak Publishing, 2003.
- Quasi-Experimentation: Design & Analysis Issues for Field Settings, by Thomas Cook and Donald Campbell, Published by Houghton Mifflin Company .
- Positive Accounting Theory, By R. L. Watts and J. L. Zimmerman, Prentice-Hall, 1986.
- Empirical Research in Accounting: A Methodological Viewpoint, by A. R. Abdelkhalik and B. B. Ajinkya, American Accounting Association, Accounting Education Series, Vol. 4, 1979.
- Research Designs by P. E. Spector, Sage Publications: Newbury Park, 1981.
- Evaluating Research in Academic Journals, by F. Pyrczak, Pyrczak Publishing, 1999.

Course Website: <http://www.uic.edu/classes/actg/actg593/>

Session	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Exam
Date	8/27	9/7	9/10	9/17	9/24	10/1	10/8	10/15	10/22	10/29	11/5	11/12	11/19	11/26	12/3	12/10
Day	Mon	Fri	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon	Mon


Sessions are as denoted in the description below. All sessions may not have assigned dates.

I have cropped the margins in most papers.

Save trees - you can print two pages in one side without compromising quality..

- **Written Standard Article Assignment** (same questions for all papers) •
  - **Class Discussion** will follow questions in "Discussion Questions" after each paper
- Your exact assignment can be obtained by clicking: [Student Assignments. 120827](#)

## 1 Introduction to Accounting Research & Research Design Issues

- A Closer Look at Discretionary Write downs of Impaired Assets - Preview by: Zucca, LJ., Campbell, DR. •  •
- [Test-Driving the Codification](#) • [PwC-Accounting Standards Codification](#)

## 2 Introduction to research methods; SOX

- 1 Sarbanes-Oxley Act of 2002 • Sarbanes-Oxley KPMG • SOX-404 PWC • Sox-White-Paper PWC • Assignment •

2 Audit Committee Financial Experts- A Closer Examination Using Firm Designations. by Carcello, Joseph V, Carl W Hollingsworth, and Terry L Neal • Assignment • Discussion Questions •

[Logistic Regression](#)

Securities and Exchange Commission: Disclosure Required by 404, 406 and 407 of SOX 2002; Proposed Rule • [Final Rule](#)

◆ [RR Atletico Oaklawn](#)

## 3 Capital Markets & Accounting Information

- 1 An empirical evaluation of accounting income numbers  • Ball, R., and P. Brown • • Assignment • Discussion Questions •

2 How Do Earnings Numbers Relate To Stock Returns A Review Of Classic Accounting Research With Updated Evidence • Nichols, James M Wahlen, D Craig; • Assignment • Discussion Questions •

◆ Case: [Busy signals](#)

◆ ASC Assignments (Codification) 1 (Individual)

## 4 Analysis of Accounting Information

- 1 Long-Run Stock Returns Following Briloff'S Analyses • Discussion Questions •

2 European-U.S. "GAAP Gap": IFRS to U.S. GAAP Form 20-F Reconciliations • Assignment • Discussion Questions •

◆ **Case:** [Graphics Inc](#)

## 5 Proforma Earnings

- 1 Financial Reporting Regulation and the Reporting of Pro Forma Earnings • Gary M Entwistle,

Glenn D Feltham, Chima Mbagwu. 2006. • Questions •

2 Empirical Evidence on Recent Trends in Pro Forma Reporting • Nilabhra Bhattacharya, Ervin L Black, Theodore E Christensen, Richard D Mergenthaler. Accounting Horizons. 2004 • Questions

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### SEC Final Rule: Conditions for Use of Non-GAAP Financial Measures

Kraft EA • Kraft Reports Strong Revenue Growth in 2007 - Corporate/Financial News Release • Costs slice Kraft results

◆ Case: [eToys Pro Forma reports and going concern issues](#)

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## **6 New Legal Environment: Audit Firm Size and Going-Concern Reporting**

1 Going concern opinions in the "new" legal environment • Geiger, Raghunandan • Questions

2 Audit Firm Size and Going Concern Reporting Accuracy Geiger, Rama • Questions

Case: Moyer Banking Enterprise; Look at EITF No. 04-10, Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds; and FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information t

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## **7 Restatements**

1 Reputational Penalty For Aggressive Accounting- Earnings Restatements & Management Turnover; Desai, H, C Hogan, M Wilkins • Discussion Questions •

2 Financial Restatements GAO 2006 (Focus on pages 1-52); • Discussion Questions

Case: T-Shirts by Tommy Look at: EITF 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001; FASB Statement No. 5, Accounting for Contingencies; FASB Statement No. 13, Accounting for Leases; FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss

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## **8 Auditor Fees**

1 Audit Fees & Auditor Dismissals In The Sarbanes Oxley Era • Questions

2 Initial Evidence on the Association between Nonaudit Fees and Restated Financial Statements • Questions

◆ Case: [PCAOB E&Y Medcis](#) • PCAOB-Ernst-Young-Order

◆ ASC Assignments (Codification) 2 (Individual)


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## **9 Mid term Exam**

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## **10 Politicization and Stock Option Reporting**

1 Congressional Intervention In The Standard-Setting Process - An Analysis Of The Stock Option Accounting; Farber, David B, Marilyn F Johnson, and Kathy R Petroni •  Questions •

2 The Trouble With Stock Options; Brian J. Hall and Kevin J. Murphy •  • Why do companies really grant stock options and what is the case for expensing stock options? (BP response) •

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## **11 Options Scandals**

1 Managing Pro Forma Stock Option Expense Under SFAS No 123; Balsam, Steven, Haim A Mozes, and Harry A Newman • Assignment •

2 On The Timing Of CFO Stock Option Awards; Lie, E; • Assignment • Questions •

◆ He's Making Hay As CEOs Squirm

Case: Spend More: Stock Compensation (accounting for compensation costs under different stock option arrangements)

## 12 Fair-Value Accounting

Fair Value Reporting - Questions

1 Fair-Value Accounting - A Cautionary Tale From Enron; Benston, GJ;

2 SFAS 159 The Fair Value Option; James Cataldo and Morris McInnes

PWC - Guide to Fair Value Measurement - 2008

FAS 157 Roundtable Open Discussion of Mark-to-Market Accounting Video Webcast Parts 1 and 2

## 13 SEC Regulation Fair Disclosure

Regulation fair disclosure, analyst following, and analyst forecast dispersion • Afshad J Iran, Irene Karamanou 2003 • Questions •

**Case** When Would Market to Book Be Less Than One? Does Acquisition by Stock Explain JDS Uniphase Corp.?

## 14 Audit outcomes - Special Cases

- Were Former Andersen Clients Treated More Leniently Than Other Clients? Evidence from Going-Concern Modified Audit Opinions

- Financial-expertise-of-CFOs-and-accounting-restatements

- ◆ ASC Assignments (Codification) 3 (Individual)

## 15 review of SEC Regulations

Research Presentations

## ***Additional Readings***

### **CEO and CFO Certification**

CEO and CFO Certifications of Financial Information Marshall A Geiger, Porcher L Taylor III. Accounting Horizons. Dec 2003. Vol. 17, Iss. 4; p. 357

### **Corporate Governance and Fraud**

- Corporate Governance And Accounting Scandals; Anup Agrawal And Sahiba Chadha October, 2005 48 J. Law & Econ. 371
- Governance and Performance Changes after Accusations of Corporate Fraud; Dalia Marciukaityte, Samuel H Szewczyk, Hatice Uzun, Raj Varma. Financial Analysts Journal. Charlottesville: May/Jun 2006. Vol. 62, Iss. 3; p. 32 (10 pages)
- Board Composition and Corporate Fraud; Hatice Uzun, Samuel H Szewczyk, Raj Varma. Financial Analysts Journal. Charlottesville: May/Jun 2004. Vol. 60, Iss. 3; p. 33 (11 pages)

### **Auditor Fees**

### **Sarbannes-Oxley & Material Weakness**

The Disclosure of Material Weaknesses in Internal Control after the Sarbanes-Oxley Act\_Weili Ge, Sarah McVay. Accounting Horizons. Sarasota: Sep 2005. Vol. 19, Iss. 3; p. 137 (22 pages)

## ***Research Review***

- Lev, B, JA Ohlson; Market-Based Empirical Research In Accounting- A Review, Interpretation, & Extension (Intro 1-9)
- Kothari, S P; Capital Markets Research In Accounting (Intro 1-7)
- The Information Content of Nonearnings Accounting Numbers as Earnings Predictors. By: Ou, Jane A.. Journal of Accounting Research, Spring 90, Vol. 28 Issue 1, p144-163, 20p;
- Accounting earnings and cash flows as measures of firm performance : The role of accounting

[accruals](#) Journal of Accounting and Economics, Volume 18, Issue 1, July 1994, Pages 3-42 Patricia M. Dechow

Financial Accounting Information & Corporate Governance

Empirical Research On Accounting Choice, by Fields, Thomas and Vincent, JAE

The Relevance Of The Value-Relevance Literature For Financial Accounting Standard Setting, Holthausen and Watts

Empirical Research In Managerial Accounting- A Value-Based Management Perspective

Contracting Theory & Accounting

Research Design Issues In Earnings Management Studies

Empirical Tax Research In Accounting

Disclosure 120827



## Project

- You have to get a sample of around 100 companies.
- Ideas: Largest 100 in Illinois; Largest international sales among US firms; Specific Industry samples; Best companies to work for; Best brands; Best small companies; Fast food industry.
- Talk to me how to get samples. Industry codes: [Click](#)

Create a txt file with ticker symbols; Example: [Sample.txt](#)

Read instructions in: [Instructions-CRSP](#) and [Instructions-IBES](#)

Use the spreadsheet: [Sample.xls](#)

### Assignment:

You must generate the BB chart. For at least four **mismatched firms** i.e.

*earnings surprise is positive while abnormal returns are negative  
or  
earnings surprise is negative while abnormal returns are positive*

Find out why accounting results were ignored by the market.

### Presentation (10 minutes) and Paper (2 pages):

How was the sample chosen?

How many companies and what industries?

BB Chart - did it follow the expectation?

How much abnormal return can you earn if you can forecast perfectly?

Were there any mismatched firms?

If so explain why by looking at the firms' annual report and news reports from that year.

Order of presentation: [Click 120827](#)



## Cases

### Accounting Cdification

Assignment-1 ♦ Assignment-2 ♦ Asc-Assignment-3 ♦ ASC Text

### Cases

Back To The USSR ♦ FAS-005-Contingencies

Busy-signals

Christopher's Computers, Inc. Look at FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-lived Assets; para 30 and Appendix A example.

IPCAOB Inspection Of Deloitte & Touche Set.pdf

Etoys ♦ Etoys-2pp ♦ SFAS 128 EPS

Graphic Inc.

Inspection Of Deloitte & Touche Set

JDS UniPhase

Moyer Banking Enterprise ♦ SFAS-131-Segments ♦ EITF04-10-Segments

PCAOB E&Y Medcis ♦ PCAOB-Ernst-Young-Order

Rr-Angel-Products

RR Atletico Oaklawn

Spend More: Stock Compensation (accounting for compensation costs under different stock option arrangements)

Stock-Options-Class-Case

Subprime beat-down

T-Shirts by Tommy Look at: EITF 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001; FASB Statement No. 5, Accounting for Contingencies; FASB Statement No. 13, Accounting for Leases; FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss

Arthur Andersen Depreciation of Airplanes and Garbage Trucks:

SEC and Accounting Establishment politics 120518

Stock-Options-Class Case ♦ Stock-Options-PWC-Case ♦ FAS-123R ♦ FAS-123R-A-Implementation ♦ FAS-123R-D-Amendments ♦ FAS-123R-E-Glossary♦

### ASC Text:

ASC 105 Generally Accepted Accounting Principles

ASC 210-10 Balance Sheet

ASC 220-10-45 OCI

ASC 220-10-55 OCI

ASC 230-10 Statement of Cash Flows  
ASC 280 Segment Reporting  
ASC 320-10-35 Investments Subsequent Measurement  
ASC 320-10-55 Investments  
ASC 330-10 Inventory  
ASC 450-20 Loss Contingencies  
ASC 605 50 Revenue Recognition Customer Payments and Incentives  
ASC 605-10 Revenue Recognition Overall  
ASC 605-15 Revenue Recognition Products  
ASC 605-20 Services  
ASC 605-25 Multiple-Element Arrangements  
ASC 718-10 Stock Compensation Overall  
ASC 718-20 Stock Compensation Equity  
ASC 740 10 Income Taxes  
ASC 740 20 Income Taxes Intraperiod  
ASC 840-10 Leases  
ASC 840-20 Operating Leases  
ASC 840-30 Capital Leases