

# **THE ECONOMICS OF FINANCIAL REPORTING**

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Advanced Cases in Assurance Services (ACCTG 521)  
Class 1 | MPAcc class of 2026

# Agenda

## Welcome and administration

### Information and uncertainty (Class 1)

- Economics of disclosure (information)
- Qualitative analysis: Analysis of Private Company Disclosure

### Information Verification (Class 2)

- Economics of auditing (information verification)
- Quantitative audit fee analysis

# Typical Class Structure

## Before class:

- Prep Readings
- Information search
- Potential data prep

## During class:

- Small group discussions
- Large group discussions
- Informal Presentations
- Data analysis labs
- Data analysis explanations

## After class:

- Written projects, memos and reports

# Syllabus

[https://www.ashercurtis.me/teaching/courses/  
acctg521/syllabus.html](https://www.ashercurtis.me/teaching/courses/acctg521/syllabus.html)

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## Information and uncertainty

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## Why should firms disclose / not disclose information?

Small group discussions

Rank your reasons and be able to explain the rank

Poll Everywhere responses (wait to be called to add an answer)

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# Team activity

Discuss the following with your team for approx. 10 minutes, and prepare to tell the class:

- What industry is your firm in? Describe its business.
- What does your firm disclose?
- Why do you think they disclose this information?



# Companies to focus on:

Team 1,10: Headhunter Systems

Team 2,9: Car Toys

Team 3,8: Mod Pizza

Team 4,6: REI

Team 5,7: SmartSheet

## Extra Hints & Tips:

- What industry is the company in, and what is the main product or service that the company engages in?
- Does the firm disclose any financial information, or any kind of reports to stakeholders (e.g., ESG)? If so, what? Why do you think they disclose this information?
- Can you find any information that the firm is being audited/reviewed by a CPA firm? (If there is nothing obvious on the website, try searching for phrases with the combination of the company name and various CPA firm names).
- Does the media report on financial related topics for the company?
- PitchBook is another source of information on private companies and aggregates media.

| What is disclosed | Reasons why |
|-------------------|-------------|
|                   |             |

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# Information Verification: Demand for auditing and assurance



CONSEQUENCE



COMPLEXITY



CONFLICTS OF INTEREST



RE MOTENESS

| Private Companies - Audit yes/no? | Reasons why/why not |
|-----------------------------------|---------------------|
|                                   |                     |

# Economics of Audit Fees

If we think of auditing as an economic good, in a competitive market, then **audit fees** are a result of supply and demand factors

- Demand ↑ when information verification is more valuable
- Supply ↓ when audit requires more effort

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| Reason why firms pay higher audit fee | How to measure it |
|---------------------------------------|-------------------|
|                                       |                   |

# Team activity

Import the dataset of firm-year observations (Class01andClass03 folder) into your preferred software (e.g., Tableau, ~~Excel~~, Alteryx/PowerBI)

- Pick one of the firm characteristics you think could be related to audit fees (and predict whether audit fees will be higher or lower)
- Create a data visualization (i.e., a chart) that shows the relation
- Hints:
  - Join fsa and audit on gvkey and datadate.
  - Use Natural log of audit fees (create a new variable, use function  $\ln([variable\ name])$  in Tableau). Do the same for any other variable you pick that might have a lot of extreme values.
  - Think about adding trend lines to your chart
- Presentations in the second half of class.
- Be prepared to have one team member share their screen.

# Takeaways

- Conflicting incentives for firms to disclose and withhold information
- Conflicting incentives for firms to undertake audits (or information verification)
- Factors that influence demand for audit and therefore audit fee include:
  - Agency conflicts
  - Information asymmetry
  - Risk of intentional manipulation
  - Risk of unintentional errors

# THANK YOU

**FOSTER**  
Master of  
Professional Accounting