

CURRENT TOPICS IN ACCOUNTING

UNIT 1: FINANCIAL ACCOUNTING

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UNIT 2: MANAGEMENT ACCOUNTING

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Objectives

The aim of this course is to:

- (a) provide students with the understanding of current topics of interest in financial and managerial accounting, and their implications for research, and
- (b) help students to select relevant research questions and develop a research proposal on financial or managerial accounting topics.

This course is grounded in conceptual frameworks frequently used in management, finance and economics, and employs the mainstream methodological tools for empirical research. It thus provides foundations for the modeling and analysis of managerial behavior in accounting (reporting) and the factors that determine the effectiveness of management accounting systems. By reviewing a selection of the existing literature, students are endowed with the knowledge and capabilities to conduct empirical research in a wide variety of accounting fields. Specifically, students will be guided to critically assess research papers, a process aimed at identifying research questions of current interest jointly with the appropriate methods for exploring them.

Course Format

The course is participative, with students expected to prepare assigned papers in advance of each session. Each class, one (or more) student(s) will be assigned to present specific readings and critically assess them. The presenting student(s) should also engage all other students—who are expected to read the papers prior to each session—in debates on the treated topics. Class sessions are thus more similar to seminars than to traditional lectures. Depending on the topic, the professor(s) will give lectures that help introduce the main concepts and summarize the relevant issues for discussion.

Evaluation criteria

Presentations and class participation	50%
Referee report on assigned paper	25%
Research proposal	25%

Resources

Each topic introduces some compulsory readings (See the “Reading list by Topics” section.) In addition to those, instructors may choose to provide students with lecture notes and could send—before the start of the course—literature review or methodological papers that serve as preparation for the core topics. These papers should also be considered required material.

COURSE OUTLINE

UNIT 1 (weeks 1-5): FINANCIAL ACCOUNTING

1. Introduction to the Empirical Analysis of Financial Information
2. Stock prices, returns and earnings
3. Accounting-based market anomalies
 - Post-Earnings-Announcement Drift
 - Accrual anomaly
4. Accounting-Based valuation
5. Value relevance studies
6. Earnings forecasts: Analysts and Managers' Forecasts
7. Earnings Management (I): Accrual Based Earnings Management
 - Income Smoothing
 - Earnings Thresholds
8. Earnings Management (II)
 - Real Activity-based Earnings Management
 - Management Incentives and Earnings Management
9. International issues
10. Financial accounting in the banking sector
11. Common methodological issues in empirical research in financial accounting

UNIT 2 (weeks 6-10): MANAGEMENT ACCOUNTING

1. Introduction: Some Reviews and Background Materials
2. Divisionalization and Control Systems in Organizations
 - Economic Determinants of Control Systems
 - Behavioral/Organizational Determinants of Control Systems
3. Alternative Research Methods of Performance Measurement
 - Field Research
 - Archival and Survey Research
4. Management Accounting in Financial Services
5. Target Setting and Performance Evaluation
 - Motivation and Control via Target Setting
 - Performance Tests
6. Managerial Decision Making and Information Disclosure
 - Influence of Top Management on Disclosure
 - Corporate Governance and Disclosure
7. Managerial Decision Making and Corporate Social Responsibility
8. Frontier Benchmarking Approaches in Accounting Studies

Reading list by Topics

UNIT 1: FINANCIAL ACCOUNTING

Each of the following numbered items corresponds to one meeting of the class: expect us to meet twice a week for two hours (each meeting) during this unit. Except for the two sessions (1 and 10) where the professor will take up most of the time with a review lecture, the sessions will start with a discussion of a main paper led by one of the participants. The rest of the papers will then be discussed in group. The session will usually finish with a short lecture by the professor introducing the topic of the following session.

1. Introduction to the Empirical Analysis of Financial Information (this session will be mostly lecture-based)

- Beaver, W.H., 2002. Perspectives on Recent Capital Market Research. *The Accounting Review* 77(2), 453-474.
- Kothari, S.P., 2001. Capital Markets Research in Accounting. *Journal of Accounting and Economics* 31(1-3), 105-253 (and discussion by Lee).
- Lev, B., 1989. On the Usefulness of Earnings and Earnings Research: Lessons and Directions from Two Decades of Empirical Research. *Journal of Accounting Research* 27(S), 153-192.
- Watts, R.L., Zimmerman, J.L., 1990. Positive accounting theory: A ten year perspective. *The Accounting Review* 65(1), 131-156.

2. Stock prices, returns and earnings

- Ball, R., Kothari, S.P., Watts, R.L., 1992. Economic determinants of the relation between earnings changes and stock returns. *The Accounting Review* 68(3), 622-638.
- Easton, P.D., Harris, T.S., Ohlson, J.A., 1992. Accounting Earnings Can Explain Most of Security Returns: The case of Long Event Windows. *Journal of Accounting and Economics* 15(2-3), 119-142.
- Jegadeesh, N., Livnat, J., 2006. Revenue Surprises and Stock Returns. *Journal of Accounting and Economics* 41(1-2), 147-171.
- Vuolteenaho, T., 2002. What drives firm-level stock returns? *Journal of Finance* 57(1), 233-264.

3. Accounting-based market anomalies

- Richardson, S., Tuna, I., Wysocki, P., 2010. Accounting Anomalies and Fundamental Analysis: A Review of Recent Research Advances. *Journal of Accounting and Economics* 50(2-3), 410-454.
- Post-Earnings-Announcement Drift*
- Bernard, V., Thomas, J., 1989. Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium. *Journal of Accounting Research* 27(S), 1-48.
- Bernard, V., Thomas, J., 1990. Evidence That Stock Prices Do Not Fully Reflect the Implications of Current Earnings for Future Earnings. *Journal of Accounting and Economics* 13(4), 305-340.
- Accrual anomaly*
- Sloan, R.G., 1996. Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings. *The Accounting Review* 71(3), 289-315.

Kraft, A., Leone, A.J., Wasley, C., 2006. An Analysis of the Theories and Explanations Offered for the Mispricing of Accruals and Accrual Components. *Journal of Accounting Research* 44(2), 297-339 (and discussion by Core).

4. Accounting-Based valuation

Ohlson, J.A., 1995. Earnings, Book Values and Dividends in Equity Valuation. *Contemporary Accounting Research* 11(2), 661-688.

Dechow, P.M., Hutton, A.P., Sloan, R.G., 1999. An Empirical Assessment of the Residual Income Valuation Model. *Journal of Accounting and Economics* 26(1-3), 1-42. (and comments by Beaver).

Frankel, R., Lee, C.M.C., 1998. Accounting Valuation, Market Expectations, and Cross-Sectional Stock Returns. *Journal of Accounting and Economics* 25(3), 283-319.

Richardson, G., Tinaikar, S., 2004. Accounting Based Valuation Models: What Have We Learned? *Accounting and Finance* 44(2), 223-255.

5. Value relevance studies

Holthausen, R.W., Watts, R.L., 2001. The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting. *Journal of Accounting and Economics* 31(1-3), 3-75.

Barth, M., Beaver, W., Landsman, W., 2001. The Relevance of the Value Relevance Literature for Financial Accounting Standard Setting: Another View. *Journal of Accounting and Economics* 31(1-3), 77-104.

Lev, B., Sougiannis, T., 1996. The Capitalization, Amortization, and Value-Relevance of R&D. *Journal of Accounting and Economics* 21(1), 107-138.

Collins, D.W., Maydew, E.L., Weiss, I.S., 1997. Changes in the Value-Relevance of Earnings and Book Values over the Past Forty Years. *Journal of Accounting and Economics* 24(1), 39-67.

6. Earnings forecasts: Analysts and Managers' Forecasts

Fried, D., Givoly, D., 1982. Financial Analysts' Forecasts of Earnings. *Journal of Accounting and Economics* 4(2), 85-107.

Kasnik, R., McNichols, M.F., 2002. Does Meeting Expectations Matter? Evidence from Analyst Forecast Revisions and Share Prices. *Journal of Accounting Research* 40(3), 727-760.

O'Brien, P., 1988. Analysts' forecasts as earnings expectations. *Journal of Accounting and Economics* 10(1), 53-83.

Manager's Expectations about earnings

Bartov, E., Givoly, D., Hayn, C., 2002. The Rewards for Meeting or Beating Earnings Expectations. *Journal of Accounting and Economics* 33(2), 173-204.

7. Earnings Management (I)

Accrual Based Earnings Management

Jones, J.J., 1991. Earnings Management During Import Relief Investigations. *Journal of Accounting Research* 29(2), 193-228.

- Dechow, P.M., Sloan, R.G., Sweeney, A.P., 1995. Detecting Earnings Management. *The Accounting Review* 70(1), 193-225.
- Income Smoothing*
- Defond, M., Park, C.W., 1997. Smoothing income in anticipation of future earnings. *Journal of Accounting and Economics* 23(2), 115-139.
- Earnings Thresholds*
- Degeorge, F., Patel, J., Zeckhauser, R., 1999. Earnings Management to Exceed Thresholds. *Journal of Business* 72(1), 1-33.

8. Earnings Management (II)

Real Activity-based Earnings Management

- Roychowdhury, S., 2006. Earnings Management through Real Activities Manipulation. *Journal of Accounting and Economics* 42(3), 335-370.
- Bartov, E., 1993. The Timing of Asset Sales and Earnings Manipulation. *The Accounting Review* 68(4), 840-855.

Management Incentives and EM

- Healy, P. 1985. The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics* 7(1-3), 85-107.
- Bergstresser, D., Philippon, T., 2006. CEO incentives and earnings management. *Journal of Financial Economics* 80(3), 511-529.

9. International issues

- Barth, M.E., Landsman, W.R., Lang, M.H., 2008. International Accounting Standards and Accounting Quality. *Journal of Accounting Research* 46(3), 467-498.
- Ball, R., Kothari, S., Robin, R., 2000. The Effect of International Institutional Factors on Properties of Accounting Earnings. *Journal of Accounting and Economics* 29(1), 1-51.
- Hail, L., Leuz, C., 2006. International Differences in the Cost of Equity Capital: Do Legal Institutions and Securities Regulation Matter? *Journal of Accounting Research* 44(3), 485-531.
- Leuz, C., Nanda, D., Wysocki, P.D., 2003. Earnings Management and Investor Protection: An International Comparison. *Journal of Financial Economics* 69(3), 505-527.
- Gómez Biscarri, J., López Espinosa, G., 2008. Accounting measures and international pricing models: Justifying accounting homogeneity. *Journal of Accounting and Public Policy* 27, 339-354

10. Financial accounting in the banking sector

- Ahmed, A., S. Thomas and C. Takeda, 1999. Bank loan loss provisions: a reexamination of capital management, earnings management and signaling effects. *Journal of Accounting and Economics* 28, 1-26.
- Beatty, A. and S. Liao, 2013. Financial Accounting in the Banking Industry: a review of the empirical literature. Rotman School of Management Working Paper No. 2346752.
- Huizinga, H. and L. Laeven, 2012. Accounting discretion of banks during a financial crisis. *Journal of Financial Economics* 106, 614-634.

Riedl, E. and G. Serafeim, 2011. Information risk and fair values. a examination of equity betas. *Journal of Accounting Research* 49, 1083-1122.

**11. Common methodological issues in empirical research in financial accounting
(this session will be mostly lecture-based)**

Barth, M.E., Clinch, G., 2009. Scale Effects in Capital Markets-Based Accounting Research, *Journal of Business, Finance, and Accounting* 36(3-4), 253-288.

Gow, I.D., Ormazabal, G., Taylor, D.J., 2010. Correcting for Cross-Sectional and Time-Series Dependence in Accounting Research. *The Accounting Review* 85(2), 483-512.

Kothari, S.P., Zimmerman, J.L., 1995. Price and Returns Models. *Journal of Accounting and Economics* 20(2), 155-192.

Landsman, W.R., Magliolo, J., 1988. Cross-sectional Capital Market Research and Model Specification. *The Accounting Review* 63(4), 586-604.

UNIT 2: MANAGEMENT ACCOUNTING

This unit consists of eight topics corresponding to the entries below. The first topic will be treated as an introductory discussion mediated by the professor and in which all students will participate equally. For all other topics, students will be assigned to present specific readings (one reading per student) and critically assess them. The presenting students will have to engage all other students—who are expected to read the papers into detail prior to each session—in debates on the treated topics.

1. Introduction: Some Reviews and Background Materials

Literature reviews

- Bromwich, M., 2007. Economics in Management Accounting Michael in Chapman, C.S., Hopwood, A.G., Shields, M.D., (eds.) *Handbook of Management Accounting Research* Volume 1, 137-162.
- Ittner, C.D., Larcker, D.F., 2001. Assessing Empirical Research In Managerial Accounting: A Value- Based Management Perspective. *Journal of Accounting and Economics* 32(1-3), 349-410.
- Chenhall, R., 2003. Management Control System Design Within its Organizational Context: Findings From Contingency-Based Research and Directions for the Future. *Accounting, Organizations and Society* 28(2-3) 127-168.
- Ferreira, A., Otley, D., 2009. The Design and Use of Performance management Systems: An Extended Framework for Analysis. *Management Accounting Research* 20(4) 263-282.

Some related background readings on the next topic: Divisionalization

- Jensen, M.C., Meckling, W.C., 1998. *Foundations of Organizational Strategy*. Harvard University Press. Chapter 12: Divisional Performance Measurement.
- Kaplan, R.S., Atkinson, A.A., 2000. *Advanced Management Accounting*. 3th ed., Prentice Hall, Upper Saddle River. Chapter 7: Decentralization.

2. Divisionalization and Control Systems in Organizations

- Abernethy, M.A., Bouwens, J., Van Lent, L, 2004. Determinants of Control System Design in Divisionalized Firms. *The Accounting Review* 79(3), 545-570.
- Core, J., Guay, W., 1999. The Use of Equity Grants to Manage Optimal Equity Incentive Levels. *Journal of Accounting and Economics* 28(2), 151-184.
- Govindarajan, V., Gupta, A.K., 1985. Linking Control Systems to Business Unit Strategy: Impact on Performance. *Accounting, Organizations and Society* 10(1), pp. 51-66.
- Westphal, J., Zajac, E., 1994. Substance and Symbolism in CEOs' Long-term Incentive Plans. *Administrative Science Quarterly* 39(3), 367-390.

3. Alternative Research Methods of Performance Measurement

- Bouwens, J., van Lent, L., 2007. Assessing the Performance of Business Unit Managers. *Journal of Accounting Research* 45(4), 667–697.
- Campbell, D., 2008. Nonfinancial Performance Measures and Promotion-Based Incentives. *Journal of Accounting Research* 46(2), 297–332.
- Ittner, C., Meyer, M. and Larcker, D., 2003. Subjectivity and the Weighting of Performance Measures: Evidence from a Balanced Scorecard. *The Accounting Review* 78(3), 725-758.
- Matejka, M., Merchant, K. Van der Stede, W., 2009. Employment Horizon and the Choice of Performance Measures: Empirical Evidence from Annual Bonus Plans for Loss-Making Firms. *Management Science* 55(6), 890-905.

4. Management Accounting in Financial Services

- Blackwell, D.W., Brickley, J.A., Weisback, M.S., 1994. Accounting Information and Internal Performance Evaluation: Evidence from Texas Banks. *Journal of Accounting and Economics* 17(3), 331-358.
- Bouwens, J., Kroos P., 2012. The Effect of Organizational Hierarchy on Loan Rates and Risk Assessments. Working paper.
- Cassar, G., Gerakos, J., 2010. Determinants of Hedge Fund Internal Controls and Fees. *The Accounting Review* 85(6), 1887-1919.
- Fahlenbrach, R., Stulz, R., 2011. Bank CEO Incentives and the Credit Crisis. *Journal of Financial Economics* 99(1), 11-26.

5. Target Setting and Performance Evaluation

- Bouwens, J., Kroos, P., 2011. Target Ratcheting and Effort Reduction. *Journal of Accounting and Economics* 51(1-2), 171-185.
- Carter, M.E., Ittner, C., Zechman, S., 2010. Explicit Relative Performance evaluation in Performance- Vested Equity Grants. *Review of Accounting Studies* 14(2-3), 269-306.
- Grafton, J., Lillis, A., Widener, S., 2010. The Role of Performance Measurement and Evaluation in Building Organizational Capabilities and Performance. *Accounting, Organizations and Society* 35(7) 689-706.
- Pizzini, M., 2006. The Relation Between Cost-system Design, Managers' Evaluations of the Relevance and Usefulness of Cost Data, and Financial Performance: An Empirical Study of US Hospitals. *Accounting, Organizations and Society* 31(2) 179-210.
- Webb, A., Jeffrey, S., Schulz, A., 2010. Factors Affecting Goal Difficulty and Performance When Employees Select Their Own Performance Goals: Evidence from the Field. *Journal of Management Accounting Research* 22, 209-232.

6. Managerial Decision Making and Information Disclosure

- Bamber, L., Jiang, J., Wang, I., 2010. What's My Style? The Influence of Top Managers on Voluntary Corporate Financial Disclosure. *The Accounting Review* 85(4), 1131-1162.
- Eng, L.L., Mak, Y.T., 2003. Corporate Governance and Voluntary Disclosure. *Journal of Accounting and Public Policy* 22(4), 325-46.

- GarcíaOsma, B., Guillamón-Saorín, E., 2011. Corporate Governance and Impression Management in Annual Results Press Releases. *Accounting, Organizations and Society* 36(4), 187-208.
- Schrand, C.M., Walther, B.R., 2000. "Strategic Benchmarks In Earnings Announcements: The Selective Disclosure Of Prior-Period Earnings Components", *The Accounting Review* 75(2), 151-177.

7. Managerial Decision Making and Corporate Social Responsibility

- Choi, J., Wang, H., 2009. Stakeholder Relations and the Persistence of Corporate Financial Performance. *Strategic Management Journal* 30(8), 895-907.
- Dhaliwal, D.S., Li, O.Z., Tsang, A., Yang, Y.G., 2011. Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting. *The Accounting Review* 86(1), 59-100.
- Eccles, R., Ioannou, I., Serafeim, G., 2011. The Impact of a Corporate Sustainability on Organizational Processes and Performance. HBS working paper.
- Walls, J.L., Berrone, P., Phan, P.H., 2012. Corporate Governance and Environmental Performance: Is There Really a Link? *Strategic Management Journal* 33(8), 885-913.

8. Frontier Benchmarking Approaches in Accounting Studies

- Baik, B., Chae, J., Choi, S., Farber, D.B., 2012. Changes in Operational Efficiency and Firm Performance: A Frontier Analysis Approach. *Contemporary Accounting Research*, forthcoming, doi: 10.1111/j.1911-3846.2012.01179.x.
- Banker, R.D., Chang, H., Natarajan, R., 2005. Productivity Change, Technical Progress, and Relative Efficiency Change in the Public Accounting Industry. *Management Science* 51(2), 291-304.
- Demerjian, P., Lev, B., McVay, S., 2011. Quantifying Managerial Ability: A New Measure and Validity Tests. *Management Science* 58(7), 1229-1248.
- Knechel, W.R., Rouse, P., Schelleman, C., 2009. A Modified Audit Production Framework: Evaluating the Relative Efficiency of Audit Engagements. *The Accounting Review* 84(5), 1607-1638.
- Prior, D., Surroca, J., 2010. Performance Measurement and Achievable Targets for Public Hospitals. *Journal of Accounting, Auditing and Finance* 25(4), 749-766.