Financial Accounting – Antonio Parbonetti

COURSE OBJECTIVE AND OVERVIEW
The course covers two main areas of interests.

1) Empirical research in accounting has used various measures as indications of "earnings quality" including persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and external indicators such as restatements and SEC enforcement releases. The course presents the framework used to understand earnings quality linking the measurement system and the firm's performance. Moreover the course analyzes the most widely used measures of earnings quality highlighting that there is no single conclusion on what earnings quality is because "quality" is contingent on the decision context.

2) Research in international accounting uses cross-countries comparison to study how country specific institutions affect the properties and uses of accounting information. The course provide an overview of this fast growing area of research mainly considering issues related to IFRS adoption.

CONDUCT OF COURSE:
Part of the course will be conducted using a seminar format. Therefore, you are expected to take an active part in discussing and evaluating the readings assigned for each course session. In general, the class discussions will be centered around one or two papers per session. I expect you to be familiar with the required readings. During the last part of the course for each paper, I will assign one or more discussion leaders. The task as a discussion leader consists of briefly summarizing the paper, highlighting the contribution, and pointing out/discussing some critical research design choices. This should take no more than 20 minutes. I will of course help you with that task.

On top of the required readings, sometimes I have indicated additional reading material for each class. We will not have the time to cover those papers in detail, but I expect you to skim the content of the papers to get a basic sense for the results and the research approach. This will help you to put the main readings into a broader context, and also serves as a good starting point to probe further into any of the areas covered.

Course Requirements:
In preparation of the course:
- Carefully work through the required readings with a focus on the research question, the contribution to the literature and the research design.
- Skim the additional readings to get a basic sense for the research question.

During the course:
- Lead the class discussion of the assigned paper.
- Contribute to class discussions when you are not the leader.
After termination of the course:
- Exam
- Write a journal-style referee report together with a letter to the editor. I will distribute the paper to be reviewed during the last session. You should send me back the report by the last day of the exam period.

Topics covered:
- **The role of accounting and financial reporting and disclosure regulation**
  Reading: Leuz – Wysocki, 2008, Economic consequences of financial reporting and disclosure regulation: a review and suggestions for future research, Working Paper, University of Chicago and MIT Sloan School of Management
- **Accounting under ideal conditions**
- **Framework for the analysis of earnings quality**
- **Models used to evaluate earnings quality**

  Sections and readings
- **Fair value accounting:**
  Required Readings:

Goh, W.B., J. Ng and K. O. Yong. 2009. Market Pricing of Banks' Fair Value Assets Reported under SFAS 157 during the 2008 Economic Crisis. Working Paper. Massachusetts Institute of Technology and Singapore Management University.

Song, C.J., W.B. Thomas and H. Yi. 2009. Value Relevance of FAS 157 Fair Value Hierarchy Information and the Impact of Corporate Governance Mechanisms. *The Accounting Review* 85(4), 1375–1410.

Additional Readings:
Laux, C. and C. Leuz. 2010. Did Fair Value Accounting Contribute to the Financial Crisis? *Journal of Economic Perspectives*. Forthcoming.

- **Accounting conservatism**
  Required readings
  LaFond, Watts, 2008, The information role of Conservatisms, The Accounting Review, 83 (2): 447 – 478

  Watts, Ross. 2003. Conservatism in accounting part I: Explanations and Implications. *Accounting Horizons* 17(3): 207-221.

- **The role of reporting incentives**
  Required Readings:
  Ball, R., S.P. Kothari and A. Robin. (2000). "The Effect of International Institutional Factors on Properties of Accounting Earnings." *Journal of Accounting & Economics* 29, 1–51.

  Burgstahler, D., L. Hail and C. Leuz. (2006). "The Importance of Reporting Incentives: Earnings Management in European Private and Public Firms." *The Accounting Review* 81, 983–1016.

  Additional Readings:
  Ball, R., A. Robin and J. Wu. (2003). "Incentives Versus Standards: Properties of Accounting Income in Four East Asian Countries." *Journal of Accounting & Economics* 36, 235–270.

  Rajgopal, Shivakumar, Simpson, 2007, A Catering theory of earnings management, Working paper

- **Trade-off between accrual-based earnings management real earnings management**
  Required Readings
  Cohen, D. A, A. Dey, and T.Z. Lys. 2008. Real and accrual-based earnings management in the pre- and post- Sarbanes-Oxley periods. The Accounting Review 83 (3): 757-787.

  Cohen, D. A, and P. Zarowin. 2010. Accrual-based and real earnings management activities around Seasoned Equity O¤erings. Journal of Accounting and Economics 50 (1): 2 -19.

  Additional Readings:
  Durnev, A., L. Tiemei, and M. Magnan. 2011. Tax avoidance, institutional environment, and financial reporting: evidence from off-shore companies. Available at: http://ssrn.com/abstract=1325895

  Graham, J., R. Harvey, and S. Rajgopal. 2005. The economic implications of corporate financial reporting. Journal of Accounting and Economics 40 (1.3): 3.73.

  Gunny, K. 2010. The relation between earnings management using real activities manipulation and future performance: evidence from beating earnings benchmarks. Contemporary Accounting Review 27 (3): 855-888.

Roychowdhury, S. 2006. Earnings management through real activities manipulation. Journal of Accounting and Economics 42 (3): 335.370.

- **IFRS Adoption**
Required readings:
Barth, M., W. Landsman and M. Lang. (2008). "International Accounting Standards and Accounting Quality." *Journal of Accounting Research* 46, 467–498.

Daske, H., L. Hail, C. Leuz and R. Verdi. (2008). "Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences." *Journal of Accounting Research* 46, 1085–1142.

Additional readings:
Armstrong, C., M. Barth, A. Jagolinzer and E. Riedl. (2010). "Market Reaction to the Adoption of IFRS in Europe." *The Accounting Review* 85, 31–61.

Daske, H., L. Hail, C. Leuz and R. Verdi. (2011). "Adopting a Label: Heterogeneity in the Economic Consequences around Voluntary IAS Adoptions." Working paper, University of Pennsylvania and University of Chicago. Available at SSRN: http://ssrn.com/abstract=1864771.