Empirical Research in AccountingACC 386K.3

Professor Ross Jennings University of Texas at Austin Spring 2013

Course Contacts

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Introduction

This course is a survey of recently-published empirical-archival research in accounting, primarily financial accounting. There are three main purposes that we want to accomplish.

First, by the end of the semester you should <u>understand</u> *some* of the topics that have been studied, especially in financial accounting, over the last two or three years. All of the papers we will read in the class have been published in a top accounting journal during 2011 or 2012, or are forthcoming. On the other hand, there are many topics we will not have time to cover and we will cover no topic in depth.

Second, by the end of the semester you should be better able to <u>critically evaluate</u> empirical-archival research by asking the right questions to identify the limitations of research papers. Being able to identify weaknesses in others' and your own studies is a skill that you will use throughout your career.

Finally, by the end of the semester you should be better able to <u>identify possible</u> <u>extensions</u> to papers that you read. Obviously, this is also an important skill, being able to identify new research issues that build upon published work.

We will work on these three objectives every class session on every paper.

Course Materials

Electronic copies of all papers are available at the UT Library website.

Weekly Assignments

Each class session we will read two research studies (a detailed schedule with papers to be discussed is provided below). For each study, students will assume one of two formal roles and two informal roles. Each role has an oral in-class component and three of the roles have a written component. The formal roles are (a) to summarize and (b) to critique. The informal roles are (c) to wrap-up and (d) to extend. One student will be assigned to the two formal roles for each paper, and everyone will contribute to the informal roles each session. Of course, all students are expected to contribute to the discussion regardless of whether they have been assigned a specific role.

Formal Roles

Summarize – The purpose of this role is to "tee-up" the paper by providing a brief overview. The <u>in-class component</u> is to spend three to five minutes (no more than five) summarizing the paper. This summary should include a clear statement of (a) the research issue, (b) the motivation, (c) the analysis that was conducted, (d) the data that were used and (e) the conclusions that were reached. The presentation should be clear and concise, no details and no critique. Stick to the main point, tests, and conclusions.

The <u>written component</u> for this role is a maximum two-page summary of the paper (double-spaced, normal fonts and margins). The summary should be in the form of narrative text without headings or bullet points that on its own can communicate the essence of the paper to a knowledgeable reader (another doctoral student) who has not read the paper.

Critique – The purpose of this role is to critically evaluate the paper. We want to identify the strengths of the paper to convince ourselves that the results are credible and to add to our understanding about how to conduct a credible study ourselves. We want to identify the weaknesses of the paper to challenge the credibility of the results in the paper so that we can avoid similar mistakes in our own work and get better at identifying them in the work of others.

The <u>in-class component</u> is to sequentially raise issues for discussion as you are called upon. These issues should be organized based on importance or logic, you decide, you are controlling our discussion. To identify these issues you should ask yourself the following questions:

- Is the research issue clear, interesting, and well-motivated?
- Is the research design appropriate to the question and well-executed?
- Are the data appropriate to the analysis (i.e. valid measures of the constructs)?
- Are the inferences appropriate for the empirical results?

You can view your role as providing feedback to the authors of the paper on what part of the paper they have done well and what part can be improved.

The <u>written component</u> for this role is a maximum of two pages (double-spaced, normal fonts and margins) that discusses <u>one or two</u> of the most important <u>weaknesses</u> that you identified in the paper. You should describe the problems, their implications for the results of the study, and either suggest solutions or discuss the challenges the authors would face in addressing the issues. Your audience is other knowledgeable readers (other doctoral students) who have read the paper you are critiquing.

Informal Roles

Wrap-Up – The purpose of this role is to bring our discussion of the paper to a satisfactory conclusion. I will call on someone to summarize for us the two or three main points raised in the discussion. The summary should answer the question, "So, in summary, what did we think?" There is no written component for this role.

Extend – The purpose of this role is to suggest ways in which the paper can be extended. I will go around the room and ask everyone what ideas they have, either specific or

general, for how one might follow this paper with another publishable paper. The following questions may help get you started:

- What is the "next thing" we would like to know?
- Can the methodology used in the study be improved?
- Can the data used in the study be improved?

In addition, you should consider the following questions:

- Are there unique data in this study that can be used for a different issue?
- Can this research methodology be used for a different issue?

The objective is to bring to the surface one interesting idea that leads someone to actually write a publishable paper. There is no written component for this role.

Assignments

Journal Review – On March 4, I will provide you with an anonymous draft of a paper. You will be required to write a review of this paper and submit it to me in class on March 18. A review combines the roles of summarizing (very briefly) and critiquing, so you will have had lots of practice at this by March 4.

Literature Review – You will be asked to write a research proposal for this class, but we will do it in stages. The literature review is the first stage. This assignment gives you the opportunity to read in greater depth in a topic of interest to you. Your topic may be related to readings on the syllabus or may be in an area not covered on the syllabus. I expect you to identify at least five papers that are related to each other and provide a critical summary of their conclusions. The papers you are summarizing must be approved by me in advance. You should provide me with a list of the papers no later than March 18. You are welcome to seek my approval earlier if you wish to begin the paper earlier. The summary should be five to seven pages (double-spaced, normal fonts and margins), and is due on April 1.

Research Proposal – This research proposal should be based on the literature review you previously completed. You are to determine a very specific extension of that literature to a new research question. Extensions that involve improving on the data or method are permitted, but extensions that identify the "next thing we want to know" are preferred. This draft should include your revised literature review, expanded by adding an introduction, hypothesis development, and methodology sections. This paper should be no more than 20 pages (double-spaced, normal fonts and margins), and is due on May 10^{th} at 5pm.

Reflection Essay – At the conclusion of the semester I want you to read "Accounting Scholarship that Advances Professional Knowledge and Practice" by Robert S. Kaplan (*The Accounting Review*, 2011, 86 (No. 2): 367-383), and write a two-to-four page (double-spaced, normal font and margins) reaction to Kaplan's main points in the context of the 28 papers we have read during the semester. There is no correct response to this article; I only want you to thoughtfully reflect on what we have done and on what you might do over the course of your career.

Class Participation

In this class we are more of a learning community than we are students and teacher. I will probably learn more during the semester than anyone else, but I hope we all learn a great deal. Each session, several of you will be assigned that day's roles (summarize and critique). Your performance in that capacity will be part of your class participation grade. I also expect that all students will contribute to the discussion of each paper.

Class Sessions

We will begin each class session with an oral summary of the first paper listed in the course schedule (paper A). I will then ask for "clarifying questions." The point here is to address any issues related to aspects of the paper that are not clear to everyone. Before we start our discussion we want to make sure that we all have a common understanding of what is going on. If I think your clarifying question is a critique in disguise I will defer it. Next, I will ask the person assigned to critique paper A to raise their first point. This point may be either a strength or weakness. We will discuss this point and then move to the critiquing student's next point. I expect that the conversation may tend to wander and blend issues. It is the responsibility of those assigned to critique the papers to help keep the conversation focused on what they think is the most important issues. As we conclude our discussion of that paper I will ask someone to summarize the main conclusions from our discussion. After a short break we will then repeat this process for paper B. After we have discussed the strengths and weaknesses of both papers I will give each student a chance to suggestion an extension of one or both papers that we have discussed.

Grades

Grades for the course will be based on the following assignments and weights.

Grading Summary

	Points	<u>Percent</u>
Weekly Writing Assignments	50	10%
Journal Review	100	20%
Literature Review	50	10%
Research Proposal	150	30%
Reflective Essay	50	10%
Class Participation	<u>100</u>	<u>20%</u>
Total	500	100%

Scholastic Dishonesty

Discussion of the course outside of class is strongly encouraged. For all written assignments, students may share ideas but they should NOT share ANY electronic or paper documents. In addition, when borrowing ideas or words from any allowable source, that source should be appropriately cited. Violations will be considered to be violations of the Honor Code.

First Class Day

At our first class meeting on Monday January 14 we will discuss the first two papers, Prakash and Sinha (forthcoming) and Cohen et al. (2011). The last page of the syllabus assigns the roles you are to assume for each class session.

Detailed Schedule

Session	Date	Topic/Papers	
1	1 1-14 Deferred Revenue and Warranty Reserves		
		Prakash, Rachna and Nishi Sinha, "Deferred Revenues and the Matching of Revenues and Expenses," <i>Contemporary Accounting Research</i> , (Forthcoming).	
		Cohen, Daniel, Masako N. Darrough, and Rong Huang, "Warranty Reserve: Contingent Liability, Information Signal, or Earnings Management Tool?" <i>The Accounting Review</i> (2011) 86 (No. 2): 569-604.	
2	1-18	Losses and Dirty Surplus Accounting	
		Li, Kevin Ke, "How Well Do Investors Understand Loss Persistence?" Review of Accounting Studies (2011) 16: 630-667. This paper also has a published conference discussion by Bob Resutek.	
		Landsman, Wayne R., Bruce L. Miller, Ken Peasnell, and Shu Yeh, "Do Investors Understand Really Dirty Surplus?" <i>The Accounting Review</i> (2011) 86 (No. 1): 237-258.	
3	1-28	Accruals	
	Baber, William R., Sok-Hyon Kang, and Ying Li, "Modeling Discretionary Accrual Reversal and the Balance Sheet as an Earnings Management Constraint," <i>The Accounting Review</i> (2011) 86 (No. 4): 1189-1212.		
		Zang, Amy Y., "Evidence on the Trade-Off Between Real Activities Manipulation and Accrual-Based Earnings Management," <i>The Accounting Review</i> (2012) 87 (No. 2): 675-703.	

Session Date Topic/Papers 4 2-4 Social Responsibility Reporting Dhaliwal, Dan S., Oliver Zhen Li, Albert Tsang, and Yong George Yang, "Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting," The Accounting Review (2011) 86 (No. 1): 59-100. Kim, Yongtae, Myung Seok Park, and Benson Wier, "Is Earnings Quality Associated with Corporate Social Responsibility?" The Accounting Review (2012) 87 (No. 3): 761-796. 5 2-11 Supplementary Disclosures: MD&A and Conference Calls Brown, Stephen V. and Jennifer Wu Tucker, "Large-Sample Evidence on Firms' Year-over-Year MD&A Modifications," Journal of Accounting Research (2011) 49 (No. 2): 309-346. This paper also has a published discussion by Darren T. Roulstone. Matsumoto, Dawn, Maarten Pronk, and Erik Roelofsen, "What Makes Conference Calls Useful? The Information Content of Managers' Presentations and Analysts' Discussion Sessions," The Accounting Review (2011) 86 (No. 4): 1383-1414. 6 2-18 Mark to Market Bhat, Fauri, Richard Frankel, and Xiumin Martin, "Panacea, Pandora's Box, or Placebo: Feedback in Bank Mortgage-Backed Security Holdings and Fair Value Accounting," Journal of Accounting and Economics (2011) 52: 153-173. (See also Kolasinski, Adam C., "Mark-To-Market Regulatory Accounting when Securities Markets are Stressed: Lessons for the Financial Crisis of 2007-2009," Journal of Accounting and Economics (2011) 52: 174-77.)

Vyas, Dushyantkumar, "The Timeliness of Accounting Write-Downs by U.S. Financial Institutions During the Financial Crisis of 2007-2008," *Journal of Accounting Research*, (2011) 49 (No. 3): 823-860.

Session	Date	Topic/Papers
7	2-25	Conservatism
		Hui, Kai Wai, Sandy Klasa, and P. Eric Yeung, "Corporate Suppliers and Customers and Accounting Conservatism," <i>Journal of Accounting and Economics</i> (2012) 53: 115-135.
		Ramalingegowda, Santhosh, and Yong Yu, "Institutional Ownership and Conservatism," <i>Journal of Accounting and Economics</i> (2012) 53: 98-114.
8	3-4	Financial Statement Analysis – I
		De Franco, Gus, and M. H. Franco Wong, and Yibin Zhou, "Accounting Adjustments and the Valuations of Financial Statement Note Information in 10-K Filings," <i>The Accounting Review</i> , (2011) 86 (No. 5): 1577-1604.
		Lee, Lian Fen, "Incentives to Inflate Reported Cash From Operations Using Classification and Timing," <i>The Accounting Review</i> , (2012) 87 (No. 1): 1-33.
		Paper to be reviewed will be provided in class.
	3-11	SPRING BREAK
9	3-18	Financial Statement Analysis – II
		Wahlen, James M. and Matthew M. Wieland, "Can Financial Statement Analysis Beat Consensus Analysts' Recommendations?" <i>Review of Accounting Studies</i> , (2011) 16: 89-115.
		Gleason, Cristi, W. Bruce Johnson, and Haidan Li, "Valuation Model Use and the Price Target Performance of Sell-Side Equity Analysts," <i>Contemporary Accounting Research</i> , (Forthcoming).
		Review due in class. List of papers for literature review due in class.

Session	Date	Topic/Papers	
10	3-25	Comparability	
		De Franco, Gus, S. P. Kothari, and Rodrigo S. Verdi, , "The Benefits of Financial Statement Comparability," <i>Journal of Accounting Research</i> (2011) 49 (No. 4): 895-931.	
		Barth, Mary E., Wayne R. Landsman, Mark Lang, and Christopher Williams, "Are IFRS-Based and US GAAP-Based Accounting Amounts Comparable?" <i>Journal of Accounting and Economics</i> (2012) 54: 68-93.	
11	4-1	Executive Compensation	
		Young, Steven and Jing Yang, "Stock Repurchases and Executive Compensation Contract Design: The Role of Earnings Per Share Performance Conditions," <i>The Accounting Review</i> (2011) 86 (No. 2): 703-733.	
		Skantz, Terrance R., "CEO Pay, Managerial Power, and SFAS 123(R)," <i>The Accounting Review</i> (2012) 87 (No. 6): 2151-2179.	
		Literature Review due in class.	
12	4-8	Taxes – I	
		Blaylock, Bradley, Terry Shevlin, and Ryan Wilson, "Tax Avoidance, Large Positive Temporary Book-Tax Differences, and Earnings Persistence," <i>The Accounting Review</i> (2009) 87 (No. 1): 91-120.	
		Thomas, Jacob and Frank Z. Zhang, "Tax Expense Momentum," <i>Journal of Accounting Research</i> (2011) 49 (No. 3): 791-821.	
13	4-15	Taxes – II	
		Brown, Jennifer L., "The Spread of Aggressive Corporate Tax Reporting: A Detailed Examination of the Corporate-Owner Life Insurance Shelter," <i>The Accounting Review</i> (2011) 86 (No. 1): 23-57.	
		Klassen, Kenneth J. and Stacie K. Laplante , "Are U.S. Multinational Corporations Becoming More Aggressive Income Shifters?" <i>Journal of Accounting Research</i> (2012) 50 (No. 5): 1245-	

1285.

	Session	Date	Topic/Papers
14 4-22 Standar		4-22	Standard Setting and Regulation
			Allen, Abigail and Karthik Ramanna , "Towards an Understanding of the Role of Standard Setters in Standard Setting," <i>Journal of Accounting and Economics</i> (Forthcoming).
			Bertomeu, Jeremy and Robert P. Magee , "From Low-Quality Reporting to Financial Crises: Politics of Disclosure Regulation Along the Economic Cycle," <i>Journal of Accounting and Economics</i> (2011) 52: 209-227.
			This paper also has a published discussion by Alfred Wagenhofer.

5-10 Research Proposal due at 5pm.

Role Assignments

Week	Paper	Summarize	Critique
1A	Prakash & Sinha	Prasart	Daehyun
1B	Cohen et al	Jeanmarie	Kathleen
2A	Li	Shannon	Ying
2B	Landsman et al	Daehyun	Prasart
3A	Baber et al	Kathleen	Jeanmarie
3B	Zang	Ying	Shannon
4A	Dhaliwal et al	Prasart	Daehyun
4B	Kim et al	Jeanmarie	Kathleen
5A	Brown & Tucker	Shannon	Ying
5B	Matsumoto et al	Daehyun	Prasart
6A	Bhat et al	Kathleen	Jeanmarie
6B	Vyas	Ying	Shannon
7A	Hui et al	Prasart	Daehyun
7B	Ramalingegowda & Yu	Jeanmarie	Kathleen
8A	De Franco et al	Shannon	Ying
8B	Lee	Daehyun	Prasart
9A	Wahlen & Wieland	Kathleen	Jeanmarie
9B	Gleason et al	Ying	Shannon
10A	Barth et al	Prasart	Daehyun
10B	De Franco et al	Jeanmarie	Kathleen
11A	Skantz	Shannon	Ying
11B	Young & Yang	Daehyun	Prasart
12A	Blaylock et al	Kathleen	Jeanmarie
12B	Thomas & Zhang	Ying	Shannon
13A	Brown	Prasart	Daehyun
13B	Klassen & Laplante	Jeanmarie	Kathleen
14A	Allen & Ramanna	Shannon	Ying
14B	Bertomeu & Magee	Daehyun	Prasart