

A772
Financial Accounting PhD Seminar
Fall 2022 Course Outline

Accounting and Financial Management Services
DeGroot School of Business
McMaster University

COURSE OBJECTIVE

This seminar course is designed to give an overview of topics relevant to current accounting theory, research, standard setting and practice through relevant readings and by detailed examination of various accounting models.

INSTRUCTOR AND CONTACT INFORMATION

Name: Justin Jin, PhD, CPA, CA
E-mail: jinjus@mcmaster.ca
Office: DSB319
Office Hours: TBA.
Tel: (905) 525-9140 Ext: 26194

Class time: Thursdays, 11:30 AM – 2:30 PM
Class room: DSB 321

COURSE DESCRIPTION

This course is about financial accounting research. Accounting students have been exposed to the methodology and practice of accounting need to critically examine the broader implications of financial accounting for the fair and efficient working of our economy. The objective is to give the students an understanding of current financial accounting and reporting environment, taking into account the diverse interests of both external users and management. Various professional and conceptual topics will integrate research from Accounting, Finance, and Economic journals. The journals used will be from academic literatures.

LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Analyze the advantages/disadvantages of the various accounting models;
- Assess business health/performance as implied by the various accounting models;
- Conduct an assessment of a given situation from a political economy perspective;
- Begin to understand the many perspectives from which accounting can be studied.

COURSE MATERIALS AND READINGS

Avenue registration for course content, readings and case materials

- <http://avenue.mcmaster.ca>

EVALUATION

Notes about the types of assessments used as well as notes regarding how group work will be evaluated.

Components and Weights

Submit a Complete Working paper	50%
Presentations	30%
Class Participation and Discussions	20%
Total	100%

Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

Grade	Points	Equivalent Percentages
A+	12	90 – 100
A	11	85 – 89
A-	10	80 – 84
B+	9	77 – 79
B	8	73 – 76
B-	7	70 – 72
F	0	69 and under

Working Paper

This assignment is worth **50%** of your final grade and will be marked individually. The working paper should consist of introduction, literature review, sample selection, research design, data analysis, robustness test, conclusions. The working paper should have valid results and be written in publishable format.

Presentations

This assignment is worth **30%** of your final grade and will be marked individually.

Participation

Participation and discussions in class is worth **20%** of your final grade.

Please review the Graduate Examinations Policy (if applicable):

<http://www.mcmaster.ca/policy/Students-AcademicStudies/GradExamsPolicy.pdf>

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

MISSED ACADEMIC WORK

Late assignments will not be accepted. No extensions are available except under extraordinary circumstances. Please discuss any extenuating situation with your instructor at the earliest possible opportunity.

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Program Office normally within 10 days of the beginning of term. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

POTENTIAL MODIFICATION TO THE COURSE

The instructor reserves the right to modify elements of the course during the term. There may be changes to the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

COURSE SCHEDULE

Week 1 (September 15): Introduction to the course

Background Readings

1. Kothari, S.P., 2001. Capital markets research in accounting, *Journal of Accounting & Economics* 31, 105-231. Sections 1-3 and 4.1.1.
2. Ball, R., and P. Brown. 1968. An empirical evaluation of accounting income numbers, *Journal of Accounting Research*, 159-178.
3. Beaver, W. H. 1968. The information content of annual earnings announcements, *Journal of Accounting Research*, Supplement, 67-92.

Presentation of papers and individual research proposals. Each person has one hour to present his/her paper and proposal.

Week 2 (September 22): Accounting Earnings, Stock Prices, and Market Efficiency

Background Readings

1. 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, (Supplement): 153-201.
2. Lee, C. M.C., 2001. "Market Efficiency and Accounting Research: A Discussion of 'Capital Market Research in Accounting' by S.P. Kothari," *Journal of Accounting and Economics*: 233-253.

Primary Readings

1. Bartov, E. 1992. Patterns in unexpected earnings as an explanation for post-announcement-drift, *The Accounting Review* 67, 610-622.
2. Francis, J., K. Schipper, and L. Vincent. 2002. Expanded disclosures and the increased usefulness of earnings announcements. *The Accounting Review* 77 (July): 515-546.
3. Hirshleifer, David A.; Myers, James N.; Myers, Linda A.; Siew Hong Teoh. 2008. Do Individual Investors Cause Post-Earnings Announcement Drift? Direct Evidence from Personal Trades, *Accounting Review* 83, 1521-1550.

Presentation of papers. Each person has one hour to present his/her paper.

Week 3 (September 29): Market Efficiency and Accounting Information: Pricing of Accruals

Background Readings

1. Dechow, P., 1994. "Accounting Earnings and Cash Flows as Measures of Firm Performance: The Role of Accounting Accruals," *Journal of Accounting and Economics*, July: 3-42.
2. Barth, M., W. Beaver, J. Hand, and W. Landsman, 1999. "Accruals, Cash Flows, and Equity Values," *Review of Accounting Studies*, December: 205-229.
3. Sloan, R., 1996. "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?" *The Accounting Review*, July: 289-315.

Primary Readings

1. Collins, D.W., G. Gong, and P. Hribar. 2003. Investor sophistication and the mispricing of accruals. *Review of Accounting Studies* 8, 251-276.
2. Bradshaw, M. T., S. A. Richardson, and R. G. Sloan. 2001. Do Analysts and Auditors Use Information in Accruals? *Journal of Accounting Research* 39 (1):45-74.
3. Hirshleifer, D., K. Hou, S. H. Teoh, and Y. Zhang. 2004. “Do Investors Overvalue Firms with Bloated Balance Sheets?” *Journal of Accounting and Economics* 38:297-331.

Presentation of papers. Each person has one hour to present his/her paper.

Week 4 (October 6): The Information Content in Cash Flows and Earnings.

Background Readings:

1. Wilson, G.P., 1987. “The Incremental Information Content of the Accrual and Fund Components of Earnings after Controlling for Earnings,” *The Accounting Review* (April): 293-322.
2. Bowen, R., D. Burgstahler and L. Daley, 1987. “The Incremental Information Content of Accruals versus Cash Flows,” *The Accounting Review* October: 723-747.

Primary Readings

1. Bernard, V. and T. Stober, 1989. “The Nature and Amount of Information Reflected in Cash Flows and Accruals,” *The Accounting Review* October: 624-652
2. Dechow, P., S. Richardson, and R. Sloan, 2008. “The persistence and pricing of the cash component of earnings”, *Journal of Accounting Research* 46: 537-566.

Presentation of papers. Each person has one hour to present his/her paper.

Week 5 (October 13): Survey Papers

Primary Readings

1. Beatty, A., and S. Liao. 2014. “Financial accounting in the banking industry: A review of the empirical literature.” *Journal of Accounting and Economics* 58: 339-383.
2. Bushman, R. 2014. “Thoughts on Financial Accounting and the Banking Industry.” *Journal of Accounting and Economics* 58: 384-395.
3. Lobo, G.J. 2017. Accounting Research in Banking – An Overview. *China Journal of Accounting Research* 10: 1-7

Presentation of papers. Each person has one hour to present his/her paper.

Week 6 (October 20): Banking Papers

Primary Readings

1. Jackson and Liu. 2010. The allowance for uncollectible accounts, conservatism, and earnings management. *Journal of Accounting Research*, 48 (3): 565-601.
2. Liu, C., Ryan, S., 1995. The effect of bank loan portfolio composition on the market reaction to and anticipation of provisions for loan losses. *Journal of Accounting Research*, 33, 77-94.

3. Bushman, R., Williams, C., 2012.

Accounting discretion, loan loss provisioning, and discipline of banks' risk-taking. *Journal of Accounting & Economics* 54, 1–18.

Presentation of papers. Each person has one hour to present his/her paper.

Week 7 (October 27): Financial Analyst Forecasts

Background Reading

1. Schipper, K. 1991. Commentary on Analysts' Forecasts. *Accounting Horizons* (December): 105–121.
2. Healy, P. and K. Palepu, 2001. "Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature," *Journal of Accounting and Economics* 31: 405-440.
3. Barron, O.E., Kim, O., Lim, S., and Stevens, D.E., 1998. "Using Analysts' Forecasts to Measure Properties of Analysts' Information Environment." *The Accounting Review* 73 (4): 421-433.

Primary Readings

1. Lang, M.H., Lins, K.V., and Miller, D.P., 2003. "ADRs, Analysts, and Accuracy: Does Cross-Listing in the United States Improve a Firm's Information Environment and Increase Market Value?" *Journal of Accounting Research* 41(2): 317-345
2. Yu, F., 2008. "Analyst Coverage and Earnings Management," *Journal of Financial Economics* 88: 245-271.

Presentation of papers. Each person has one hour to present his/her paper.

Week 8 (November 3): Standard Setting, Environmental, Social and Governance (ESG)

Primary Readings

1. Brooks, C. and Oikonomou, I. 2022. "The effects of environmental, social and governance disclosures and performance on firm value: A review of the literature in accounting and finance." *The British Accounting Review*, Volume 50, Issue 1, January 2018, Pages 1-15.
2. Danny Z. X. Huang, 2022. "Environmental, social and governance (ESG) activity and firm performance: a review and consolidation," *Accounting and Finance*, vol. 61(1), pages 335-360.
3. Burke, J. J., Hoitash, R., Hoitash, U. 2019. "Auditor Response to Negative Media Coverage of Client Environmental, Social, and Governance Practices." *Accounting Horizons*, 33 (3): 1–23.

Presentation of individual working papers/proposals. Each person has one hour to present his/her working paper/proposal.

Week 9 (November 10): Accounting and Firm Valuation I: Theory

Background Readings

1. Holthausen, R.W. and R.L. Watts, 2001. "The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting," *Journal of Accounting and Economics* September: 3-75.
2. Barth, M., W. Beaver, and W. Landsman, 2001. "The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting: Another View," *Journal of Accounting and Economics* September: 77-104.

Primary Readings

1. Ohlson, J. 1995. “Earnings, Book Values, and Dividends in Security Valuation.” *Contemporary Accounting Research* Spring: 661-687.
2. Ohlson, J., and X. Zhang. 1998. Accrual Accounting and Equity Valuation. *Journal of Accounting Research* 36, Supplement: 85-111.
3. Ohlson, James A., 2001. Earnings, Book Values, and Dividends in Equity Valuation: An Empirical Perspective. *Contemporary Accounting Research* Vol. 18 No. 1, pages 107-120.

Presentation of papers. Each person has one hour to present his/her paper.

Week 10 (November 17): Accounting and Firm Valuation II: Empirical Evidence

Primary Readings

1. Frankel. R. and C. Lee. 1998. “Accounting Valuation, Market Expectation, and Cross-Sectional Returns.” *Journal of Accounting and Economics*. (June 1998): 283-319.
2. Dechow P., A. Hutton and R. Sloan. 1999. An Empirical Assessment of the Residual Income Valuation Model. *Journal of Accounting and Economics* 26, 1-34
3. Myers J. 1999. Implementing Residual Income Valuation with Linear Information Dynamics. *The Accounting Review* 74, 147-161

Presentation of papers. Each person has one hour to present his/her paper.

Week 11 (November 24): Earnings Management I

Background Readings

1. Schipper, K. 1989. Commentary on earnings management, *Accounting Horizons* 3, 91 - 102
2. Jones, J. 1991. Earnings management during import relief investigations. *Journal of Accounting Research* 29, 193 – 228.
3. Dechow. P, R. Sloan, and A. Sweeney. 1995. Detecting earnings management, *The Accounting Review* (April), 193 – 255.

Primary Readings

1. Burgstahler, D. and I. Dichev. 1997. “Earnings Management to Avoid Earnings Decreases and Losses,” *Journal of Accounting and Economics* (December 1997): 99-126.
2. Degeorge, F., J. Patel and R. Zeckhauser. 1999. Earnings management to exceed thresholds, *Journal of Business*, 72 (1): 1-33.
3. Bartov, E., D. Givoly, and C. Hayn. 2002. “The Rewards to Meeting or Beating Earnings Expectations,” *Journal of Accounting and Economics* (June 2002): 173-204.

Presentation of papers. Each person has one hour to present his/her paper.

Week 12 (December 1): Managerial Sentiment / Accounting Theory: Adverse Selection

Primary Readings

1. Gandhi, P., T. Loughran, and B. McDonald. 2017. Using Annual Report Sentiment as a Proxy for Financial Distress in U.S. Banks. Available at SSRN: <https://ssrn.com/abstract=2905225>

2. Hribar, P., S.J. Melessa, R.C. Small, and J.H. Wilde. 2017. Does Managerial Sentiment Affect Accrual Estimates? Evidence from the Banking Industry. *Journal of Accounting and Economics* 63: 26-50.
3. Roni Michaely Wayne H. Shaw. 1994. The Pricing of Initial Public Offerings: Tests of Adverse-Selection and Signaling Theories. *Review of Financial Studies*, 7 (2): 279–319.

Presentation of papers. Each person has one hour to present his/her paper.

Week 13 (December 8): Earnings Management II

Primary Readings

1. Kanagaretnam, K., G. Lobo, and D. Yang. 2004. Joint Tests of Signaling and Income Smoothing through Bank Loan Loss Provisions. *Contemporary Accounting Research* 21: 843–884.
2. Beatty, A., B. Ke, and K. Petroni. 2002. Differential Earnings Management to Avoid Earnings Declines and Losses across Publicly and Privately Held Banks. *The Accounting Review* 77: 547–570.
3. Liu, C., and S. Ryan. 2006. Income Smoothing Over the Business Cycle: Changes in Banks' Coordinated Management of Provisions for Loan Losses and Loan Charge-offs from the Pre-1990 Bust to the 1990s Boom. *The Accounting Review* 81: 421–441.

Presentation of papers. Each person has one hour to present his/her paper.

Week 14 (December 15): Conservatism and Risk-Taking

Primary Readings

1. Nichols, C., J. Wahlen, and M. Wieland. 2009. Publicly Traded versus Privately Held: Implications for Conditional Conservatism in Bank Accounting. *Review of Accounting Studies* 14: 88–122.
2. Bushman, R., and C. Williams. 2012. Accounting Discretion, Loan Loss Provisioning, and Discipline of Banks' Risk-Taking. *Journal of Accounting & Economics* 54: 1–18.
3. Basu, S., 1997. "The Conservatism Principle and the Asymmetric Timeliness of Earnings," *Journal of Accounting and Economics* 24: 3-37.

Presentation of individual working papers. Each person has one hour to present his/her working paper.

Due date for submitting working paper: Noon of December 20, 2022

Supplementary readings:

- Book by Ryan - Financial Instruments and Institutions accounting and disclosure rules
- Review paper Beatty and Liao 2013
- Review paper Bushman 2014
- Review paper Kothari 2001 JAE