



	ANU College of Business and Economics	School of Accounting & Business Information Systems
Mail	Building 26C Australian National University Canberra ACT 0200	Building 21 Australian National University Canberra ACT 0200
Student Office	Room 2.01 (Level 2) ANUCBE Building 26C	Room 2037 (Level 2) Hanna Neumann Building 21
Phone: Within Australia International	1300 732 120 (local call cost only) +61 2 6125 3807	02 6125 0025 +61 2 6125 0025
Fax: Within Australia International	02 6125 0744 +61 2 6125 0744	02 6125 4310 +61 2 6125 4310
Email:	info.cbe@anu.edu.au	enquiries.ABIS@anu.edu.au

Course Outline

BUSN8007 Analysis of Financial Reporting

Semester 1, 2012

STUDENTS: *Course details change from semester to semester. Please check that you are reading the Course Outline for the correct semester.*

Course Description

This course is about financial reporting, but not how to report or account for activities. Two key features of the syllabus are the explicit linkage to the research literature and the emphasis on empirical evidence. The adopted approach is largely based on the economics of accounting and finance. The course also aims to introduce students to the theoretical and practical skills required to conduct their own empirical research.

Graduate Studies Select Classification

Not applicable

Contacts

Role	Office address	Contact Details	Consultation Times
Course Convenor and Lecturer (Course Authority) Dr Steven Wu	HN 1031 Hanna Neumann Bldg 21	Steven.wu@anu.edu.au 6125 3586	
Student Administrators	HN 2037 Hanna Neumann Bldg 21	enquiries.abis@anu.edu.au 6125 0025 or 6125 7968	Office hours 9am – 5pm Monday – Friday

Communication

Email

If necessary, the lecturers and tutors for this course will contact students on their official ANU student email address. Information about your enrolment and fees from the Registrar and Student Services' office will also be sent to this email address.

Announcements

Students are expected to check the Wattle site for announcements about this course, e.g. changes to timetables or notifications of cancellations. Notifications of emergency cancellations of lectures or tutorials will be posted on the door of the relevant room.

Course URLs

More information about this course may be found on:

- [Study @ ANU](#),
- the [College of Business and Economics website](#), and
- [Wattle](#), the University's online learning environment. Log on to Wattle using your student number and your ISIS password.

Course Information

Learning Outcomes

Upon completion of the course students will have read widely within the literature concerning the information content of published financial statement and the use of accounting information in contracting. Students will have demonstrated an understanding of the key issues presented in the above literature and the implications of these issues for accounting research and practice. Students will also have developed rudimentary empirical research skills.

Workload

Typically, a student enrolled in BUSN8007 is expected to allocate 12 hours a week to the course, including contact hours. This will include:

1. 3 hours a week: seminar style lecture
2. 9 hours a week: private study (including reading, research, writing, lecture preparation and assignment).

Note: You are required to be prepared for class.

Course Delivery

Lecture: Day and Time: Thursday, 12-3pm

Location: TBA

Attendance Requirements

There will be one 3-hour seminar per week. Announcements made in seminars are deemed to have been received by all students. You are strongly encouraged to attend all seminars. Merely reading the lecture notes (in weeks where they are provided) is unlikely to provide you with an adequate understanding of the issues presented.

Tutorial Registration

Not applicable

Study Schedule

Week beginning	Topic	Activity	Required student preparation	Deadlines
20 February	Introduction & Understanding Statistical Evidence	Lecture	Topic 1 reading	
27 February	Accounting Information & Capital Markets	Lecture	Topic 2 reading	
5 March	Agency Conflicts & Positive Accounting Theory	Lecture	Topic 3 reading	
12 March	Corporate Reporting Behaviour and information from Various Sources	Lecture	Topic 4 reading	
19 March	Earnings Management	Lecture	Topic 5 reading	
26 March	Role of Accruals and the Accrual anomaly	Lecture	Topic 6 reading	
2 April	Accounting Conservatism	Lecture	Topic 7 reading	
Mid Semester Break				
22 April	Role of Corporate Governance	Lecture	Topic 8 reading	
30 April	Prediction of Future Cash Flows and Earnings	Lecture	Topic 9 reading	
7 May	Valuation and Expected Returns	Lecture	Topic 10 reading Due: practical research assignment	
14 May	Intangibles	Lecture	Topic 11 reading	
21 May	Security Analysts: role and incentives	Lecture	Topic 12 reading	
28 May	Review	Lecture		

Reading List

Topic 1: (i) Introduction to the course and (ii) Understanding statistical evidence

Lennox, C. and J. Pittman, 2011, "Voluntary Audits versus Mandatory Audits", *The Accounting Review*, 86, 1655-1678 (Examples of statistical analysis employed in this paper will form the basis of this class).

You should also begin reading papers for the following week's seminar.

Topic 2: Accounting information and capital markets

Ball, R. and P. Brown, 1968, "An empirical evaluation of accounting income numbers," *Journal of Accounting Research* 6, 159-178.

Beaver, W., 1968, "The information content of annual earnings announcements," *Journal of Accounting Research* 6 (Empirical Research in Accounting: Selected Studies), 67-92.

Further reading:

Ball, R. and G. Foster, 1982, "Corporate Financial Reporting: A Methodological Review of Empirical Research", *Journal of Accounting Research*, Supplement, Vol. 20, 161-234.

Beaver, W., Kennelley, J. and Voss, W., 1968, "Predictive ability as a criterion for the evaluation of accounting data", *The Accounting Review* 43, 675-683.

Brown, P., 1994, *Capital Markets-Based Research in Accounting: An Introduction*, Coopers & Lybrand Accounting Research Methodology Monograph No. 1, Chapters 2 & 3.

Kothari, S. P., 2001, "Capital markets research in accounting", *Journal of Accounting and Economics* 31, 105-232.

Nichols, D. C. and J. M. Wahlen (2004). "Do earnings numbers relate to stock returns? A review of classic accounting research with updated evidence", *Accounting Horizons*, 18 (4), 263-286.

Watts, R. and J. Zimmerman, 1986, *Positive Accounting Theory*, Prentice Hall, Chapter 8.

Topic 3: Agency conflicts and Positive Accounting Theory

Jensen M.C. and W. H. Meckling, 1976, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*, 3, 305-360.

Watts, R. L., and J. L. Zimmerman, 1979, "The Demand For and Supply of Accounting Theories: The Market for Excuses", *The Accounting Review*, 52, 273-305.

Further reading:

Coase, R.H., 1937, "The Nature of the Firm", *Economica* 4(16), 386-405.

Watts, R. and J. Zimmerman, 1986, *Positive Accounting Theory*, Prentice Hall, Chapter 10.

Watts, R. and J. Zimmerman, 1990, "Positive Accounting Theory: A Ten Year Perspective." *The Accounting Review* 65 (1), 131-156.

Watts, R.L., "Corporate Financial Statements: A Product of The Market and Political Processes", *Australian Journal of Management*, April 1977, p.53-75.

Watts, R.L. and J.L. Zimmerman, "Towards a Positive Theory of The Determination of Accounting Standards", The Accounting Review, January 1978, pp.112-34.

Topic 4: Corporate Reporting Behaviour and Information from Various Sources

Graham, J.R., R.H. Campbell, and S. Rajgopal, 2005, "The economic implications of corporate financial reporting", Journal of Accounting and Economics, 40, 3-73.

Kothari, S.P., X. Li, and J.E. Short, 2009, "The Effect of Disclosures by Management, Analysts, and Business Press on Cost of Capital, Return Volatility, and Analyst Forecasts: A Study Using Content Analysis", The Accounting Review, 84, 1639-1670.

Topic 5: Earnings management

This class introduces the concept of "capturing" accounting manipulation (or at least accounting possibly subject to manipulation) by summary measures, rather than examining specific accounting policy choices.

Jones, J., 1991, "Earnings Management During Import Relief Investigations", Journal of Accounting Research, Autumn, pp.193-228.

Kothari, S.P., A. Leone, and C. Wasley, 2005, "Performance matched discretionary accrual measures", Journal of Accounting and Economics 39, 163-197.

Further reading:

Armstrong, C., A. D. Jagolinzer, and D. F. Larcker, 2008, Chief Executive Officer Equity Incentives and Accounting Irregularities, Working paper, Stanford University and University of Pennsylvania.

Bergstresser, D., and T. Philippon, 2006, "CEO Incentives and Earnings Management", Journal of Financial Economics 80, 511-529.

Collins, D.W., and P. Hribar, 2002, "Errors in estimating accruals: Implications for empirical research," Journal of Accounting Research 40(1).

Dechow, P., R. Sloan and A. Sweeney, 1995, "Detecting earnings management", The Accounting Review 70, 193-226.

Dechow, P. M., S. A. Richardson and I. Tuna, 2003, "Why are Earnings Kinky? An Examination of the Earnings Management Explanation", Review of Accounting Studies, 8, 355-384.

Durtschi, C. and P. Easton, 2005, "Earnings management? The shapes of the frequency distributions of earnings metrics are not evidence ipso facto", Journal of Accounting Research 43, 557-592.

Healy, P. M., and J. M. Wahlen, 1999, "A review of the earnings management literature and its implications for standard setting", Accounting Horizons, 13(4), 365-383.

Hribar, P., and D.C. Nicholls, 2007, "The use of unsigned earnings quality measures in tests of earnings management", Journal of Accounting Research 45, 1017-1053.

Larcker, D.F., and S.A. Richardson, 2004, "Fees paid to audit firms, accrual choices, and corporate governance", Journal of Accounting Research 42(3), 625-658.

McNichols, M., 2000, "Research design issues in earnings management studies", Journal of Accounting and Public Policy 19, 313-345.

McNichols, M. and S.R. Stubbens, 2008, "Does Earnings Management Affect Firms' Investment Decisions?", The Accounting Review 83(6), 1571-1603.

Roychowdhury, S., 2006, "Earnings management through real activities manipulation", Journal of Accounting and Economics 42, 335-370.

Topic 6: The role of accruals and the accrual anomaly

- Dechow, P., 1994, "Accounting earnings and cash flows as measures of performance: The role of accounting accruals", *Journal of Accounting and Economics* 18, 3-42.
- Sloan, R., 1996, "Do stock prices fully reflect information in accruals and cash flows about future earnings?", *The Accounting Review* 71, 289-315.

Further reading:

- 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.
- Clinch, G., B. Sidhu and S. Sin, 2002, "The Usefulness of Direct and Indirect Cash Flow Disclosures", *Review of Accounting Studies* 7, 383-404.
- Dechow, P. and W. Ge, 2006, "The Persistence of Earnings and Cash Flows and Role of Special Items: Implications for the Accrual Anomaly." *Review of Accounting Studies* 11, 253-296.

Topic 7: Accounting Conservatism

The role of conservatism in Accounting; An examination of the definition, measurement, testing of conservatism.

- Basu, S., 1997, "The conservatism principle and the asymmetric timeliness of earnings", *Journal of Accounting and Economics* 24, 3-37.
- Givoly, D., C. Hayn and A. Natarajan, 2007, "Measuring reporting conservatism", *The Accounting Review* 82, 65-106.

Further reading:

- Ball, R., and L. Shivakumar, 2005, "Earnings quality in UK private firms: comparative loss recognition timeliness", *Journal of Accounting and Economics* 39, 83-128.
- Ball, R., and L. Shivakumar, 2006, "The Role of Accruals in Asymmetrically Timely Gain and Loss Recognition", *Journal of Accounting Research* 44 (2), 207-242.
- Beatty, A., J. Weber and J.J. Yu, 2008, "Conservatism and Debt", *Journal of Accounting and Economics* 45, 154-174.
- Guay, W.R., 2008, "Conservative Financial Reporting, Debt Covenants, and the Agency Costs of Debt", *Journal of Accounting and Economics* 45, 175-180.
- LaFond, R. and R. Watts, 2008, "The information role of conservatism", *The Accounting Review* 83(2), 447-478.
- Penman, S. H. and X.-J. Zhang 2002, "Accounting conservatism, the quality of earnings and stock returns", *Accounting Review* 77(2), 237-264.
- Roychowdhury, S., and R. Watts, 2007, "Asymmetric timeliness of earnings, market-to-book and conservatism in financial reporting", *Journal of Accounting and Economics* 44, 2-31.
- Watts, R.L., 2003, "Conservatism in Accounting Part I: Explanations and Implications", *Accounting Horizons* 17(3), 207-222.
- Watts, R.L., 2003, "Conservatism in Accounting Part II: Evidence and Research Opportunities", *Accounting Horizons* 17(4), 287-302.

Topic 8: The role of corporate governance

Gompers, P., Ishii, J. and Metrick, A., 2003, "Corporate governance and equity prices", *The Quarterly Journal of Economics* 118, 107-155.

Larcker, D., Richardson, S. and Tuna, I., 2007, "Corporate governance, accounting outcomes, and organizational performance," *The Accounting Review* 82, 963-1008.

Further reading:

Beekes, W. and Brown, P., 2006, "Do better-governed Australian firms make more informative disclosures?" *Journal of Business Finance and Accounting* 33, 422-450.

Topic 9: Prediction of Future Cash Flows and Earnings

Dechow, P. M., S. P. Kothari and R. Watts, 1998, "The Relation Between Earnings and Cash Flows", *Journal of Accounting and Economics*, 25, 133-168.

Banker, R.D. and L. Chen, 2006, "Predicting Earnings Using a Model Based on Cost Variability and Cost Stickiness. *The Accounting Review*, 81, 285-307

Further reading:

Barth, M. E., D. P. Cram and K. K. Nelson, 2001, "Accruals and the Prediction of Future Cash Flows", *Accounting Review*, 76,(1), 27-58.

Topic 10: Valuation and Expected Returns

Dechow, P.M., A.P. Hutton and R.G. Sloan, 1999, "An empirical assessment of the residual income valuation model", *Journal of Accounting and Economics*, 26, 1-34.

Easton, P.D. 2004. PE ratios, PEG ratios, and estimating the implied expected rate of return on equity capital. *The Accounting Review* 79: 73–96.

Further reading:

Botosan, C. 1997. Disclosure level and the cost of equity capital. *The Accounting Review* 72: 323–349.

Botosan, C. and M. Plumlee. 2002. A re-examination of disclosure levels and expected cost of equity capital. *Journal of Accounting Research* 40: 21–40.

Botosan, C. and M. Plumlee. 2005. Assessing alternative proxies for the expected risk premium. *The Accounting Review* 80 (January): 21–53.

Easton, P.D. and S.J. Monahan, 2005, "An Evaluation of Accounting-Based Measures of Expected Returns", *The Accounting Review*, 80, 501-538.

Feltham, G.A., Ohlson, J.A., 1995. Valuation and clean surplus accounting for operating and financial activities. *Contemporary Accounting Research* 11, 689-732.

Ohlson, J.A., 1995. Earnings, book values and dividends in security valuation. *Contemporary Accounting Research* 11, 661-687.

Topic 11: Challenges of Accounting (or not) for Intangibles

Lev, B. and Sougiannis, T., 1996. The capitalization, amortization and value-relevance of R&D. *Journal of Accounting & Economics* 21, 107-138.

Barth, M.E., M.B. Clement and G. Foster, 1998, "Brand Values and Capital Market Valuation", *Review of Accounting Studies* 3, 41-68.

Further reading:

Hayn C. and P. Hughes, 2006, "Leading Indicators of Goodwill Impairments", *Journal of Accounting, Auditing & Finance* 21(3), 223-265.

Kohlbeck, M. and T.D. Warfield, 2007, "Unrecorded Intangible Assets: Abnormal Earnings and Valuation", *Accounting Horizons* 21(1), 23-41.

Lev, B. and P. Zarowin, 1999, "The Boundaries of Financial Reporting and How to Extend Them", *Journal of Accounting Research* 37(2), 353-385.

Skinner, D. J., 2008, "Accounting for Intangibles – A Critical Review of Policy Recommendations", *Accounting and Business Research* 38(3), 191-204.

Topic 12: Security Analysts: role and incentives

Barron, O.E., D. Byard, K. Charles and E.J. Riedl, 2002, "High-technology Intangibles and Analysts' forecasts", *Journal of Accounting Research*, 40, 289-312.

Libby, R., J.E. Hunton, H.T. Tan and N. Seybert, 2008, "Relationship Incentives and the Optimistic/Pessimistic Pattern in Analysts' Forecasts", *Journal of Accounting Research*, 46, 173-198.

Further reading:

Barth, M, R. Kasznik and M. McNichols, 2001, "Analyst coverage and intangible assets", *Journal of Accounting Research* 39, 1-34.

Bradshaw, M., 2004, "How do analysts use their earnings forecasts in generating stock recommendations", *The Accounting Review* 79, 25-50.

Cowen, A., B. Groyberg and P. Healy, 2006, "Which types of analyst firms are more optimistic?", *Journal of Accounting and Economics* 41, 119-146.

Brown, L., 1993, "Earnings forecasting research: its implications for capital markets research", *International Journal of Forecasting* 9, 295-320.

Previts, G., R. Bricker, T. Robinson and S. Young, 1994, "A content analysis of sell-side financial analyst company reports", *Accounting Horizons* 8, 55-70.

Ramnath, S., S. Rock and P. Shane, 2008, "The financial analyst forecasting literature: A taxonomy with suggestions for further research", *International Journal of Forecasting* 24, 34-75.

Schipper, K, 1991, "Analysts' forecasts", *Accounting Horizons* 5, 105-131.

Some Useful Review Articles

- Healy, P. M. and K. G. 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.
- Fields, T. D., T. Z. Lys, et al. , 2001, "Empirical Research on Accounting Choice" *Journal of Accounting and Economics* 31, 255-307.

Assessment

Academic Honesty and integrity

It is the responsibility of each individual student to ensure that:

- a. you are familiar with ANU policy for academic integrity
- b. work submitted for assessment is original
- c. appropriate acknowledgement and citation is given to the work of others
- d. you declare your understanding of, and compliance with, the principle of academic integrity by completing the appropriate cover sheet when submitting assessment items

For information on academic honesty and integrity please refer to <http://academichonesty.anu.edu.au/>

Proposed Assessment Schedule

Details about assessment may change during the first two weeks of semester. Please ensure that you check with your lecturer or tutor about any changes. Changes to the assessment schedule will be posted to the Wattle site.

Assessment item	Brief description and detail of activity	Due Date	Weighting (%)
Practical Research Assignment	Rudimentary empirical research on a sample of real firms	Week 10 lecture	30%
Seminar Report and Discussion	Each student will be required to lead the class discussion on at least one topic.	Various	25%
Participation in Seminar Discussion	You will be awarded a grade reflection the frequency and quality of your contributions to seminar discussions.	Various	15%
Examination	Coverage: All topics covered during semester	During examination period	30%

Learning Outcomes-Assessment

How well have you achieved the learning outcomes for this course? Your lecturer makes this judgement based on your assignments and examination papers. This table illustrates how each assessment item provides evidence about your achievements against each learning outcome.

Course Learning Outcomes Upon successful completion of the requirements for this course, students will be able to:	Practical Research Assignment	Seminar Report and Discussion	Participation in Seminar Discussion	Examination
Read widely within the literature concerning the information content of published financial statement and the use of accounting information in contracting.		√	√	√
Understand the key issues presented in the above literature and the implications of these issues for accounting research and practice.		√	√	√
Students will also have developed rudimentary empirical research skills.	√	√	√	√

Practical Research Assignment

The practical research assignment will require you conduct rudimentary empirical research on a sample of real firms. Suggested topics will be provided. Alternatively, you may negotiate a topic with your course coordinator. You will be required to:

- Identify and download a sample appropriate for your purpose
- Manipulate the data in this sample using MS-Excel's advanced functions
- Import your data to a statistical program such as SPSS and SAS
- Conduct rudimentary multivariate analysis of your data
- Test the sensitivity of your model to the effect of outliers
- Prepare a professionally presented report detailing your research motivation, method and findings

Seminar Report and Discussion

Each student will be required to lead the class discussion on an academic paper in at least one occasion. Depending on enrolments, there may be more than one student assigned to a particular paper. While you are not expected to present a complete 'lecture' on your topic, you should prepare a small number of powerpoint slides or hand-outs highlighting key issues/tables/equations/diagrams relevant to your readings. For the paper that you are assigned as the discussion leader, you will also be required to submit a written summary of the key issues including critiques considered in the paper. The written submission is due by 12 noon on the day prior to the seminar (email submission is preferred). You will be assessed on your demonstrated understanding of the assigned article(s) and their relevance to key issues studied in this course.

Participation in Seminar Discussion

You will be awarded a grade reflection the frequency and quality of your contributions to seminar discussions. This mark is independent of that awarded under Seminar Report and Discussion. Failure to attend classes will affect your participation grade.

During the weeks which you are not allocated as the presenter, you are required to hand in a 1-2 pages (strictly) of summary and critique for each paper discussed during class. The quality of these hand-ins will also affect your participation grade.

Scaling

Your final mark for the course will be based on the **raw** marks allocated for each assignment or examination. However, your final mark may not be the same number as produced by that formula, as marks may be **scaled**. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may be either up or down.

Penalties

Late assignments may attract the following penalties:

Lateness	Penalty
1 day	10% of awarded mark
2 days	15% of awarded mark
3 days	25% of awarded mark
4 days or more	No marks will be awarded

Examinations

The final examination will be held during the University's official examination period.

Texts and Other Reading

Prescribed Texts

A set of prescribed readings is provided free of charge. These compulsory readings, and a set of additional readings, are available in electronic form through the ANU Library. Simply search for the journal name and an appropriate link will be provided. These readings may also be provided on the course's Wattle website.

Additionally, you will find the ANU's extensive list of electronic and traditionally delivered academic journals extremely useful.

Students should also obtain access to a basic statistics textbook which covers multiple regression analysis.

Course-related Matters

Requisites

Students should have successfully completed a unit in financial accounting, a subject in quantitative methods or statistics and a unit in corporate finance (or equivalent). Students with no finance background who elect to study this course will need to devote extra study time to enhance their understanding of the basic principles of finance (particularly financial asset valuation).

Co-teaching

Not applicable.

General Information for all Students

Please visit the following link:

http://cbe.anu.edu.au/Current_Students/general_info/student_info.asp