

**Fall 2009**  
**Empirical Research in Financial Accounting**  
Shu Yeh

**Course Objectives**

1. To familiarize you with the empirical research in accounting.
2. To provide an understanding of the methodology that underlies the literature.
3. To gain an understanding of the research process and the key elements of appropriate research design.
4. To enable you to critically evaluate existing research.

**Grading Policy**

- (1) A research proposal, about 25% of the grade. Choice of specific topic should be discussed with the instructor, and tentatively decided upon within 7 weeks.
- (2) A final exam, about 35%.
- (3) Seminar presentation and participation, about 40%.

**Class format**

Classes will consist of student presentation. When presenting each paper, please keep the following critical questions in mind:

1. What is (are) the research question(s)? What is the paper's motivation? Is (are) the question(s) interesting? Why (not)?
2. What is the study's research design? Consider the sample (firms, time period, special data requirements, etc.), model, and statistical / econometric method(s).
3. What is (are) the paper's major result(s)?
4. What are the paper's major contribution(s) and weaknesses(s)? Does the paper achieve its objective(s)?
5. What questions / issues are left unresolved (i.e., warrant further research)?

## **Reading List**

### **1. Accounting information and security prices: An introduction**

#### **Week 1**

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

Beaver, William H., 1968, "The information content of annual earnings announcements", *Journal of Accounting Research*, Supplement, 67-92.

### **2. Accounting information and security prices: Economic and econometric issues**

#### **Week 2**

Beaver, William H., Richard A. Lambert and Dale Morse, 1980, "The information content of security prices", *Journal of Accounting & Economics* 2, 3-28.

Beaver, W., R. Lambert and S. Ryan, "The Information Content of Prices: A Second Look," *Journal of Accounting and Economics*, July 1987, 139-157.

Beaver, W., M. McAnally and C. Stinson, "The Information Content of Prices: A Simultaneous Equations Approach," *Journal of Accounting and Economics*, 1997, 53-81.

#### **Week 3**

Kormendi, Roger C. and Robert C. Lipe, 1987, "Earnings innovations, earnings persistence, and stock returns", *Journal of Business* 60, 323-345.

Kothari, S.P., 1992, "Price-earnings regressions in the presence of prices leading earnings: Earnings level versus change specifications and alternative deflators", *Journal of Accounting and Economics* 15, 173-202.

Easton, Peter D., Trevor S. Harris and James A. Ohlson, 1989, Accounting earnings can explain most of security returns: The case of long event windows, *Journal of Accounting and Economics* 15, 119-142.

### **3. Accounting-based valuation model**

#### **Week 4**

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

Feltham, Gerald A., and J. Ohlson, Valuation and Clean Surplus Accounting for Operating and Financial Activities. By: Contemporary Accounting Research,

Spring 1995, Vol. 11 Issue 2, p689-731

**Week 5**

Feltham, G.A. and J. Ohlson, 1996, "Uncertainty Resolution and the Theory of Depreciation Measurement", *Journal of Accounting Research*, 209-34.

Barth, M.E., W.H. Beaver and W.R. Landsman, 1998, "Relative valuation roles of equity book value and net income as a function of financial health," *Journal of Accounting and Economics* 25, 1-34.

**Week 6**

Timothy Bell, Wayne Landsman, Bruce Miller, and Shu Yeh, 2002, "The Valuation Implications of Employee Stock Option Accounting for Profitable Computer Software Firms", *The Accounting Review* 77, 971-996.

Wayne Landsman, Ken Peasnell, Peter Pope and Shu Yeh, 2006, "Which Approach to Accounting for Employee Stock Options Best Reflects Market Pricing?", *Review of Accounting Studies* 11( 2-3), 203-245.

**4. The usefulness of alternative accounting measures**

**Week 7**

Dechow, Patricia M., 1994, "Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals", *Journal of Accounting and Economics* 18, 3-42.

Biddle, Gary, R. Bowen and J. Wallace, 1997, "Does EVA beat earnings? Evidence on associations with stock returns and firm values", *Journal of Accounting and Economics* 24, 301-336.

**5. Accounting information and Market efficiency research**

**Week 8**

Bernard, V., and J. Thomas, "Post-earnings Announcement Drift: Delayed Price Response or Risk Premium," *Journal of Accounting Research*, Supplement 1989, 1-36.

Bernard, Victor L. and Jacob Thomas, 1990, "Evidence that stock prices do not fully reflect the implications of current earnings for future earnings", *Journal of Accounting and Economics* 13, 305-340.

Sloan, Richard G., 1996, "Do stock prices fully reflect information in accruals and cash flows about future earnings?" *The Accounting Review* 71, 289-315.

## **6. Earnings management and contracting theory**

### **Week 9**

Hand, J.R.M., 1990, "A Test of the Extended Functional Fixation Hypothesis." *The Accounting Review* 65(4), 740-763

Hand, J.R.M., 1989, "Did firms undertake debt-equity swaps for an accounting paper profit or true financial gain?" *The Accounting Review*, 587-623.

DeFond, Mark L. and Jim Jimbalvo, 1994, "Debt covenant violation and manipulation of accruals", *Journal of Accounting & Economics* 17, 145-176.

Dechow, Patricia, Richard G. Sloan, and Amy P. Sweeney, 1994, "Detecting earnings management", *The Accounting Review* 70, 193-225.

## **7. Discretionary Disclosure**

### **Week 10**

Botosan, C, 1997, "The Impact of Annual Report Disclosure Level on Investor Base and the Cost of Capital", *The Accounting Review* 72, 323-350

Skinner, D.J., 1994, "Why firms voluntarily disclose bad news?" *Journal of Accounting Research* 32, 38-60.

### **Week 11**

Lang, M., and R. Lundholm, 1993, Cross-sectional Determinants of Analysts Ratings of Corporate Disclosures, *Journal of Accounting Research* 31, 246-271.

Lang, M., and R. Lundholm, 1996, "Corporate disclosure policy and analyst behavior", *The Accounting Review* 71, 467-492.

## **8. Accounting information and compensation**

Lambert, R. and D. Larcker, 1987, "An Analysis of the Use of Accounting and Market Measures of Performance in Executive Compensation Contracts", *Journal of Accounting Research* 25 Supplement, 129-149.

## **9. Analysts forecasts**

### **Week 12**

Klein, A. 1990, "A direct test of the cognitive bias theory of share price reversals", *Journal of Accounting and Economics* 13: 155 - 166.

Keane, M. And D. Runkle. 1998. "Are financial analysts' forecasts of corporate profits rational?" *Journal of Political Economy* 106: 768 - 805.

**Empirical Research in Audit Market and Accounting Profession**  
**Fall 2009**  
**Professor Chan-Jane Lin**

**Objectives:**

This seminar attempts to introduce accounting doctoral students to the important issues faced by the audit market and the accounting profession. Topics to be discussed include demand and supply of the audit market, audit risk management and client acceptance decision, audit reputation and auditor choice, audit tenure, and audit independence and audit and non-audit pricing etc. By completion, you are expected to learn what the relevant and current audit research issues are, how to identify them, how to conduct a quality audit study and make a publishable paper.

**Class discussion:**

For each reading assigned, you ought to be prepared for class discussion. You will assume the role of discussion leader for the paper you are assigned to present. For the papers you are not assigned to present, you will become a discussant. To encourage your participation and help you be ready for class discussion, I'll collect your written comments, at least two for each paper that you are not presenting.

In reading an article, you are expected to critically evaluate the following aspects: motivations/objectives, related literature, research design and methodology, and the implications of the major conclusions. You are also encouraged to propose alternative approaches to the research design and possible extension of the work, including the application to the audit market and accounting profession in Taiwan.

**Grading:**

Presentation and class participation	50%
Final	30%
Term paper (proposal)	20%

(\* for class discussion-18)

## Week 1-2

### **I. Accounting Profession and Audit Research- background reading**

1. Zeff, S., 2003. "How the U.S. accounting profession got where it is today: Part I. Accounting Horizons 17 (3), pp.189-205
2. Zeff, S., 2003. "How the U.S. accounting profession got where it is today: Part II. Accounting Horizons 17 (4), pp. 267-86
3. DeFond, M. and J. Francis, 2005, "Audit research after Sarbanes-Oxley", Auditing: A Journal of Practice & Theory, V.24, supplement, pp. 5-30. \*
4. Kinney, W., 2005, "Twenty-five years of audit deregulation and re-regulation: What does it mean for 2005 and beyond?" Auditing: A Journal of Practice & Theory, V.24, supplement, pp. 89-109.

### **II Roles of Auditor and Auditor Choice**

1. Wallace, W.A., 1987, "The economic role of the audit in free and regulated markets: a review." Research in Accounting Regulation, pp. 7-34. \*
2. Titman, S. and B. Trueman, 1986, "Information quality and the valuation of new issues." Journal of Accounting and Economics, 8, pp. 159-172.
3. Willenborg, M., 1999, "Empirical analysis of the economic demand for auditing in the initial public offerings market." Journal of Accounting Research, spring, pp. 225-238.
4. Fan, J. and T. Wong, 2005, "Do external auditors perform a corporate governance role in emerging markets? Evidence from East Asia." Journal of Accounting Research, pp. 35-72.\*
5. Choi, J., T.J. Wong. 2007, "Auditor's governance functions and legal environments: An international investigation" Contemporary Accounting Research, 24, pp.13-46
6. Blouin, J., B. Grein and B. Rountree. 2007, "An analysis of forced auditor change: The case of former Arthur Andersen clients", Accounting Review, May, pp.621-650. \*
7. Wang, Q., T.J. Wong, L. Xia. 2008, "State ownership, the institutional

environment, and auditor choice: Evidence from China” Journal of Accounting and Economics, 46, 112-134\*

### **Week 3**

#### **III. Audit Risk Management and Client Acceptance Decisions**

1. Francis, J. and J. Krishnan. 2003, "Evidence on accounting firm risk-management strategies before and after the Private Securities Litigation Reform Act of 1995." Asia-Pacific Journal of Accounting and Economics, pp.135-157.
2. Johnstone, K. and J. Bedard, 2004, “Audit firm portfolio management decisions.” Journal of Accounting Research, pp. 659-690.\*
3. Choi, J., R. Doogar and A. Ganguly, 2004, “The riskiness of large audit firm client portfolios and changes in audit liability regimes: Evidence from the US audit market.” Contemporary Accounting Research, winter, pp. 747-85.
4. Bedard, J., D. Deis, M. Curtis and J Jenkins. 2008. “Risk monitoring and control in audit firms: A research synthesis.” Auditing: A Journal of Practice & Theory. May, pp.187-218.
5. Kohlbeck, M., B. Mayhew, P. Murphy, and M. Wilkins, 2008, “Competition for Andersen’s clients.” Contemporary Accounting Research, winter, pp. 1099-136 (and discussion)\*

### **Week 4-5**

#### **IV. Audit Tenure, Auditor Rotation , Auditor Specialization and Audit Quality**

1. Johnson, V., I. Khurana, and J. Reynolds, 2002, “Audit firm tenure and the quality of financial reporting” Contemporary Accounting Research, 19(4), pp.637-660
2. Myers, J., L. Myers and T. Omer, 2003, “Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation?” Accounting Review, pp. 779-99. \*
3. Mansi, S., W. Maxwell and D. Miller. 2004. “Does auditor quality and tenure matter to investors? Evidence from the bond market. Journal of accounting Research, 42(4), pp.755-93.
4. Ghosh, A. and D. Moon. 2005. “Auditor tenure and perceptions of audit quality.” Accounting Review, 80(2), pp. 585-612
5. Carey, P. and R. Simnett. 2006. “Audit partner tenure and audit quality”

Accounting Review, 81(3), pp. 653-76. \*

6. Chen, C.Y., C.J. Lin, and Y.C. Lin. 2008, "Audit partner tenure, audit firm tenure, and discretionary accruals: Does long auditor tenure impair earnings quality?" Contemporary Accounting Research, summer, pp 415-45.\*
7. Gul, F., S. Fung and B. Jaggi, 2009, "Earnings quality: Some evidence on the role of auditor tenure and auditors' industry expertise", Journal of Accounting and Economics, 47, 265-87\*
8. Chi, W. , H. Huang, Y. Liao and H.Xie, 2009, "Mandatory audit partner rotation, audit quality, and market perception: Evidence from Taiwan", Contemporary Accounting Research, summer, pp 359-91 (also discussion by Bamber and Bamber, 393-402)\*
9. David, L., B. Soo and G. Trompeter, 2009, "Auditor tenure and the ability to meet or beat earnings forecasts" Contemporary Accounting Research, summer, pp 517-548 \*
10. Chin, C and H. Chi, 2009, Reducing restatement with increased industry expertise", Contemporary Accounting Research, autumn, pp.729-765.

### **Week 6&7**

#### **V. Audit Fees, Non-audit Fees, Client Importance and Auditor Independence**

1. Simunic, D., 1980, "The pricing of audit service: theory and evidence." Journal of Accounting Research, spring, pp. 161-90 \*
2. Bell, T., W. Landsman, and D. Shackelford, 2001, "Auditors' perceived business risk and audit fees: analysis and evidence." Journal of Accounting Research, June, pp. 35-43.
3. Craswell, A., D. Stokes, and J. Laughton, 2002, "Auditor independence and fee dependence," Journal of Accounting and Economics, June, 253-275.\*
4. Frankel, M., F. Johnson and K. Nelson, 2002, "The relation between auditors' fees for non-audit services and earnings management." Accounting Review, pp.71-103. (also the discussion by Kinney and Libby, pp. 107-114.)
5. Ashbaugh, H., R. LaFond, and B. Mayhew, 2003, "Do nonaudit services compromise auditor independence? Further evidence." Accounting Review, pp. 611-39.
6. Chung, H. and S. Kallapur, 2003, "Client importance, non-audit fees, and abnormal accruals." Accounting Review, 931-55.
7. Whisenant, S, S. Sankaraguruswamy and K. Raghunandan, 2003, "Evidence on the joint determination of audit and non-audit fees." Journal of



- Accounting Research, pp.721-744.
8. Ferguson, A., J. Francis and D. Stokes, 2003, "The effects of firm-wide and office-level industry expertise on audit pricing." Accounting Review, pp.429-48. \*
  9. Kinney, W., Z. Palmrose and S. Scholz, 2004, "Auditor independence, non-audit services, and restatements: Was the US government right?" Journal of Accounting Research, pp. 561-588.\*
  10. Chaney, P., D. Jeter and L. Shivakumar, 2004, "Self-selection of auditors and audit pricing in private firms." Accounting Review, pp. 51-72.
  11. Lennox, C. 2005, "Audit quality and executive officers' affiliations with CPA firms" Journal of Accounting and Economics, 39, pp 201-231. \*
  12. Hay, D., W. Knechel, N. Wong, 2006, "Audit fees: A meta-analysis of the effect of demand and supply attributes", Contemporary Accounting Research, pp. 1-49.
  13. Ruddock, C., S. Taylor, S. Taylor. 2006. "Nonaudit services and earnings conservatism: Is auditor independence impaired?" Contemporary Accounting Research, fall, pp.701-46.
  14. Gul, F., 2006, "Auditors response to political connections and cronyism in Malaysia" Journal of Accounting Research, Dec. pp.931-962
  15. Lim, C. and H. Tan 2008, "Non-audit service fees and audit quality: The impact of auditor specialization" Journal of Accounting Research, March, pp.199-246
  16. Li, C., 2009, "Does client importance affect auditor independence at the office level? Empirical evidence from going concern opinions" Contemporary Accounting Research, spring, pp.201-230. \*

※本課程與本系教育目標和學生須具備之核心能力之關連情形

本系積極培養博士班學生須具備之三大核心能力為Ⓐ洞察與界定重要議題之能力、Ⓑ獨立思考、分析與撰述之能力，以及Ⓒ學術批判與國際視野之能力，以達成本系博士班之三個教育目標：①培養具有獨立學術研究能力及發表高品質論文之人才、②培養創新思考及掌握國內外重要會計研究議題之能力、③培育具學者風範與學術倫理之優秀高等會計教育人才。下表中載有「◎」符號者，為本系設計課程地圖時預期本課程所要增進學生的主要核心能力，最右一欄係本課程預計要達成之教育目標的編號。

本課程與本系博士班核心能力、教育目標對照表

課程名稱	核心能力	A	B	C	對應之教育目標
		洞察與界定重要議題之能力	獨立思考、分析與撰述之能力	學術批判與國際視野之能力	
會計實證研究一		◎	◎	◎	1. 2. 3

