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**Accounting 593**  
Ram T S Ramakrishnan

**Accounting  
Research**

**2009  
Fall**



Course  
Description



Schedule



Readings



Notes



**PCAOB**  
Public Company Accounting Oversight Board



**ACCOUNTING STANDARDS CODIFICATION™**

U.S. Securities and Exchange Commission



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**Cases . Exams**

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**Project** • Links • Yahoo-Fin  
• WRDS Notes



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• Cartoons • <http://blackboard.uic.edu/>  
<http://www.uic.edu/classes/actg/actg593/>

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**UIC** Department  
UNIVERSITY OF ILLINOIS  
AT CHICAGO **of Accounting**  
**COLLEGE OF BUSINESS ADMINISTRATION**

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## **Methodology and Communication**

Instructor: Ram T. S. Ramakrishnan

Office hours: Thursdays 1:00-4:00

2300, University Hall; [rramakri@uic.edu](mailto:rramakri@uic.edu) (312) - 996 - 3270; [Directions](#)

Course page: <http://www.uic.edu/classes/actg/actg593>

### **Required Materials:**

No Book. All materials posted or site-links given (e.g. SEC, FASB, AICPA)

FASB Accounting Standards Codification:

<http://aaahq.org/asclLogin.cfm>; [AAA51452; \_\_\_\_\_]

Wharton Service: <http://wrdsx.wharton.upenn.edu/> [a593sp09; \_\_\_\_\_]

### **Course Objectives & Description:**

This course is intended to serve as an integrative capstone to a professional accounting degree program and is therefore geared towards students in their graduating semester, having completed most if not all essential courses which includes the intermediate sequence, tax and auditing.

This class introduces you to professional and scientific research in accounting. The course instructs in research methods, issues, research appreciation and evaluation together with practice in conducting, and reporting professional research projects in accounting. The course will rely upon early research to establish the relevance of research in the context of accounting. It will also make extensive use of current research on current topics in accounting to provide exposure to the relevance and importance of comprehending research for the practice of accounting. suic552.

The primary emphasis of the course will be on developing skills for conducting research and comprehending research output in an applied and professional context. This will be achieved through the use of a series of existing research papers in accounting that have immediate real world relevance and also use simple methodologies. Knowledge of basic statistical tools such as regression, correlation etc. will be useful though not necessary, and wherever necessary will be addressed in the class. After completing the course you should:

- understand the purpose, process, and products of professional and scientific research in accounting settings
- be able to identify and use common accounting research resources
- understand the role of theory in research (both professional and academic)
- understand the basic principles underlying some common methods used in accounting research
- understand the value and limitations of applied and academic research for the professional practice of accounting.

This class works best when you prepare the assigned readings and actively participate in group and class discussions. The basic tools with which we work are stating facts, ideas, and opinions, and, discussing and challenging one another's facts, ideas, and opinions. Doing well in this class requires that you express your thoughts, defend them and gracefully criticize the misconceptions and lack of clarity in your own and other's reasoning (when appropriate). FC

**Recommended: Available in the UIC Library:**


- Understanding Research Methods, by M. L. Patten, (Fourth Edition); Pycszak Publishing, 2003.
- Quasi-Experimentation: Design & Analysis Issues for Field Settings, by Thomas Cook and Donald Campbell, Published by Houghton Mifflin Company, Boston.
- Positive Accounting Theory, By R. L. Watts and J. L. Zimmerman, Prentice-Hall, 1986.
- Empirical Research in Accounting: A Methodological Viewpoint, by A. R. Abdelkhalik and B. B. Ajinkya, American Accounting Association, Accounting Education Series, Vol. 4, 1979.
- Research Designs by P. E. Spector, Sage Publications: Newbury Park, 1981.
- Evaluating Research in Academic Journals, by F. Pycszak, Pycszak Publishing, 1999.

Course Website: <http://www.uic.edu/classes/actg/actg593/>

**Group:** Cases, class presentations and homework submissions 30%; Course Project 10%

**Individual:** Examination I 30%; Examination II 30%

Session	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Exam
Date	8/27	9/3	9/10	9/17	9/24	10/1	10/8	10/15	10/22	10/29	11/5	11/12	11/19	11/26	12/3	12/10
Day	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu	Thu

Sessions are as denoted in the description below. All sessions may not have assigned dates.  
 paper saver - two pages in one sheet

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## 1 Introduction to Accounting Research & Research Design Issues

A Closer Look at Discretionary Writedowns of Impaired Assets. Preview by: Zucca, Linda J.; Campbell, David R.

Test-Driving the Codification

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## 2 Introduction to research methods; SOX

§ Sarbanes-Oxley Act of 2002  • Sarbanes-Oxley KPMG • SOX-404 PWC • Sox-White-Paper PWC • Assignment

§ Audit Committee Financial Experts- A Closer Examination Using Firm Designations.  
by Carcello, Joseph V, Carl W Hollingsworth, and Terry L Neal • Assignment • Discussion • Logistic Regression


Securities and Exchange Commission: Disclosure Required by 404, 406 and 407 of SOX 2002;

Proposed Rule • Final Rule

Case 1: Back To The USSR

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## 3 Capital Markets & Accounting Information

An empirical evaluation of accounting income numbers  • Ball, R., and P. Brown • Assignment • Questions •

§ How Do Earnings Numbers Relate To Stock Returns A Review Of Classic Accounting Research With Updated Evidence Assignment • Nichols, James M Wahlen, D Craig; • Assignment • Discussion Questions •

Case: Case 04-2 Busy signals

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## 4 Analysis of Accounting Information

Long-Run Stock Returns Following Briloff'S Analyses • Desai, PC Jain, H; • Questions •

**Case:** Graphics Inc

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## 5 Proforma Earnings

§ Financial Reporting Regulation and the Reporting of Pro Forma Earnings • Gary M Entwistle, Glenn D Feltham, Chima Mbagwu. 2006. • Questions •

Empirical Evidence on Recent Trends in Pro Forma Reporting • Nilabhra Bhattacharya, Ervin L Black, Theodore E Christensen, Richard D Mergenthaler. Accounting Horizons. 2004 •

Questions •

SEC Final Rule: Conditions for Use of Non-GAAP Financial Measures

§ Case: eToys Pro Forma reports and going concern issues

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## 6 New Legal Environment: Audit Firm Size and Going-Concern Reporting

§ Going-concern opinions in the "new" legal environment - Marshall A Geiger, K Raghunandan • ZPP • Questions •

§ Audit Firm Size and Going-Concern Reporting Accuracy - Marshall A Geiger, Dasaratha V Rama • ZPP • Questions

Case: Moyer Banking Enterprise; Look at EITF No. 04-10, Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds; and FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information

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## 7 Restatements

§ The Reputational Penalty For Aggressive Accounting- Earnings Restatements & Management Turnover; Desai, H, C Hogan, M Wilkins • Questions •

Financial Restatements GAO 2002

Financial Restatements GAO 2003 Letter

Financial Restatements GAO 2006 (Focus on pages 1-52); • Questions •

Case: T-Shirts by Tommy Look at: EITF 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001; FASB Statement No. 5, Accounting for Contingencies; FASB Statement No. 13, Accounting for Leases; FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss

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## 8 Auditor Fees

§ Initial evidence on the association between nonaudit fees and restated financial statements • ZPP • K Raghunandan, William J Read, J Scott Whisenant • Questions •

The Effects Of Joint Provision & Disclosure Of Nonaudit Services On Audit Committee Members' Decisions and Investors' Preferences; Gaynor, LM, LS McDaniel, TL Neal • Questions •

Case: Christopher's Computers, Inc. Look at FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-lived Assets; para 30 and Appendix A example.

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## 9 Mid term Exam

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## 10 11 Politicization and Stock Option Reporting

§ Congressional Intervention In The Standard-Setting Process - An Analysis Of The Stock Option Accounting; Farber, David B, Marilyn F Johnson, and Kathy R Petroni • ZPP • Questions •

§ The Trouble With Stock Options; Brian J. Hall and Kevin J. Murphy • ZPP • Why do companies really grant stock options and what is the case for expensing stock options? (BP response) •

§ On The Timing Of CFO Stock Option Awards; Lie, E; • Questions •

§ He's Making Hay As CEOs Squirm

Case: FAS 123(R), Share-Based Payment A multidisciplinary approach Price Waterhouse Coopers; This PWC manual is 400 pages long. Look at chapter 3 and chapter 7 first part. Redo case 7-1 in the manual with the numbers in the revised case numbers

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## 12 FARS

### **13 Impairments**

**Case** When Would Market to Book Be Less Than One? Does Acquisition by Stock Explain JDS Uniphase Corp.? (From Book)

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### **14 Fair-Value Accounting**

Fair Value Reporting - Questions

§ Fair-Value Accounting - A Cautionary Tale From Enron; Benston, GJ;

§ SFAS 159 The Fair Value Option; James Cataldo and Morris McInnes

§ PWC - Guide to Fair Value Measurement - 2008

§ FAS 157

§ Roundtable Open Discussion of Mark-to-Market Accounting Video Webcast Parts 1 and 2

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### **15 SEC Regulation Fair Disclosure**

§ Regulation fair disclosure, analyst following, and analyst forecast dispersion • Afshad J Iran, Irene Karamanou 2003 • Questions •

### **Review of research**

- Lev, B, JA Ohlson; Market-Based Empirical Research In Accounting- A Review, Interpretation, & Extension (Intro 1-9)
- Kothari, S P; Capital Markets Research In Accounting (Intro 1-7)
- The Information Content of Nonearnings Accounting Numbers as Earnings Predictors. By: Ou, Jane A.. Journal of Accounting Research, Spring 90, Vol. 28 Issue 1, p144-163, 20p;
- Accounting earnings and cash flows as measures of firm performance : The role of accounting accruals Journal of Accounting and Economics, Volume 18, Issue 1, July 1994, Pages 3-42  
Patricia M. Dechow

### ***Additional Readings***

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#### **CEO and CFO Certification**

CEO and CFO Certifications of Financial Information Marshall A Geiger, Porcher L Taylor III. Accounting Horizons. Dec 2003. Vol. 17, Iss. 4; p. 357

#### **Corporate Governance and Fraud**

- Corporate Governance And Accounting Scandals; Anup Agrawal And Sahiba Chadha October, 2005 48 J. Law & Econ. 371
- Governance and Performance Changes after Accusations of Corporate Fraud; Dalia Marciukaityte, Samuel H Szewczyk, Hatice Uzun, Raj Varma. Financial Analysts Journal. Charlottesville: May/Jun 2006. Vol. 62, Iss. 3; p. 32 (10 pages)
- Board Composition and Corporate Fraud; Hatice Uzun, Samuel H Szewczyk, Raj Varma. Financial Analysts Journal. Charlottesville: May/Jun 2004. Vol. 60, Iss. 3; p. 33 (11 pages)

## **Auditor Fees**

Audit Fees & Auditor Dismissals In The Sarbanes-Oxley Era; Ettredge, Michael L, Chan Li and Susan Scholz;

## **Stock Options**

Managing pro forma stock option expense under SFAS no. 123 Steven Balsam, Haim A Mozes, Harry A Newman. Accounting Horizons. Mar 2003. Vol. 17, Iss. 1; p. 31 (15 pages)

## **Sarbanes-Oxley & Material Weakness**

The Disclosure of Material Weaknesses in Internal Control after the Sarbanes-Oxley Act\_Weili Ge, Sarah McVay. Accounting Horizons. Sarasota: Sep 2005. Vol. 19, Iss. 3; p. 137 (22 pages)

## ***Research Review***

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Financial Accounting Information & Corporate Governance

Empirical Research On Accounting Choice, by Fields, Thomas and Vincent, JAE

The Relevance Of The Value-Relevance Literature For Financial Accounting Standard Setting, Holthausen and Watts

Empirical Research In Managerial Accounting- A Value-Based Management Perspective

Contracting Theory & Accounting

Research Design Issues In Earnings Management Studies

Empirical Tax Research In Accounting

Disclosure

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**Readings**

Capital-Markets

Corporate-Governance

Education

Videos, Movies

Investments

Derivatives

Accounting

Earnings-Announcement

FASB-SEC

IFRS

Review

Write-downs

Enron

Disclosure

Auditing

Pro forma-Earnings

Restatements

Sarbanes-Oxley

Stock-Options

Fair Value



**U.S. Securities and Exchange Commission**

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Videos: <http://accounting.smartpros.com/standard/smartsurvey/jhcohn.asp>

# Project

- You have to get a sample of around 100 companies.
- Ideas: Largest 100 in Illinois; Largest international sales among US firms; Industry samples.
- Talk to me how to get samples.

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Create a txt file with stickers; Example: [Sample.txt](#)  
Read instructions in: [Earnings-Price-Project.pdf](#)  
Use the spreadsheet: [Sample.xls](#)

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Assignment:

You must generate the the BB chart.  
For four mismatched firms i.e.

<p><i>earnings surprise is positive while abnormal returns are negative</i> or <i>earnings surprise is negative while abnormal returns are positive</i></p>
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Find out why accounting results were ignored by the market.