

ACC4616/ACC3615 Accounting theory
(rev. December 26, 2017)

1. Instructor

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The class meets on Monday 2-5pm (15 January – 12 May 2018, a total of 13 weeks).

Classroom: (BIZ2-B104)

2. Course objectives

With the abundance of big data and emergence of new technologies such as machine learning, research will become an integral part of any graduate's future career. The primary objective of the course is to introduce empirical accounting research that is useful not only to those who wish to pursue an academic career but also to those who wish to pursue a non-academic professional career. We will use selected papers to illustrate the following crucial skills required for successful researchers and managers:

- a) How to judge the quality of a research idea;
- b) How to develop a research hypothesis;
- c) How to design an experiment to test a research hypothesis;
- d) How to interpret the results.

3. Prerequisites

To be successful in this course, you are expected to have a basic knowledge of microeconomics and statistics.

4. Textbooks

There are no textbooks for this course. The instructor will share with the students the required reading materials in due course. However, the students are required to use the STATA software for the group project discussed below. If you don't have already had a license, you may purchase the STATA software at <https://www.stata.com/order/new/edu/gradplans/student-pricing/>. The recommended version is Stata/IC 6-month license for USD45 because we will not use very large datasets.

New purchases
Student pricing

Students currently enrolled at degree-granting institutions may purchase Stata at the prices listed below. Proof of student status (i.e., copy of your university ID card) is required.



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5. Course evaluation

Components	Marks	Individual/Group
Class Participation	20%	Individual
Presentation of assigned papers	20%	Individual
Paper critiques (10% each)	20%	Individual
Group project report	30%	Group
Group project presentation	5%	Individual
Group project presentation	5%	Group
Total	100%	

Class Participation

Participation in seminars is essential in this course. **Meaningful participation is possible only if each student has read the assigned reading and carefully thought about the issues before each seminar.** You are encouraged to approach each paper with an open mind and be prepared to challenge the assumptions, theories and facts related to each paper. You should always be ready to defend your opinions and ideas and be motivated to probe the views of others. Polite and meaningful exchange of ideas and opinions can add greatly to everyone's learning.

Paper Presentation

Each paper will be assigned to a student team who is responsible to present the paper using power point (Please see attached "**student presentation format.pptx**" for the required presentation format each presenter has to follow). The presentation duration is 60 minutes per paper. The presenting student team largely plays the role of an advocate of the paper. The remaining students will serve as critics of the paper (for each paper, each non-presenting student teams should prepare at least three questions to ask in the seminar). The intention is that the discussion of the advocate

and critics will stimulate discussion in class. All students are expected to read all papers for each session thoroughly before class (my expectation is 3 hours per paper), and engage in meaningful discussions in class.

Paper Critiques

All students will be asked to write two critiques for two workshop papers selected by the instructor (see below for the list). The critiques must be emailed to the instructor no later than 9am of each paper's scheduled workshop presentation date.

Critique one: paper by Sam Tan, "Accounting Choices and the Legal Environment: the Impact of the *Ex Post* Loss Rule". Due date: **January 23 midnight**. Sam will present this paper on January 24 at NUS and you are welcome to attend the workshop if interested (optional).

Critique two: paper by Jing Pan, "Does Dark Trading Affect the Link between Stock Prices and Fundamentals?". Due date: February 22 **midnight**. Jing will present this paper on February 23 at NUS and you are welcome to attend the workshop if interested (optional).

Group project report and presentation

Each student team is required to develop an original research idea (i.e., you cannot use an old paper to satisfy this requirement) that contains the following elements:

- a) What is the research question?
- b) Why is this a good idea using the top five accounting journal standards?
- c) What are your predictions?
- d) How will you test your predictions (i.e., research design and sample selection)?
- e) What are your main empirical results?

Each student team is required to present the research findings in class at the end of the semester (more details later). All teams will be required to submit a softcopy of the final report to the instructor via email by Friday of week 13 (i.e., Apr 20 midnight). The body of the paper without references and tables should not exceed 15 pages (font size 12), double spaced. Late submissions could be subject to a deduction of 10% of the marks. Work submitted more than 24 hours after the deadline will receive a mark of zero.

Team Membership

Each team will have three students. Instructors will randomly assign students to the teams. Where classes are not clearly divisible into teams of three, the teams may comprise four or two students. The teams must be formed by the second week of the semester.

Confidential Peer Evaluation

Since the instructor is not able to assess each team member's input into the overall completion of the group project, each member will be given the opportunity to assess his/her team members' participation and contribution. This will be conducted using the format shown in the "Confidential Peer Rating Form" below. Please note that if your average score by the team is strictly below 4 (out of 6), you will receive a lower grade than the team grade (refer to the Confidential Peer Rating Form for details). All evaluations will be kept in absolute confidence. Team members will only be able to see the average rating given by his/her team members.

Each team member must submit the Peer Evaluation via email by the same deadline they submit the report for the group project. Any student who fails to submit the Peer Evaluation will receive 90% of the team marks, after which the average rating by his/her members will be considered if further adjustment is required.

Tentative course schedule (all dates and contents are subject to change)

Week 1

Introduction to the course and empirical accounting research

Week 2 the usefulness of accounting information-classic studies

BALL, R. and P. BROWN, "An Empirical Evaluation of Accounting Income Numbers," *Journal of Accounting Research* (Autumn 1968), pp. 159 - 178.

COLLINS, D.W. and S.P. KOTHARI, "An Analysis of the Intertemporal and Cross-Sectional Determinants of Earnings Response Coefficients," *Journal of Accounting and Economics* (July 1989), pp. 143 - 181.

Week 3 accounting anomalies

BERNARD, V.L. and J. THOMAS, "Post-Earnings Announcement Drift: Delayed Price Reaction or Risk Premium?" *Journal of Accounting Research* (Supplement, 1989), pp. 1 - 36.

SLOAN, R.G., "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?" *The Accounting Review* (July 1996), pp. 289 - 315.

Week 4 earnings management

HEALY, P.M., "The Effect of Bonus Schemes on Accounting Decisions," *Journal of Accounting and Economics* (April 1985), pp. 85 - 107.

DICHEV, I.D. and D.J. SKINNER, "Large-Sample Evidence on the Debt Covenant Hypothesis," *Journal of Accounting Research* (September 2002), pp. 1091 - 1123.

Week 5 earnings management

Anne L. Beatty, Bin Ke, and Kathy R. Petroni (2002) Earnings Management to Avoid Earnings Declines across Publicly and Privately Held Banks. *The Accounting Review*: July 2002, Vol. 77, No. 3, pp. 547-570.

Leuz, Christian, Dhananjay Nanda and Peter D. Wysocki, 2003, Earnings Management and Investor Protection: An International Comparison, *Journal of Financial Economics* 69, pp. 505-527, 2003.

Week 6 earnings management

Chen and Yuan. "Earnings Management and Capital Resource Allocation: Evidence from China's Accounting-Based Regulation of Rights Issues." *The Accounting Review*, July 2004, Vol. 74, No. 3, pp. 645-665.

GRAHAM, J.R., C.R. HARVEY and S. RAJGOPAL, "The Economic Implications of Corporate Financial Reporting," *Journal of Accounting and Economics* (December 2005), pp. 3 - 73.

Recess Week Sat, 24 Feb 2018 ~ Sun, 4 Mar 2018

Week 7 IFRS

Ball, Ray, Ashok Robin, Joanna Shuang Wu. 2003. Incentives versus Standards: Properties Of Accounting Income In Four East Asian Countries.

Armstrong Barth Jagolinzer Riedl. 2010. Market Reaction to the Adoption of IFRS In Europe. TAR.

Week 8 disclosure and disclosure regulation

Tang. 2011. Isolating the effect of disclosure on information risk. JAE.

Greenstone, M., P. Oyer, and A. Vissing-Jorgensen, 2006. Mandated Disclosure, Stock Returns, and the 1964 Securities Acts Amendments. *Quarterly Journal of Economics* 1221, 399-460.

Week 9 social media

Blankespoor et al. 2014 The Role of Dissemination in Market liquidity evidence from firms' use of twitter.

Chen et al. 2014. RFS. Wisdom of crowds the value of stock opinions transmitted through social media.

Week 10 forecasting

KHAN_et_al-2016-jar Real Activity Forecasts Using Loan Portfolio Information.

Yang Bao, Bin Ke, Bin Li, Julia Yu, and Jie Zhang. Detecting Accounting Frauds in Publicly Traded U.S. Firms: New Perspective and New Method. Working paper.

Week 11 investor protection

Z Chen, B Ke, Z Yang. Minority shareholders' control rights and the quality of corporate decisions in weak investor protection countries: A natural experiment from China - *The Accounting Review*, 2013.

Guo and Masulis 2015 Board Structure and Monitoring: New Evidence from CEO Turnovers.

Week 12 auditing

Fan and Wong. 2005 Do External Auditors Perform a Corporate Governance Role in Emerging Markets. JAR.

Ke, Lennox, and Xin. 2015. TAR. The effect of a weak institutional environment on the quality of Big Four audits.

Week 13 team project presentations

GUIDELINES FOR PAPER DISCUSSIONS

-The Kinney form-

- 1) What are the research questions (summarize in one or two sentences)?
- 2) What is the paper's contribution (answer in a few sentences)?
- 3) What hypotheses are tested in the paper?
 - a) Do these hypotheses follow from and answer the research questions?
 - b) Do these hypotheses follow from theory or are they otherwise adequately developed? Explain.
 - c) Is a formal theory presented that explains the relationship between the independent variables and the dependent variables (answer yes or no)?
 - d) Write down the formal model (assuming there is one) that the authors use to relate the independent and dependent variables.
- 4) What variables are used in the study?
 - a) Do the variables used in the analysis correspond to the constructs considered in the theory (if there is a theory)?
 - b) What are the dependent variables (answer in a few words)?
 - c) What are the independent variables (answer in a few words)?
 - d) How are the variables measured?
 - i) Is measurement error a likely problem? If it is, why?
 - ii) Are all of the variables measured at their proper level (i.e., categorical, ordinal, interval, or ratio)?
 - e) How are the variables scaled? What is the justification for the scaling?
 - f) Are there any omitted variables? What are they? Are they likely to be correlated with the independent variables in the design? What would be the sign of such a correlation?
 - g) Are distributional problems present or likely to be present? Explain. What steps are taken to deal with them? Are those steps adequate?

5)What are the sample constraints?

- a)What is the population of interest?
- b)Is the sample representative of that population?
- c)Is the sample random? If it isn't, what are its likely biases and how do they affect the results?

6)What statistical model or approach is used to test the hypothesized relationships?

a)Describe the statistical design. (E.g., is it between or within subjects? Is it a true or quasi experiment? Is it longitudinal or cross-sectional?) To what extent will the design allow for distinguishing between alternative hypotheses? Was the right design used? Explain.

b)Describe the statistical tests. Are they the appropriate tests? Why or why not?

i)Are adequate steps taken to deal with specification errors? What are some sources of possible specification errors?

ii)What estimation method is used? Is it appropriate? Why or why not?

iii)Given the tests used and the sample design, how well are type I and type II errors controlled for? Explain.

c)For each statistical test, state the implication for its rejection or acceptance as it relates to the purpose of the paper.

d)Are there alternative methods that might be used to answer the research question?

7)Describe any specification problems not mentioned above.

8)What are the conclusions of the paper? Are these conclusions adequately supported by the research findings? Are the results of the paper consistent with the theory and previous empirical studies? Do you believe the results?

9)What difficulties arise in drawing inferences from the empirical work?

10)Describe three publishable and feasible extensions of this research.

GUIDELINES FOR PAPER CRITIQUE

Your critique should be constructive; that is, your criticisms (if any) should be directed towards helping authors improve their papers. Therefore, when you identify a problem in the paper, you should also think about how the problem can be fixed. In assessing the overall contribution of the paper, be sure that you assess its net contribution (taking into account the strengths and weaknesses).

There are different ways to organize your discussion, but for the purpose of this class, I would like to see the following:

- Brief summary of the paper's research questions and major findings
- Comment on the paper's contribution – Why is it important, and how does the paper contribute to the literature?
- A graphical depiction of the conceptual model (constructs and operationalization)
- An integrated discussion of the paper's strengths and weaknesses, with special attention to the most important/broadest comments and concerns
- More specific comments and concerns.
- Include comments/questions that point out gaps or inconsistencies between the current paper and prior literature
- Identify unanswered questions on the area (or related area)

CONFIDENTIAL PEER EVALUATION PROCESS

Since the instructor is not able to assess each participant's input into the group project, each team member will be given the opportunity to assess the participation and contribution of the other team members.

This will be done using the standardized format shown in the "Peer Evaluation Form" below. **All evaluations will be kept in absolute confidence – at no time will a participant know how his/her team members had assessed his/her efforts.**

To take into account the peer evaluations, the assignment marks for each individual team member will be computed as follows:

1. If the average assessment of the individual by fellow team members is 7 or more, the individual will receive 100% of the total marks for the group project.
2. If the average assessment of the individual by fellow team members is less than 7, the individual will receive a corresponding percentage of the total marks for the group project.

For example, assume that the total marks given by the instructor to your team for the Group project is 20%.

If the average assessment by team members of your participation is 8, you will receive 100% of 20%, i.e. 20% grade.

However, if the average assessment by team members of your participation is 6, you will receive 60% of 20%, i.e., 12% grade.

**You must submit your Peer Evaluation Form.
Failure to submit may result in a zero grade for the group project.**

PEER EVALUATION FORM

Your name: _____

Using the following guidelines, please evaluate each of your team members using the following 1 to 10 scale:

- 10: Superlative leadership, consistently demonstrated commitment to the group project.
- 9: Strong leadership and guided the team throughout the group project.
- 8: Excellent participation and contribution throughout the group project.
- 7: Significant participation and contribution throughout the group project.
- 6: Inadequate participation and contribution throughout the group project.
- 5: Inadequate participation and contribution throughout the group project and frequent absences from discussions and meetings pertaining to the group project.
- 0-4: Did not participate or contribute at all for the group project.

Name of team members

Your evaluation (1 to 10)

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

Your signature: _____

Submit to the instructor via email (pls make sure you receive from the instructor an acknowledgement of your email).

**Please do not evaluate yourself.
You must submit this Peer Evaluation Form.**

Failure to submit will result in a zero grade for the Group project.

Thank you.