

ACCT9110
Doctoral Seminar in Positive Accounting
Spring 2008
Professor Jennifer Gaver

Course Objective: To gain an appreciation for empirical accounting research related to earnings management.

Course Requirements:

1. Class Participation (50% weighting)

Attendance at all class meetings is mandatory. I will select a discussion leader at the beginning of each class period. This person will give an overview of each paper and then guide the discussion. I expect active engagement by all class members. My evaluation of your performance will be determined by the degree to which you demonstrate insightful and independent critical thought.

2. Paper Summaries (25% weighting)

For each paper on the reading list, you will turn in a summary that answer these questions:

1. What is the research question?
2. Why is it important?
3. What is the research method?
4. What are the key findings?

3. Final Exam (25% weighting)

An examination based on the entire reading list will be given during final exams week. Questions will be of the type encountered on the comprehensive exam in accounting.

Other Matters

- I am willing to answer questions or meet with you at any time.
- All academic work must meet the standards contained in “A Culture of Honesty.” Students are responsible for informing themselves about those standards before performing any academic work. The link to more detailed information about academic honesty can be found at: <http://www.uga.edu/ovpi/honesty/acadhon.htm>
- The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary. In particular, the following reading list might be adjusted during the semester.

ACCT 9110
Positive Accounting Research
Reading List, Spring 2008

January 9: Introduction to earnings management

1. Schipper, K., 1989, "Commentary on earnings management." *Accounting Horizons* (December), 91-102.
2. Healy, P. and J. Wahlen, 1999, "A review of the earnings management literature and its implications for standard setting." *Accounting Horizons* 13 (December): 365-383.
3. Dechow, P., and D. Skinner, 2000. "Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators." *Accounting Horizons* 14 (June): 235-250.
4. Nelson, Mark W., John A. Elliott and Robin L. Tarpley, 2003. "How Are Earnings Managed? Examples from Auditors." *Accounting Horizons* (Supplement): 17-35.

January 16: Methodology issues

1. Kinney, W., 1986. "Empirical Accounting Research Design for Ph.D. Students." *The Accounting Review* (April): 338-350.
2. McNichols, M., 2000. "Research design issues in earnings management studies." *Journal of Accounting and Public Policy* 19: 313-345.
3. Hribar and Collins, 2006. "Errors in Estimating Accruals: Implications for Empirical Research." *Journal of Accounting Research* 40 (March): 105-134.

January 23: Single accrual studies

1. McNichols, M.F. and G. P. Wilson. 1988. Evidence of earnings management from the provision for bad debts. *Journal of Accounting Research* 26 (Supplement): 1-31.
2. Petroni, K., 1992. "Optimistic reporting in the property-casualty insurance industry." *Journal of Accounting and Economics* 15: 485-508.

January 30: Discretionary accruals

1. Defond, M. L. and J. Jiambalvo. 1994. Debt covenant violation and manipulation of accruals: Accounting choice in troubled companies. *Journal of Accounting and Economics* 17 (1-2): 145-176.
2. Gaver, J., K. Gaver and J. Austin. "Additional evidence on bonus plans and income management." *Journal of Accounting and Economics* (1995): 3-28.

3. Heninger, W., 2001, "The association between auditor litigation and abnormal accruals." *The Accounting Review* (January): 111-126.

February 6: Earnings benchmarks

1. Burgstahler, D. and I. Dichev, 1997. "Earnings management to avoid earnings decreases and losses." *Journal of Accounting and Economics* 24: 99-126.
2. Degeorge, F., J. Patel, and R. Zeckhauser, 2003. "Earnings management to exceed thresholds." *The Journal of Business* 72 (1999): 1-33.
3. Brown, L., and M. Caylor, 2005. "A Temporal Analysis of Thresholds: Propensities and Valuation Consequences." *The Accounting Review* 80: 423-440/

February 13: Rewards to meeting or beating benchmarks

1. Jiang, J., "Beating earnings benchmarks and the cost of debt." *The Accounting Review*, forthcoming.
2. Matsumoto, Dawn, 2002. "Management's incentives to avoid negative earnings surprises." *The Accounting Review* (July): 483-514.
3. Bartov, Eli, Dan Givoly and Carla Hayn. "The rewards to meeting or beating earnings expectations." *Journal of Accounting and Economics* (2002): 173-204.

February 20: Critiques of earnings benchmark studies

1. Dechow, P., S. Richardson, and I. Tuna, 2003. "Why are earnings kinky? An examination of the earnings management explanation." *Review of Accounting Studies* 8 (2003): 355-384.
2. 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*.

February 27: Real earnings management

1. Roychowdhury, S., 2006. "Earnings Management through Real Activities Manipulation." *Journal of Accounting and Economics* 42: 335-370.
2. Cohen, D., A. Dey and T. Lys, "Real and Accrual-based Earnings Management in the Pre- and Post-Sarbanes Oxley Periods." *The Accounting Review*, forthcoming.
3. Graham, J., R. Harvey, and S. Rajgopal, 2005. "The economic implications of corporate financial reporting" *Journal of Accounting and Economics* 40: 3-73.

March 5: Managerial incentives to manage earnings

1. Bergstresser, D. and Philippon, T., 2004. "CEO incentives and earnings management." Working paper, Harvard Business School.
2. Cheng, Q. and T. Warfield, 2005. "Equity incentives and earnings management." *The Accounting Review* 80: 441-476.
3. Cornett, M., Marcus, A., Saunders, A., and Tehranian, H., 2006. "Earnings management, corporate governance, and true financial performance." *Working paper*

March 12: Spring break

March 19: Managerial consequences for managing earnings

1. Desai, H., C. Hogan, and M. Wilkins, 2006. "The reputational penalty for aggressive accounting: earnings restatements and management turnover." *The Accounting Review* 81: 83-112.
2. Collins, D., A. Reitenga, and J. Sanchez-Cuevas, 2007. "The managerial consequences of earnings restatements." *Working paper*.

March 26: Auditors and earnings management

1. DeAngelo, L., 1981. "Auditor size and audit quality." *Journal of Accounting and Economics* 3: 183-199.
2. Reynolds, K., and J. Francis, 2001, "Does size matter? The influence of large clients on office-level auditor reporting decisions." *Journal of Accounting and Economics* 30, 375-400.
3. Gaver, J. and J. Paterson, 2007. "The Influence of Large Clients on Office-Level Auditor Oversight: Evidence from the Property-Casualty Insurance Industry." *Journal of Accounting and Economics* 43 (July): 299-320.

April 2: Auditors and earnings management, continued

1. Menon, K. and D. Williams, 2004. "Former audit partners and abnormal accruals." *The Accounting Review* 79: 1095-1118.
2. Kinney, W., Z. Palmrose, and S. Scholz, 2004. "Auditor Independence, non-audit services, and restatements: Was the U. S. Government Right?" *Journal of Accounting Research* 42 (June): 561-589.
3. DeFond, M. and J. Francis, 2005. "Audit research after Sarbanes-Oxley." *Auditing: A Journal of Practice and Theory* 24: 5-30.

April 9: Accounting conservatism

1. LaFond, R. and S. Roychowdhury, 2007. "Managerial Ownership and Accounting Conservatism"
2. Bushman, R. and J. Piotroski, 2006. Financial reporting incentives for conservative accounting: The influence of legal and political institutions. *Journal of Accounting and Economics* 42 (October): 107-148.

April 16: Auditor conservatism

1. Cahan, S. and W. Zhang, 2006. "After Enron: Auditor Conservatism and Ex-Anderson Clients." *The Accounting Review* 81:49-82.
2. J. Gaver, C. Pacini, and J. Paterson, "The Influence of Auditor Legal Liability on Conservative Financial Reporting in the Property-Casualty Insurance Industry." *Working paper*.

April 23: Ex post reporting

1. Lundholm, R., 1999. "Reporting on the past: A new approach to improving accounting today." *Accounting Horizons* 13 (December): 315-322.
2. Hirst, E., K. Jackson, and L. Koonce, 2003. "Improving financial reports by revealing the accuracy of prior estimates." *Contemporary Accounting Research* 20 (Spring): 165-193.
3. Gaver, J. and J. Paterson, 2007. "Does reporting on the past prevent opportunism?" *Working paper*.