

|                       | <b>ANU College of Business and Economics</b>  | <b>Research School of Accounting</b>                                   |
|-----------------------|---|--|
| <b>Mail</b>           | Building 26C<br>Australian National University<br>Canberra ACT 2601   | Building 21<br>Australian National University<br>Canberra ACT 2601     |
| <b>Student Office</b> | Room 2.01 (Level 2)<br>ANU CBE Building 26C   | Room 2037 (Level 2)<br>Hanna Neumann Building 21                       |
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| <b>Email</b>          | <a href="mailto:info.cbe@anu.edu.au">info.cbe@anu.edu.au</a>  | <a href="mailto:enquiries.rsa@anu.edu.au">enquiries.rsa@anu.edu.au</a> |

## BUSN4007

# Analysis of Financial Reporting

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.

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| <b>Course URL</b>                            | <a href="http://programsandcourses.anu.edu.au/2017/course/BUSN4007">http://programsandcourses.anu.edu.au/2017/course/BUSN4007</a> |
| <b>Mode of Delivery</b>                      | On campus   |
| <b>Prerequisites</b>                         | N/A   |
| <b>Incompatible Courses</b>                  | Incompatible with <a href="#">BUSN8007</a>  |
| <b>Co-taught Courses</b>                     | <a href="#">BUSN8007</a> , graduate students attend joint classes with undergraduates but are assessed separately                 |
| <b>Course Convenor</b>                       | Associate Professor Marvin Wee  |
| <b>Phone</b>                                 | +61 2 6125 0416   |
| <b>Email</b>                                 | <a href="mailto:marvin.wee@anu.edu.au">marvin.wee@anu.edu.au</a>  |
| <b>Office</b>                                | Room 2046, PAP Moran Bld (26B)  |
| <b>Office hours for student consultation</b> | To be announced on the <a href="#">Wattle</a> course site   |
| <b>Research Interests</b>                    | <a href="https://researchers.anu.edu.au/researchers/wee-mgw">https://researchers.anu.edu.au/researchers/wee-mgw</a>               |

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|-----------------------------------|---|
| <b>Student<br/>Administration</b> | Room 2037 Hanna Neumann Building 21<br><a href="mailto:enquiries.rsa@anu.edu.au">enquiries.rsa@anu.edu.au</a><br>6125 0025 or 6125 7968<br>Office Hours: Monday-Friday 9-5 pm |
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## **SEMESTER 2**

**2017**

## **COURSE OVERVIEW**

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### **Learning Outcomes**

Upon completion of the course students will have:

1. read widely within the literature concerning the information content of published financial statement and the use of accounting information in contracting
2. demonstrated an understanding of the key issues presented in the above literature and the implications of these issues for accounting research and practice
3. developed rudimentary empirical research skills

### **Assessment Summary**

| <b>Assessment Task</b>              | <b>Value</b> | <b>Due Date</b>           | <b>Date for Return of Assessment</b> | <b>Linked Learning Outcomes (optional)</b> |
|-------------------------------------|--------------|---------------------------|--------------------------------------|--|
| 1. Seminar Report and Discussion    | 25%          | Weekly                    | Weekly                               | 1, 2                                       |
| 2. Participation & Summary/Critique | 15%          | Weekly                    | Weekly                               | 1, 2                                       |
| 3. Practical Research Assignment    | 30%          | Seminar 10                | Seminar 12                           | 1, 3                                       |
| 4. Examination                      | 30%          | During examination period | Result releasing period              | 1, 2, 3                                    |

### **Research-Led Teaching**

This course is a research-based course, which aims to familiarize students with the contemporary research themes, techniques and outcomes in the financial accounting and capital market area. Students will gain research skills through

1. a systematic review of seminal research papers in various areas of accounting research;
2. class presentations and discussions of a selective list of research outputs;
3. a practical research project that help students use statistical method to undertake scientific inquiries.

### **Feedback**

#### **Staff Feedback**

Students will be given feedback in various ways in this course, including verbal or written feedback on the return of assessment tasks, during class discussion, or during consultation with lecturers and tutors.

## **Student Feedback**

ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to:

<http://unistats.anu.edu.au/surveys/self/students/> and  
<http://unistats.anu.edu.au/surveys/self/results/learning/>

## **Policies**

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University's academic standards, and implement them. You can find the University's education policies and an explanatory glossary at: <http://policies.anu.edu.au/>

Students are expected to have read the [Academic Misconduct Rule](#) before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework) Policy
- ([https://policies.anu.edu.au/ppi/document/ANUP\\_004603](https://policies.anu.edu.au/ppi/document/ANUP_004603))
- Student Assessment (Coursework) Procedure
- ([https://policies.anu.edu.au/ppi/document/ANUP\\_004604](https://policies.anu.edu.au/ppi/document/ANUP_004604))
- Student Surveys and Evaluations
- ([https://policies.anu.edu.au/ppi/document/ANUP\\_004601](https://policies.anu.edu.au/ppi/document/ANUP_004601))
- Copyright (<http://copyright.anu.edu.au/>)

## **Examination material or equipment**

Details regarding materials and equipment that is permitted in an examination room can be found on the ANU website:

<http://www.anu.edu.au/students/program-administration/assessments-exams/examination-conduct>

Information regarding permitted examination materials for the course will be available on the examination timetable website when the examination timetable is released:

<http://timetable.anu.edu.au/>

## READING LISTS

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### **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.

### **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.

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.

#### **Further reading:**

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

### **Topic 4: Earnings management**

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:**

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.

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.

- 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 5: 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 6: 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.
- Kothari, S.P., S. Shu and P.D. Wysocki, 2009, "Do managers withhold bad news", *Journal of Accounting Research* 47, 1-36.

#### **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.

### **Topic 7: International Institutional Factors and Financial Regulation**

- Ball, R., S.P. Kothari and A. Robin, 2000, "The Effect of International Institutional Factors on Properties of Accounting Earnings", *Journal of Accounting and Economics* 29, 1-51.
- Christensen, H. B., L. Hail and C. Leuz, 2013, "Mandatory IFRS Reporting and Changes in Enforcement", *Journal of Accounting and Economics* 56, 147-177.

### **Topic 8: Prediction of Future Cash Flows and Earnings**

- 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.
- 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:**

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.

**Topic 9: 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 10: 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.

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

**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.

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.

## COURSE SCHEDULE

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| Week | Summary of Activities  | Assessment             |
|------|--|------------------------|
| 1    | Introduction & Understanding Statistical Evidence            | Topic 1 reading        |
| 2    | Accounting Information & Capital Markets                     | Topic 2 reading        |
| 3    | Agency Conflicts & Corporate Reporting Behaviour             | Topic 3 reading        |
| 4    | Earnings Management  | Topic 4 reading        |
| 5    | Role of Accruals and the Accrual anomaly                     | Topic 5 reading        |
| 6    | Accounting Conservatism and voluntary disclosures            | Topic 6 reading        |
| 7    | International Institutional Factors and Financial Regulation | Topic 7 reading        |
| 8    | Prediction of Future Cash Flows and Earnings                 | Topic 8 reading        |
| 9    | Valuation and Expected Returns                               | Topic 9 reading        |
| 10   | Discretionary accruals - practical assignment                | Due: <b>Assignment</b> |
| 11   | Security Analysts: role and incentives                       | Topic 10 reading       |
| 12   | Accounting and capital market, review                        |                        |
|      | Examination period   |                        |

## ASSESSMENT REQUIREMENTS

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The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing Academic Integrity. For additional information regarding Turnitin please visit the [ANU Online](#) website.

Students may choose not to submit assessment items through Turnitin. In this instance you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

As a further academic integrity control, students may be selected for a 15 minute individual oral examination of their written assessment submissions.

Any student identified, either during the current semester or in retrospect, as having used ghost writing services will be investigated under the University's Academic Misconduct Rule.



## **Assessment Tasks**

### **Assessment Task 1: Seminar Report and Discussion**

Details of task:

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.

Value: 25%

### **Assessment Task 2: Participation & Summary/Critique**

Details of task:

You will be awarded a grade reflecting 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/critique for one of the papers discussed during class. The quality of the hand-ins will also affect your participation grade.

Value: 15%

### **Assessment Task 3: Practical Research Assignment**

Details of task:

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, Stata 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

Value: 30%

Estimated return date: Week 12 seminar

## **Assignment submission**

**Online Submission:** Assignments are submitted using Turnitin in the course Wattle site. You will be required to electronically sign a declaration as part of the submission of your assignment. Please keep a copy of the assignment for your records.

## **Extensions and penalties**

Extensions and late submission of assessment pieces are covered by the [Student Assessment \(Coursework\) Policy and Procedure](#).

The Course Convenor may grant extensions for assessment pieces that are not examinations or take-home examinations. If you need an extension, you must request in writing on or before the due date. If you have documented and appropriate medical evidence that demonstrates you were not able to request an extension on or before the due date, you may be able to request it after the due date.

No submission of assessment tasks without an extension after the due date will be permitted. If an assessment task is not submitted by the due date, a mark of 0 will be awarded.

## **Returning assignments**

Assignment will be returned online.

## **Resubmission of assignments**

Resubmission of assignments are not permitted.

## **Referencing requirements**

Harvard Referencing

## **Examinations**

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

## **Scaling**

Your final mark for the course will be based on the **raw** marks allocated for each of your assessment items. 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.

## **Privacy Notice**

The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the database licensor's terms of service and/or privacy policy. Students should read these carefully.

In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit 'content' to a database, such as an assignment or short answers, the database licensor may only use the student's 'content' in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor's terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.

## **TUTORIAL / SEMINAR REGISTRATION**

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No tutorial registration for this course

## **SUPPORT FOR STUDENTS**

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The University offers a number of support services for students. Information on these is available online from <http://www.anu.edu.au/students/communities-events>