Limperg Instituut

COURSE SYLLABUS

Empirical Financial Accounting Research

Course objective and motivation

The objective of this course is to introduce PhD students to the fundamental topics and seminal studies in empirical financial accounting research. We study fundamental topics such as the valuation and contracting roles of accounting, the role of accrual accounting in performance management and earnings management, conservative accounting practices, earnings quality, disclosure, investor information processing, and non-financial reporting.

These topics are all discussed based on a combination of older “seminal” papers and more recent applications in the literature. By the end of the course, participants should be able to anchor contemporary research questions on the fundamental literature, critically review empirical research in financial accounting, and assess the strengths and weaknesses of commonly used measurements and research designs in the literature. As part of the course assessment, participants are also expected to present assigned papers in class, to conduct a replication exercise of an empirical paper, and to critically review academic papers.

Course planning

Day 1:

- The relation between accounting information and market prices: fundamentals
- The relation between accounting information and market prices: applications

Day 2:

- Accrual accounting
- Earnings quality, earnings management, and fraud

Day 3:

- Conservatism in accounting
- Contracting and credit markets

Day 4:

- International accounting research and capital markets
- Fundamental analysis and valuation

Day 5:

- Disclosure
- Information processing, investors, and market frictions

Course setup

The course is taught by group of instructors, all experienced researchers in archival financial accounting. Each day, consisting of two sessions, will be chaired by one of the instructors. Each session includes an instructor presentation on one of ten session topics, presentations by students, and extensive classroom discussion.

This is an intensive course that requires a significant time investment from students. The reading list is extensive, and all students must carefully read all papers before the start of the course. Because it is difficult to carefully read and understand more than two papers per day, we strongly recommend starting to prepare for the course as early as possible.

Course assessment

To ensure adequate preparation, each student must present one paper assigned to them. In addition, for each of the ten session topics, each student must prepare a set of comments and critical questions for one assigned paper. The knowledge gained from the course will be assessed through a take-home exam due one week after the end of the course. The take-home exam combines a paper review, theory questions, and a replication exercise. Finally, active participation throughout the course is expected. Failure to actively contribute to class discussions or evidence of inadequate preparation may result in the student not passing the course.

Summary of assessment:

1. Active participation in the course: 25%.
2. Presentation of one paper assigned from the reading list: 25%.
3. Submission of comments and critical questions on ten assigned papers: 25%.
4. Take-home assignment: 25%.

Setup of paper presentations

Presentation. Each student presents one of the papers assigned to them by the course coordinators. Papers will be assigned well in advance of the course. Each presentation is expected to last approximately one hour, but this includes an intermediate class discussion of critical comments and questions prepared by the other participants (see below). Therefore, each presentation should be prepared as if it were a 20-minute uninterrupted presentation (aim for about 20 slides). Presentations should be clearly structured and formatted and should reflect the student's own review and summary of the paper.

Comments and critical questions. Before the start of the course, each student hands in three critical comments and questions per assigned paper. For each of the ten session topics, one paper will be assigned to each student. In case the student is assigned to present a paper, the paper assigned for comment/question preparation will be a different one.

- Good questions or comments could relate to the contribution of the study (i.e., the extent to which the paper revises our beliefs), the adequacy of the conceptual argumentation underlying the main hypotheses/predictions, the measurement of the key constructs, or the relevance of the study and its conclusions given questions and issues that are relevant to current accounting research.
- One of the three questions/comments should draw a connection to the other papers in the topic.
- One of the three questions/comments should draw a connection to one of the other ten topics of the course.

- It is not sufficient to just raise a question/comment; students must be prepared to reflect on their own questions/comments.

Note: Being assigned paper A of topic X does not imply that the student is not expected to have carefully read and understood all other papers of topic X.

Detailed overview of topics and study material

Session 1. The Relation Between Accounting Information and Market Prices: Fundamentals

Ball & Brown (1968) [PR]; Beaver (1968); Kormendi & Lipe (1987); Easton & Zmijewski (1989); Bernard & Thomas (1989) [PR]

Session 2. The Relation Between Accounting Information and Market Prices: Applications

Beaver, McNichols & Wang (2020) [PR]; Gipper, Leuz & Maffett (2020) [PR]; Hand et al. (2022); Landsman, Maydew & Thornock (2012); Milian (2015); Matsumura, Prakash & Vera-Muñoz (2014)

Session 3. Accrual Accounting

Dechow (1994) [PR]; Sloan (1996) [PR]; Richardson et al. (2005); Bushman, Lerman & Zhang (2016); Ball & Nikolaev (2022)

Session 4. Earnings Quality, Earnings Management, and Fraud

Bushee (1998) [PR]; Dechow & Dichev (2002) [PR]; Dechow et al. (2011); Bertomeu et al. (2021); Beneish & Vorst (2022)

Session 5. Conservatism in Accounting

Basu (1997) [PR]; Ball & Shivakumar (2005) [PR]; Banker, Basu & Byzalov (2017); Glaum, Landsman & Wyrwa (2018); Lawrence, Sloan & Sun (2017)

Session 6. Contracting and Credit Markets

Watts & Zimmerman (1990); Christensen, Nikolaev & Wittenberg-Moerman (2016); Minnis (2011) [PR]; Tan (2013); Ball, Li & Shivakumar (2015) [PR]

Session 7. International Accounting Research and Capital Markets

Barth, Landsman & Lang (2008) [PR]; Christensen, Hail & Leuz (2013); Daske, Hail, Leuz & Verdi (2013) [PR]; Isidro, Nanda & Wysocki (2020); Stoumbos (2023); Fiechter, Hitz & Lehmann (2022)

Session 8. Fundamental Analysis and Valuation

Sloan (2019); Esplin et al. (2014) [PR]; Hou, van Dijk & Zhang (2012) [PR]; Nichols, Wahlen & Wieland (2017); Chen et al. (2022)

Session 9. Disclosure

Cheng & Lo (2006); Kothari, Shu & Wysocki (2009) [PR]; Bentley et al. (2018); Jung et al. (2018); Lys, Naughton & Wang (2015) [PR]; Ilhan et al. (2023)

Session 10. Information Processing, Investors, and Market Frictions

Bamber et al. (2010); Drake, Roulstone & Thornock (2015); deHaan, Shevlin & Thornock (2015) [PR]; Blankespoor et al. (2019) [PR]; Guest (2021)

Credits

6 ECTS (European Credits)

The course workload can be detailed as follows:

Workshops	40 hours
Thorough reading of 54 research articles, including question prep	112 hours
Presentation preparation	4 hours
Take-home assignment including review and replication	12 hours
TOTAL	168 hours

References

Session 1

Ball, R., & Brown, P. (1968). An empirical evaluation of accounting income numbers. Journal of Accounting Research, 6(2), 159-178. DOI: https://doi.org/10.2307/2490232

Beaver, W. H. (1968). The information content of annual earnings announcements. Journal of Accounting Research, 6, 67-92. DOI: https://doi.org/10.2307/2490070

Kormendi, R., & Lipe, R. (1987). Earnings innovations, earnings persistence, and stock returns. Journal of Business, 60(3), 323-345. DOI: https://doi.org/10.1086/296400

Easton, P. D., & Zmijewski, M. E. (1989). Cross-sectional variation in the stock market response to accounting earnings announcements. Journal of Accounting and Economics, 11(2-3), 117-141. DOI: https://doi.org/10.1016/0165-4101(89)90003-7

Bernard, V. L., & Thomas, J. K. (1989). Post-earnings-announcement drift: Delayed price response or risk premium? Journal of Accounting Research, 27, 1-36. DOI: https://doi.org/10.2307/2491062

Session 2

Beaver, W. H., McNichols, M. F., & Wang, Z. Z. (2020). Increased market response to earnings announcements in the 21st century: An empirical investigation. Journal of Accounting and Economics, 69(1), 101244. DOI: https://doi.org/10.1016/j.jacceco.2019.101244

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Landsman, W. R., Maydew, E. L., & Thornock, J. R. (2012). The information content of annual earnings announcements and mandatory adoption of IFRS. Journal of Accounting and Economics, 53(1-2), 34-54. DOI: https://doi.org/10.1016/j.jacceco.2011.04.002

Milian, J. A. (2015). Unsophisticated arbitrageurs and market efficiency: Overreacting to a history of underreaction? Journal of Accounting Research, 53(1), 175-220. DOI: https://doi.org/10.1111/1475-679X.12070

Matsumura, E. M., Prakash, R., & Vera-Munoz, S. C. (2014). Firm-value effects of carbon emissions and carbon disclosures. The Accounting Review, 89(2), 695-724. DOI: https://doi.org/10.2308/accr-50629

Session 3

Dechow, P. M. (1994). Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. Journal of Accounting and Economics, 18(1), 3-42. DOI: https://doi.org/10.1016/0165-4101(94)90016-7

Sloan, R. G. (1996). Do stock prices fully reflect information in accruals and cash flows about future earnings? The Accounting Review, 71(3), 289-315. https://doi.org/10.2308/TAR-9608042309

Richardson, S. A., Sloan, R. G., Soliman, M. T., & Tuna, I. (2005). Accrual reliability, earnings persistence and stock prices. Journal of Accounting and Economics, 39(3), 437-485. DOI: https://doi.org/10.1016/j.jacceco.2005.04.005

Bushman, R. M., Lerman, A., & Zhang, X. F. (2016). The changing landscape of accrual accounting. Journal of Accounting Research, 54(1), 41-78. DOI: https://doi.org/10.1111/1475-679X.12100

Ball, R., & Nikolaev, V. V. (2022). On earnings and cash flows as predictors of future cash flows. Journal of Accounting and Economics, 73(1), 101430. DOI: https://doi.org/10.1016/j.jacceco.2021.101430

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Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. Journal of Accounting and Economics, 24(1), 3-37. DOI: https://doi.org/10.1016/S0165-4101(97)00014-1

Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. Journal of Accounting and Economics, 39(1), 83-128. DOI: https://doi.org/10.1016/j.jacceco.2004.04.001

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Lawrence, A., Sloan, R., & Sun, E. (2018). Why are losses less persistent than profits? Curtailments vs. conservatism. Management Science, 64(2), 673-694. DOI: https://doi.org/10.1287/mnsc.2016.2624

Session 6

Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten year perspective. The Accounting Review, 65(1), 131-156. DOI: https://doi.org/10.2308/TAR-9603274032

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Esplin, A., Hewitt, M., Plumlee, M., & Yohn, T. L. (2014). Disaggregating operating and financial activities: Implications for forecasts of profitability. Review of Accounting Studies, 19, 328-362. DOI: https://doi.org/10.1007/s11142-013-9256-5

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Recommended background reading

Nissim, D., & Penman, S. H. (2001). Ratio analysis and equity valuation: From research to practice. Review of Accounting Studies, 6, 109-154. DOI: https://doi.org/10.1023/A:1011338221623

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Bentley, J. W., Christensen, T. E., Gee, K. H., & Whipple, B. C. (2018). Disentangling managers' and analysts' non-GAAP reporting. Journal of Accounting Research, 56(4), 1039-1081. DOI: https://doi.org/10.1111/1475-679X.12206

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Guest, N. M. (2021). The information role of the media in earnings news. Journal of Accounting Research, 59(3), 1021-1076. DOI: https://doi.org/10.1111/1475-679X.12349