

Limperg Institute
Empirical Financial Accounting Research
Rotterdam, May 27-31, 2024

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. On each course day, the discussion will be guided by two of the professors in the course team.

Course instructor team

- Christof Beuselinck, IÉSEG School of Management
- Erik Peek, Rotterdam School of Management
- David Veenman, University of Amsterdam
- Arnt Verriest, KU Leuven
- Jacco Wielhouwer, VU University Amsterdam

Course coordinators: Erik Peek (epeek@rsm.nl) and David Veenman (d.veenman@uva.nl)

Timing and location

The course will be held in-person from Monday May 27 through Friday May 31, 2024, at Erasmus University Rotterdam. The exact location will be announced.

ECTS and division of the workload

The course has a workload of 6 ECTS, which can be detailed as follows:

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

Structure of the sessions

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.

Expectations, assignments, and assessment

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 course. Because it is hard to carefully read and understand more than two papers per day, we strongly recommend to start preparing for the course as early as possible.

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 paper assigned to them. The knowledge gained from the course will be tested using a take-home exam that is due one week after the end of the course. The take-home exam will combine a paper review, theory questions, and a replication exercise. Finally, active participation in the course is expected. A failure to actively contribute to the course discussion or a sign of lack of preparation may lead to the student not passing the course.

- *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 for approximately one hour, but this includes an intermediate class discussion of critical comments and questions prepared by the other participants (see below). Hence, each presentation should be prepared as if it lasts 20 minutes without interruption (aim for about 20 slides). Presentations should be clearly structured and formatted and should capture 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.

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; due Sunday June 9, 23:59 [25%]

Overview of topics and assigned instructors

DAY 1, Monday May 27, 2024:

- Topics 1 and 2: “The relation between accounting information and market prices”
- Instructor: Jacco Wielhouwer

DAY 2, Tuesday May 28, 2024:

- Topics 3 and 4: “Accrual accounting, earnings management/quality, and fraud”
- Instructor: Christof Beuselinck

DAY 3, Wednesday May 29, 2024:

- Topics 5 and 6: “Conservatism, contracting, and credit markets”
- Instructor: Erik Peek

DAY 4, Thursday May 30, 2024:

- Topics 7 and 8: “International accounting research, fundamental analysis, and valuation”
- Instructor: Arnt Verriest

DAY 5, Friday May 31, 2024:

- Topics 9 and 10: “Disclosure, information processing, and market frictions”
- Instructor: David Veenman

Detailed schedule and required readings

1. The relation between accounting information and market prices: fundamentals

- a) [PR] Ball, Ray, and Philip Brown. 1968. ‘An Empirical Evaluation of Accounting Income Numbers’. *Journal of Accounting Research* 6 (2): 159–78.
- b) Beaver, William H. 1968. ‘The Information Content of Annual Earnings Announcements’. *Journal of Accounting Research* 6: 67–92.
- c) Kormendi, Roger, and Robert Lipe. 1987. ‘Earnings Innovations, Earnings Persistence, and Stock Returns’. *The Journal of Business* 60 (3): 323–45.
- d) Easton, Peter D., and Mark E. Zmijewski. 1989. ‘Cross-Sectional Variation in the Stock Market Response to Accounting Earnings Announcements’. *Journal of Accounting and Economics* 11 (2–3): 117–41.
- e) [PR] Bernard, Victor L., and Jacob K. Thomas. 1989. ‘Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium?’ *Journal of Accounting Research* 27: 1–36.

2. The relation between accounting information and market prices: applications

- a) [PR] Beaver, William H., Maureen F. McNichols, and Zach Z. Wang. 2020. ‘Increased Market Response to Earnings Announcements in the 21st Century: An Empirical Investigation’. *Journal of Accounting and Economics* 69 (1): 101244.

- b) [PR] Gipper, Brandon, Christian Leuz, and Mark Maffett. 2020. 'Public Oversight and Reporting Credibility: Evidence from the PCAOB Audit Inspection Regime'. *The Review of Financial Studies* 33 (10): 4532–79.
- c) Hand, John R. M., Henry Laurion, Alastair Lawrence, and Nicholas Martin. 2022. 'Explaining Firms' Earnings Announcement Stock Returns Using Factset and I/B/E/S Data Feeds'. *Review of Accounting Studies* 27 (4): 1389–1420.
- d) Landsman, Wayne R., Edward L. Maydew, and Jacob R. Thornock. 2012. 'The Information Content of Annual Earnings Announcements and Mandatory Adoption of IFRS'. *Journal of Accounting and Economics* 53 (1–2): 34–54.
- e) Milian, Jonathan A. 2015. 'Unsophisticated Arbitrageurs and Market Efficiency: Overreacting to a History of Underreaction?' *Journal of Accounting Research* 53 (1): 175–220.
- f) Matsumura, Ella Mae, Rachna Prakash, and Sandra C. Vera-Munoz. 2014. 'Firm-Value Effects of Carbon Emissions and Carbon Disclosures'. *Accounting Review* 89 (2): 695–724.

3. Accrual accounting

- a) [PR] Dechow, Patricia 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.
- b) [PR] Sloan, Richard G. 1996. 'Do Stock Prices Fully Reflect Information in Accruals and Cash Flows About Future Earnings?' *The Accounting Review* 71 (3): 289–315.
- c) Richardson, Scott A., Richard G. Sloan, Mark T. Soliman, and Irem Tuna. 2005. 'Accrual Reliability, Earnings Persistence and Stock Prices'. *Journal of Accounting and Economics* 39 (3): 437–85.
- d) Bushman, Robert M., Alina Lerman, and X. Frank Zhang. 2016. 'The Changing Landscape of Accrual Accounting'. *Journal of Accounting Research* 54 (1): 41–78.
- e) Ball, Ray, and Valeri V. Nikolaev. 2022. 'On Earnings and Cash Flows as Predictors of Future Cash Flows'. *Journal of Accounting and Economics* 73 (1): 101430.

4. Earnings quality, earnings management, and fraud

- a) [PR] Bushee, Brian J. 1998. 'The Influence of Institutional Investors on Myopic R&D Investment Behavior'. *Accounting Review* 73 (3): 305–333.
- b) [PR] Dechow, Patricia M., and Ilia D. Dichev. 2002. 'The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors'. *Accounting Review* 77 (supplement): 35–59.

- c) Dechow, Patricia M., Weili Ge, Chad R. Larson, and Richard G. Sloan. 2011. 'Predicting Material Accounting Misstatements'. *Contemporary Accounting Research* 28 (1): 17–82.
- d) Bertomeu, Jeremy, Edwige Cheynel, Eric Floyd, and Wenqiang Pan. 'Using Machine Learning to Detect Misstatements'. *Review of Accounting Studies* 26 (2): 468–519.
- e) Beneish, Messod D., and Patrick Vorst. 2022. 'The Cost of Fraud Prediction Errors'. *Accounting Review* 97 (6): 91–121.

5. Conservatism in accounting

- a) [PR] Basu, Sudipta. 1997. 'The Conservatism Principle and the Asymmetric Timeliness of Earnings'. *Journal of Accounting and Economics* 24 (1): 3–37.
- b) [PR] Ball, Ray, and Lakshmanan Shivakumar. 2005. 'Earnings Quality in UK Private Firms: Comparative Loss Recognition Timeliness'. *Journal of Accounting and Economics* 39 (1): 83–128.
- c) Banker, Rajiv D., Sudipta Basu, and Dmitri Byzalov. 2017. 'Implications of Impairment Decisions and Assets' Cash-Flow Horizons for Conservatism Research'. *The Accounting Review* 92 (2): 41–67.
- d) Glaum, Martin, Wayne R. Landsman, and Sven Wyrwa. 2018. 'Goodwill Impairment: The Effects of Public Enforcement and Monitoring by Institutional Investors'. *The Accounting Review* 93 (6): 149–80.
- e) Lawrence, Alastair, Richard Sloan, and Estelle Sun. 2017. 'Why Are Losses Less Persistent Than Profits? Curtailments vs. Conservatism'. *Management Science* 64 (2): 673–94.

6. Contracting and credit markets

- a) Watts, Ross. L., and Jerold L. Zimmerman. 1990. 'Positive Accounting Theory: A Ten Year Perspective'. *Accounting Review* 65 (1): 131–156.
- b) Christensen, Hans B., Valeri V. Nikolaev, and Regina Wittenberg-Moerman. 2016. 'Accounting Information in Financial Contracting: The Incomplete Contract Theory Perspective'. *Journal of Accounting Research* 54 (2): 397–435.
- c) [PR] Minnis, Michael. 2011. 'The Value of Financial Statement Verification in Debt Financing: Evidence from Private U.S. Firms'. *Journal of Accounting Research* 49 (2): 457–506.
- d) Tan, Liang. 2013. 'Creditor Control Rights, State of Nature Verification, and Financial Reporting Conservatism'. *Journal of Accounting and Economics* 55 (1): 1–22.
- e) [PR] Ball, Ray, Xi Li, and Lakshmanan Shivakumar. 2016. 'Contractibility and Transparency of Financial Statement Information Prepared Under IFRS: Evidence

from Debt Contracts Around IFRS Adoption'. *Journal of Accounting Research* 53 (5): 915–963.

7. International accounting research and capital markets

- a) [PR] Barth, Mary E., Wayne R. Landsman, and Mark H. Lang. 2010. 'International Accounting Standards and Accounting Quality'. *Journal of Accounting Research* 46 (3): 467–498.
- b) Christensen, Hans B., Luzi Hail, and Christian Leuz. 2013. 'Mandatory IFRS reporting and Changes in Enforcement'. *Journal of Accounting and Economics* 56: 147–177.
- c) [PR] Daske, Holger, Luzi Hail, Christian Leuz, and Rodrigo Verdi. 2013. 'Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions'. *Journal of Accounting Research* 51 (3): 495–547.
- d) Isidro, Helena, Dhananjay Nanda, and Peter D. Wysocki. 2020. 'On the Relation between Financial Reporting Quality and Country Attributes: Research Challenges and Opportunities'. *Accounting Review* 95 (3): 279–314.
- e) Stoumbos, Robert. 2023. 'The Growth of Information Asymmetry Between Earnings Announcements and Its Implications for Reporting Frequency'. *Management Science* 69 (3): 1901–1928.
- f) Fiechter, Peter, Jörg-Markus Hitz, and Nico Lehmann. 2022. 'Real Effects of a Widespread CSR Reporting Mandate: Evidence from the European Union's CSR Directive'. *Journal of Accounting Research* 60 (4): 1499–1549.

8. Fundamental analysis and valuation

- a) Sloan, Richard G. 2019. 'Fundamental Analysis Redux'. *Accounting Review* 94 (2): 363–377.
- b) [PR] Esplin, Adam, Max Hewitt, Marlene Plumlee, and Teri Lombardi Yohn. 2014. 'Disaggregating Operating and Financial Activities: Implications for Forecasts of Profitability'. *Review of Accounting Studies* 19: 328–362.
- c) [PR] Hou, Kewei, Mathijs A. van Dijk, and Yinglei Zhang. 2012. 'The Implied Cost of Capital: A New Approach'. *Journal of Accounting and Economics* 53 (3): 504–526.
- d) Nichols, D. Craig, James M. Wahlen, and Matthew M. Wieland. 2017. 'Pricing and Mispricing of Accounting Fundamentals in the Time-Series and in the Cross Section'. *Contemporary Accounting Research* 34 (3): 1378–1417.
- e) Chen, X., Yang H. Cho, Yiwei Dou, and Baruch Lev. 2022. 'Predicting Future Earnings Changes Using Machine Learning and Detailed Financial Data'. *Journal of Accounting Research* 60 (2): 467–515.

Recommended as background reading (not required): Nissim, Doron, and Stephen H. Penman. 2001. 'Ratio Analysis and Equity Valuation: From Research to Practice'. *Review of Accounting Studies* 6: 109–154.

9. Disclosure

- a) Cheng, Qiang and Kin Lo. 2006. 'Insider Trading and Voluntary Disclosures'. *Journal of Accounting Research* 44 (5): 815–848.
- b) [PR] Kothari, S. P., Susan Shu, and Peter D. Wysocki. 2009. 'Do Managers Withhold Bad News?' *Journal of Accounting Research* 47 (1): 241–76.
- c) Bentley, Jeremiah W., Theodore E. Christensen, Kurt H. Gee, and Benjamin C. Whipple. 2018. 'Disentangling Managers' and Analysts' Non-GAAP Reporting'. *Journal of Accounting Research* 56 (4): 1039–81.
- d) Jung, Michael J., James P. Naughton, Ahmed Tahoun, and Clare Wang. 2018. 'Do Firms Strategically Disseminate? Evidence from Corporate Use of Social Media'. *The Accounting Review* 93 (4): 225–52.
- e) [PR] Lys, Thomas, James P. Naughton, and Clare Wang. 2015. 'Signaling Through Corporate Accountability Reporting'. *Journal of Accounting and Economics* 60 (1): 56–72.
- f) Ilhan, Emirhan, Philipp Krueger, Zacharias Sautner, and Laura T. Starks. 2023. 'Climate Risk Disclosure and Institutional Investors'. *The Review of Financial Studies* 36 (7): 2617–2650.

10. Information processing, investors, and market frictions

- a) Bamber, Linda Smith, John (Xuefeng) Jiang, Kathy R. Petroni, and Isabel Yanyan Wang. 2010. 'Comprehensive Income: Who's Afraid of Performance Reporting?' *The Accounting Review* 85 (1): 97–126.
- b) Drake, Michael S., Darren T. Roulstone, and Jacob R. Thornock. 2015. 'The Determinants and Consequences of Information Acquisition via EDGAR'. *Contemporary Accounting Research* 32 (3): 1128–61.
- c) [PR] deHaan, Ed, Terry Shevlin, and Jacob Thornock. 2015. 'Market (in)Attention and the Strategic Scheduling and Timing of Earnings Announcements'. *Journal of Accounting and Economics* 60 (1): 36–55.
- d) [PR] Blankespoor, Elizabeth, Ed deHaan, John Wertz, and Christina Zhu. 2019. 'Why Do Individual Investors Disregard Accounting Information? The Roles of Information Awareness and Acquisition Costs'. *Journal of Accounting Research* 57 (1): 53–84.
- e) Guest, Nicholas M. 2021. 'The Information Role of the Media in Earnings News'. *Journal of Accounting Research* 59 (3): 1021–76.