

**KOREA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY  
COLLEGE OF BUSINESS**

**BA812 Accounting Theory  
Fall 2018**

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**OBJECTIVES**

This course intends to provide a critical forum for discussions of contemporary issues in accounting research. The primary objectives of this course are 1) to introduce emerging issue and research methods in accounting research; 2) to develop the skills to critically evaluate contemporary accounting research; and 3) to foster the ability to independently formulate and execute academic research projects.

**GRADING**

The final grade will be based on (1) presentation and participation in the seminar, (2) two referee reports, (3) Report on databases at KAIST College of Business, (4) replication of a classic accounting paper, and (5) a research paper/proposal. Each of these and the relative weights are explained below.

**(1) Presentation and participation in the seminar (20%)**

From week 2 to week 15, each class will cover three papers on various accounting issues. Each student will be asked to present a paper every other week on average. Class presenters are supposed to prepare and distribute *one- or two-page summary to classmates*. The presentation should be short, no longer than 40 minutes. The presentation will consist of critical analyses of the assigned paper, which shall highlight the research focus of the paper, the place of the paper in the literature, research methodology used to achieve the objective, and include interpretation of the results. It shall also highlight the strengths and weaknesses of the assigned papers.

In addition, all students are expected to thoroughly read papers before classes, and actively discuss them in the classroom.

**(2) Referee Reports (10%)**

You will write two referee reports. I will evaluate each report in terms of content and presentation. Regarding content, your report should include (1) a brief summary of the paper's research questions and findings, (2) an integrated evaluation of the paper's strengths and weaknesses, (3) constructive feedback in the form of specific comments and suggestions to the authors that you believe may help improve the quality of their paper, and (4) a cover letter to the editor summarizing your report and recommending a course of action. Regarding presentation, I expect your report to be brief, coherent, and free of grammatical and stylistic errors. Pages should be word-processed (preferably 12pt., 1" margins, no less than single spacing) and numbered. Keep the total number of pages, including the cover letter, to no more than five.

**(3) Report on databases at KAIST (10%)**

Identify archival data (for accounting and finance research), other than Compustat and CRSP, available at KAIST College of Business. Provide a brief summary for each database. Identify at least two papers published in accounting or finance top journals using each database.

Report due: **Thursday, October 11**

Presentation: **Thursday, October 18**

**(4) Paper Replication (20%)**

Students are required to replicate one classic accounting paper. The purpose of this exercise is to have students become familiar with accounting and financial databases and statistical software.

Paper replication due: **Thursday, November 15**

**(5) Research paper/proposal (40%)**

Each student must write a research paper/proposal. The paper/proposal is an opportunity for you to raise questions and attempt to provide answers. Students are asked to put the biggest weight on this research paper/proposal.

## Guidelines for the Research Paper/Proposal

The main goal of the doctoral level seminar is to motivate students to develop their own research. For this course, students will be asked to prepare a term paper to satisfy the objective of the course. The term paper shall clearly identify the research issue being studied, methodology used to seek answers to the problem presented in the study, and discussion of test results and analyses. The topic of the paper is open, although it should address some issues related to the financial accounting area. The paper should use archival empirical methods. The topic would require the professor's approval. Given the time constraint of one semester, you are *encouraged, but not enforced*, to complete the whole paper. The minimum requirements are to finish at least (a), (b), (c), (d), and (g). Doctoral students are highly encouraged to complete all steps including data analysis.

- (a) **Objective and Motivation** of your proposed research: This is the hardest part of any new research. You should defend by yourself why your study is interesting, and what the contribution of your study to extant literature is. “Nobody has done this before” is not an acceptable motivation, since it sounds “nobody has been interested in this before.”
- (b) **Literature Review**: The term paper would include a complete, but short (no more than ten pages) literature review in a particular topic that you choose for your term paper. Do not list prior research by authors' name: classify prior studies by research issues, and offer your own criticism/view.
- (c) **Research Hypotheses**: Develop your own research hypotheses, and then clearly operationalize your research hypotheses. Your hypotheses are not necessarily to be at a functional form, but clearly suggest the *ex ante* expected results and discuss the supporting arguments for your hypotheses.
- (d) **Design and Implementation of Tests**: First, you should describe your research design to test your hypotheses. This includes regression model specifications and test statistics. Next, you should make sure the data availability. Clearly identify the sources of your data. You are encouraged but not enforced to actually collect the comprehensive data and test your hypotheses. However, you should prove that the study has a practical feasibility: for example, empirical data should be available and no major difficulty is expected except the time constraint.
- (e) **Test Results**: Discuss the test results. Your hypotheses might be only partially supported, then you have to justify why the result is not satisfactory. You may end up discussing the *expected* results, if your actual tests are not performed because of the time constraints.
- (f) **Conclusion**  
Explain briefly again your test hypotheses and results, and suggest further research in the related area.
- (g) **References**
- (h) **Figures and Tables**

### Editorial Guidelines:

- (1) No more than 55 pages in length (including tables), although it may vary depending upon the topic.
- (2) Typed (double spaced)
- (3) You should clearly identify the sources of any citations/quotations.  
**No blind quotation will be tolerated**: it's the biggest crime in the academic society.
- (4) The term paper should look like a completed working paper or published paper, except the result section.
- (5) For specific paper formats, follow the format of TAR.

### Due Dates:

- (1) Three potential topics (with objectives and motivation and a brief literature survey) for the term paper: **Thursday, September 20**
- (2) Interim report (Introduction, Literature review, Hypothesis development): **Thursday, November 8**
- (3) Final term paper due **Thursday, December 6**
- (4) Final term paper presentation: **Thursday, December 13**

## **Schedule of Classes *(Subject to change)***

*We will meet from 9:00 to 11:50 am on Thursdays.*

### **1. Week 1 (August 30): Introduction Foundations of Financial Accounting Research Pre-test**

### **2. Week 2 (September 6): Disclosure I**

Rogers, J.L., and P.C. Stocken. 2005. Credibility of management forecasts. *The Accounting Review* 80: 1233-1260.

Feng, M., C. Li, and S. McVay. 2009. Internal control and management guidance, *Journal of Accounting and Economics* 48: 190-209.

Kim, Y., L. Su, and X. Zhu. 2017. Does the cessation of quarterly earnings guidance reduce investors' short-termism? *Review of Accounting Studies* 22: 715-752.

*Cho, Y.J., Kim, Y., and Y. Zang. 2018. Information externality and voluntary disclosure: Evidence from a major customer's earnings announcement. Working Paper.*

### **3. Week 3 (September 13) Disclosure II**

*Jo, H. and Y. Kim. 2007. Disclosure frequency and earnings management, Journal of Financial Economics* 84: 561-590.

Kim, Y., M. Lacina, and M.S. Park. 2008. Positive and Negative Information Transfers from Management Forecasts. *Journal of Accounting Research* 46(4): 885-908.

Kim, Y., H. Li, and S. Li. 2012. Does eliminating the Form 20-F reconciliation from IFRS to U.S. GAAP have capital market consequences? *Journal of Accounting and Economics* 53: 249-270.

Bao, D., M. Mian, Y., Kim, and L. Su. 2018. Do managers disclose or withhold bad news? Evidence from short interest. *The Accounting Review*, forthcoming.

### **4. Week 4 (September 20): Earnings Quality and Conservatism Three potential topics for the term paper due**

*Graham, J., C. Harvey, and S. Rajgopal, 2005. The economic implications of corporate financial reporting. Journal of Accounting and Economics* 40: 3-73.

Dechow, P., W. Ge, and C. Schrand. 2010. Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics* 50: 344-401.

Kim, Y., S. Li, C. Pan, and L. Zuo. 2013. The role of accounting conservatism in the equity market: Evidence from seasoned equity offerings. *The Accounting Review* 88(4): 1327-1356.

Kim, Y. and M.S. Park. 2014. Real activities manipulation and auditors' client retention decisions. *The Accounting Review* 89: 367-401.

## **5. Week 5 (September 27): Usefulness of financial analysts' reports**

*Ivković, Z. and N. Jegadeesh. 2004. The timing and value of forecast and recommendation revisions. Journal of Financial Economics 73: 433-463.*

Malloy, C. 2005. The geography of Equity Analysis. *Journal of Finance* 60(2): 719-755.

*Chen, X., Q. Cheng, and K. Lo. 2010. On the relationship between analyst reports and corporate disclosures: Exploring the roles of information discovery and interpretation. Journal of Accounting and Economics 49: 206-226.*

Altinkilic, O. and R.S. Hansen. 2009. On the information role of stock recommendation revisions. *Journal of Accounting and Economics* 48:17-36.

Kim, Y. and M. Song. 2015. Management earnings forecasts and value of analyst forecast revisions. *Management Science* 61: 1663-1683.

## **6. Week 6 (October 4): Market-based auditing research /Office-level audit quality**

Willenborg, M. 1999. Empirical analysis of the economic demand for auditing in the Initial Public Offerings Market. *Journal of Accounting Research* 37(1): 225-238.

*Nelson, K.K., R.A. Price, and B.R. Rountree. 2008. The Market reaction to Arthur Andersen's role in the Enron scandal: Loss of reputation or confounding effects? Journal of Accounting and Economics 46: 279-293.*

*Francis, J.R., and M.D. Yu. 2009. Big 4 office size and audit quality. The Accounting Review 84(5): 1521-1552.*

Reichelt, K., and D. Wang. 2010. National and office-specific measures of auditor industry expertise and effects on audit quality. *Journal of Accounting Research* 48(3): 647-686.

Kim., Y., H. Li, and S. Li. 2015. CEO equity incentives and audit fees. *Contemporary Accounting Research* 21: 608-638.

## **7. Week 7 (October 11): Corporate culture** **Report on KAIST research databases due**

*Stulz, R.N. and R. Williamson. 2003. Culture, openness, and finance. Journal of Financial Economics 70: 313-349*

Hilary, G. and K.W. Hui. 2009. Does religion matter in corporate decision making in America? *Journal of Financial Economics* 93: 455-473.

Ahern, K.R., D. Daminelli, and C. Fracassi. 2015. Lost in translation? The effect of cultural values on mergers around the world. *Journal of Financial Economics* 117: 165-189.

Liu, X. 2016. Corruption culture and corporate misconduct. *Journal of Financial Economics* 122: 307-327.

## **8. Week 8 (October 18) Presentation of KAIST research databases**

## **9. Week 9 (October 25): Social and professional networks**

Lennox, C.S. 2005. Audit quality and executive officers' affiliations with CPA firms. *Journal of Accounting and Economics* 39: 201-231.

*Hwang, B. and S. Kim. 2009. It pays to have friends. Journal of Financial Economics 93: 138-158.*

Cai, Y., D. Dhaliwal, Y. Kim, C. Pan. 2014. Board interlocks and the diffusion of disclosure policy. *Review of Accounting Studies* 19: 1086-1119.

Cai, Ye., Y. Kim, J.C. Park, and H.D., White. 2016. Common Auditors in M&A transactions. *Journal of Accounting and Economics* 61: 77-99.

## **10. Week 10 (November 1): Political connection**

*Faccio, M., R.W. Masulis, and J.J. McConnell. 2006. Political connection and corporate bailouts. Journal of Finance 61(6): 2597-2635.*

Leuz, C. and F. Oberholzer-Gee. 2006. Political relationships, global financing, and corporate transparency: Evidence from Indonesia. *Journal of Financial Economics*. 81(2) 411-439.

Chaney, P. K., M. Faccio, and D. Parsley. 2011. The quality of accounting information in politically connected firms. *Journal of Accounting and Economics* 51, 58-76.

Kim, C.F., C. Pantzalis and J. Park, 2012, Political Geography and Stock Returns: The Value Implications of Indirect Access to Political Power, *Journal of Financial Economics* 106 (1), 196-228.

## **11. Week 11 (November 8): Corporate social responsibility / Social capital**

### **Interim report due**

*Dhaliwal, D., O. Li, A. Tsang, and G.Y. Yang. 2011. Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. The Accounting Review 86(1): 59-100.*

Kim, Y., M. Park, and B. Wier. 2012. Is earnings quality associated with corporate social responsibility? *The Accounting Review* 87(3): 761-796.

Khan, M., G. Serafeim, and A. Yoon. 2016. Corporate Sustainability: First Evidence on Materiality. *The Accounting Review* 91: 1697-1724.

Hasan, I., C. K. S. Hoi, Q. Wu, and H. Zhang. 2017. Does social capital matter in corporate decisions? Evidence from corporate tax avoidance. *Journal of Accounting Research* 55: 629-668.

## **12. Week 12 (November 15): People in the box of accounting**

### **Paper replication due**

Bamber, L.S., J. Jiang, and I.Y. Wang. 2010. What's my style? The influence of top managers on voluntary corporate financial disclosure. *The Accounting Review* 85(4): 1131-1162.

Hillary, G. and C. Hsu. 2011. Endogenous overconfidence in managerial forecasts. *Journal of Accounting and Economics* 51: 300-313.

Kim, J., Y. Kim, and J. Zhou. 2017. Languages and earnings management. *Journal of Accounting and Economics* 63: 288-306.

*Ham, C., N. Seybert, S. Wang. 2017. CFO narcissism and financial reporting quality. Journal of Accounting Research 55: 1089-1135.*

## **13. Week 13 (November 22): Limited attention / Investor sentiment**

Hirshleifer, D. and S.H. Teoh. 2003. Limited attention, information disclosure, and financial reporting. *Journal of Accounting and Economics* 36: 337-386.

Mian, G.M. and S. Sankaraguruswamy. 2012. Investor sentiment and stock market response to earnings news. *The Accounting Review* 87(4): 1357-1384.

Seybert, N. and H. Yang. 2012. The party's over: The role of earnings guidance in resolving sentiment-driven overvaluation. *Management Science* 58(2): 308-319.

*Miao, B., S.H. Teoh, Z. Zhu. 2016. Limited attention, statement of cash flow disclosure, and the valuation of accruals. Review of Accounting Studies 21: 473-515.*

## **14. Week 14 (November 29): Textual Analysis**

Li, F. 2008. Annual report readability, current earnings, and earnings persistence. *Journal of Accounting and Economics* 45: 221-247.

*Feng Li, 2011. Textual analysis of corporate disclosures: A survey of the literature. Journal of Accounting Literature 29: 143-165.*

Larcker, D.F. and A.A. Zakolyukina. 2012. Detecting deceptive discussions in conference calls. *Journal of Accounting Research* 50 (2) 495-540.

*Huang, X., S.H. Teoh, Y. Zhang. 2014. Tone Management. The Accounting Review 89: 1083-1113*

Allee, K.D. and M. DeAngelis. 2015. The structure of voluntary disclosure narratives: Evidence from Tone dispersion. *Journal of Accounting Research* 53: 241–274.

**15. Week 15 (December 6) Macro Accounting**

**Final term paper due**

Konchitchki, Y. and P. N. Patatoukas. 2014. Accounting earnings and Gross Domestic Product. *Journal of Accounting and Economics* 57: 76-88.

Konchitchki, Y. and P. N. Patatoukas. 2014. Taking the pulse of the real economy using financial statement analysis: Implications for macro forecasting and stock valuation. *The Accounting Review* 89: 669-694.

Gallo, L.A., R. Hann, and C. Li. 2016. Aggregate earnings surprises, monetary policy, and stock returns. *Journal of Accounting and Economics* 62: 103-120

*Ball, R., L.A., Gallo, and E. Ghysels. 2018. Tilting the evidence: The role of firm-level earnings attributes in the relation between aggregated earnings and gross domestic product. Working paper.*

**16. Week 16 (December 13): Presentations of the final term paper**