**Seminar: Management Accounting (31955)**
**Spring semester 2023**

**Lecturers:** Prof. Dr. Sabine Böckem, Dr. Sebastian Fleer, Lars Fluri

# Current topics of Management Accounting

**General remarks:** In this seminar, you will be working on your topic individually. Each topic will be assigned to a maximum of two participants. The task at hand is to produce your own, individual paper, independently from your co-students. The literature reference provided with each topic is merely a starting point for your research, a 'basic paper' to start with. It does not represent a concluding literature list for your paper to be based on.

# 1. Theoretical studies

**Task:** By use of the 'cited by' function on google scholar, find a theory paper relating to your basic paper. The theory paper should be recent, and it needs to have been published in a leading journal. In a first step, describe your basic paper (research question, model set-up, main findings). Secondly, describe your chosen reference paper briefly. Compare the two papers in terms of main findings. What are the drivers of the main results? Explain how and why the findings differ through modelling choices, and explain how one paper's results would be affected by incorporating the other paper's modelling choices.

**1. CHANDRA KANODIA and HARESH SAPRA: A Real Effects Perspective to Accounting Measurement and Disclosure: Implications and Insights for Future Research. Journal of Accounting Research (2016).**

ABSTRACT
Accounting measurement and disclosure rules have a significant impact on the real decisions that firms make. In this essay, we provide an analytical framework to illustrate how such real effects arise. Using this framework, we examine three specific measurement issues that remain controversial: (1) How does the measurement of investments affect a firm's investment efficiency? (2) How does the measurement and disclosure of a firm's derivative transactions affect a firm's choice of intrinsic risk exposures, risk management strategy, and the incentive to



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speculate? (3) How could marking-to-market the asset portfolios of financial institutions generate procyclical real effects? We draw upon these real effects studies to generate sharper and novel insights that we believe are useful not only for the development of accounting standards, but also for guiding future empirical research.

**2. MICHAEL J. FISHMAN and KATHLEEN M. HAGERTY: Disclosure Decisions by Firms and the Competition for Price Efficiency. The journal of finance (1989)**

ABSTRACT
This paper develops a model of the relationship between investment decisions by firms and the efficiency of the market prices of their securities. It is shown that more efficient security prices can lead to more efficient investment decisions. This provides firms with the incentive to increase price efficiency by voluntarily disclosing information about the firm. Disclosure decisions are studied. It is shown that firms may expend more resources on disclosure than is socially optimal. This is in contrast to the concern implicit in mandatory disclosure rules that firms will expend too few resources on disclosure.

**3. IVÁN MARINOVIC: Internal control system, earnings quality, and the dynamics of financial reporting. The RAND Journal of Economics (2013)**

ABSTRACT
**U**sing an earnings management model in which managers manipulate information when the firm's control system fails, I introduce a measure of earnings quality, based on the notion of integral precision that has solid theoretical foundations. A trade-off between the frequency and the magnitude of overstatements is shown: overstatements are larger when misreporting is less likely. Overall, the model generates a distribution of earnings announcements similar to its empirical analogue and provides a structural method to identify the likelihood and magnitude of misreporting by exploiting information from the moments of the distribution of reported earnings.

**4. DAVID HIRSHLEIFER, SONYA S. LIM, SIEW HONG TEOH: Limited Investor Attention and Stock Market Misreactions to Accounting Information. The Review of Asset Pricing Studies (2011)**

ABSTRACT
We provide a model in which a single psychological constraint, limited attention, explains both under- and overreaction to different earnings components. Investor neglect of earnings induces post-earnings announcement drift and the profit anomaly. Neglect of earnings components causes accrual and cash flow anomalies. The model offers empirical implications relating the strength of earnings-related anomalies to the forecasting power of current earnings-related information for future earnings, investor attentiveness, and the volatilities of and correlation between accruals and cash flows. We also show that, owing to attention costs, in equilibrium not all investors choose to attend to earnings or its components.

**5. PINGYANG GAO and XU JIANG: Reporting choices in the shadow of bank runs. Journal of Accounting and Economics (2018).**

**ABSTRACT.** This paper investigates banks' reporting choices in the context of bank runs. A fundamental-based run imposes market discipline on insolvent banks, but a panic-based run closes banks that could have survived with better coordination among creditors. We augment a bank-run model with the bank's reporting choices. We show that banks with intermediate fundamentals have stronger incentive to misreport than those in the two tails. Moreover, reporting discretion reduces panic-based runs, but excessive discretion also reduces fundamental-based runs. The optimal amount of reporting discretion increases in the bank's vulnerability to panic-based runs. Finally, a given bank's opportunistic use of reporting discretion exerts a negative externality on other banks. Our paper answers the call by Armstrong et al. (2016) and Bushman (2016) to understand better the effects of banks' special features on their reporting choices.

# 2. Methodological studies and empirical applications

**Task:** Study the underlying method used in the research papers below. Explain the method used and apply it to an appropriate data set.

In a first step, describe your basic paper (research question, model set-up, main findings). Then, briefly connect your paper to related research and describe in detail the method used (advantages, limitations, possible pitfalls). At last, replicate the method described in the paper and use it on a data set of your choice. If needed, use a simplified version of the method.

Since the requirements may differ slightly from this generalized course of action, individual counseling sessions are recommended to discuss the proposal in detail.

**1. CINDY DURTSCHI, WILLIAM HILLISON, CARL PACINI: The Effective Use of Benford's Law to Assist in Detecting Fraud in Accounting Data. Journal of Forensic Accounting (2004)**

ABSTRACT
Benford's law has been promoted as providing the auditor with a tool that is simple and effective for the detection of fraud. The purpose of this paper is to assist auditors in the most effective use of digital analysis based on Benford's law. The law is based on a peculiar observation that certain digits appear more frequently than others in data sets. For example, in certain data sets, it has been observed that more than 30% of numbers begin with the digit one. After discussing the background of the law and development of its use in auditing, we show where digital analysis based on Benford's law can most effectively be used and where auditors should exercise caution. Specifically, we identify data sets which can be expected to follow Benford's distribution, discuss the power of statistical tests, types of frauds that would be detected and not be detected by such analysis, the potential problems that arise when an account contains too few observations, as well as issues related to base rate of fraud. An actual example is provided

demonstrating where Benford’s law proved successful in identifying fraud in a population of accounting data.

**2. ANTHONY C. NG, ZABIHOLLAH REZAEE: Business sustainability factors and stock price informativeness. Journal of Corporate Finance (2020)**

ABSTRACT
This paper investigates whether and how business sustainability performance and disclosure factors affect stock price informativeness (SPI). We find that non-financial environmental, social, and governance (ESG) sustainability performance factors are positively associated with idiosyncratic volatility (our proxy for SPI) after controlling for financial-economic performance. We further show that the association between sustainability performance factors and SPI is stronger for firms with higher sustainability disclosure. We find that the association between ESG sustainability performance factors and SPI is stronger when economic performance is weaker, suggesting that investors tend to pay more attention to ESG performance factors when firms are financially underperforming. This study shows that investors pay attention to both firm economic performance (corporate profitability and growth prospect) and ESG sustainability performance and disclosure factors, which have implications for policymakers, regulators, investors, businesses, and researchers.

**3. ZHE AN, DONGHUI LI, JIN YU: Firm crash risk, information environment, and speed of leverage adjustment. Journal of Corporate Finance (2015)**

ABSTRACT
This paper examines the effect of a firm's crash-risk exposure on its speed of leverage adjustment (SOA), and how this effect is influenced by the information environment of the country in which the firm is located. We employ a panel of 19,247 firms across 41 countries from 1989 to 2013, and we find that firms with a higher crash-risk exposure tend to adjust their financial leverages more slowly toward their targets. This evidence supports the dynamic trade-off theory that firms with larger transaction costs adjust their capital structures less often. Equally important, we document that the negative link between crash-risk exposure and SOA is less pronounced in countries with a more transparent information environment.

**4. JEFFRY CALLEN, CLARENCE KWAN, PATRICK YIP, and YUFEI YAN. Neural network forecasting of quarterly accounting earnings. International Journal of Forecasting (1996).**

ABSTRACT
This study uses an artificial neural network model to forecast quarterly accounting earnings for a sample of 296 corporations trading on the New York stock exchange. The resulting forecast errors are shown to be significantly larger (smaller) than those generated by the parsimonious Brown-Rozeff and Griffin-Watts (Foster) linear time series models, bringing into question the potential usefulness of neural network models in forecasting quarterly accounting earnings. This study confirms the conjecture by Chatfield and Hill et al. that neural network models are context sensitive. In particular, this study shows that neural network models are not necessarily superior to linear time series models even when the data are financial, seasonal and non-linear.

**5. CHUN-PIN HSU, CHIN-WEN HUANG, WAN-JUN PAUL CHIOU. Effectiveness of copula-extreme value theory in estimating value-at-risk: empirical evidence from Asian emerging markets. Review of Quantitative Finance and Accounting (2012).**

ABSTRACT
A traditional Monte Carlo simulation using linear correlations induces estimation bias in measuring portfolio value-at-risk (VaR), due to the well-documented existence of fat-tail, skewness, truncations, and non-linear relations in return distributions. In this paper, we consider the above issues in modeling VaR and evaluate the effectiveness of using copula-extreme-value-based semiparametric approaches. To assess portfolio risk in six Asian markets, we incorporate a combination of extreme value theory (EVT) and various copulas to build joint distributions of returns. A backtesting analysis using a Monte Carlo VaR simulation suggests that the Clayton copula-EVT evinces the best performance regardless of the shapes of the return distributions, and that in general the copulas with the EVT provide better estimations of VaRs than the copulas with conventionally employed empirical distributions. These findings still hold in conditional-coverage-based backtesting. These findings indicate the economic significance of incorporating the down-side shock in risk management.

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**Format:**
For your written paper, use the LaTeX format. It will be provided to you after the topic assignment. You can edit it using the original LaTeX program; however, it works with Overleaf or any other TeX IDE compatible system, too.

**Proposal:**
Once you have found the reference paper/data set you intend to use, and once you have developed an idea of how to analyze it, please submit a proposal (1/2 page), formulating an idea/concept you want to commit to for your seminar paper. Along with the proposal, please also suggest a suitable structure for your seminar paper. Please note that, following the submission of your proposal, there is a one-week processing period. Please consider this in your time planning.

**Schedule:**

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| Preliminary meeting | 23 February 2023, 10 am |
| preliminary talk | by arrangement |
| submission deadline of the seminar paper | 27 April 2023 |
| feedback talk | by arrangement |
| presentations | 10 and 11 May 2023 (all day) |

**Assessment:**
Your successful completion of the seminar depends on your performance in the following four tasks/aspects:

| task/aspect | weighting |
|---|---|
| written paper | 70% |
| presentation | 20% |
| follow-up paper | 5% |
| oral contribution | 5% |

**Assignment of topics:**
When assigning the topics, your preferences will be taken into account as far as possible. To that end, please inform us of your three preferred topics, listing them according to their priority. Submit this priority list to us within three days following the preliminary meeting (i.e. by 26 February at the latest).