

Ph.D. IN ECONOMICS & FINANCE

Academic year 2024-2025

INTRODUCTION TO FINANCIAL ACCOUNTING RESEARCH

Instructors

Annalisa Prencipe
Professor, KPMG Endowed Chair in Accounting
Department of Accounting, Università Bocconi
Via Roentgen, 5th floor, room B2-01
e-mail: annalisa.prencipe@unibocconi.it

Stephen Penman
Distinguished Professor, Bocconi University
George O. May Professor, Columbia Business School, Columbia University
Department of Accounting, Università Bocconi
Via Roentgen, 5th floor
e-mail: stephen.penman@unibocconi.it

Course objective

The aim of this introductory course is to provide students with an overview of some of the main empirical research streams in financial accounting and financial reporting. It covers seminal empirical papers on market-based research, financial statement analysis and valuation, reporting quality, conservatism and corporate disclosure.

The course is aimed also at preparing the field for subsequent accounting courses in the Ph.D. program.

The course is divided into two parts, the first led by Professor Penman (sessions 1-6) and the second by Professor Prencipe (sessions 7-12).

Course Organization

The course will consist of lectures, in-class presentations (by students) and open discussion. The instructors will also present some co-authored papers or working papers to bring some practical research experience to class.

The required course material includes:

- articles
- selected chapters from SCOTT W.R. and O'BRIEN P.C., *Financial Accounting Theory*, Pearson, 2020.
- in-class presentations

Additional suggested readings will be uploaded on Bboard.

Students are expected to carefully read the required papers assigned for each class and be ready to discuss them. The classroom environment will be highly participative. More details are provided below.

Students' presentations

Each student will be assigned a paper to be presented in class. All the students are expected to read the required readings and discuss them in class. Students will be graded on both in-class presentations and their contribution to class discussions.

During presentations, students are expected to address the following points:

1. Motivation of the study
2. Research questions
3. Theoretical background
4. Hypothesis development and possible alternative hypotheses
5. Research design
6. Major results and interpretation
7. Possible extension of the study (at the time of publication)
8. Critical evaluation of the paper (to be related to the different parts listed above)

Each presentation should last about 20-30 minutes.

Tutorial sessions

Tutorial sessions are in-class sessions aimed at helping students to acquire confidence with the use of the main accounting databases. During tutorial sessions, students will work together with the Teaching Assistant (TBD) to 'replicate' the empirical part of a study related the research streams discussed in class. Dates and further details will follow.

Final individual assignment

For the final individual assignment students will be required to write a report on a pre-assigned working paper positioned within the research streams discussed in class. Students are expected to submit a 3-5 page report evaluating critically and constructively the working paper, focusing on the following areas:

- Relevance of the research question
- Motivation
- Positioning within past literature and contribution
- Theory, assumptions (if any) and hypothesis development
- Sampling and research design
- Execution of empirical analyses
- Interpretation of results
- Overall evaluation and suggestions for possible improvements

The deadline for handing-in the final report will be communicated in class.

Grading

The final grade will be based on in-class presentations, class participation and final assignment, according to the following weights:

- 30% in-class presentations

- 30% in-class participation (including participation in tutorial sessions)
- 40% final assignment

Preliminary Reading

These books and articles should be perused before the class begins, with continuing reading throughout the course:

SCOTT W.R. and O'BRIEN P.C., *Financial Accounting Theory*, Pearson, 2020.

PENMAN, S.H. *Financial Statement Analysis and Security Valuation*, 5th ed. New York: The McGraw-Hill Companies, 2013.

PENMAN, S.H. *Accounting for Value*. New York: Columbia University Press, 2011.

PENMAN, S.H. Eye on the Prize: Directions for Accounting Research, *China Accounting Review* Vol. 6, No. 4 (December 2008), 465-476.

Detailed outline

Required readings are marked with a *.

**** The list of reading is subject to change. The updated list will be provided at the start of the course**

Sessions 1-2 – The Origins of Market-based research

- *Ball, R.J., and P. Brown. 1968. An Empirical Evaluation of Accounting Income Numbers. *Journal of Accounting Research* 6, 159-178.
- *Beaver, W.H. 1968. The Information Content of Annual Earnings Announcements. *Journal of Accounting Research* 6, 67-92.
- *Easton, P., and T. Harris. 1991. Earnings as an Explanatory Variable for Returns. *Journal of Accounting Research* 29, 9-36.

Additional suggested readings

- Easton, P., T. Harris, and J. Ohlson. 1992. Aggregate accounting earnings can explain most of security returns: The case of long event windows. *Journal of Accounting and Economics* 15 (June-September), 119-142.
- Penman, S. and N. Yehuda. 2009. The Pricing of Earnings and Cash Flows and an Affirmation of Accrual Accounting. *Review of Accounting Studies* 14, 453-479.

Additional suggested readings on methodology

- Gow, I., D. Larcker, and P. Reiss. 2016. Casual Inference in Accounting Research. *Journal of Accounting Research* 54 (2), 477-523.
- Marinovic, I., ed. 2016. Causal Inferences in Capital Markets Research. *Foundations and Trends in Accounting* Vol. 10, No. 2-4.
- Harvey, C. 2017. Presidential Address: The Scientific Outlook in Financial Economics. *Journal of Finance* 72, 1399-1440.
- Ohlson, J. 2015. Accounting Research and Common Sense. *Abacus* 51, 525-535.
- Ohlson, J. 2017. Researchers' Data Analysis Choices: An Excess of False Positives, *Review of Accounting Studies*, forthcoming.
- Ohlson, J., and S. Kim. 2015. Linear Valuation without OLS: the Theil-Sen Estimations Approach. *Review of Accounting Studies* 20, 395-425.

Sessions 3-4 – Accounting, Valuation, and Financial Statement Analysis

- *Ohlson, J. 1995. Earnings, Book Values, and Dividends in Equity Valuation. *Contemporary Accounting Research*, 12 (Spring), 661-687.
- *Nissim, D., and S. Penman. 2001. Ratio Analysis and Equity Valuation: From Research to Practice. *Review of Accounting Studies* 6, 109-154.

- *Nissim, D., and S. Penman. 2003. Financial Statement Analysis of Leverage and How it Informs about Profitability and Price-to-Book Ratios. *Review of Accounting Studies* 8, 531-560.

Additional suggested readings

- Miller, M., and F. Modigliani. 1961. Dividend Policy, Growth and the Valuation of Shares. *Journal of Business* 34, 411-433.
- Penman, S., and T. Sougiannis. 1997. The Dividend Displacement Property and the Substitution of Anticipated Earnings for Dividends in Equity Valuation. *The Accounting Review* (January), 1-21.
- Modigliani, F., and M. Miller. 1958. The Cost of Capital, Corporation Finance and the Theory of Investment. *American Economic Review* 48, 261-297.
- Feltham, G., and J. Ohlson. 1995. Valuation and Clean Surplus Accounting for Operating and Financial Activities. *Contemporary Accounting Research*, 12 (Spring), 689-731.
- Penman, S., and T. Sougiannis. 1998. A Comparison of Dividends, Cash Flow, and Earnings Approaches to Equity Valuation. *Contemporary Accounting Research* (Fall), 343-383.

Sessions 5-6 – Accounting and Pricing: Mispricing or Risk?

- *Sloan, R. 1996. Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review* 71, 289-315.
- *Piotroski, J. 2000. Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers. *Journal of Accounting Research* 38 (Supplement), 1-41.
- *Penman, S., and X. Zhang. 2021. Connecting Book Rate of Return to Risk and Return: The Information Conveyed by Conservative Accounting. *Review of Accounting Studies* 26 (1), 391-423.
- *Penman, S., and F. Reggiani. 2018. Fundamentals of Value vs. Growth Investing and an Explanation for the Value Trap. *Financial Analysts Journal* 74, 102-119.

Additional suggested readings:

- Penman, S., and J. Ou. 1989. Financial Statement Analysis and the Prediction of Stock Returns," *Journal of Accounting and Economics* (November 1989), 295-329.
- Penman, S., and J. Zhu. 2014. Accounting Anomalies, Risk and Return. *The Accounting Review* 89, 1835-1866.
- Penman, S., and N. Yehuda. 2019. A Matter of Principle: The Identification of Cash-flow News and Discount-rate News in Financial Statements. *Management Science* 65, 5584-5602.
- Penman, S. Accounting for Risk, Chapters 1-4. *Foundations and Trends in Accounting*, forthcoming.

- Penman, S., and N. Yehuda. 2019. A Matter of Principle: The Identification of Cash-flow News and Discount-rate News in Financial Statements. *Management Science* 65, 5584-5602.

Sessions 7-8 – Earnings management and financial reporting quality

- *Scott, W.R., and P.C. O'Brien. 2020. *Financial Accounting Theory* (Chapter 11).
- *Jones, J.J. 1991. Earnings Management During Import Relief Investigations. *Journal of Accounting Research* 29, 193-228 (up to section 5.1).
- *Roychowdhury, S. 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42, 335-370.
- *Minichilli, A., A. Prencipe, S. Radhakrishnan, and G. Siciliano. 2022. What's in a name? Eponymous private firms and financial reporting quality. *Management Science*, 68(3), 2330-2348.

Additional suggested readings:

- Watts, R., and J. Zimmermann. 1978. Towards a Positive Theory of the Determination of Accounting Standards. *The Accounting Review* 53, 112-34.
- Healy, P.M. 1985. The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics* 7, 85-107.
- Dechow, P., and I. Dichev. 2002. The quality of accruals and earnings: the role of accrual estimation errors. *The Accounting Review* 77, 35-59 (Focus on Section II)
- Leuz, C., D. Nanda, and P. Wysocki. 2003. Earnings management and investor protection: an international comparison. *Journal of Accounting and Economics* 69, 505-527.
- Larson, C.R., R.G. Sloan and J. Zha Giedt. 2018. Defining, measuring, and modelling accruals: A guide for researchers. *Review of Accounting Studies*. July 2018.
- Dechow, P., W. Ge, and C. Schrand C. 2010. Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics* 50, 344-401.

Sessions 9-10 – Accounting Conservatism

- *Watts, R. 2003. Conservatism in accounting Part I: explanations and implications. *Accounting Horizons* 17, 207-221.
- *Basu, S. 1997. The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics* 24, 3-37.
- *Ball, R., and L. Shivakumar. 2005. Earnings quality in UK private firms: comparative loss recognition timeless. *Journal of Accounting and Economics* 39, 83-128.
- Cameran, M., A. Prencipe, and M. Trombetta. 2016. Mandatory Audit Firm Rotation and Audit Quality. *European Accounting Review* 1, 35-58.
Recipient of the 'Impact of Research Award', Bocconi University, 2020

Additional suggested readings:

- Watts, R. 2003. Conservatism in accounting Part II: evidence and research opportunities. *Accounting Horizons*, 17, 287-301.
- García Lara, G.M., B. García Osma, and F. Penalva. 2016. Accounting conservatism and firm investment efficiency. *Journal of Accounting and Economics* 61, 221-238.
- D'Augusta, C., S. Bar-Yosef, and A. Prencipe. 2016. The Effects of Conservative Reporting on Investor Disagreement. *European Accounting Review* 3, 451-485.
- Badia, M., M. Duro, F. Penalva, and S. Ryan. 2021. Debiasing the measurement of conditional conservatism. *Journal of Accounting Research* 59, 1221-1259.

Sessions 11-12 – Empirical research on corporate disclosure

- *Botosan, C. 1997. Disclosure Level and the Cost of Equity Capital. *The Accounting Review*, July, 323-50.
- *Huang, X., S. Teoh, and Y. Zhang. 2014. Tone Management. *The Accounting Review* 89, 1083-1113.
- *Christensen, H.B., Hail, L., Leuz, C. 2021. Mandatory CSR and sustainability reporting: economic analysis and literature review. *Review of Accounting Studies* 26, 1176-1248.

Additional suggested readings:

- Botosan, C., and M. Plumlee. 2002. A re-examination of disclosure level and the expected cost of equity capital. *Journal of Accounting Research* (March), 21-40.
- Merkeley, K.J. 2014. Narrative Disclosure and Earnings Performance: Evidence from R&D Disclosures. *The Accounting Review* 2, 725-757.
- Christensen, H.B., E. Floyd, L. Yao Liu, and M. Maffett. 2017. The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. *Journal of Accounting and Economics* 64, 284-304.
- Barth M.E., Cahan S.F., Chen L., and Venter R.V. 2017. The economic consequences associated with integrated report quality: Capital market and real effects. *Accounting, Organizations and Society* 62, 43-64.
- Environmental, Social and Governance (ESG) disclosure: A literature review. *The British Accounting Review* 55, 101149.