

Graduate Programme in Accounting Research

Analytical Accounting Research: Economic Analysis of Conservatism in Accounting

Instructor: Stefan Wielenberg

Course Dates: April 20 – 21, 2017 (Start: 10 a.m. on Thursday, ending 4 p.m. on Friday)

The course will be held at Leibniz University Hannover, Königsworther Platz 1. Room will be announced later.

Registration: Please contact Stefan Wielenberg via Email (wielenberg@rewp.uni-hannover.de) until March 31, 2017.

Course Description:

Conservatism is a common feature of accounting rules. This observation is not surprising for countries like Germany, where the accounting rules are designed to determine the upper limit of the distributable profit. But we also observe features typical for conservative accounting in accounting systems like US – GAAP or IFRS that primarily provide investors with decision useful information.

A growing branch of analytical and empirical accounting research has been addressing this observation in the last 15 – 20 years. This course concentrates on several analytical papers that derive results with respect to conservative accounting in different model structures. Therefore, the course offers insights not only to the benefits of conservative accounting, but also to the general problem of integrating accounting information into different contractual settings.

The course consists of two parts: The first part (about 10 – 12 hours) deals with the general modeling of accounting conservatism. Several papers published during the last decade will be presented in detail during the lecture. In the second part, the course

Besucheradresse:
Königsworther Platz 1
30167 Hannover
www.rewp.uni-hannover.de

Zentrale:
Tel. +49 511 762 0
Fax +49 511 762 3456
www.uni-hannover.de

participants will present several actual papers that extend the basic literature from the first part. The presentation will be necessary for a successful participation in the course. The course is part of the Graduate Program in Accounting Research (GPAR). Successful participants will receive 3 ECTS.

Course Outline:

1. Conservative Accounting: Definition and Positive Theory
2. Different approaches to Modeling Conservative Accounting
3. Conservative Accounting and Moral Hazard
4. Conservative Accounting and Debt Contracts
 - a. Information
 - b. Change of Control Covenants
 - c. Leverage Covenants
5. Conservative Accounting and Payout Constraints
 - a. Inefficient Liquidation und Investment Incentives
 - b. Moral Hazard and Fringe Benefits
6. Extensions (Part II starts here)
 - a. Conservative Auditing
 - b. Conservatism in a multi-period model
 - c. Corporate Governance and Conservatism
 - d. Competition

Reading list:

Papers used in the first part of the course:

- Bushman R. M./ Piotroski, J. D. (2006): Financial Reporting Incentives for Conservative Accounting: The Influence of Legal and Political Institutions, *Journal of Accounting and Economics*, 42, S. 107 – 148.
- Caskey, J./ Hughes J.S. (2012): Assessing the Impact of Alternative Fair Value Measures on the Efficiency of Project Selection and Continuation, *Accounting Review*, 87 (2), S. 483 – 512.
- Gigler, F/ Kanodia, C./ Sapra, H./ Venugoplan, R. (2009): Accounting Conservatism and the Efficiency of Debt Contracts, *Journal of Accounting Research*, 47 (3), S. 767 – 797.
- Gao, P. (2013): A Measurement Approach to Conservatism and Earnings Management, *Journal of Accounting and Economics*, 55, S. 251 – 268.
- Göx, R. F./ Wagenhofer, A. (2009): Optimal Impairment Rules, *Journal of Accounting and Economics*, 48 (1), S. 2 – 16.
- Guay, W./ Verrecchia R. (2006): Discussion of an Economic Framework for Conservative Accounting and Bushman/Piotroski (2006), *Journal of Accounting and Economics*, 42, S. 149 – 165.

- Kwon, Y/ Newman, D.P. and S. Yoon: The Demand for Accounting Conservatism for Management Control, *Review of Accounting Studies*, 6, 29 – 51.
- Kwon, Y. (2005): Accounting Conservatism and Managerial Incentives, *Management Science*, 51 (11), 1626 – 1632.
- Watts, R. (2003a): Conservatism in Accounting Part I: Explanations and Implications, *Accounting Horizons*, 17(3), S. 207 – 221.
- Watts, R. (2003b): Conservatism in Accounting Part II: Evidence and Research Opportunities, *Accounting Horizons*, 17(4), S. 287 – 301.
- Wielenberg, S. (2009): Ausschüttungsbegrenzung und liquidationsfinanzierte Ausschüttungen – wie sinnvoll ist vorsichtige Rechnungslegung? *Zeitschrift für betriebswirtschaftliche Forschung*, 61 (2), S. 2 – 21.
- Wielenberg, S. (2013): Investment and Liquidation Incentives under Solvency Tests and Legal Capital, *European Accounting Review*, 22 (4), 787 – 808.

Papers to be presented in the second part of the course:

- Bertomeu, J./Darrrough, M. and Xue, W.: Optimal Conservatism with Earnings Manipulation. Available at SSRN: <http://ssrn.com/abstract=2267104>
- Caskey, J./ Laux, V. (2017): Corporate Governance, Accounting Conservatism, and Manipulation, *Management Science*, 63 (2), 424 – 437.
- Friedman, H. L./ Hughes, J. S. and Saouma, R. E (2013): Implications of Biased Reporting: Conservative and Liberal Accounting Policies in Oligopolies, *Review of Accounting Studies*, 21 (1), 251 – 279.
- Glover, J./ Lin H. (2015): Accounting Conservatism and Incentives: Intertemporal Considerations. Available at SSRN: <http://ssrn.com/abstract=2563027>
- Liao, P-C/ Radhakrishnan, S. (2016): The Effects of the Auditor's Insurance Role on Reporting Conservatism and Audit Quality, *Accounting Review*, 91 (2), 587 – 602.
- Lu, T./ Sapra, H. (2009): Auditor Conservatism and Investment Efficiency, *The Accounting Review*, 84 (6), 1933 – 1958.