

UNIVERSITY OF NORTH TEXAS – COLLEGE OF BUSINESS

ACCT 6010

Seminar in Archival/Empirical Accounting Research¹

Fall 2015

(W 10:00am -12:50pm BLB 301)

Professor	Dr. Lili Sun
Office	BLB385G
Phone	940-565-3077 (office)
Office Hours	M: 10:30am – 11:30apm; or by appointment
E-mail	Lili.Sun@unt.edu

Prerequisite:

PhD standing in accounting.

Course Objectives: This is one of two courses in archival/empirical research in accounting. Broadly speaking, archival/empirical research in accounting is about solving problems relating to policy and practice, examining relationships, and building a body of knowledge. Specifically, this course is a discussion-based seminar designed to provide doctoral students with an understanding of archival/empirical research methods and in particular the application of archival/empirical research methods to auditing (and possibly other areas of research). The emphasis is primarily on auditing research and includes a mix of seminal papers, as well as recent published papers and current working papers addressing topical issues.

The specific course objectives are: (1) to develop the skills to read and critique contemporary accounting research; (2) to apply these skills to the archival/empirical research literature, in particular; and (3) to foster the ability to independently formulate academic research projects. The course also provides a starting point for thinking about potential dissertation topics.

As a broad view, keep in mind that accounting numbers (such as earnings) measure business performance and are needed to make sound lending, investment, and regulatory decisions. Low-quality earnings provide a defective resource allocation signal, and reduce economic growth by causing capital to be misallocated.

Recommended Background Materials:

The following materials are recommended as background reading:

1. Watts, R., and J. Zimmerman. 1986. *Positive Accounting Theory*. Prentice Hall.
2. www.SSRN.com is a good source for current working papers. As part of each week/topic's class participation/discussion, I ask that you look-up SSRN as well as the Top-5 archival/empirical journals in accounting (CAR, JAE, JAR, RAST, TAR) and bring to class hardcopies of the Abstract page of papers that you found interesting/relevant.

¹ In compiling this syllabus, I have borrowed liberally from many generous individuals (especially Professor K. K. Raman) who shared their syllabi with me.

Grading

I assume doctoral students are highly motivated and will work hard. However A's will be *earned* and assessment is based on the following components: weekly written assignments (32%), weekly class presentations (8%), weekly class participation (5%), SAS work (15%), and end-of-semester research proposal presentation (10%) and research proposal (30%).

Written Assignments (32%)

There is a short written assignment each week covering the readings. In addition, in some weeks you are asked to sketch out a proposed research study. Some assignments are graded based upon completeness and effort, while other assignments are graded based upon quality and originality. Please refer to the requirement of each assignment for details.

Class Presentation (8%)

Each week 3 students will present/critique a paper from the reading list for that week.

Class Participation (5%)

As part of the student presentation, we will collectively discuss each assigned paper, focusing on the paper's research question, motivation and contribution, research design, empirical results and limitations of the study. My role will be a facilitator, but you should come to class prepared to discuss each paper in depth. The remaining class time will be devoted to discussing your written assignments.

SAS work (15%)

Students are asked to write SAS codes to estimate a standard audit fee model. This exercise provides students an opportunity to become familiar with databases for audit research and develop skills for data collection, organization, and analysis. Students should turn in both SAS codes and outputs.

End-of semester Research Proposal Presentation (10%) and Research Proposal (30%) Presentations of research proposals will take place during the last week of class and finals week (**Dec 2 and Dec 9**). Quality proposals will be as specific as possible regarding the objectives of the proposed study, why those objectives are important in the context of the existing literature, how you propose to address the objectives, and how you propose to assess and evaluate your results. You should plan to work with the instructor during the semester to develop your proposal. Also, you should have a clear idea of your research question(s) and motivation, and submit a short write-up (a paragraph) about your proposal by the eleventh class period (**November 4**).

Your research proposal *must* have an auditing angle and *must* utilize the archival/empirical methodology. It must:

1. Clearly identify the research question/hypothesis to be addressed
2. Clearly identify the study's motivation and background (why the research is interesting/relevant)
3. Provide a description of the data/sample and method of analysis (research methodology). Be sure to think through the linkages between the variables (theory/story), etc. Any empirical content/analysis (although not required) would be a strong plus.
4. The proposal is due 4 PM Wed Dec 9, and should be double-spaced using a 12- point Times New Roman font (1 inch margins) with a 5 page limit (*not* including references and appendix/exhibits) and the style format of *The Accounting Review*.

MAKE-UP POLICY: It is to your advantage to submit all due materials at their scheduled times. Only in the case of a well-documented legitimate emergency should an assignment be missed. Assignments missed without prior approval or without adequate documentation of the reason for missing the assignment will result in a recorded grade of zero for the missed assignment.

ATTENDANCE POLICY: Because this is an interactive class, learning depends on attendance. Lack of attendance is a direct component of your class grade, participation points cannot be accumulated if you are not in class. *Note also that attendance at our Friday research workshops is required.*

INCLEMENT WEATHER POLICY: My policy is to hold class whenever the University is open.

ACADEMIC INTEGRITY: Ethics and values are very important in accounting and the professional environment in which you will be working and are equally important in education. I will assume, unless there is evidence to the contrary, that you are an ethical student. To help you fulfill your ethical responsibilities as a student, please refer to the University policy for information on academic integrity standards of the University of North Texas. If there is an academic integrity violation, university recommended sanctions for academic integrity violations will be imposed. The university academic integrity policy can be found at <http://vpaa.unt.edu/academic-integrity.htm>.

PENALTY FOR ACADEMIC INTEGRITY VIOLATIONS: University-recommended sanctions for academic integrity violations will be imposed. All academic integrity violations will be reported to Judicial Affairs.

CHANGES TO THE SYLLABUS: A syllabus is a tool to help you plan your time. Every effort is made to make the syllabus as complete as possible, but there may be occasions when changes are required. Your professor will announce any deviations from this syllabus through email and class announcements.

STUDENT BEHAVIOR IN THE CLASSROOM: Student behavior that interferes with an instructor's ability to conduct a class or other students' opportunity to learn is unacceptable and disruptive. This type of behavior will not be tolerated in any instructional forum at UNT. Students engaging in unacceptable behavior will be directed to leave the classroom and the instructor may refer the student to the Center for Student Rights and Responsibilities to consider whether the student's conduct violated the Code of Student Conduct. The university's expectations for student conduct apply to all instructional forums, including university and electronic classroom, labs, discussion groups, field trips, etc. The Code of Student Conduct can be found at www.unt.edu/csrr.

ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES: Please note the guidelines for the arrangement of testing accommodations for students with disabilities. Students are responsible for requesting accommodations from the Office of Disability accommodation, according to its procedures and policies. To verify the eligibility of the student, students are expected to show appropriate documentation to the instructor when they first request accommodation. Students are to provide a written request for each test accommodation to their instructor (an e-mail will suffice provided you have received a reply from the instructor).

CLASS EVALUATION (SETE): The Student Evaluation of Teaching Effectiveness (SETE) is a requirement for all organized classes at UNT. This short survey will be made available to you at the end of the semester, providing you a chance to comment on how this class is taught. I am very interested in the feedback I get from students, as I work to continually improve my teaching. I consider the SETE to be an important part of your participation in this class.

Week 1 – Introduction (August 26)

Watts, R., and J. Zimmerman. 1986. *Positive Accounting Theory*. Prentice Hall: Chapter 13 (The theory's application to auditing).

DeFond, M., and J. Zhang. 2014. A review of archival audit research. *Journal of Accounting and Economics* 58: 275 – 326.

Donovan, J., Frankel R., Lee J., Martin X., and Seo H. 2014. Issues raised by studying DeFond and Zhang: What should audit researchers do? *Journal of Accounting and Economics* 58: 327–338.

Week 2 – Seminal Studies of Large Accounting Firms (Sept 2)

DeAngelo, L. 1981. Auditor size and audit quality. *Journal of Accounting and Economics*: 183- 199.

Simunic, D. 1980. The pricing of audit services: Theory and evidence. *Journal of Accounting Research*: 161-190.

Francis, J. and E. Wilson. 1988. Auditor changes: A joint test of theories relating to agency costs and auditor differentiation. *The Accounting Review*: 663-682.

Required:

Explain why each of these papers is a seminal study, and summarize what we know about the demand for (and supply of) audits by large accounting firms. Maximum length is 2 pages, double- spaced, 12-point Times New Roman Font. This assignment will be graded based upon effort (2% of overall grade).

Week 3 – Some Recent Studies of Large Accounting Firms (Sept 9)

Francis, J., and D. Wang. 2008. “The Joint Effect of Investor Protection and Big 4 Audits on Earnings Quality Around the World.” *Contemporary Accounting Research* (Spring 2008): 1-39.

Khurana, I. K., and K. K. Raman. 2004. Litigation risk and the financial reporting credibility of Big 4 versus non-Big 4 audits: Evidence from Anglo-American countries. *The Accounting Review* 79 (2): 473–95.

Lennox, C., and J. Pittman. 2010. Big 5 audits and Accounting Fraud. *Contemporary Accounting Research* 27: 209-247.

Required:

What do we know about audit quality of Large and small accounting firms? Propose a research study that builds on this week's reading. This assignment will be graded based upon quality (4% grade).

Week 4 – Audit Fees (Sept 16)

Ettredge, M., E. E. Fuerherm, and C. Li. 2014. Fee pressure and audit quality. *Accounting, Organization, and Society* 39: 247 – 263.

Ghosh, A., and C.Y. Tang. 2015. Assessing financial reporting quality of family firms: The auditors' perspective *Journal of Accounting and Economics* 60: 95–116.

Jha, A., and Y. Chen. 2015. Audit Fees and Social Capital. *The Accounting Review* 90 (2): 611-639.

Required:

What do we know about the determinants and consequences of actual (abnormal) audit fees? Propose a research study that builds on this week's reading. This assignment will be graded based upon effort (2% of grade).

Week 5 – SAS work related to audit fee model (Sept 23)

Week 6 – Industry Specialization (Sept 29)

Francis, J., K. Reichelt and D. Wang. 2005. The Pricing of National and City-Specific Reputations for Industry Expertise in the U.S. Audit Market," *The Accounting Review* (January 2005), Vol. 80, No. 1, pp. 113-136.

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.

Goodwin, J., and D. Wu. 2014. Is the effect of industry expertise on **audit** pricing an office-level or a **partner**-level phenomenon? *Review of Accounting Studies* Vol. 19 Issue 4, p1532-1578.

Required:

What do we know about the demand for (and supply of) industry expertise? Propose a research study that builds on this week's readings. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon quality (4% of grade).

Week 7 – Office-Level Studies (Oct 7)

Reynolds, J.K., and J. Francis. 2001. Does Size Matter? The Influence of Large Clients on Office- Level Auditor Reporting Decisions," *Journal of Accounting & Economics* (Dec. 2001): 375- 400.

Francis, J., and M. Yu. 2009. "The Effect of Big Four Office Size on Audit Quality." *The Accounting Review* 84(5): 1521-1552.

Bills, K. L., Q. T. Swanquist, and R. L. Whited. 2015. Growing Pains: Audit Quality and Office Growth. *Contemporary Accounting Research*, Forthcoming.

Required:

What do we know about audit quality from office-level studies? Propose a research study that extends this line of research. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon effort (2% of grade).

Week 8 – Audit Quality (Oct 14)

Boone, J. P., I. K. Khurana, and K. Raman. 2012. Audit Market Concentration and Auditor Tolerance for Earnings Management. *Contemporary accounting research* 29 (4):1171-1203.

Francis, J. R., P. N. Michas, and S. E. Seavey. 2013. Does Audit Market Concentration Harm the Quality of Audited Earnings? Evidence from Audit Markets in 42 Countries. *Contemporary accounting research* 30 (1):325-355.

Lennox, C., X. Wu, and T. Zhang. 2014. Does Mandatory Rotation of Audit Partners Improve Audit Quality? *The Accounting Review* 89 (5): 1775-1803.

Required:

What factors affect audit quality in each of the studies? Propose a research study that builds on the research in this week's readings. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon quality (4% of grade).

Week 9 – TBA (Oct 21, SAS work on audit fee model work due)

Week 10 –Auditor behavior following Adverse Events (Oct 28)

Landsman, W. R., K. K. Nelson, B. R. Rountree. 2009. Auditor switches in the pre- and post- Enron eras: Risk or realignment? *The Accounting Review* 84 (2): 531-558.

Hennes, K., A. Leone, and B. Miller. 2014. Determinants and market consequences of auditor dismissals after accounting restatements. *The Accounting Review* 89 (3): 1051-1082.

Lennox, C., and B. Li. 2014. Accounting misstatements following lawsuits against auditors. *Journal of Accounting and Economics* 57: 58 – 75.

Required:

What do we learn about auditor behavior following adverse events? Propose a research study that builds on the research in this week's readings. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon effort (2% of grade).

Week 11 – Audit Report Research (Nov 4)

Lennox, C. 2000. Do Companies Successfully Engage in Opinion-Shopping? Evidence from the UK,” *Journal of Accounting & Economics* (June 2000): 321-337.

Keith, C., J. J. Schmidt, and A. M. Thompson. 2014. Does auditor explanatory language in unqualified audit reports indicate increased financial misstatement risk? *The Accounting Review* 89 (6): 2115 – 2149.

Menon, K., and D. Williams. 2010. Investor reaction to going concern audit reports. *The Accounting Review* 85: 2075-2105.

Required:

What do we know about the informativeness of audits reports? Write a research proposal on audit reports. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon quality (4% of grade).

Week 12 – Institutional Accounting Research (Nov 11)

Boone, J. P., I. K. Khurana, and K. K. Raman. 2015. Did the 2007 PCAOB Disciplinary Order against Deloitte Impose Actual Costs on the Firm or Improve Its Audit Quality? *The Accounting Review* 90 (2): 405 – 441.

Lennox, C., and J. Pittman. 2010. Auditing the auditors: Evidence on the recent reforms to the external monitoring of audit firms. *Journal of Accounting & Economics* 49: 84-103.

Abbott, L., S. Parker, G. Peters, and D. Rama. 2007. "Corporate Governance, Audit Quality, and the Sarbanes-Oxley Act," *The Accounting Review* (July 2007): 803-836.

Required:

Why is research on accounting institutions important and what we can potentially learn from such studies? Develop a research proposal involving the study of accounting institutions. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon effort (2%).

Week 13 –International Audit Research – A focus of China (Nov 18)

Chen, H., J. Z. Chen, G. J. Lobo, and Y. Wang. 2011. Effects of Audit Quality on Earnings Management and Cost of Equity Capital: Evidence from China. *Contemporary Accounting Research* 28 (3): 892–925.

DeFond, M., T. Wong and S. Li. 2000. "The Impact of Improved Auditor Independence on Audit Market Concentration in China," *Journal of Accounting & Economics* 28 (2000): 269-305.

Chen, et al. 2010. Client importance, institutional improvements, and audit quality in China. *The Accounting Review* 85: 127-158.

Required:

Based on the China-related papers you have seen, explain the institutional background in China (as you understand it) and suggest an audit- and China-related research question. Maximum length is 2 pages, double-spaced, 12-point Times New Roman Font. This assignment will be graded based upon quality (4%).

Week 14 – Market-Based Audit Research (Nov 25)

In general, accounting studies have been unable to document a first-order market reaction to the announcement of auditor changes or to the issuance of negative (nonclean) audit reports. These are significant audit events and it is surprising there seems to be no market effects to such news. Part of the difficulty is that such announcements are often confounded with other news (e.g., audit opinions are generally issued concurrently with the release of the 10-K, or auditor changes occur in the context of other 8-K disclosures, both of which create noise), and there can also be difficulty in determining a "clean date" for these events. As a result people have more or less given up on this line of research. Here are some more recent market studies in which there are cleaner event dates and information effects:

Palmrose, Z-V., V.J. Richardson and S. Scholz (2004), 'Determinants of Markets Reactions to Restatement Announcements', *Journal of Accounting and Economics*, Vol. 37, No. 1, pp. 58–89.

DeFond, M., R. Hann and X. Hu. 2005. "Does the Market Value Financial Expertise on Audit Committees of Boards of Directors?" *Journal of Accounting Research* 43 (2005): 153- 193.

Francis, J. R., and B. Ke. 2006. Disclosure of Fees Paid to Auditors and the Market Valuation of Earnings Surprises. *Review of Accounting Studies* 11: 495 – 523.

Require:

Write a 2-page write-up of why research on market-based auditing research is important, what we can potentially learn from such studies, and a research proposal involving a market-based auditing study. This assignment will be graded based upon effort (2%).

Week 15 & 16 – Proposal Presentations (Dec 2 & 9)

Exhibit 1
Manuscript
Evaluation Form²

Title:

Author:

Description

: Overview:

- A. What is the Research Question (or Questions)?
- B. Why is the Research Question important?
- C. What is the author's approach to addressing the research question?

Elements:

- A. Assumptions about the "real world."
- B. Relevant theories.
- C. Major hypotheses
- D. Concepts and their measures:
 - Y (dependent variables(s))
 - X (independent variables)
- E. Other potentially relevant factors:
- F. Sample
- G. Statistical tests
- H. Results of tests
- I. Conclusions

² Sources: Various.