

Chair of Financial Accounting (Lehrstuhl Rechnungslegung)

Activity Report 2010/2011 (01.07.2010-31.08.2011)



Prof. Dr. Igor Goncharov
Chair of Financial Accounting/Lehrstuhl Rechnungslegung
WHU – Otto Beisheim School of Management
Burgplatz 2
D-56179 Vallendar
Fon: +49 – 261 / 6509 730
Fax: +49 – 261 / 6509 739
Email: accounting@whu.edu
Internet: www.whu.edu/financial-accounting

Excellence in
Management
Education

Contents

Editorial	4
Team	5
Academic Programs	6
Research	9
- <i>Main Research Areas</i>	
- <i>Dissertation Projects</i>	
- <i>WHU Research Colloquium</i>	
- <i>Publications and Projects</i>	
- <i>Workshop and Congress Presentations</i>	
- <i>Research Impact</i>	
- <i>Membership in Scientific Organizations</i>	
- <i>2nd WHU Doctoral Summer Program in Accounting Research</i>	
Services for the <i>WHU</i> Community	15
Community Outreach	15
Imprint / Contact Details	16

Editorial

The Chair of Financial Accounting was created in July 2010. The Chair's focus is on advancing empirical financial accounting research and conducting teaching in the broad area of accounting and valuation at the undergraduate and graduate levels. This report summarizes activities of the Chair members during the first year of its existence.

Vallendar, September 2011

Igor Goncharov

Team



Prof. Dr. Igor Goncharov

Academic Chair

Tel.: ++49-(0)261-65 09-730

igor.goncharov@whu.edu

Igor Goncharov was born in St. Petersburg, Russia, and studied Financial Management at the Graduate School of Management of St. Petersburg State University (Russia) as well as Business Studies at the University of Bremen where he also obtained his PhD. From 2006 to 2010 he was Assistant Professor of Accounting at the University of Amsterdam Business School in the Netherlands. Prof. Goncharov has held visiting positions at Sydney University and the Graduate School of Management, St. Petersburg State University. His research focuses on economic determinants and consequences of financial reporting, use of accounting information in dividend policy and taxation, international issues in accounting and the role of accounting information and disclosure in corporate governance. Prof. Goncharov's work has been published in various international journals, including *Accounting and Business Research*, *Journal of International Accounting Research* and *Corporate Governance: An International Review*. His teaching is in the broad area of financial accounting, including business analysis and valuation.



Dipl.-Ök. Caspar David Peter

Research Assistant

Tel.: ++49-(0)261-65 09-732

Caspar_David.Peter@whu.edu

Caspar David Peter holds a position of a Research Assistant at the Chair of Financial Accounting and is a PhD student in the area of financial accounting. He joined the Chair in November 2010 after finishing his studies at the Ruhr University of Bochum with a focus on International Accounting, Accounting and Auditing, and Microeconomics. His diploma thesis was titled "The Quality of Analysts' Forecasts During the Financial Crisis". In order to get first insights on the practical side and to gather first experience in the field of accounting, he joined PricewaterhouseCoopers in Essen for an internship. Currently, Caspar David is working on his dissertation entitled "Accounting and Anticompetitive Behavior", which examines the economic implications of accounting information in cartelization and cartel detection.



Claudia Heymann

Chair secretary / Personal Assistant

Tel.: ++49-(0)261-65 09-231

claudia.heyman@whu.edu

Academic Programs

Fall Term 2010

Business Analysis and Valuation

MSc 2012, 1. Semester, Lecturer: Prof. Dr. Igor Goncharov (2 SWS)

This course is concerned with both the theory and practice of business analysis and valuation. The course content will include strategy analysis, accounting analysis, main issues with IFRS implementation, ratio analysis and using valuation techniques based on pricing multiples and more advanced valuation models. Strong emphasis is placed on developing practical skills such as identifying pros and cons of a business strategy, finding "red flags" in financial analysis, tracing earnings management and implementing forecasting and valuation tools. On the theory side, the course will introduce valuation models and use recent empirical research in financial accounting to help identify concerns with an accounting strategy and point to potential mispricing. On the practice side, the course will cover six cases that emphasize different aspects of business analysis and valuation. The case companies cover different industries and are situated in a number of European countries and the US.

Spring Term 2011

Applied Econometrics

PhD-program, Lecturer: Prof. Dr. Igor Goncharov (2 SWS)

The course aims to introduce students to conducting empirical research using Stata. The course will include the following topic areas: (a) using Stata to manage a dataset and conduct tests, (b) typical issues and choices faced by a researcher when analyzing archival data, and (c) conducting and reporting univariate and (advanced) multivariate tests. The aim of the course is to provide for an efficient way to obtain a full set of research results using Stata. Univariate tests covered include: correlations, tests for comparing means and medians, and the chi2-test. Multivariate tests encompass OLS regression, fixed and random effects regressions, latent variable models (probit/logit), two-stage and three-stage regressions, treatment effect and Heckman selection models.

The course starts with the discussion of how to develop a research strategy based on the research question. Then it will guide the students through the process of data selection and the typical information reported in financial databanks. After an introduction session on Stata, the students will learn data management techniques, which are involved in creating new variables and selecting the test sample (including merging and matching different samples). The students will further learn how to efficiently implement Stata commands to generate descriptive, univariate and multivariate evidence. The course will also show how to interpret the results (including dealing with interaction terms), how to compare estimates (coefficients, R2s) within and between the models, and how to generate further statistics based on the set of fitted results (e.g., predicted effects). Finally, the course will introduce students to a typical set of robustness checks and to statistical issues with outliers, adjusting standard errors, and dealing with endogeneity and selectivity problems. This will lead to a discussion of how a research paper typically reports results.

Financial Statement Analysis

BSc, Lecturer: Prof. Dr. Igor Goncharov (4 SWS)

This course adopts the standpoint of the user of financial accounting information, taking the firm's financial statements, notes and other accompanying information as a basis for understanding the firm's past business activities and forecasting its future business activities. From the perspectives of (external) equity investors and financial analysts as well as creditors (banks, rating agencies), it will cover traditional financial ratios as well as basic forecasting and equity valuation techniques in order to develop a fundamental assessment of a firm's profitability, financial stability and prospects, thereby ultimately assessing firm value. Because the focus of this course is on analysis and valuation from a financial accounting perspective, it will adopt a specific accounting-based view on valuation and the forecasting process.

In the context of this lecture Dennis Jullens of the UBS Investment Bank held an interesting guest lecture entitled: „Can You Trust The Numbers?“



Can You Trust The Numbers? Lessons from Enron, WorldCom and Ahold

January 2011

Dennis Jullens, European Head, UBS Valuation & Accounting
Research
+ 31 20 5510 117
dennis.jullens@ubs.com

This report has been prepared by UBS Limited. UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Bachelor Thesis

Marcel Baltes

Earnings Management in Russia: The Role of IFRS Adoption and Foreign Ownership (May 2011)

Master Theses (under supervision)

Maximilian Fischer

Determinants of Executive Compensation: Effects of the Financial Crisis

Björn Crombach

Residual Income Valuation: A Comparison under Different Accounting Standards

Florian Max

Earnings Management in the UK Investment Fund Industry

Research

Main Research Areas

- Economic determinants and consequences of financial reporting
- Use of accounting information in dividend policy and taxation
- International issues in accounting
- Role of accounting information and disclosure in corporate governance

Publications and Projects

ARTICLES IN REFERRED JOURNALS

- Do Fair Value Adjustments Influence Dividend Policy? (2011), *Accounting and Business Research*, Vol. 41 (1), pp. 51-68 (Igor Goncharov and Sander van Triest).
- Measuring and Reporting Income in Europe (2011), *Journal of International Accounting Research*, Vol. 10 (1), pp. 27-59 (Igor Goncharov and Allan C. Hodgson).

WORKING PAPERS

- Fair Value and Audit Fees (Igor Goncharov, co-authored with Edward J. Riedl and Thorsten Sellhorn) – *under review*.
- The Strange Case of the World Record Profit and the missing Dividends: Managerial Reporting Discretion and Dividend Policy (Igor Goncharov, co-authored with Sander van Triest) – *under review*.
- Information Asymmetry and the Comparative Level of Accounting Accruals (Igor Goncharov, co-authored with Sonia Sanabria Garcia, Allan C. Hodgson, and Suntharee Lhaopadchan) – *under review*.
- Accrual Accounting and Tax Revenues (Igor Goncharov, co-authored with Martin Jacob)
- Reassessing the Role of Book-Tax Conformity (Igor Goncharov, co-authored with Jörg R. Werner)
- Does Reporting Timeliness Affect Book-Tax Differences? (Igor Goncharov)
- Scale Effects, Model Specification, and the Pricing of Dividends in Equity Valuation (Igor Goncharov, co-authored with David Veenman)
- Governance, Financial Policy and Value in East Asia (Igor Goncharov, co-authored with William Rees and Aljosa Valentincic)

Dissertation Projects (First Supervisor: Igor Goncharov)

Caspar David Peter (PhD student at WHU)

Accounting and Anticompetitive Behavior

Based on a dataset of companies which were indicted for anticompetitive behavior regarding article 101 from 1985 to 2010, Caspar David Peter investigates two research questions: (i) Does financial transparency influence cartel duration? and (ii) Is it possible to detect and predict cartelization based on accounting information?

The project “Cartel Duration and Financial Transparency” analyses the use of accounting information in implicit contracts by examining whether commitment to higher financial transparency has an effect on cartel duration. Using the survival analysis technique Caspar David Peter investigates how reporting and earnings transparency affect cartel duration.

Dieter Wirtz (PhD student at University of Amsterdam)

Accounting for IAS 36 Impairment Losses

The PhD project investigates two main research questions:

What determinates the (i) occurrence and (ii) magnitude of IAS 36 impairments?

Do IAS 36 framework impairments provide information to the market and/or are they anticipated?

To answer the first question, the project uses 3,697 firms and 13,225 firms-year observations spread over 20 European countries from 2006 to 2010. Dieter Wirtz addresses research question 1a via a probit model by regressing a binary variable of unity for the occurrence of impairments on determinates grouped into IAS 36 framework, liability environment, pre-/industry-write-offs and earnings management. By applying the impairment sample only, research question 1b is tackled via regressing the magnitude of impairments on their determinants (OLS model). The project identifies that impairments are driven to a high extent by reporting incentives and tend to cluster.

To answer the second question, the project uses a comparable sample of 3,782 firms and 13,967 firm-year observations spread over 19 European countries from 2006 to 2010. Using an OLS model, Dieter Wirtz regresses the change of bid-ask spread at the reporting and pre-reporting period on an indicator variable capturing the occurrence of impairments isolated from discretion.

Dissertation Projects (Second Supervisor: Igor Goncharov)

- Holger Thesseling:* **The Influence of Tax Regimes on Distribution Policy—An empirical Analysis for Germany, Switzerland and the United States**
- Sara Keller:* **The Influence of Taxation on Corporate Group Structure**
- Stefan Hahn:* **Comparability between accounting amounts prepared under US GAAP and IFRS**
- Maximilian Müller:* **Empirical Studies on the Economic Consequences of Financial Reporting Flexibility**
- Stefan Reimig:* **International differences and time trends in academic accounting research**

WHU Research Colloquium

In August 2011, Igor Goncharov has organized a workshop for WHU PhD students in the area of accounting. The students were presenting their projects during two days, while receiving comments from the WHU and invited faculty. In the context of the Workshop, Professor Allan Hodgson presented his paper entitled “Do Regulations Reduce or Increase the Probability of Informed Insider Trading?”



Do Regulations Reduce or Increase the Probability of Informed Insider Trading?

Presentation by Prof. Allan Hodgson
WHU Otto Beisheim School of Management
Koblenz
2 July 2011

Based on Working Paper by
A.Hodgson, S. Lhaopadchan and S. Treepongkaruna

Workshop and Congress Presentations

- “Fair Value and Audit Fees”, *American Accounting Association (AAA) Annual Conference*, Denver, August 2011
- “Accrual Accounting and Tax Revenues” and “Reassessing the Role of Book-Tax Conformity”, *Workshop on Current Research in Taxation*, Münster, June 2011
- “Fair Value and Audit Fees”, *Seminar at the University of Maastricht*, Maastricht, May 2011
- “Fair Value and Audit Fees”, *The European Accounting Association (EAA) 34th Annual Congress*, Rome, April 2011
- “Fair Value and Audit Fees”, *Workshop at the University of Giessen*, Giessen, December 2010
- “Does Reporting Timeliness Affect Book-Tax Differences?”, *5th Workshop on Accounting & Regulation*, Siena, September 2010

Research Impact

Member of the Scientific Committee of the European Accounting Association.

Citations: Igor Goncharov’s work has been referenced in top-tier journals including *Journal of Finance*, *Journal of Accounting and Economics*, *Journal of International Business Studies*, *Journal of Business Ethics*, *Journal of Business Finance and Accounting*, and *Accounting and Business Research*.

Igor Goncharov is ad-hoc reviewer for *European Accounting Review*, *International Journal of Accounting Research*, *Journal of Management and Governance*, *Review of Managerial Science*, *Zeitschrift für betriebswirtschaftliche Forschung*.

Membership in Scientific Organizations

- The American Accounting Association (AAA)
- The European Accounting Association (EAA)
- The American Association for the Advancement of Science (AAAS)
- Verband der Hochschullehrer für Betriebswirtschaft e.V. (VHB)
- Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. (SG)

2nd WHU Summer Program in Accounting Research (SPAR)

During the week of 18 July 2011, 30 European doctoral students from Austria, France, Germany, Slovenia, Spain and Switzerland attended the 2nd WHU Doctoral Summer Program in Accounting Research (SPAR) at WHU. The SPAR was hosted by the Chairs of Accounting (Professor Thorsten Sellhorn) and Financial Accounting (Professor Igor Goncharov). The program, which is held once a year, introduces European PhD students in accounting to some central theoretical, methodological and practical issues involved in conducting high-quality research.

The 2nd SPAR, entitled “Current Issues in Empirical Financial Reporting Research”, was taught by

- Prof. Laurence van Lent, Department of Accountancy and CentER, Tilburg University, Tilburg, incoming Editor, The European Accounting Review
- Prof. Edward J. Riedl, Associate Professor, Boston University – School of Management, Boston
- Prof. Igor Goncharov, Professor of Financial Accounting, and
- Prof. Thorsten Sellhorn, Professor of Accounting, both at WHU – Otto Beisheim School of Management, Vallendar.

The focus of the first two days was on reading, critiquing and discussing research papers, some of which were co-authored by SPAR faculty, in the following topical areas:

- Measuring the impact of IFRS adoption;
- Identifying and implementing open research questions surrounding IFRS;
- Assessing accounting conservatism; and
- Determinants of accounting choice.



On the third day, Prof. Riedl discussed and demonstrated presenting research in a workshop setting; he and Prof. van Lent (incoming editor at Europe's leading academic accounting journal, the European Accounting Review) then led the students through key aspects of the publication and review process. As a part of this format, Prof. Riedl gave an actual research workshop presentation of his paper "Mandatory IFRS Adoption and Financial Statement Comparability", co-authored with Francois Brochet (Harvard Business School) and Alan Jagolinzer (University of Colorado, Boulder).



The fourth day saw students becoming actively involved in the actual conducting of an empirical financial accounting research study. Prof. Goncharov walked students step-by-step through the process of data collection using common capital-market and accounting data bases; data preparation; and selected statistical analyses and related issues including the treatment of panel datasets, heteroscedasticity as well as endogeneity.

In addition to classroom activities, students were given the opportunity to discuss their doctoral research projects in face-to-face settings with the SPAR faculty.

The participants earned 3 ECTS from the WHU doctoral program for three assignments: One brief research paper presentation or discussion; one written review of a current working paper; and preparation of a research outline for the individual feedback sessions with the SPAR faculty.

Socializing certainly was not neglected. During coffee breaks, lunches, and evening dinners, participants took advantage of the opportunity to network and have fun with their fellow students as well as the faculty members. This aspect of the program arguably peaked in the historic cellar of the restaurant Alt Coblenz.



At the end of the program, students were asked to complete a feedback questionnaire. Overall, the participants strongly indicated being very satisfied with the course.



The third SPAR will be held in July 2012.

Services for the WHU Community

- Member of the WHU working group to support the intercultural competence of WHU faculty and staff “Rahmenkonzeption Interkulturelle Kompetenztrainings für Dozenten & Mitarbeiter (PROFIN)”
- Member of the PhD Committee (Disputation), Christian Schürmann, 17.12.2010
- Member of the PhD Committee (Ermunterung), Tina Goldau, 06.10.2010
- Support of exchange students from WHU partner universities who spend their international semester at WHU
- Letters of Reference for students

Community Outreach

- Invited speaker on ICAEW panel session “Tax, Financial Reporting, and Management Accounting: An Integrated Approach” at the Annual Conference of the American Accounting Association, Denver, August 2011
- Accounting History Conference, Vallendar, July 2011
- Invited discussant at the PhD Workshop at the University of Giessen, Giessen, August and December 2010

Chair of Financial Accounting / Lehrstuhl Rechnungslegung

Prof. Dr. Igor Goncharov

WHU – Otto Beisheim School of Management

Burgplatz 2, D-56179 Vallendar

Fon: +49 – 261 / 6509 730

Fax: +49 – 261 / 6509 739

Email: accounting@whu.edu

Internet: www.whu.edu/financial-accounting