

Chair of Financial Accounting (Lehrstuhl Rechnungslegung)

Activity Report 2011/2012 (01.09.2011-31.08.2012)



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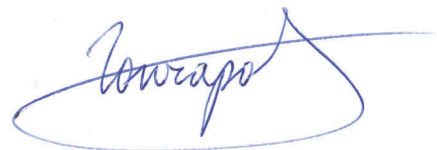
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Editorial

Financial accounting is the language through which companies communicate their performance to relevant stakeholders, which include investors, creditors, tax authorities and the general public. While financial reporting standards provide guidelines for this communication, they leave managers with substantial discretion of how to apply those guidelines. Financial accounting research examines how business activities are reported to stakeholders, how financial accounting information is used by the stakeholders, and how financial reporting affects business decisions.

The Chair of Financial Accounting is focused on advancing empirical financial accounting research and disseminating this knowledge among business community. The Chair is particularly interested in examining how accounting rules affect business decisions such as investments, dividends, and taxes. This research is disseminated via publishing in referred academic journals, via conference and workshop presentations and through 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 academic year 2011/2012.



Prof. Dr. Igor Goncharov

Vallendar, September 2012

Team



Prof. Dr. Igor Goncharov

Academic Chair

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Igor Goncharov holds a position of Professor of Financial Accounting at the WHU. He was born in St. Petersburg, Russia, and obtained his PhD from the University of Bremen, Germany. From 2006 to 2010 he was Assistant Professor of Accounting at the University of Amsterdam Business School in the Netherlands. Igor 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 in corporate governance. Igor Goncharov's work has been published in various international journals, including *Review of Accounting Studies*, *Accounting and Business Research*, *Journal of International Accounting Research* and *Corporate Governance: An International Review*. He won the 2011 Best Manuscript Award for the best paper published in the *Journal of International Accounting Research*. He serves as an ad-hoc reviewer for various international journals and is a member of the EAA Scientific Committee. His teaching interests are in the broad area of financial accounting, including business analysis and valuation.



Dipl.-Ök. Caspar David Peter

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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.



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Nelli Mirontschenko

Student Assistant

BSc2013

Academic Programs

Fall Term 2011

Business Analysis and Valuation

MSc, Lecturer: Prof. Dr. Igor Goncharov

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.

Financial Accounting

WHU Part-time MBA Program, Lecturer: Prof. Dr. Igor Goncharov

This course introduces students to financial accounting by for-profit entities from a user perspective. A *user perspective* implies that the course moves beyond the techniques and mechanics of preparing accounts and focuses on the impact of a firm's business activities – most of them performed by *non-accountants* – on the financial statements. The course provides basic tools of financial statement analysis that help tease out the story that the financial statements tell. Due to their increasing relevance, some emphasis is placed on key recognition and measurement issues under International Financial Reporting Standards (IFRS). The course illustrates how investors and other outside stakeholders use the financial statements to assess firms' performance, and ways in which discretion in financial accounting can be used strategically to manage how the firm presents itself.

Spring Term 2012

Applied Econometrics

PhD-program, Lecturer: Prof. Dr. Igor Goncharov

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. 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, how to compare estimates within and between the models, and how to generate further statistics based on the set of fitted results. 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

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 perspective on the valuation and forecasting process.

In the context of this lecture Dennis Jullens of the UBS Investment Bank held a guest lecture entitled: "Understanding financial accounting matters—An analyst view"



Accounting/Accounting/Presentations /Vallendar_Accounting lecture_February 2012

 UBS Investment Research


Understanding financial accounting matters
An analyst view

Dennis Jullens
UBS Valuation & Accounting
Research
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Vallendar – February 2012

This document has been prepared by UBS Limited

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UBS does not seek 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.



Master Theses

Maximilian Fischer

Determinants of Executive Compensation: Effects of the Financial Crisis 2008-2009 (February 2012)

Björn Crombach

Residual Income Valuation: Comparing the Accuracy of Net Income and Comprehensive Income (February 2012)

Florian May

Fair Value Adjustments as an Earnings Management Tool for Income Smoothing (February 2012)

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 (ACCEPTED FOR PUBLICATION DURING THE YEAR)

- Fair Value and Audit Fees (2013) **Review of Accounting Studies**, forthcoming ([Igor Goncharov](#), Edward J. Riedl, and Thorsten Sellhorn).
- Asymmetric Trading by Insiders — Comparing Abnormal Returns and Earnings Prediction in Spain and Australia. **Accounting and Finance**, forthcoming ([Igor Goncharov](#), Sonia Sanabria, Allan C. Hodgson, and S. Lhaopadchan.)

WORKING PAPERS

- Accrual Accounting and Tax Revenues ([Igor Goncharov](#) and Martin Jacob) – *under review*.
- Fair Value Accounting, Dividends, and Agency Costs: Unintended Consequences of Changing Accounting Standards ([Igor Goncharov](#) and Sander van Triest) – *under review*.
- Stale and Scale Effects in Markets-Based Accounting Research: Evidence from the Valuation of Dividends ([Igor Goncharov](#) and David Veenman) – *under review*.
- Reassessing the Role of Book-Tax Conformity ([Igor Goncharov](#) and Jörg R. Werner).
- Does Reporting Timeliness Affect Book-Tax Differences? ([Igor Goncharov](#)).
- The Effect of Reporting Transparency on Cartel Duration ([Igor Goncharov](#) and [Caspar David Peter](#)).
- Did IFRS Fuel Analysts' Optimism during the Financial Crisis? (Jürgen Ernstberger, Khaled Kholmy, and [Caspar David Peter](#)).

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)

<i>Stefan Hahn:</i>	Comparability between accounting amounts prepared under US GAAP and IFRS (Disputation/Thesis Defense; July 6, 2012)
<i>Sara Keller:</i>	The Influence of Taxation on Corporate Group Structure
<i>Maximilian Müller:</i>	Empirical Studies on the Economic Consequences of Financial Reporting Flexibility (Disputation December/Thesis Defense; December 12, 2011)
<i>Stefan Reimig:</i>	International differences and time trends in academic accounting research (Defense of the research proposal; December 21, 2011)
<i>Holger Thesseling:</i>	The Influence of Tax Regimes on Distribution Policy—An empirical Analysis for Germany, Switzerland and the United States

Other Research Activities and Awards

- Igor Goncharov receives the JIAR Best Paper Award for the best manuscript published in the Journal of International Accounting Research (American Accounting Association) in 2011. The prize is awarded for rigor, relevance of the topic, originality, broadness of scope, potential impact, and practical relevance of the paper. The selection committee has concluded that “on the basis of key values being rigor, practical relevance, and importance to international accounting, this paper wins hands down”.
- Igor Goncharov is ad-hoc reviewer for:
 - Journal of Business Finance and Accounting
 - European Accounting Review
 - International Journal of Accounting Research
 - Accounting and Finance
 - Australian Accounting Review
 - Journal of Management and Governance
 - Review of Managerial Science
 - Zeitschrift für betriebswirtschaftliche Forschung
- Igor Goncharov is a member of the Scientific Committee of the European Accounting Association

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)

Workshop and Congress Presentations

Igor Goncharov:

- American Accounting Association, Annual Congress, Washington (August 2012)
- Seminar at the Freie Universität Berlin, Berlin (July 2012)
- Seminar at the University of Göttingen, Göttingen (June 2012)
- The German Academic Association for Business Research (VHB), 74th Annual Congress, Bolzano (June 2012)
- Seminar at the University of Rotterdam, Rotterdam (May 2012)
- The European Accounting Association, 35th Annual Congress, Ljubljana (May 2012)

Caspar David Peter:

- The European Economic Association, 27th Annual Congress, Malaga (August 2012)
- 5th International Accounting & Finance Doctoral Symposium, Glasgow (June 2012)
- The European Accounting Association, 35th Annual Congress, Ljubljana (May 2012)
- Doctoral Seminar at Justus-Liebig University, Gießen (May 2012)

WHU Workshop Presentations

Igor Goncharov:

- “Accrual Accounting and Tax Revenues” (February 2012)

Caspar David Peter:

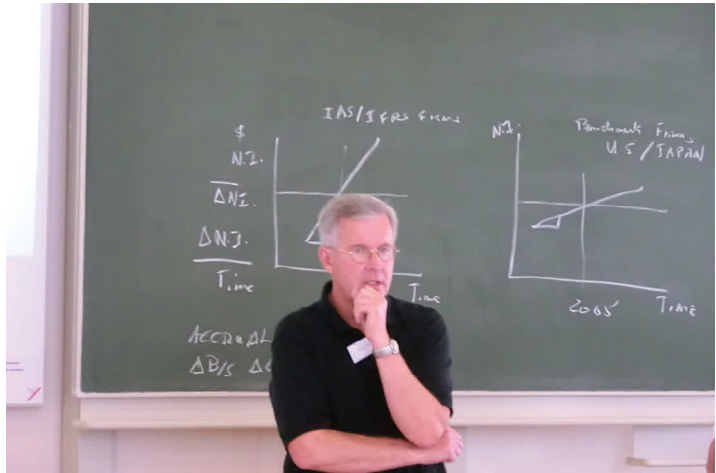
- “Accounting and Anticompetitive Behavior” (November 2011)
- “The Effect of Reporting Transparency on Cartel Duration” (March 2012)

Dieter Wirtz:

- Relevance of Non-Opportunistically but Cost-Efficiently Reported IAS 36 Impairment Losses to Investors. Evidence from a European Setting (July 2012)

WHU Research Seminar Financial Accounting & Taxation Topics

“The Effects of Firm Growth and Model Specification Choices on Tests of Earnings Management”, Dan Collins, Tippie College of Business, University of Iowa, 11.7.2012



“The usefulness of corporate governance ratings”, Jörg-Markus Hitz, Georg-August-Universität Göttingen, 15.5.2012

“The Economic Consequences of Increasing the International Visibility of Financial Reports”, Hervé Stolowy, HEC Paris, 15.12.2011



“Fair Value Accounting and the Business Model of Banks”, Jannis Bischof, Universität Mannheim, 30.11.2011

3rd WHU Summer Program in Accounting Research (SPAR)

During the week of 9 July 2012, 35 European doctoral students from Austria, France, Germany, Italy, Finland, the Netherlands, Sweden, and Switzerland attended the 3rd 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 3rd SPAR, entitled “Current Issues in Empirical Financial Reporting Research”, was taught by

- Prof. Laurence van Lent, Department of Accountancy and CentER, Tilburg University, Tilburg, Editor, *The European Accounting Review*
- Prof. Dr. Daniel W. Collins, Tippie College of Business, University of Iowa, Iowa City, U.S.A.
- 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:

- IFRS adoption and earnings management (Prof. Collins);
- Side effects of IFRS adoption (Prof. Sellhorn);
- Measuring conditional conservatism (Prof. Collins); and
- Capital market effects of accounting choice (Prof. Goncharov).





On the third day, Prof. Collins discussed and demonstrated presenting research in a workshop setting; he and Prof. van Lent (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. Collins gave an actual research workshop presentation of his paper “The Effects of Firm Growth and Model Specification Choices on Tests of Earnings Management”, co-authored with Raunaq S. Pungaliya (Sungkyunkwan University, Seoul Korea) and Anand M. Vijh (University of Iowa, Iowa City, USA).

The fourth day saw students becoming actively involved in the actual conducting of an empirical financial accounting study. Prof. Goncharov walked students step-by-step through the process of data collection using common capital-



market and accounting data bases, research design choices, and selected statistical analyses and related issues including the treatment of panel datasets, as well as selectivity and 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 four assignments: One brief research paper presentation or discussion; one written review of a current working paper; preparation of a research outline for the individual feedback sessions with the SPAR faculty; and practice of Stata data management commands.

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

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 fourth SPAR will be held in July 2013.

For more information on the SPAR, please refer to:

<http://www.whu.edu/en/research/faculty/accounting-and-control-group/accounting/research/whu-doctoral-summer-program-in-accounting/>

Services for the WHU Community

- Member of the FAcCT—The WHU Financial Accounting and Tax Center
- 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 WHU Committee for data bases and research input (AG Datenbanken/ Forschungsinput)
- Member of the WHU faculty round table “Post Experience Programs”
- Member of the Search Committee for the WHU Chair of Finance and Capital Markets
- Member of the Search Committee for the WHU Assistant Professorship in Financial Reporting
- Coordinator of the WHU Research Seminar in the Topic Area Financial Accounting & Taxation
- Support of exchange students from WHU partner universities who spend their international semester at WHU
- Letters of Reference for students
- PhD representative in the WHU Code of Conduct Committee (Caspar David Peter)

Community Outreach

- Member of the Scientific Committee of the European Accounting Association; involved in the selection of papers for the Annual Meeting of the European Accounting Association
- Invited discussant at the German Economic Association of Business Administration (GEABA) annual meeting

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