

Chair of Financial Accounting (Lehrstuhl Rechnungslegung)

Activity Report 2012/2013 (01.09.2012-31.08.2013)



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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 refereed 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 2012/2013.



Prof. Dr. Igor Goncharov

Vallendar, September 2013

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.



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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 "Economic Consequences of Accounting Transparency". The first study called "Reporting Transparency and Cartel Membership" examines the economic implications of accounting information in cartelization and cartel detection. The second paper called "Proprietary Cost of Full Portfolio Disclosure for UK Investment Trusts" investigates the economic consequences of proprietary costs of voluntary disclosure in the UK investment trust industry.



Claudia Heymann

Chair secretary / Personal Assistant

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Academic Programs

Professor Goncharov teaches in the area of financial accounting, business analysis and valuation. He has been teaching in different programs at WHU, University of Amsterdam, Graduate School of Management, St. Petersburg State University, and University of Bremen.

His average teaching evaluation for the past academic year was 4.5 (out of 5).

Courses taught in 2012/2013:

- **PhD level**

Applied Econometrics

- **PT-MBA**

Financial Accounting

- **Master level:**

Business Analysis and Valuation

- **Bachelor level:**

Financial Statement Analysis

Courses Fall Term 2012

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.

Courses Spring Term 2013

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.

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. 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

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.

Bachelor Thesis

Nelli Mirontschenko

Determinants of Investment Trust Voluntary Disclosure in the UK: What Really Drives Disclosure, May 2013

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 in 2012/2013

ARTICLES PUBLISHED OR ACCEPTED FOR PUBLICATION IN REFEREED JOURNALS

- Stale and Scale Effects in Markets-Based Accounting Research: Evidence from the Valuation of Dividends (2013) *European Accounting Review*, forthcoming (Igor Goncharov, David Veenman).
- 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 (2013) *Accounting and Finance*, Vol. 53 (1), pp. 163-184 (Igor Goncharov, Sonia Sanabria Garcia, Allan C. Hodgson, and Suntharee Lhaopadchan).

ARTICLES SUBMITTED TO REFEREED JOURNALS IN 2012/2013:

- Accrual Accounting and Tax Revenues (Igor Goncharov, Martin Jacob) - second review round.
- Unintended Consequences of Changing Accounting Standards: The Case of Fair Value Accounting and Mandatory Dividends (Igor Goncharov, Sander van Triest) - third review round.

WORKING PAPERS DEVELOPED IN 2012/2013:

- Comparing the Usefulness of Historical-Cost Income and Fair-Value Based Income (Igor Goncharov, Sanjay Bissessur and Dieter Wirtz).
- Predictive Ability and Valuation of Fair Value Adjustments (Igor Goncharov, Daniel W. Collins and Ciao-Wei Chen).
- Reporting Transparency and Cartel Membership (Igor Goncharov and Caspar David Peter).
- Proprietary Costs of Full Portfolio Disclosure for UK Investment Trusts (Caspar David Peter).

Dissertation Projects (First Supervisor: Igor Goncharov)

Caspar David Peter (PhD student at WHU, 3rd year)

Economic Consequences of Accounting Transparency

The project “Reporting Transparency and Cartel Membership” 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 transparency affects cartel duration. The project finds that financial transparency decreases cartel duration.

The second paper called “Proprietary Cost of Full Portfolio Disclosure for UK Investment Trusts” investigates the economic consequences of proprietary information of voluntary disclosure in the UK investment trust industry. The project uses a comprehensive dataset of the UK investment trust industry to examine whether disclosing the investment portfolio affects the demand for the trusts’ shares. The project finds a decrease in the demand for trusts’ shares when proprietary costs of revealing a full list of fund holdings are high. However, on average the benefits of providing more information to the public outweigh the proprietary costs.

Dieter Wirtz (PhD student at University of Amsterdam, submitted)

An Analysis of the Usefulness to Investors of Managers’ Fair Value Estimates of Firm Assets—Evidence from IAS 36 “Impairment of Assets” and IAS 40 “Investment Property”

Firms’ adoption of the International Financial Reporting Standards (IFRS) has been increasing worldwide. Even the U.S. Securities and Exchange Commission is considering direct incorporation of IFRS into the U.S. financial reporting regime in the foreseeable future. With the adoption of IFRS, reports of managers’ fair value estimates of a firm’s assets in financial statements became more pervasive than under local generally accepted accounting principles (GAAPs) and is likely to become increasingly important over the coming years. However, managers’ fair value estimates are subject to measurement errors that might reduce the faithful representation of accounting numbers. Using publicly available managers’ fair value estimates of cash generating units and investment properties, this empirical study analyzes the usefulness of investors of these estimates. The analysis is based on two standards of the International Accounting Standards Board (IASB): International Accounting Standard (IAS) 36 “*Impairment of Assets*” and International Accounting Standard (IAS) 40 “*Investment Property*”.

Dissertation Projects (Second Supervisor/PhD Committee Member: Igor Goncharov)

Stefan Reimig (WHU)

International Differences and Time Trends in Academic Accounting Research

Holger Theßeling (WHU)

The Influence of Tax Regimes on Distribution Policy—An Empirical Analysis for Germany, Switzerland and the United States

Arjan Brouwer (University of Amsterdam)

Profit, Performance, Perception—A Research Into the Use of Alternative Performance Measures in the European Union

Theresa Weiß (University of Bayreuth)

Steueraggressivität börsennotierter und nichtbörsennotierter Unternehmen in Deutschland—Eine theoretische und empirische Analyse

Melanie Schneider (WHU)

Performance Versus Quality in the German Hospital Sector: An Analysis of the Interplay of Chief Physician Characteristics with the Design and Use of Performance Measurement Systems

Christian Stier (WHU)

Investor Perception and Expected Consequences of Fair Value Accounting for Investment Property

Christian Barthelme (WHU)

Determinants and Consequences of Voluntary Pension Disclosure

Other Research Activities and Awards

- Ad-hoc reviewer for the following journals and conferences in the field of accounting (in alphabetic order):
 - Accounting and Business Research
 - Accounting and Finance
 - Australian Accounting Review
 - European Accounting Review
 - FARS conference
 - Journal of Business Finance and Accounting
 - Journal of International Accounting Research
 - Managerial Auditing Journal

- and in journals of general interest and non-accounting journals:
Business Research
International Finance
Journal of Management and Governance
Review of Managerial Science
Zeitschrift für betriebswirtschaftliche Forschung
- External evaluation of applicants for senior academic positions and evaluation of funding applications at different European universities.
- Faculty member of the WHU Doctoral Summer Program in Accounting Research (2010-2013).
- Coordinator of the Research Seminar in the Topic Area Financial Accounting & Taxation; organized 18 seminars.
- Keynote speaker at the Exploratory Workshop: Empirical Research on the Determinants of Accounting Quality, The Bucharest University of Economic Studies, 2012.

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:

- Accounting Research Workshop, Basel, Switzerland (June 2013)
- The European Accounting Association 36th Annual Congress, Paris, France (May 2013)
- Seminar at Humboldt University of Berlin, Germany (April 2013)

Caspar David Peter:

- The Merits and Perils of Voluntary Disclosure for Financial Firms, Doctoral Colloquium at the European Accounting Association 36th Annual Congress, Paris, France (May 2013)
- The Merits and Perils of Voluntary Disclosure for Financial Firms, Workshop, University of Gießen, Germany (November 2012)

WHU Research Seminar in the Area of Financial Accounting & Tax

The following researchers presented their papers at the invitation of the Financial Accounting & Tax Center:

Daniel W. Collins, University of Iowa, Tippie College of Business: "Financial Statement Comparability and the Efficiency of Acquisition Decisions"

Daniel W. Collins, University of Iowa, Tippie College of Business: "A Competing Explanation for Sources of Bias in Earnings-Based Measures of Conditional Conservatism"

Garen Markarian, IE Business School Madrid: "Accounting Comparability and Information Uncertainty"

Jochen Hundsdoerfer, Freie Universität Berlin: "Do Voting and Tax Earmarking Influence Tax Responses in the Lab?"

Hollis Skaife, University of Wisconsin-Madison: "Discretionary Classification of R&D Expense"

Jürgen Ernstberger, Ruhr-Universität Bochum: "Lead Auditor Expertise, Audit Quality, and Audit Fees"

Beatriz Garcia Osma, University of Madrid: "Accounting Conservatism and the Limits to Earnings Management"

Harm Schuett, University of California, Berkeley: "Do Analysts Understand the Relation between Investment Intensity and Earnings Growth?"

Ann Tarca, University of Western Australia: "IFRS and Accounting Quality: The Impact of Enforcement"

Antonio Parbonetti, University of Padua: Privatized Returns and Socialized Risks: CEO Incentives, Securitization Accounting and the Financial Crisis"

Urška Kosi, Humboldt-Universität Berlin: "Does Mandatory IFRS Adoption Improve the Credit Relevance of Accounting Information?"

Christina Dargenidou, University of Exeter Business School: "Insider Trading and Information Uncertainty"

Steven Young, Lancaster University: "Cross-border Accounting Comparability and the Accuracy of Peer-based Valuation Models"

Laurence van Lent, Tilburg University: "Bold-faced lies: Testosterone, Facial Features and Financial Misreporting"

Thomas Jeanjean, ESSEC Business School: "Social Networks, Auditor Independence and Earnings Quality"

David Veenman, RSE, Erasmus University Rotterdam: "Forecast Uncertainty, Earnings Management, and Zero or Small Positive Earnings Surprises"

Martin Ruf, University of Tübingen: "Tax Avoidance as a Driver of Mergers and Acquisitions"

Peter Fiechter, University of Zurich: "Bold Analysts or Bold Banks: Do Institutional Factors Drive Herding Behavior?"

4th WHU Summer Program in Accounting Research (SPAR)

During the week of 8 July 2013, 31 doctoral students and post-docs from 12 different countries attended the 4th WHU Doctoral Summer Program in Accounting Research (SPAR) at WHU. The SPAR was hosted by the [WHU Financial Accounting and Tax Center \(FAccT Center\)](#). 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 4th SPAR, entitled “Current Issues in Empirical Financial Reporting Research”, was taught by

- Professor Laurence van Lent, Department of Accountancy and CentER, Tilburg University, Tilburg, Editor, *The European Accounting Review*
- Professor Daniel W. Collins, Tippie College of Business, University of Iowa, Iowa City, U.S.A.
- Professor Edward J. Riedl, Boston University, School of Management, Boston, U.S.A.
- Professor Igor Goncharov (Financial Accounting), Professor Martin Jacob (Business Taxation), Assistant Professor Maximilian A. Müller (Financial Reporting), Assistant Professor Harm Schütt (Financial Accounting) and Professor Thorsten Sellhorn (Accounting), WHU – Otto Beisheim School of Management, Vallendar.



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

- Economic consequences of IFRS adoption (Prof. Riedl);
- Measuring accounting conservatism (Prof. Collins);
- Financial reporting properties and investment efficiency (Prof. Collins);
- Fair value reporting (Prof. Riedl);

The topic of the third day was “Presenting, discussing, reviewing and publishing financial reporting research”. Professor van Lent (editor at Europe’s leading academic accounting journal, the *European Accounting Review*) spoke about conducting academic peer reviews and publishing in peer-reviewed journals and led the students through key aspects of the publication and review process.

Integrated into this year’s SPAR was the 1st WHU FAcCT Center Workshop featuring the presentation and discussion of four research papers. Pietro Bonetti (University of Padova, Italy), Michael Stich (University of Erlangen-Nuernberg, Germany), Ronny Hofmann (Maastricht University, The Netherlands) and David Windisch (University of Graz, Austria) offered insights into the process of developing, presenting, discussing and refining research projects.

The fourth day saw students becoming actively involved in the actual conducting of an empirical financial accounting study. In two parallel sessions Prof. Goncharov and Prof. Jacob 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. Starting with a welcome reception on Sunday night and 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 *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 fifth SPAR will be held in July 2014.

For more information on the SPAR, please refer to:

<http://www.whu.edu/forschung/fakultaet/accounting-and-control-group/externes-rechnungswesen/forschung/whu-doctoral-summer-program-in-accounting-research-spar/4th-whu-doctoral-spar-2013/>

Services for the WHU Community

- Member of the Search Committee for the WHU Chair of Finance and Capital Markets
- Member of the Search Committee for the WHU Professor in the Area of Financial Accounting
- Member of the FAcT—The WHU Financial Accounting and Tax Center
- Member of the WHU Committee for Data Bases and Research Input (AG Datenbanken/ Forschungsinput)
- Member of the WHU faculty round table “Post Experience Programs”
- Involved in the development of Master in Management and Master in Finance Programs
- Coordinator of the WHU Research Seminar in the Topic Area Financial Accounting & Taxation
- Letters of reference for students
- PhD representative in the WHU Code of Conduct Committee (Caspar David Peter)

Community Outreach

- Invited discussant at the German Economic Association of Business Administration (GEABA) annual meeting
- Participant at Tilburg Spring Camp, University of Tilburg

Sustainability

The Chair conducts research that aims to inform regulators on different aspects of sustainable development. For example, the EU Green Paper on the Long-Term Financing of the European Economy (2013, p. 2) states that “Europe’s pressing challenge is to put the EU back on the path of smart, sustainable and inclusive growth... Trends in climate change and the depletion of natural resources further underline the sustainable growth challenge, as they call for more long-term investment... To fund these long-term investments, governments and businesses of all sizes need access to predictable, long-term financing.” The Green Paper questions whether the use of fair value accounting can affect the investment horizon. The project “Fair Value Accounting, Income Volatility, and Stock Price Volatility” was initiated to inform regulators on the effects of fair value accounting and its attributes on sustainable financing and growth. The project examines whether the use of fair value accounting changes investors’ risk assessment. Specifically, the project examines whether fair value accounting or its attributes can exuberate stock price volatility, which leads to suboptimal fund allocation. Furthermore, a change in risk assessment is expected to affect investors behaviour, such as the choice of the investment horizon.

Chair of Financial Accounting / Lehrstuhl Rechnungslegung

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