Center for Accounting Research

Newsletter December 2009

CAR Leads New Doctoral College for Accounting

The Austrian Science Fund has decided to fund a Doctoral School (DK-plus program) of Accounting, which will be jointly carried out by the University of Graz, the University of Vienna and the Vienna University of Business and Economics under the lead of the Center for Accounting Research, University of Graz. The Doctoral Program in Accounting, Reporting and Taxation (DART) covers and combines the major fields of accounting: financial accounting, management accounting, auditing, taxation, and corporate governance.

DART aims at training future leaders in accounting research (and in specialist areas of practice) who combine a strong tradition of institutions and norms with an emphasis on a specific research methodology. This DK-plus offers the unique opportunity to set up an internationally accepted program for educating young talent in accounting in Austria. This will create a critical mass of research and pools teaching capacity at the Doctoral level, which has not been available before. The value added consists in the generation of a structured research network and regular exchange opportunities and workshops.

The collaboration among the three universities in DART generates a major value added in that it creates synergies in teaching highly specialized fields. Although each university has a doctoral program that offers a specialization in accounting none of them can individually provide a full set of specialized courses of the same quality level as those offered in the DK-plus. The program takes advantage of the courses at the three universities in an effective way. Resources to bring in visiting faculty for teaching can be pooled and better utilized.

In the program, doctoral students center on the design and use of accounting information in organizations and in markets, their characteristics and features, their quality, and the institutions built around accounting. A major objective of DART is to educate future analytical researchers who are capable of providing empirical and experimental researchers with carefully crafted and analytically consistent hypotheses. They will thus fulfill a transfer function between theory and empirics.

Graduates of DART will be equipped for pursuing successful careers in the international academic community. They can also find employment in accounting institutions, including regulatory agencies, standard setting and enforcement, and in practice, particularly in large firms, audit and tax advisory firms, and in financial institutions.

Applications will be invited from anywhere in the world in Spring 2010 and the new program will commence in Autumn 2010.

Research News: Corporate Tax Reforms in Germany and Austria

Both Germany and Austria have substantially altered corporate taxation in recent years. Austria introduced group taxation in 2005 and Germany introduced a flat tax on capital gains in the course of its 2008 tax reform. CAR's Rainer Niemann analyses the effects of these reforms on the ability to carry out corporate acquisitions in a joint paper with André Bauer, WHU's Deborah Schanz and the University of Bielefeld's Sebastian Schanz. They formulate an economic model under certainty to derive results about the tax system's impact on firms' ability to pay higher prices in the course of acquisitions. The results show that the corporate tax reform in Germany has unexpected effects: The introduction of a flat tax on capital gains implies that the required return of German investors increases and their willingness to pay therefore decreases. Despite a decrease in the actual tax rate the German reform thus actually deteriorates the competitive position of German acquirers.

Niemann also discusses advantages and disadvantages of capital gains taxes in a second paper which explicitly addresses the question of whether Austria should follow the German lead in this respect. He gives an overview of the legal situation in other OECD countries and then analyses capital gains taxes' impact upon financing and investment decisions of business partnerships and corporations. He shows that partnerships' financing decisions would not be affected by the introduction of such a tax but that corporations would have additional incentives for debt financing. Niemann concludes that in the light of the credit crunch this might negatively affect the real economy.

To read more:

Bauer, A./Knirsch, D./Niemann, R./Schanz, S. (2009): Auswirkungen der deutschen Unternehmensteuerreform 2008 und der österreichischen Gruppenbesteuerung auf den grenzüberschreitenden Unternehmenserwerb, Zeitschrift für Betriebswirtschaft, Vol. 79, Nr. 12, 1387-1411.

Niemann, R. (2009): Sollte Österreich eine Vermögenszuwachsbesteuerung einführen? Ökonomische Konsequenzen des deutschen Modells, in: S. Urnik, G. Fritz-Schmied, S. Kanduth-Kristen (eds.): Steuerwissenschaften und betriebliches Rechnungswesen, Vienna 2009, 309-332.

CAR Obtains IAAER Grant for Research on Financial Reporting Quality

CAR has been awarded a grant by the International Association for Accounting Research and Education (IAAER) to carry out research on financial reporting quality. The research project entitled "How to Assess High Quality Financial Reporting? An Analysis of Earnings Quality Metrics" has been submitted under IAAER's "Informing the IASB Standard Setting Process Research Program" which is sponsored by KPMG International. It will be carried out jointly by CAR's Ralf Ewert (lead) and Alfred Wagenhofer together with Andrea Szczesny from the University of Würzburg, Germany, and Aljoša Valentinčič from the University of Ljubljana, Slovenia.

Standard setters in financial reporting aim at developing accounting standards that provide high quality information to capital markets. However, "high quality" is a fuzzy concept and too vague to be suitable to guide standard setting.

The academic literature has proposed several metrics that should proxy for financial reporting, and particularly earnings, quality. This literature uses accounting-based metrics and market-based metrics, which take market pricing as a benchmark for quality. However, the fact that these metrics can be calculated from empirical data is not in itself sufficient to result in clear indications as to the quality of accounting earnings.

The objective of the research project is to contribute to a better understanding what metrics can be employed under which circumstances to assess the quality attributes of accounting earnings and/or standards. The specific research objectives are to establish both analytical and empirical insights into how the empirical metrics are related to notions of earnings quality, how they are related to each other and what the determining economic factors of these relationships are. Knowledge of these aspects enables standard setters and researchers to assess the actual suitability of various metrics to proxy for earnings quality, to interpret their empirical results correctly and to choose the metrics that are suitable for a certain issue under study.

Research News: Optimal Impairment Rules

Conservatism is a primary characteristic of accounting systems worldwide. It introduces a downward bias in the value of net assets reported in financial statements. However, the decision usefulness of biased accounting information has recently been under scrutiny by the IASB and FASB, who argue that unbiased or neutral accounting information is more useful for decisions-making. As a consequence, the two standard setters tend to favor fair value measurement over more conservative measurement approaches such as the measurement at amortized cost less impairment.

Robert Göx from the University of Fribourg and Alfred Wagenhofer have analyzed the economic role of conservative accounting. They ask the question: If the firm can design and commit to use an accounting system for valuing its existing assets, would it select a neutral or a biased accounting system and how would it value the assets?

Göx and Wagenhofer find that the optimal accounting system is conditionally conservative, that is, it recognizes impairment losses but no unrealized gains in the asset value. Their paper therefore provides an economic rationale for why conservative asset measurement can be optimal. Absent any accounting regulation, a firm that seeks to finance a risky project with outside capital will optimally design a conditionally conservative accounting system.

To read more:

Göx, R./Wagenhofer, A. (2009): Optimal Impairment Rules, Journal of Accounting and Economics, Vol. 48, Nr. 1, 2-16.

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