



Center for Accounting Research Newsletter December 2012

New Managing Editor of SBR and ZFBF



Beginning in 2013, CAR's Alfred Wagenhofer will take over the managing editor role of the Zeitschrift für betriebswirtschaftliche

Forschung (zfbf) and Schmalenbach Business Review (sbr). He has served as a coeditor of these journals as of 1999. The zfbf is the oldest and most renowned academic journal in business in the German speaking countries. It was founded in 1906 by Eugen Schmalenbach. Wagenhofer is only the sixth managing editor after Schmalenbach, Ernst Walb, Karl Hax, Herbert Hax, and Wolfgang Ballwieser. The sbr was established in 2000 as an English language journal spin-off of the zfbf. www.zfbf.de / www.sbr-online.de

Earnings Management, Conservatism, and Earnings Quality

A monograph by CAR's Ralf Ewert and Alfred Wagenhofer, titled "Earnings Management, Conservatism, and Earnings Quality", has been published in the December Issue of Foundations and Trends in Accounting. The monograph reviews economic models that study earnings management and conservatism in an information economics framework. Both earnings management and conservatism introduce a deliberate or a mandatory bias in financial reports. The work examines the economic effects these biases have on earnings quality. Ewert and Wagenhofer focus on models of managers in firms interacting with rational capital market participants, and briefly consider some contracting models. The models allow them to analyze earnings management and rational inferences by market participants in equilibrium in a variety of settings and to pinpoint costs and benefits of earnings management. Further, the monograph reviews analytical work on conservatism of accounting standards and why conservatism can

be welfare-enhancing even though it introduces a bias in the earnings reports. The benefit of equilibrium models is that they offer a rigorous explanation for the phenomena and show that sometimes conventional wisdom does not apply.

To know more:

Ewert, R., and A. Wagenhofer (2012). Earnings Management, Conservatism, and Earnings Quality. Foundations and Trends in Accounting 6, No. 2, pp. 65-186.

Conservatism and Information content

A new paper by CAR's Alfred Wagenhofer, "Vorsichtige Rechnungslegung und Informationsgehalt", was published in the December 2012 issue of the Zeitschrift für Betriebswirtschaft. It presents a formalization of conservatism of an information system and shows that, holding precision constant, an increase of the probability of bad signals reduces their information content. This can make the interpretation of bias as conservative or aggressive ambiguous. It has also consequences for the association of market returns and earnings, which is used in empirical estimates of accounting conservatism. The paper discusses several models that show economic benefits of conservatism.

To know more:

Wagenhofer, A. (2012). Vorsichtige Rechnungslegung und Informationsgehalt. Zeitschrift für Betriebswirtschaft 82, No. 12, pp. 1367-1387.

Assessing the Market Value of Private Companies for Tax Purposes

The paper by CAR's Jens Müller, "The Challenge of Assessing the Market Value of Private Companies Using a Standardized Combination Method for Tax Purposes – Lessons to be Learned from Past Experience", has been accepted for publication in the European Accounting Review. The study analyzes empirically to what extent an accounting-based tax valuation method for private companies succeeds in matching the market value. Müller refers to the mandatory Standardized Combination Model, that is, a special case of methods commonly used in several countries. In the absence of market prices for private companies, he uses a sample of small German public companies as a proxy. The results imply that the



mandatory Standardized Combination leads to a severe unequal treatment not only between public and private companies but also among private companies across and within industries.

To know more:

Müller, J. (2012). The Challenge of Assessing the Market Value of Private Companies Using a Standardized Combination Method for Tax Purposes – Lessons to be Learned from Past Experience. *European Accounting Review*, forthcoming.

GEABA Symposium in Graz



From September 19 to 21 CAR sponsored the “XIII Symposium zur ökonomischen Analyse der Unternehmung”, organized by the

German Economic Association for Business Administration (GEABA) together with the Institute of Accounting and Control (Prof. Wagenhofer) and the Institute of Organization and Economics of Institutions (Prof. Kopel). The conference started with key note presentations by Benjamin Hermalin (Berkeley), Stefan Reichelstein (Stanford), Shyam Sunder (Yale) and a panel discussion – moderated by Alfred Wagenhofer – with the presenters and Aslan Milla (PwC Vienna) on the topic “How Much Corporate Governance Regulation is Efficient?” The next two days, the conference offered three parallel sessions, covering topics from very different economic research areas. In the evenings, the participants of the conference enjoyed further informal discussions in traditional Styrian restaurants. Anna Boisits, a member of the DART program, won the best-paper-award, the Walther-Rathenau-Prize, for her paper “The Disciplining Role of Mandatory Disclosure”.

CAR Participation in Recent Conferences

CAR’s Rainer Niemann participated in the International Conference on Corporate Governance in

November in Skopje, where he presented “Taxation and Corporate Governance”. The paper examines the effects of symmetric and asymmetric taxation on performance-based versus fixed remuneration contracts. The analysis is based on a binary principal-agent model integrating a proportional corporation tax and a proportional wage tax. The results contribute to the widely neglected area of research on the role of taxation in the optimal design of managerial compensation contracts. CAR’s Alfred Wagenhofer presented “Accounting Standards, Earnings Management, and Earnings Quality”, jointly written with CAR’s Ralf Ewert, in an invited seminar in November at the University of Minnesota. The paper investigates how different characteristics of accounting systems and institutional factors that influence financial reports affect earnings quality. Wagenhofer also attended the by-invitation-only Conference of the Review of Accounting Studies at the University of California, Berkeley.

Effects of Austrian Group Taxation on Corporate Holding Structures



CAR’s Andrea Gauper successfully defended her doctoral dissertation in November 2012. Her work investigates the influence of Austrian group taxation, enacted in January 2005, on corporate holding structures.

Due to the enactment, an integration of domestic and foreign investments is expected to meet the requirements to set up a tax group. The first part of the thesis provides an empirical analysis and shows that Austrian corporations own more domestic corporate holdings eligible for group taxation after 2004. The second part deals with the effect of Austrian group taxation on foreign holding structures. A significant integration of foreign investments can again be shown. The last part of the thesis examines Austria as a holding location after the reform in 2005. Results suggest that foreign investors are indeed attracted to invest in Austria after 2004.

Imprint:

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Pictures: Archive, Private

Date of Publication: December 2012