DART students participated in two international seminars in June. Stefan Reichelstein, from Stanford University, held the 10th Summer School on Accounting at the University of Vienna (picture), which dealt with “Economic Analysis of Financial Ratios”. The main topics covered included the return-on-investment metric for performance evaluation and price regulation, the predictive power of the market-to-book ratio versus Tobin’s q, the determinants of the price-to-earnings ratio plus the accounting-profit margin as an index of monopoly power. A seminar titled "Accounting Measurement and Real Effects" was held by Haresh Sapra, from the University of Chicago, at the University of Zurich. In the first part of the seminar, Sapra provided interesting insights on his view of the importance of real effects arising from accounting procedures vs. the concept of pure exchange economies. In the second part, the focus was on global games and higher order beliefs.

The 11th workshop on Accounting and Economics was held in June in Odense, Denmark, at the University of Southern Denmark. The workshop was organized by John Christensen, from the University of Southern Denmark, and CAR’s Alfred Wagenhofer. Before the workshop, there was a three-day Ph.D. course taught by Brian Mittendorf, from Ohio State University, which focused on theories of competition and disclosure with applications to accounting. Six DART students took the opportunity to participate in the course. Anna Boisits, Sandra Kukec, and Stefan Schantl also presented part of their research and acted as discussants at the workshop.

CAR’s Alfred Wagenhofer was invited to participate as a faculty at the 2013 AAA/Deloitte/J. Michael Cook Doctoral Consortium from the American Accounting Association, held in June 2014 at the superb Deloitte University facility at Dallas. He was the only member not affiliated to a U.S. university. The faculty was chaired by Wayne Landsman from the University of North Carolina, who has been a frequent visiting professor at CAR.

CAR’s Pietro Perotti has accepted a job offer from the University of Bath. He will move to Bath in October as a Lecturer (assistant professor) in Accounting and Finance. Pietro has been working for the Center for Accounting Research since 2009. Since 2013 he has been the principal investigator of the FWF-sponsored project “Capital Market Consequences of Earnings Quality”.

Stefan Schantl is the first DART graduate. He successfully defended his thesis, titled “The Determinants of the Firm Coverage and Earnings Forecasting Behavior of Sell-Side Equity Analysts”, in June. Starting from August, he has been a Visiting Assistant Professor at the accounting area at Purdue University's Krannert School of Management.
In a paper just published in Accounting and Business Research, CAR’s Alfred Wagenhofer examines revenue and profit or loss recognition and how these measures provide financial information about companies’ performance. In the first part, the article presents a review of the academic literature that investigates the importance of revenue in informing capital markets and in performance evaluation. In the second part, the paper describes fundamental revenue recognition concepts developed in the academic literature based on the economics of risks involved in the earnings cycle. The last part of the paper evaluates the new revenue recognition standard of the International Accounting Standards Board, which aims to state a single consistent criterion for revenue recognition.

To know more:

Earnings Quality Measures and Market Mispricing

A paper by CAR’s Pietro Perotti and Alfred Wagenhofer has been published in the latest issue of the Journal of Business Finance & Accounting. The paper is part of the FWF stand-alone project “Capital Market Consequences of Earnings Quality”. Perotti and Wagenhofer examine how eight commonly used earnings quality measures fulfill a key objective of financial reporting, i.e., improving decision usefulness for investors. They examine persistence, predictability, two measures of smoothness, abnormal accruals, accruals quality, earnings response coefficient, and value relevance. They propose a stock-price-based measure for assessing the quality of earnings quality measures; specifically, they present a ranking of the earnings quality measures based on the mispricing they are associated with. Accruals measures perform best, followed by smoothness and market-based measures.

To know more:

The Effect of Taxation on International Assignments

In a new paper, which is forthcoming in the Review of Managerial Science, Jan Martini (University of Bielefeld) and CAR’s Rainer Niemann examine the effect of taxation in international assignment decisions. To address this issue, Martini and Niemann combine a human resource assignment problem with a principal–agent problem of the LEN type. They show that national tax rules, the methods for avoiding double taxation, and the agents’ tax characteristics are important determinants of international assignment decisions. The effects of tax rate variations depend on whether the exemption method or the credit method are applied.

To know more: