

**ACCT 6312, Section 001
Fall 2014**

Room: COBA 235
Time: Wednesday 1-4pm
Instructor: Terrance R. Skantz
Office: COB 430
Contact information: tskantz@uta.edu; 817-272-3065 (use email, not phone)
Office hours: By appointment

REQUIRED TEXTS:

- Delwiche and Slaughter, S.J. *The Little SAS Book: a Primer*, 5th edition, SAS Institute, 2012.
- Scott, W.R. *Financial Accounting Theory*, 6th edition, Prentice Hall (Pearson Education Canada, Ltd), 2012. (ISBN: 978-0-13-511915-0)

ONLINE TEXTS AND OTHER REFERENCE RESOURCES:

- Trochim, W.M.K., *The Research Methods Knowledge Base* (Cincinnati, Ohio: Atomic Dog Publishing), 2006. You can access content at <http://www.socialresearchmethods.net/kb/contents.htm>. This material is required for this course and will be useful throughout your studies.

OTHER REFERENCE RESOURCES:

- Basic help on SAS (and other statistical software): UCLA's Institute for Digital Research and Education is a great resource for basic questions.
<http://www.ats.ucla.edu/stat/>
- User group for WRDS – has some useful tools, including links to SAS macros
<http://www.wrds.us/>

COURSE OBJECTIVE

This course is designed to introduce you to tools and knowledge that are requisite to good research. There is no attempt to comprehensively review all major areas of accounting research or even all areas of archival financial accounting research; that is simply not possible. Rather one objective is to give you a grounding in SAS (Statistical Analysis System) which will benefit you throughout your research career regardless of what sort of research you do – experimental, survey, or quasi-experimental. Another objective is to give you elements of a basic framework that will help you understand one important strand of research. Broadly interpreted, we focus on research related to financial reporting issues through the lens of imperfect information, agency theory, and efficient (or not so efficient) capital markets. The emphasis is on archival data analysis in capital markets

research addressing financial accounting questions because capital markets-related research is one of the richest areas of accounting research and because it is among the most demanding in terms of data analysis.

Good research tries to answer interesting questions, enlightened by theoretical reasoning, heeding lessons of previous empirical findings, and following well-established and sound methodological practices. Great research has those same characteristics, and additionally answers questions that is viewed as important to many and that is reasonably unambiguous in its contribution.

What I have observed is that individuals who otherwise have the capacity to do valuable research are stymied by three factors. First, they may have a weak theoretical background relevant to the research question. Second, they may not have adequate knowledge of prior research and current methodologies. Third, they may be unable to analyze data sets in an efficient manner. While this course cannot hope to make you ‘research ready,’ it will provide you the background and tools to overcome all three impediments to valuable research -- if you apply yourself to your future research projects.

GRADING (weighting is approximate and could vary by $\pm 10\%$ in each area)

Statistical analysis projects (40%)

You have five projects involving applied statistical analysis. The projects provide you with practical experience using common databases, and analyzing that data using SAS. I help early on with SAS through a directed replication; much of the learning nevertheless will have to be on your own.

The projects involve extracting data from databases commonly used in archival research (Compustat, CRSP, I/B/E/S) and using SAS to analyze that data. The projects will require you to replicate a classic study (Ball and Brown, 1968), complete other common analyses (e.g., an event study), and conduct one replication of descriptive statistics and basic statistical tests from a published research paper. In all cases, you will write up the ‘findings’ as if you were conducting original research.

You will be responsible for proving near the end of the semester that you have a reasonable mastery of the following: SAS, Compustat, CRSP, I/B/E/S, Execucomp, and Eventus. You will have to prove your ability through an individual hands-on demonstration of data extraction skills and SAS programming (including Eventus).

I will give you more information about the projects later.

Class preparation, other assignments, and participation (20%)

You are expected to have studied all assigned readings. I will be asking questions about assigned material. Before class, it would be wise, but not required, to prepare a one or

two page summary of the readings for the week. In the latter part of the course, you will be assigned to lead the discussion for at least one article.

On occasion, in this and other courses, you may find the mathematical level of an article daunting. Don't allow that to be a barrier. Try to get the essence of the authors' point and move on.

Final exam (40%)

There is one exam.

DETAILED SCHEDULE [*As the instructor for this course, I reserve the right to adjust this schedule in any way that serves the educational needs of the students enrolled in this course -- Terrance R. Skantz*]

Aug 27 Week 1: Introduction to research terms and 'ideal' conditions under which accounting is well-defined

Trochim, 'Foundations'

Scott, Chapters 1 and 2; work Q2-16

Sep 03 Week 2: Accounting in Decision Processes

Scott, Chapter 3; work Q2-19, Q3-12

Read: Lecture: Concept of perfect information, solution to Q3-1

Read: Lecture: Instructor-prepared solution to Q3-13

Read: Lecture: Risk aversion and concept of certainty equivalent

Sep 10 Week 3: Market Efficiency and Decision Usefulness

Scott, Chapter 4 (omit section 4.8); Work Q4.7

Scott, Chapter 5

Heyne, The economic concept of efficiency

<http://www.econlib.org/library/Enc/Efficiency.html>

Jones and Netter, Efficient Capital Markets

<http://www.econlib.org/library/Enc/EfficientCapitalMarkets.html>

Ball and Brown (1968). An Empirical Evaluation of Accounting Income Numbers, *Journal of Accounting Research*, 6(2): 159-178.

Sep 17 Week 4: SAS basics

Smith et al., *Structure vs. Judgment in the Audit Process*, Management Accounting Journal, 2001.

Trochim: 'Sampling' and 'Measurement'

Measurement (chapter 1, part 1) at: <http://faculty.vassar.edu/lowry/ch1pt1.html>

'The Little SAS Book' Chapter 1: sections 1.1, 1.2, 1.3, and 1.4.

View two online 'movie' tutorials. To get to the tutorials, go to the following web page: <http://www.ats.ucla.edu/stat/sas/notes2/default.htm>. On that web page you will see

- **Class Notes**

- Entering Data, view movie
- Exploring Data, view movie
- Modifying Data, view movie
- (etc)

View the first two 'movies' -- **Entering Data** and **Exploring Data**. You don't need to actually do anything with SAS, just view the movies! We will go over some of this during class. <http://www.ats.ucla.edu/stat/sas/notes2/modifying.htm>

'The Little SAS Book' Chapter 1: sections 1.8, 1.11, 1.12, and 1.13. Chapter 2: sections 2.1, 2.3, 2.4, 2.5, 2.8 (reference), 2.13 through 2.19, 2.21.

In class: Directed project

Sep 24 Week 5: SAS basics (continued)

SCHIPPER, K. "Academic Accounting Research and the Standard Setting Process." *Accounting Horizons* 8 (December 1994): 61-73.

LEISENRING, J.J., AND L.T. JOHNSON. "Accounting Research: On the Relevance of Research to Practice." *Accounting Horizons* 8 (December 1994): 74-79.

View the two 'movies' – **Modifying Data** and **Managing Data** found at <http://www.ats.ucla.edu/stat/sas/notes2/default.htm>

Read 'The Little SAS Book,' sections 3.1-3.5, 3.8-3.9; 4.1-4.7, 4.10-4.13; 6.1-6.5.

In class: Directed project (cont)

Oct 01 Week 6: Extracting data from CRSP and Compustat; getting ready for project#1

Trochim, 'Design' (exclude the last two subsections, *Designing Designs for Research* and *Advances in Quasi-Experimentation*)

Trochim, 'Analysis'

Cochrane, J. Writing Tips for Ph. D. Students, Graduate School of Business, University of Chicago, 2005.

Green et al. Joint advice manuscript submission JFE RFS JF, 2006.

Come up with two issues in accounting or related discipline (regulatory, auditing, financial, managerial, tax, finance, or whatever) that are important *currently*. Be prepared to tell why they are important and why you think the issues may be good candidates for empirical research. The search for current issues should come from business sections of newspapers, business magazines, FASB, SEC, practitioner journals (CPA journal, Accounting Horizons, etc.), a Google search, etc. (1 to 2 pages), or personal experience.

- Read:

- Introduction to Compustat
 - Introduction to CRSP Stock Price Data

- Read data retrieval methods (omit section 4 which uses Fortran coding) found at http://www.kellogg.northwestern.edu/researchcomputing/docs/CRSP_Cstat_data_retrieval.pdf

In class: Extracting data from Compustat and CRSP; answer SAS questions.

Oct 08 Week 7: Extracting data from Compustat and CRSP (cont.)

In class: Extracting data from Compustat and CRSP; answer SAS questions

SAS project #1 due. These are individual projects, not group projects. If you need help, contact me.

Oct 15 Week 8: Capital market research, focus on event study methodology

Read:

MacKinlay, A.C., 1997. Event Studies in Economics and Finance. *Journal of Economic Literature*, 35 (1), 13-39.

Fama, E., Fisher, L., Jensen, M. and R. Roll, 1969, "The Adjustment of Stock Prices to New Information," *International Economic Review* 10, 1-21. (a classic)

Beaver, W.H. 1968. *The information content of annual earnings announcements JAR supplement 67-92*

[Brown, S. and J. Warner, 1985, "Using Daily Stock Returns: The Case of Event Studies," *Journal of Financial Economics* 14, 3-31. (**optional** – this covers statistical issues that may be tough to digest at this point in your study; but the paper is a classic and will make using Eventus more meaningful and should be read if you ever do an event study as part of a research project)]

In class: Introduction to Eventus

SAS project #2 due

Oct 22 Week 9: Market Efficiency Revisited; Delayed Reaction to Earnings

Scott, Chapter 6

Lecture: On relation between ERC and earnings persistence

Bernard and Thomas, 1990. *Evidence that stock prices do not fully reflect the implication of current earnings for future earnings*, *JAE* 13: 305-340.

Oct 29 Week 10: Positive Accounting Theory; Introduction to I/B/E/S

Scott, Chapter 8

Friedman, *The methodology of positive economics*, 1953.

Watts, Ross L. and Jerold L. Zimmerman, "Positive Accounting Theory: A Ten-Year Perspective," *The Accounting Review*, (January 1990): 131-156.

In class: Introduction to I/B/E/S and Execucomp

SAS project #3 due

Nov 05 Week 11: Shareholder/Manager Conflict

Scott, Chapter 9

Posner, Agency Models in Law and Economics, pp. 1-21 (omit section IV),

(An instructor-prepared summary of the scenarios discussed in the Posner article is available. It will help if you have the summary as you read the article – and bring to class as I will discuss.)

Nov 12 Week 12: Executive compensation

Scott, Chapter 10

Bebchuk and Fried, *Executive Compensation as an Agency Problem* (working paper), 2003.

Project #4 due

Nov 19 Week 13: Earnings Management

Scott, Chapter 11

Healy, The effect of bonus schemes on accounting decisions, JAE, 1985.

Kaplan, Comments on Healy's The effect of bonus plans, JAE, 1985.

Roychowdhury, S., 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42, 335-370.

Nov 26 Week 14: Details on Prospect Theory and Ohlson model

Copeland, T. and J. Weston, The theory of choice: utility theory given uncertainty, *Financial Theory and Corporate Policy*, 3rd ed., 77-103. [Handout]

Kahneman and Tversky, 1979. Prospect Theory: An Analysis of Decision Making Under Risk, *Econometrica* 47:2 (March), 263-292.

Ohlson, James, "Earnings, book value and dividends in security valuation, " *Contemporary Accounting Research* (Spring) 1995, Vol. 11, No.2, pp.661-687.

Bernard, Victor L. "The Feltham-Ohlson framework : Implications for empiricists," *Contemporary Accounting Research* (Spring) 1995, Vol. 11, No. 2, pp. 733-748.

Lundholm, A tutorial on the Ohlson and Feltham/Ohlson models: Answers to Frequently Asked Questions, *Contemporary Accounting Research*; Spring 1995, 749-761.

Dec 03 Week 15:

Come up with one good research question related to one of the issues that you identified in week 6 (or, an entirely different one if you prefer). Explain who would be interested in the answer to the research question. Explain how an answer to the research question would inform the issue. Describe your dependent and independent variables. Tell whether there should be a positive or negative association between the dependent and independent variables, and why you think so. Write this up in two pages, double-spaced, 12 point font.

Dec Week 16 : Final exam and final SAS project (replication) due

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Additional information

Attendance: At The University of Texas at Arlington, taking attendance is not required. Rather, each faculty member is free to develop his or her own methods of evaluating students' academic performance, which includes establishing course-specific policies on attendance. As the instructor of this section, I will expect you to attend all classes. Your grade will be affected by class attendance and class preparation.

Drop Policy: Students may drop or swap (adding and dropping a class concurrently) classes through self-service in MyMav from the beginning of the registration period through the late registration period. After the late registration period, students must see their academic advisor to drop a class or withdraw. Undeclared students must see an advisor in the University Advising Center. Drops can continue through a point two-thirds of the way through the term or session. It is the student's responsibility to officially withdraw if they do not plan to attend after registering. **Students will not be automatically dropped for non-attendance.** Repayment of certain types of financial aid administered through the University may be required as the result of dropping classes or withdrawing. For more information, contact the Office of Financial Aid and Scholarships (<http://wweb.uta.edu/aao/fao/>).

Americans with Disabilities Act: The University of Texas at Arlington is on record as being committed to both the spirit and letter of all federal equal opportunity legislation, including the *Americans with Disabilities Act (ADA)*. All instructors at UT Arlington are required by law to provide "reasonable accommodations" to students with disabilities, so as not to discriminate on the basis of that disability. Any student requiring an accommodation for this course must provide the instructor with official documentation in the form of a letter certified by the staff in the Office for Students with Disabilities, University Hall 102. Only those students who have officially documented a need for an accommodation will have their request honored. Information regarding diagnostic criteria and policies for obtaining disability-based academic accommodations can be found at www.uta.edu/disability or by calling the Office for Students with Disabilities at (817) 272-3364.

Title IX: The University of Texas at Arlington is committed to upholding U.S. Federal Law "Title IX" such that no member of the UT Arlington community shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity. For more information, visit www.uta.edu/titleIX.

Academic Integrity: Students enrolled all UT Arlington courses are expected to adhere to the UT Arlington Honor Code:

I pledge, on my honor, to uphold UT Arlington's tradition of academic integrity, a tradition that values hard work and honest effort in the pursuit of academic excellence.

I promise that I will submit only work that I personally create or contribute to group collaborations, and I will appropriately reference any work from other sources. I will follow the highest standards of integrity and uphold the spirit of the Honor Code.

UT Arlington faculty members may employ the Honor Code as they see fit in their courses, including (but not limited to) having students acknowledge the honor code as part of an examination or requiring students to incorporate the honor code into any work submitted. Per UT System *Regents' Rule* 50101, §2.2, suspected violations of university's standards for academic integrity (including the Honor Code) will be referred to the Office of Student Conduct. Violators will be disciplined in accordance with University policy, which may result in the student's suspension or expulsion from the University.

Electronic Communication: UT Arlington has adopted MavMail as its official means to communicate with students about important deadlines and events, as well as to transact university-related business regarding financial aid, tuition, grades, graduation, etc. All students are assigned a MavMail account and are responsible for checking the inbox regularly. There is no additional charge to students for using this account, which remains active even after graduation. Information about activating and using MavMail is available at <http://www.uta.edu/oit/cs/email/mavmail.php>.

Student Feedback Survey: At the end of each term, students enrolled in classes categorized as "lecture," "seminar," or "laboratory" shall be directed to complete an online Student Feedback Survey (SFS). Instructions on how to access the SFS for this course will be sent directly to each student through MavMail approximately 10 days before the end of the term. Each student's feedback enters the SFS database anonymously and is aggregated with that of other students enrolled in the course. UT Arlington's effort to solicit, gather, tabulate, and publish student feedback is required by state law; students are strongly urged to participate. For more information, visit <http://www.uta.edu/sfs>.

Final Review Week: A period of five class days prior to the first day of final examinations in the long sessions shall be designated as Final Review Week. The purpose of this week is to allow students sufficient time to prepare for final examinations. During this week, there shall be no scheduled activities such as required field trips or performances; and no instructor shall assign any themes, research problems or exercises of similar scope that have a completion date during or following this week *unless specified in the class syllabus*. During Final Review Week, an instructor shall not give any examinations constituting 10% or more of the final grade, except makeup tests and laboratory examinations. In addition, no instructor shall give any portion of the final examination during Final Review Week. During this week, classes are held as scheduled. In addition, instructors are not required to limit content to topics that have been previously covered; they may introduce new concepts as appropriate.

Emergency Exit Procedures: Should we experience an emergency event that requires us to vacate the building, students should exit the room and move toward the nearest exit, [which is located \[I will point out exit location in class and insert a description of the nearest](#)

[exit/emergency exit later](#)]. When exiting the building during an emergency, one should never take an elevator but should use the stairwells. Faculty members and instructional staff will assist students in selecting the safest route for evacuation and will make arrangements to assist individuals with disabilities.

Writing Center: The Writing Center, 411 Central Library, offers individual 40 minute sessions to review assignments, *Quick Hits* (5-10 minute quick answers to questions), and workshops on grammar and specific writing projects. Visit <https://uta.mywconline.com/> to register and make appointments. For hours, information about the writing workshops we offer, scheduling a classroom visit, and descriptions of the services we offer undergraduates, graduate students, and faculty members, please visit our website at www.uta.edu/owl/.

Emergency Phone Numbers: In case of an on-campus emergency, call the UT Arlington Police Department at **817-272-3003** (non-campus phone), **2-3003** (campus phone). You may also dial 911.
