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Ph.D. Qualifying Exam- Financial Accounting
May 10, 2006

PART 1

1. Please answer the following questions:

- (a) There are three primary types of measures to accounting conservatism in extant literature on conservatism. Please comment on each measure (12%).
- (b) Prior study shows that auditor experts are more likely to constrain earnings management behavior by their client (i.e. smaller income-increasing accrual and lower earnings level) than non-experts. Hence the auditor experts are associated with **higher** clients' earnings quality. The results are generally attributable to the better ability of auditor experts to detect accounting irregularities and incorrect estimations. However, anecdotal evidence shows that there is an alternative explanation for these findings:

「 Auditor who an industry experts, and who have reputations as industry experts, may behave conservatively to minimize business risk and the loss of reputation from potential litigation and regulatory scrutiny of client earnings reports. If true, then the effect of an industry audit expert may actually be to **reduce** the quality of earnings due to auditor bias. Hence, self-serving auditor conservatism could create a systematic bias that causes earnings to be of lower rather than higher quality. 」

Please design a research to disentangle these two competing interpretations of the results (You don't need to proxy for auditor experts, and just set a dummy variable (EXPERT) equal to one if audit is industry expert, and zero otherwise) (13%).

2. Voluntary disclosure is an effective means for management to communicate information about firm performance to outside investors.

- (a) What are the motives for voluntary disclosure? **(6)**
- (b) What are the economic consequences of voluntary disclosure? **(6)**
- (c) Endogeneity is a potentially serious problem for some of research on voluntary disclosure. How to address the following issues?
 - (1) In the context of conference calls, how to examine the information content of conference calls announcement? Can you suggest at least two ways to overcome this selection-bias problem? **(6)**
 - (2) Inventory backlog is important information for outsider investors to value firm's value. Some firms disclose it in annual report, and some do not. Under this self-selection bias situation, how do you explore whether the backlog information is useful to investors? **(7)**