

Department of Accounting
College of Commerce
National Chengchi University

Ph.D. Qualifying Exam- Financial Accounting
May 7, 2007

PART 1

1. (35%)

Conservatism is an important issue in Financial Accounting Research.

- (1) (5%) Describe the discussion of conservative accounting in Feltham and Ohlson (1995, CAR).
- (2) (10%) Discuss each explicit/implicit assumption in Feltham and Ohlson, and the impact of violating the assumption on the deduction of the model.
- (3) (10%) Review the literature of financial accounting associated with conservatism.
- (4) (10%) Propose your own idea (including topic, hypothesis, and research design) to empirically examine conservatism-related issues. (at least three ideas)

2. (15%)

The abstract of Ronen and Yaari (2007, RAS) is as follows:

Consider the following puzzle: If earnings management is harmful to shareholders, why don't they design contracts that induce managers to reveal the truth? To answer this question, we model the shareholders–manager relationship as a principal–agent game in which the agent (the manager) alone observes the economic outcome. We show that the limited liability (LL) of the agent, defined as the agent's feasible minimum payment, might explain the demand for earnings management by the principal. Specifically, when the LL level is high (low), a contract that induces earnings management may be less (more) costly than a truth-revealing contract. This finding offers a new explanation of the demand for earnings management.

As to Bagnoli and Watts (2000, JAPP),

- (1) (10%) Describe the following settings:
 - (A) players
 - (B) information structure
 - (C) decision (or actions) for each player
 - (D) equilibrium
- (2) (5%) Comparing to Ronen and Yaari's research, discuss the possible assumptions/settings which Bagnoli and Watts should concern additionally.

