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Ph.D. Qualifying Exam- Financial Accounting
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PART 2

1. Measuring true analyst expectations is already a difficult task. Whether analysts have been manipulated by firm managements in order to issue relatively low forecasts (referred to as *expectations management*) cannot, obviously, be directly observed. Matsumoto (2002) has developed proxy to capture expectations management. She models the expected forecast as a function of public information about the firm's performance (measured by EPS changes and stock price returns) and compare it with the last consensus forecast. *Expectation management* is suspected when the last consensus forecast is below the expected forecast.

    (1) Please comment the methodology by Matsumoto (2002) with respect to *expectations management*. **(10 %)**

    (2) If you would like to test the link the <u>executive compensation</u> and e<u>xpectation management</u>, please describe your research design. (**Hint:** You should base your design on Murphy (1999), which provides a description of the components that constitute most executive compensation packages: stocks, stocks options, bonus payments, long-term incentive plans, and base salary.) **(13%).**

2. Sloan (1996) documents the accruals anomaly in the U.S. capital markets. A number of studies also have shown that accruals anomaly is robust across various samples of U.S. sample (e.g., Xie, 2001; Zack, 2002). Recent paper (Pincus et al., 2007) further examines this anomaly in the context of 20 countries, exclusive of the China; they find that the anomaly varies across firms with different legal tradition, institution, and accounting characteristics.

    In China, the China Securities Regulatory Commission (CSRC) passed a delisting regulation, which stipulates that stocks of listed firms that have reported two consecutive annual losses receive "special treatment" status. If the firms report one more loss year, the stocks will be suspended from trading on the exchanges. If firms report four consecutive annual losses, their stocks will be delisted. Being specially treated or delisted will bring numerous costs to the firm, such as trading costs and liquidity costs (Chen and Schoderbek, 1999; Leuz et al., 2004). It is well documented that listed firms tend to manage earnings (e.g., discretionary accruals) to avoid the penalty threshold.

Now, if you would like to provide insights about whether the Sloan' accruals anomaly exists in the China market, can you just replicate the Sloan' paper in the context of the China market? If you replicate his paper and find that the market is efficient in term of earnings, do you think that the results make sense? If the preliminary findings can't convince you, whether you can propose another explanation and conduct additional analyses? **<u>Hint</u>**: when you sketch the empirical design, please consider the effect of the unique regulation in China on Sloan' accrual anomaly. **(13 %)**

3. Ohlson model is based on the *clean surplus relation*. However, employee bonus in Taiwan was recognized as dividend distribution prior to 2008, rather than expense as incurred in income statement. This treatment of employee bonus in Taiwan is often called as *dirty surplus relation*.

   (1) Are there any effects of this kind of accounting for employ bonus on Ohlson model? What is the difference between these two *relations* in the context of Ohlson model? **<u>Please prove your arguments</u>** (You should prove it by equations, not just describe it). **(12%)**

   (2) Whether are there other settings based on the *dirty surplus relation*, rather than *clean surplus relation*, in Taiwan? **(2%)**