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Ph.D. Qualifying Exam- Financial Accounting
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PART 2

1. 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. **(20%)**

2. Please review the literature on (A) conservatism or (B) earnings management, in particular the latest development (Please complete either Part A or Part B, but not both). **(15%)**

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*. Are there any effects of this kind of accounting for employ bonus on Ohlson model? (please describe in more detail) And are there any implications for empirical studies? **(15%)**