



Financial Reporting Journal

Financial Accounting & Reporting Section

Summer 2002

TABLE OF CONTENTS	PAGE
President's Letter	1
A Response to the Enron Collapse	2
What's Up at the International Accounting Standards Board?	4
Fellowship Opportunities	6
AcSEC Update Information	7
AAA Convention Sessions	
FARS Concurrent Sessions	7
CPE Sessions	10
Midyear Meeting Information	
Call for Papers	11
Preliminary Program	13
Manuscript Submission Form	14
<i>Financial Reporting Journal</i>	
Editorial Information	12

President's Letter

June 19, 2002

Dear FARS member:

With the leadership of this year's Financial Accounting and Reporting Section national meeting program coordinator (Marilyn Johnson, Michigan State University) and other hardworking individuals of our section, there will be much for section members to participate in at the 2002 AAA national meeting in San Antonio, Texas. The FAR section will sponsor three CPE sessions, 19 concurrent research sessions, and 2 panel sessions. In addition, there will be both a section luncheon and business meeting.

Terry Warfield (FARS CPE Coordinator, University of Wisconsin-Madison) has organized three CPE sessions for Wednesday, August 14, 2002. The first two sessions: Current Issues in Financial Reporting (presented by Todd Johnson and Katherine Schipper of the FASB) and Accounting for Derivatives in Financial Statements (presented by Tom Linsmeier of Michigan State University) are updated presentations of well attended and highly rated sessions at recent annual meetings. The third session on Financial Instruments'

Fair Values: Theory and Implementation (presented by John Smith of Deloitte and Touche) is a new session that expands on a highly informative presentation made at this year's AAA-FASB Financial Reporting Issues Conference.

For the AAA annual meeting, the number of concurrent research sessions and forum space allocated to each section is based on the relative proportion of papers submitted by section members. As always, we should be proud of the research productivity of our section. The 136 papers evaluated by FARS members, again easily represents the largest amount submitted by any section in the AAA. Of these 136 papers, size constraints permitted acceptance of 57 papers for presentation in 19 FARS-sponsored concurrent research sessions and 20 papers will be made available for dissemination in the FARS Research Forum. In addition, numerous other research papers of FARS members will be presented in the interdisciplinary sessions, which are unique to this year's program. As I'm sure we all appreciate, it is a difficult task to process so many papers in such a short time period. While Marilyn Johnson is owed many thanks for leading this effort, she also wishes to recognize the willing and timely assistance of the 79 reviewers, 19 moderators and 19 discussants who generously volunteered their time to make this year's program a success.

Before and after our section luncheon on Thursday afternoon there will be two panel sessions that should be of great interest to section members. The first is the ever-popular FASB/SEC Update, featuring presentations by Mike Crooch (FASB) and Bob Herdman (SEC). The second panel entitled Enron: Causes and Consequences will explore the views of Trevor Harris (Morgan Stanley), Bob Herdman (SEC), Katherine Schipper (FASB) and Mike Sutton (ex-SEC) on issues that have received our rapt attention over the last year.

On Thursday afternoon, the Financial Accounting and Reporting Section luncheon will feature a speech by Lou Thompson, President & CEO of the National Investor Relations Institute. He will explore current financial reporting issues in investors' relations, con-

centrating on issues raised as a consequence of the large number of purported cases of corporate accounting shenanigans made public in recent years. Mr. Thompson, a former Assistant White House Press Secretary to President Gerald R. Ford, is an accomplished speaker and promises to raise some interesting issues for our consideration. In addition at this luncheon, the chairs of the Best Paper Award Committee, (Jim Wahlen, Indiana University) and the Best Dissertation Award Committee (Dave Ziebart, University of Illinois at Urbana-Champaign) will announce the recipients of this year's awards. Recognition also should be given to their committee members (Best Paper Committee: Christine Botosan (University of Utah), Peter Easton (Ohio State University), Eric Hirst (University of Texas-Austin), and Terry Warfield (University of Wisconsin-Madison); Best Dissertation Committee: Anne Beatty (Penn State University), Mort Pincus (University of Iowa), Grace Pownall (Emory University), Tom Schaefer (University of Notre Dame), and Senyo Tse (University of Texas-Austin)).

The section business meeting will be held at 5:45–6:45 pm on Thursday evening. While the meeting is being held at an inconvenient time due to space constraints in the convention hotels, I encourage your attendance. Two important issues will be addressed. First, the section's officer nominating committee (Bill Baber (George Washington University), Mary Lea McEnally (University of Texas-Austin), Tom Porter (Georgia State University), and chair, Katherine Schipper (FASB)) will make their report and elections will be held. Second, detailed plans for the 2003 FAR section midyear meeting in Orlando, Florida will be announced and open issues relating to meeting planning will be deliberated. (See pages 11, 13, and 14 for additional information on the midyear meeting, including a call for research papers).

I hope to see all of you in San Antonio!

Regards,

Tom Linsmeier

2001–02 FARS President

A Response to the Enron Collapse

By Edmund L. Jenkins and Diana W. Willis¹

The collapse of Enron, together with several other widely reported situations purported to involve financial reporting failures, has led the American public

to raise questions about the adequacy of accounting standards in the United States and the Financial Accounting Standards Board's (FASB) role in establishing those standards.

For nearly 30 years the FASB has had the responsibility of establishing standards governing accounting and financial reporting in the United States. The Board comprises a broad range of constituencies representing accounting firms, academia, corporations and the investor community. Board members serve the FASB on a full-time basis and are required to sever all connections with their prior employers. The FASB carries out its standard-setting responsibilities in a fully open due process. Our focus is on the investor and other users—the “customers” of financial information.

High-quality financial reporting is essential to maintaining a robust and efficient capital market system. A highly liquid capital market requires the availability of transparent and complete information so that all investors and potential investors can make informed decisions as they allocate their capital among competing alternatives.

While many have commented on the importance of financial reporting, Lawrence Summers, former Secretary of the Treasury, said it perhaps best: “The single most important innovation shaping [the American capital] market was the idea of generally accepted accounting principles.” The importance of an independent, private-sector, open due process system to establish financial reporting standards cannot be over-emphasized.

An *independent standard setter* is necessary so that standards can be set in an objective manner and without bias. Information provided from applying the standard must be neutral so that it faithfully reflects the underlying transaction or event of the reporting entity.

A *private-sector standard setter* is important because it avoids politicizing the setting of standards. A government standard setter, like the SEC, would be subject to significantly greater political pressures to incorporate public policy goals into financial reporting. This would reduce the transparency of information to investors.

An *open due process* is essential to the credibility of financial reporting standards. It is important that standards be debated and set in public forums. Preliminary ideas and proposed standards need to be commented on by all constituents so that the best answers

are achieved in the end. The FASB's open due process is extensive. Board meetings are open to the public, constituent comments are sought at several stages during the course of developing a new standard, and public hearings and open meetings of constituent task forces often are held. The FASB listens carefully to what it hears and learns from that process.

The FASB does not know many of the facts relating to Enron's financial accounting and reporting. Enron, however, publicly acknowledged in its filings with the SEC that its financial statements did not comply with existing accounting requirements in at least two areas. The Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron suggests that Enron's financial statements included other violations of existing accounting requirements. One such reference in the report states:

Enron's original accounting treatment of the Chewco and LJMI transactions that led to Enron's November 2001 restatement was clearly wrong, apparently the result of mistakes either in structuring the transactions or in basic accounting. In other cases, the accounting treatment was likely wrong, notwithstanding creative efforts to circumvent accounting principles through the complex structuring of transactions that lacked fundamental substance.

In addition, at the trial of Andersen in Houston, two partners from Andersen's professional standards group testified that "seriously flawed accounting methods and misleading documentation [was] prepared by the Enron team to justify the accounting." They also testified that the Enron audit team "disregarded and misrepresented" the professional standard group's advice about the appropriate accounting required.

It is important to understand that the FASB has no authority to enforce its standards. Responsibility for ensuring that financial statements comply with accounting requirements rests with the officers and directors of the reporting entity, the auditor of the reporting entity's financial statements, and for public companies, the SEC. The FASB also has no authority or responsibility for auditing, independence, or scope of services matters. Rather, our responsibility relates solely to establishing financial accounting and reporting standards.

The Board has projects under way in over a half-dozen areas that will propose significant improvements to

existing requirements, including a project to improve the accounting for consolidations, and a project to improve the guidance for determining the fair values of financial instruments. As part of its project on consolidations, the Board plans to issue a proposal in the second quarter of this year that will resolve some common issues encountered in present practice, including issues relating to consolidation of SPEs.

The Board also understands the concerns that some, including SEC Chairman Harvey L. Pitt, have raised about the speed of our standard-setting activities. The Board is focusing on improving our efficiency and effectiveness without jeopardizing the openness and thoroughness of our due process. For example, we have decided to issue prospectuses on potential new agenda projects to seek comments from the public on the appropriate scope of a new project. We have also adopted new planning tools for our projects to help us in ordering the issues and measuring the progress we are making. More broadly, we have reorganized the management of our staff so that the staff director for major projects will be able to spend more time working directly with the project team. In addition, the Trustees of the Financial Accounting Foundation have eliminated our supermajority voting requirement in favor of a simple 4-3 majority vote.

The FASB and its standards cannot alone achieve high-quality financial reporting. Reporting entities, auditors and regulators all have important roles.

Reporting entities seeking to access the capital markets for financing must apply the standards developed by the FASB in a way that is faithful to the intent of the standards. Seeking loopholes obfuscates reporting and does not result in a transparent and true reflection of the economics of the underlying transactions.

Auditors also must assure that the intent of the standards are followed and not accept an argument that the reporting is acceptable just because the standards do not say an entity cannot report in a certain obfuscating way. Auditors have a primary responsibility to the public, since investors and other users do not have access to the underlying facts about an entity's operations and transactions.

Regulators, principally the SEC, also have an important role. Through their oversight and enforcement activities they assure that entities report based on following financial reporting standards and that auditors are independent and examine financial statements using accepted auditing standards.

The SEC has oversight responsibilities for the FASB. The SEC assures that the FASB agenda is addressing issues where improved reporting is desirable. Generally, the SEC does not influence the resulting standards, but it could. The Securities Acts of the 1930s gave the SEC the power to set financial reporting standards, but early on the SEC said it believed the accounting profession was best equipped to set standards and it would look to that profession to do so.

Without the high-quality financial reporting standards established by the FASB, each party to our capital market system would need to determine for itself how to present, read and examine financial information. There would be no consistency, no comparability, little transparency and a lack of trust in the information, which would lead to higher costs for capital and increased risks for investors.

The FASB is committed to proceed expeditiously to resolve any financial accounting and reporting issues that arise as a result of Enron's bankruptcy so that the transparency of information available to participants in our capital markets is maintained and enhanced.

¹Edmund L. Jenkins is Chairman of the Financial Accounting Standards Board, and Diana W. Willis is a Senior Project Manager on the Board's technical staff.

What's Up at the International Accounting Standards Board?

By Mary E. Barth¹

The International Accounting Standards Board (IASB) has been in operation for just over a year. It has been very busy (and productive!) and there is no end in sight. This article briefly summarizes the topics on the IASB's current technical agenda and identifies some likely candidates for additions to the agenda in the near future. Further details on each topic can be obtained on the IASB's web site: www.iasb.org.uk.

Current Agenda Topics

The IASB issued its first exposure draft (ED) on May 15, 2002 on *Improvements to Existing International Financial Reporting Standards*. This ED contains proposed changes to twelve International Accounting Standards (IAS), issued by the Board of the International Accounting Standards Committee (IASC), the predecessor to the IASB. The objectives of the IASB in proposing changes to these standards are to reduce or

eliminate accounting method alternatives, redundancies, and conflicts within IAS, to increase convergence with national Standards, and to make other improvements to the Standards. The proposed changes do not purport to make each of these Standards "perfect" or to achieve total convergence. Rather, the objective is to make as many improvements as possible in a reasonable amount of time. Issues in these Standards that are more complex and, thus, require more analysis are not in the ED, but await further consideration by the Board.² The comment deadline for the ED is September 16, 2002 and the IASB welcomes comments from all of its constituents.

As a separate part of the Improvements Project the IASB expects to issue soon an ED containing proposed amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IAS 32, *Financial Instruments: Disclosure and Presentation*.

Other topics that will result in EDs in the very near future include *First-Time Application of International Financial Reporting Standards (IFRS)* and *Business Combinations, Phase One*. The proposed Standard on first-time application specifies how a company adopts for the first time IFRS as its basis of reporting. This issue is of pressing importance for the approximately 7,000 companies in the European Union (EU) that must adopt IFRS in 2005. The proposed Business Combinations standard will parallel closely the recently issued FASB standards, resulting in a high level of convergence for accounting for business combinations. The IASB is working jointly with the FASB on *Business Combinations, Phase Two*, which is addressing issues related to application of the purchase method, entities under common control, and combinations of mutual entities. The IASB also plans to address business combinations achieved by contract, rather than by exchange of equity interests.

Three other topics are occupying a large portion of the IASB's time. They are Insurance Contracts, Accounting for Share-Based Payment, and Reporting Performance, which is a joint project with the UK Accounting Standards Board (UK ASB). Currently, there is no international accounting standard for either insurance contracts or share-based payment. Given the importance of these transactions to companies all over the world, it is important that the IASB issue standards to deal with them. Because of the adoption of IFRS for publicly traded companies in the EU in 2005, it would be highly desirable to have standards in place by that time for these transactions.

The Insurance Steering Committee, established by the Board of the IASC, issued an Issues Paper on Insurance in November 1999, and sought comment from constituents. Since that time, the Steering Committee has refined its thinking and almost completed a Draft Statement of Principles (DSOP). The IASB has been discussing the DSOP since November 2001 in preparation for making the decisions that will form the basis for an ED, tentatively scheduled for issuance in late 2002. The DSOP takes an asset and liability approach to accounting for insurance contracts, which is consistent with the IASB's *Framework for the Preparation and Presentation of Financial Statements* (Framework). This approach could result in a gain or loss being recognized at the inception of an insurance contract, based on the current value, fair value or entity-specific value, of assets and liabilities arising from the contract. Deferred premiums *per se* would not be recognized as liabilities. After contract inception, profit or loss on the contract would reflect compensation to the contract writer of release from insurance risk, as well as changes in expectations, investment income, and interest expense. Many insurance contracts currently are accounted for under a deferral and matching approach, with premium revenue being recognized over the term of the contract and claims liabilities being recognized only for incurred losses. This approach does not always result in recognized assets and liabilities that meet the definition of assets and liabilities under the IASB's Framework. The IASB Staff and Board members have been conducting field visits with insurance companies in several countries, including the U.S., to learn more about how they manage their business and about their concerns relating to implementing the DSOP proposals.

The IASB's project on share-based payments also has benefited from the work of the IASC Board. In particular, the G4+1, where the "+1" was the IASC Board, issued a discussion document in July 2000 on share-based payments. The IASB has considered comments received by it and by other members of the G4, i.e., Australia, Canada, New Zealand, the U.K., and the U.S., in response to that document and re-issued the document for additional comments, which the IASB also has considered. Over the last several months, the IASB has made several tentative decisions in the process of developing a proposed standard. Perhaps most fundamentally, the IASB has decided that assets, or resources, received in exchange for share-based payments should be recognized in the same way as any other resource. Thus, employees services received in

exchange for share-based payments should be recognized as an expense. The Board also tentatively has agreed that the resources received should be measured at fair value, and that the measurement date should be grant date. The Board has not yet resolved how to deal with the effects of vesting conditions or all of the attendant measurement issues, which are critical to any Standard covering these transactions. To aid it in its decision-making process, the Board formed an Advisory Group of persons from a variety of backgrounds, including the investment, corporate, audit, academic, compensation consultancy, valuation, and regulatory communities. The group's advice and counsel has been very helpful to the Board. The IASB plans to issue an ED by the end of 2002. As with all of its documents, the Board welcomes comment from all of its constituents.

The project on Reporting Performance can be characterized as "what should the Income Statement look like?" but, its scope also includes potential revisions to the Statement of Changes in Equity and the Cash Flow Statement. The scope of the project does not include changes to any recognition or measurement standards. But, disaggregation or aggregation of currently recognized amounts is a possible outcome. The Board tentatively has concluded that there should be a single statement of recognized income and expenses that includes all increases or decreases in net assets of the entity, other than those arising from transactions with owners in their capacity as owners. It also tentatively has concluded that recycling between categories in the performance statement and between the statement and the statement of shareholders' equity should be prohibited. Although the Board has not made any tentative conclusions regarding the format of the performance statement, its recent discussions have focused on a two-column approach, with each column distinguishing results from activities of the business from financing or treasury activities. The columns would distinguish items that are more helpful to users in predicting future performance from those that reflect asset and liability changes relating to changes in expectations of the future. For example, current year depreciation expense would be included in the first column, whereas an asset impairment write-down would be included in the second column. The Board's thinking is evolving and it is working closely with the UK ASB in developing its proposals. The Board also is following closely the FASB's Performance Reporting project. The goal is for a converged standard on performance reporting. The IASB has not yet decided

whether it will issue a discussion document relating to this project or an ED; that decision likely will be made this summer.

The IASB also has a project to revise IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, but, consistent with the Board's focus on transactions and not on particular entities, the revised standard likely will have a more activity-based title such as *Financial Activities: Disclosures and Presentation*. The IASB expects to issue an ED later this year with the objective of updating and rationalizing the disclosure requirements relating to lending, deposit-taking, and securities business and other similar activities of financial institutions.

Candidates for Inclusion on the Agenda

The IASB currently is considering moving several topics from its research agenda to its active agenda, now that several of its projects are moving to the ED stage. The IASB adds topics to its agenda after consultation with the Chairs of the eight national standard setters with whom it has formal liaison relationships, i.e., Australia, Canada, France, Germany, Japan, New Zealand, the U.K., and the U.S., and its Standards Advisory Council. These discussions will be complete by June, 2002, which means that agenda decisions are likely in July, 2002.

The IASB is likely to add a project focused on Convergence aimed at tackling several specific topics, such as pensions, income taxes, segments, asset revaluations, etc., that were too broad to be included in the Improvements Project, but that result in major differences in accounting around the world. Another topic likely to be added to the agenda is Consolidations and Special Purpose Entities. Post-Enron, the entire world is anxious to have a high quality consolidation standard. A project on Liabilities and Revenue Recognition also is a likely candidate for addition to the agenda. The FASB recently has added this project to its agenda so the two Boards likely would work together closely; perhaps it will be a joint project. The UK ASB also has this project on its agenda and, thus, the U.K. will be active on it as well. There are two potential agenda projects that are more fundamental and, thus, could result in changes to the IASB's Framework. These are projects on the Measurement Objective and on Financial Statements Elements Definitions. The Measurement Objective project would resolve the measurement objective, e.g., fair value, value-in-use, cost accumulation, etc., for initial measurement and for subsequent measurements, particu-

larly impairment and asset revaluations. The definitions project would be aimed at ensuring that the differences in wording of definitions of assets, liabilities, equity, income, and expenses in frameworks around the world are simply differences in wording, not meaning. If there are differences in meanings, the project would aim to resolve the differences. Without common financial statement element definitions, it will be much more difficult to achieve total global convergence of accounting standards.

Other topics under consideration include financial instruments, following up on the proposals made the Joint Working Group, leases, intangible assets, extractive industries, small and medium sized entities and/or emerging economies, and management discussion and analysis.

¹Mary E. Barth is Atholl McBean Professor of Accounting at Stanford University, and one of two part-time members of the International Accounting Standards Board.

² For example, IAS No. 23, *Borrowing Costs*, generally requires immediate expensing of borrowing costs, but permits capitalization as an allowed alternative. The ED does not propose eliminating this option because borrowing costs closely relate to other capitalized costs and proposing a change for borrowing costs might be considered as requiring a change to other Standards. Moreover, adopting one of the alternatives would create divergence between International Standards and those of several of the IASB's partner standard setters. After considering the advice received from the Chairs of its partner standard setters and its Standards Advisory Council, borrowing costs were not included in the Improvements Project.

Fellowship Opportunities

The United States Securities and Exchange Commission (SEC) has available three outstanding fellowship opportunities for the 2003–2004 academic year. Each of these positions provide opportunities for professors to be directly involved in accounting and auditing standard-setting and regulation, and would be great ways to spend a sabbatical year or a leave of absence.

The first fellowship, in the Office of the Chief Accountant, is for a research-oriented professor, and requires a PhD. The second fellowship involves developing and presenting training for the Division of Corporation Finance, reviewing filings, and researching financial reporting issues. Requirements include a Master's or PhD, and extensive financial accounting teaching experience. The third fellowship involves conducting studies in the Office of Economic Analysis. Candidates should have, or be near to completing, a PhD in

Accounting.

Applications received by October 1, 2002 will receive priority. Applications consist of a letter and resume summarizing qualifications, and a copy of any relevant research papers. Applications for all fellowships should be sent to Paul Munter, US SEC, 450 Fifth St NW, Washington, DC 20549-1103. Please indicate which fellowship(s) you wish to consider. Please consider applying for these outstanding professional development opportunities.

AcSEC Update Information

The AcSEC Update Newsletters, which in past years were included in this mailing, are now available online. The general index for all available issues is at <http://www.aicpa.org/members/div/acctstd/acsec/index.htm>.

FARS Concurrent Sessions at the AAA Convention

Thursday, August 15, 2002—10:15 am—11:45 am

Session: *Valuation of Supplemental Disclosures*

Moderator: Huai Zhang, University of Illinois at Chicago

• *The Information Content of the Deferred Tax Valuation Allowance: An Event Study of News Disclosures of Valuation Allowance Changes.* Krishna R. Kumar, The George Washington University; Gnanakumar Visvanathan, The George Washington University

• *Joint Accounting Choices: An Examination of Firms' Adoption Strategies for SFAS No. 106 and SFAS No. 109.* Michele Daly, Rice University; Debra Jeter, Vanderbilt University; Paul Chaney, Vanderbilt University

• *Are Interim Income Tax Disclosures Relevant? A Study of Effective Tax Rate Changes.* Mark P. Bauman, University of Wisconsin-Milwaukee; Kenneth W. Shaw, University of Missouri-Columbia

Discussant: Paul Hutchison, University of North Texas

Session: *FASB and SEC Update*

Moderator: Steven L. Henning, SEC

Panelists:

Steven L. Henning, SEC

Robert Herdman, SEC

G. Michael Crooch, Financial Accounting Standards Board

Thursday, August 15, 2002—2:00–3:30 pm

Session: *Enron: Causes and Consequences*

Moderator: Thomas J. Linsmeier, Michigan State University

Panelists:

Michael Sutton, SEC (former)

Katherine Schipper, Financial Accounting Standards Board

Robert Herdman, SEC

Trevor Harris, Morgan Stanley

Thomas Linsmeier, Michigan State University

Session: *Valuation of Cash Flow and Earnings*

Moderator: Susan Gill, Washington State University

• *Is the Whole Greater than the Sum of Its Parts? Evidence of Synergies in Earnings versus EVA.* Gary C. Biddle, Hong Kong University of Science and Technology; Robert M. Bowen, University of Washington; James S. Wallace, University of California, Irvine

• *An Empirical Analysis of Analysts' Cash Flow Forecasts.* Mark L. DeFond, University of Southern California; Mingyi Hung, University of Southern California

• *The Ability of Earnings to Predict Future Operating Cash Flows Has Been Increasing—Not Decreasing.* Myung-Sun Kim, University of Missouri-Columbia; William Kross, Purdue University

Discussant: Kin Lo, University of British Columbia

Thursday, August 15, 2002—4:00 pm—5:30 pm

Session: *Residual Income Valuation Models*

Moderator: Joseph Anthony, Michigan State University

• *Economic and Accounting Determinants of Residual Income.* Ivo Ph. Jansen, Georgetown University

• *Other Information in the Residual Income Valuation Model.* Qiang Cheng, University of Washington

• *The Relevance of Earnings Components in Valuation and Forecasting.* Peter F. Pope, Lancaster University; Pengguo Wang, Middlesex University

Discussant: Malcolm McLelland, University of Illinois at Chicago

Session: International Accounting Issues

Moderator: Dawn Matsumoto, University of Washington

• *Economic Consequences from Mandatory Adoption of IASB Standards: An Examination of the European Union Proposal.* J. Joseph Comprix, Arizona State University; Mary Stanford, Texas Christian University; Karl A. Muller, III, Pennsylvania State University

• *Earnings Quality in UK Private Firms.* Ray Ball, University of Chicago; Lakshmanan Shivakumar, London Business School

• *The Role of Accounting and Auditing in Corporate Governance, and the Development of Financial Markets Around the World.* Jere R. Francis, University of Missouri-Columbia; Inder K. Khurana, University of Missouri-Columbia; Raynolde Pereira, University of Missouri-Columbia

Discussant: Michelle Yetman, The University of Iowa

Thursday, August 15, 2002—5:45–6:45 pm

Session: FAR Section Business Meeting

Friday, August 16, 2002—10:15 am–11:45 am

Session: Contemporary Evidence on the Earnings>Returns Relation

Moderator: Catherine Shakespeare, University of Michigan

• *Earnings and Price Discovery in the Post-Reg. FD Information Environment: A Preliminary Analysis.* Phil Shane, University of Colorado at Boulder; Naomi Soderstrom, University of Colorado at Boulder; Sung-Wook Yoon, University of Colorado at Boulder

• *The Nature of Losses and the Value Relevance of Earnings.* Laurel Franzen, The University of Texas at Dallas

• *The Effect of Earnings Benchmarks on Stock Returns.* Jeff L. Payne, University of Oklahoma

Discussant: Brooke Elliot, University of Washington

Session: Financial Accounting Issues in New Economy Firms

Moderator: Angela Davis, Washington University in St. Louis

• *Virtual Sales: Barter and Revenue Management in New & Old Economy Firms.* Katherine Campbell, University of Maryland; Stephan E. Sefcik, University of Washington

• *Differences in Quality of Earnings Between New Economy Firms and Old Economy Firms: The Value Relevance of Accounting Principles Earnings Quality*

Ratings. Dawn Hukai, University of Wisconsin-River Falls; Mary Tichich, University of Wisconsin-River Falls

• *The Effect of Conservative Accounting on Value Relevance of Earnings and Sales: High-Tech versus Low-Tech Firms.* Sung S. Kwon, Rutgers, The State University of New Jersey

Discussant: Elizabeth Keating, Northwestern University

Friday, August 16, 2002—2:00 pm–3:30 pm

Session: Valuation of Financially Distressed Firms

Moderator: Walter Blacconiere, Indiana University

• *Assessing the Probability of Bankruptcy.* Stephen A. Hillegeist, Northwestern University; Elizabeth K. Keating, Northwestern University; Donald P. Cram, California State University; Kyle G. Lundstedt, Mortgage Information Corporation

• *The roles of earnings and book value in equity valuation: A real options based analysis.* Guochang Zhang, Hong Kong University of Science and Technology; Peter Chen, Hong Kong University of Science and Technology

• *Alternative Adaptations of Distressed Firms' Resources: The Valuation Roles of Book Value of Equity and Earnings.* Christine E. L. Tan, Baruch College of the City University of New York

Discussant: Duane Kennedy, University of Waterloo

Friday, August 16, 2002—4:00 pm–5:30 pm

Session: Accounting for Business Combinations

Moderator: Cameron Hooper, University of Michigan

• *Interaction between Accounting and Corporate Governance: Evidence from Business Combinations.* F. Asis Martinez-Jerez, Harvard University

• *Goodwill: Which Target Characteristics Compel Purchasing Firms to Pay a Premium?* Natalie Tatiana Churyk, Northern Illinois University; Eugene G. Chewning, Jr., University of South Carolina; Mari-beth Coller, University of South Carolina

• *The Association of Acquisition Premium with Market Value and Future Firm Performance.* Karen Teitel, University of Connecticut

Discussant: Praveen Sinha, Cornell University

Session: Valuation of Intangible Assets

Moderator: Carol Marquardt, New York University

• *Intangible Assets: Measurement, Drivers, Usefulness.* Feng Gu, Boston University; Baruch Lev, New

York University

• *Cross-Sectional Variation in the Market Valuation of R&D Spending in the Computer Software Industry.* C. Catherine Chiang, North Carolina Central University

• *Economic life cycles, endogenous accounting information, and equity returns.* Malcolm J. McLelland, University of Illinois at Chicago; Joseph H. Anthony, Michigan State University

Discussant: Mark Kohlbeck, University of Wisconsin-Madison

Saturday, August 17, 2002—10:15 am–11:45 am

Session: Accounting Disclosures, Analyst Forecasts, and Security Returns

Moderator: Bruce Bettinghouse, Michigan State University

• *Credibility of Management Forecasts.* Jonathan L. Rogers, University of Pennsylvania; Phillip C. Stocken, University of Pennsylvania

• *Do Analysts' Forecasts Fully Reflect the Information in Accruals?* Anwer S. Ahmed, Syracuse University; Khalid Nainar, McMaster University; X. Frank Zhang, University of Chicago; Jian Zhou, SUNY at Binghamton

• *Corporate disclosure quality and properties of analysts' information environment.* Ken Shaw, University of Maryland; Donal Byard, Baruch College of the City University of New York

Discussant: David Mest, Rutgers, The State University of New Jersey

Session: Aggressive Financial Reporting

Moderator: Mark Bagnoli, Purdue University

• *The SEC's Program for Reviewing Financial Reports: A Responsibility of the Division of Corporation Finance (DCF).* Ori E. Barron, Pennsylvania State University; Charles Kile, The University of Alabama in Huntsville

• *Corporate Governance Changes Following The Detection of Financial Reporting Fraud.* David B. Farber, Michigan State University

• *The Effect of 10-K Restatements on Firm Value, Information Asymmetries and Investors' Reliance on Earnings.* Kirsten L. Anderson, Georgetown University; Teri Lombardi Yohn, Georgetown University

Discussant: Martien Lubberink, Lancaster University

Session: Fundamental Analysis

Moderator: Avinash Arya, Morgan State University

• *Using asset turnover as a signal of potential earnings management.* Ivo Ph Jansen, Georgetown University;

Teri Lombardi Yohn, Georgetown University

• *Accounting-Based Value Metrics and the Informational Efficiency of IPO Early Market Prices.* Michelle H. Yetman, The University of Iowa

• *An Investigation of the Impact of Earnings Quality on the Information Content of Financial Reporting.* Agnes Cheng, University of Houston; Scott Whisenant, University of Houston

Discussant: Bin Ke, Pennsylvania State University

Saturday, August 17, 2002—2:00 pm–3:30 pm

Session: Disclosure and the Cost of Capital

Moderator: Marlene Plumlee, University of Utah

• *Discretionary Risk Disclosures.* Bjorn N. Jorgensen, Columbia University; Michael T. Kirschenheiter, Columbia University

• *Perceptions of Earnings Quality and their Association with the Cost of Equity Capital.* Gerhard J. Barone, The University of Texas at Austin

Discussant: Irene Kim, University of Michigan

Session: Pro-Forma Earnings

Moderator: Mary Stanford, Texas Christian University

• *Are Investors Misled by "Pro Forma" Earnings? W.* Bruce Johnson, The University of Iowa; William C. Schwartz Jr., The University of Arizona

• *Earnings Quality and Strategic Disclosure: An Empirical Examination of "Pro Forma" Earnings.* Carol A. Marquardt, New York University; Barbara A. Lougee, University of California, Irvine

• *Earnings Surprises When Firms Choose What Matters.* Mark Bagnoli, Purdue University; Robert K. Eskew, Purdue University; Susan G. Watts, Purdue University

Discussant: Karen K. Nelson, Stanford University

Session: Accounting Information and Debt Contracts

Moderator: David Harris, Syracuse University

• *The role and characteristics of accounting-based performance pricing in private debt contracts.* Anne Beatty, Pennsylvania State University; Ilia Dichev, University of Michigan ; Joseph Weber, Massachusetts Institute of Technology

• *Debt Covenant Violation and the Value Relevance of Accounting Information.* Steve C. Lim, Texas Christian University; William Cready, Louisiana State University; Khondkar Karim, Rochester Institute of Technology

• *An Empirical Study of Earnings Management of Distressed Firms During Debt Renegotiation.* Norman

Mohd Saleh, La Trobe University; Kamran Ahmed, La Trobe University

Discussant: Christine Tan, Baruch College of the City University of New York

Session: Contemporary Financial Reporting Issues

Moderator: Emily Xu, University of Massachusetts Amherst

• *The expected rate of return on pension funds and asset allocation as predictors of portfolio performance: further evidence.* Paul John Klumpes, University of Warwick, U.K.; Tony Steele, University of Warwick, U.K.

• *Employee Stock Options, SFAS 128 EPS Dilution, and Stock Repurchases.* Douglas J. Skinner, University of Michigan ; Daniel A. Bens, University of Chicago; Venky Nagar, University of Michigan ; M.H. Franco Wong, University of Chicago

Discussant: Kirsten Anderson, Georgetown University

Saturday, August 17, 2002—4:00 pm–5:30 pm

Session: Informed Traders and Accounting Information

Moderator: Dawn Hukai, University of Wisconsin-River Falls

• *Information Asymmetry and Cross-sectional Determinants of Insider Trading.* Steven Huddart, Pennsylvania State University; Bin Ke, Pennsylvania State University

• *Informed Traders and the Incorporation of Industry and Firm-Specific Information into Stock Prices.* Joseph D. Piotroski, University of Chicago; Darren T. Roulstone, University of Chicago

• *Firm Size and Trading Responses Around Earnings and Management Forecast Disclosures: The Investor Clientele Effect.* Marlene A. Plumlee, University of Utah; Nilabhra Bhattacharya, University of Utah; Christine A. Botosan, University of Utah

Discussant: Frank Heflin, Purdue University

Session: Accounting Information and Capital Market Anomalies

Moderator: David Farber, Michigan State University

• *Does the Stock Market Fully Appreciate the Implications of Leading Indicators for Future Earnings? Evidence from Order Backlog.* Shivaram Rajgopal, University of Washington; Terry Shevlin, University of Washington; Mohan Venkatachalam, Stanford University

• *Bankruptcy Happens: A Study of the Mechanics of*

Distress-Driven CAPM Anomalies. Carlos A. Melloe-Souza, Seattle University

• *Differential Earnings Behavior and the Security Market Assessment of Variation in Seasonal Earnings Patterns.* Allen W. Bathke, Jr., Florida State University; Kenneth S. Lorek, Northern Arizona University; G. Lee Willinger, University of Oklahoma

Discussant: Bokhyeon Baik, University of California, Berkeley

Session: Determinants of Financial Analyst Forecasts, Recommendations, and Turnover

Moderator: Christine Wiedman, University of Western Ontario

• *Profiting from Predicting Individual Analyst Earnings Forecast Accuracy.* Lawrence D. Brown, Georgia State University; Emad Mohammad, Georgia State University

• *Antecedents and Consequences of Financial Analyst Turnover.* Emad Mohammad, Georgia State University; Siva Nathan, Georgia State University

• *Financial Analysts' Heterogeneous Earnings Expectations and Their Stock Recommendations.* Steven Lustgarten, Baruch College of the City University of New York; Charles Tang, Pace University

Discussant: William Brown, Lehigh University

CPE Sessions

To: FARS Membership

The Financial Accounting and Reporting Section is sponsoring three CPE sessions at the Annual Meeting in San Antonio. The sessions are listed below; more detail on each session can be accessed at the following link:

<http://accounting.rutgers.edu/raw/aaa/2002annual/cpe2002.htm>

I encourage all members to consider registering for one of these sessions.

All sessions are on Wednesday, August 14, 2002.

8:00 am–12:00 pm

Session: Accounting for Derivatives in Financial Statements. Presenter: Thomas Linsmeier, Michigan State University

1:00 pm–4:00 pm

Current Issues in Financial Reporting. Presenters: Katherine Schipper and Todd Johnson, Financial Accounting Standards Board

1:00 pm–5:00 pm

Financial Instrument Fair Values: Theory and Implementation. Presenter: John T. Smith, Deloitte & Touche

The first two sessions are comprised of updated materials, which have been presented at prior annual meetings. These programs have been well attended and highly rated by previous attendees. The third session (presented by John Smith of D&T) is a new session and is based on D&T training materials. John presented a similar program at the AAA-FASB conference; it also was well received by conference attendees.

Again, I encourage FARS members to consider registering for one of these informative programs.

See you in San Antonio!

Terry Warfield

FARS CPE Coordinator

**CALL FOR RESEARCH PAPERS
2003 AAA Financial Accounting
and Reporting Section
Midyear Meeting
January 31–February 1, 2003**

We are pleased to announce that the 2003 American Accounting Association Financial Accounting and Reporting Section Midyear Meeting will be held at the Royal Plaza Hotel in Orlando, Florida on January 31–February 1, 2003. A blind-review process will be used to select research papers for presentation at six concurrent sessions during the conference. To be considered for selection authors should submit by no later than **September 15, 2002** the information on the manuscript submission form (see page 14) and either (1) two paper copies by regular mail or (2) one electronic copy by e-mail to the appropriate individual listed below. Authors are encouraged to submit their papers as early as possible. The selection of conference papers will be announced by November 15, 2002. Because conference papers will be distributed to registered participants prior to the conference, authors of accepted papers also will be required to submit a

final electronic version on a floppy disk (Word or pdf format) by December 15, 2002.

In organizing this conference the AAA Financial Accounting and Reporting Section decided that two objectives should be achieved: (1) the conference should be open to and serve all members of the section and (2) a special effort should be made to provide opportunities for doctoral students and assistant professors with interests in financial accounting and reporting. As a result, papers co-authored by doctoral students and assistant professors will be given preference in the selection process (under the assumption that these individuals will be making the conference presentation).

Submission Information

The person to whom the paper should be submitted varies depending on the research methodology employed.

For experimental research papers, the required materials should be submitted to:

Laureen A. Maines
Department of Accounting and Information Systems
Kelley School of Business
1309 E. 10th Street
Indiana University
Bloomington, IN 47405
Email: lmaines@indiana.edu

For analytical research papers, the required materials should be submitted to:

Brett Trueman
Accounting Faculty
Haas School of Business
University of California-Berkeley
Berkeley, CA 94720-1900
Email: trueman@haas.berkeley.edu

For archival research papers, the required materials should be submitted to:

Gregory B. Waymire
Accounting Area
Goizueta Business School
Emory University
Atlanta, GA 30322-2710
Email: gregory_waymire@bus.emory.edu

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**2003 FINANCIAL ACCOUNTING AND
REPORTING SECTION**

Midyear Meeting

Preliminary Program

January 31–February 1, 2003

**Location: Royal Plaza Hotel
Orlando, Florida**

10:00–10:30 am

Refreshment break

10:30 am–noon

Three concurrent sessions consisting of:

1 teaching session: “The Role of the Conceptual Framework in the Classroom” (Presenters: Jim Leisenring (IASB) and/or Katherine Schipper (FASB))

and

2 research sessions (Presenters to be determined)*

Noon–1:30 pm

Luncheon for entire conference

1:30–3:00 pm

Three concurrent sessions consisting of:

1 teaching session:

“Teaching Earnings

Management Cases”

(Presenter: Peter Wilson (Boston College))

and

2 research sessions (Presenters to be determined)*

3:00–3:30 pm

Refreshment break

3:30–5:00 pm

Three concurrent sessions consisting of:

1 teaching session: “Bringing the Accounting for Derivatives to the Classroom” (Presenters: Lisa Koonce (University of Texas-Austin), Tom Linsmeier (Michigan State University), and Stephen Ryan (New York University))

and

2 research sessions (Presenters to be determined)*

Evening

Dinner on your own

* See call for research papers on page 11.

FRIDAY, JANUARY 31, 2003

7:30–6:00 pm	Registration Hotel registration area
8:00 am–noon	Doctoral Consortium Tentative Presenters: Pat Hopkins (Indiana University) S.P. Kothari (MIT)
Noon–1:30 pm	Opening luncheon for entire conference Speaker: To be determined
1:45–6:15 pm	Plenary Session: Regulatory and Standard Setting Issues
1:45–3:15 pm	Update from panel of FASB, IASB, SEC Representatives
3:15–3:45 pm	Refreshment break
3:45–4:30 pm	Presentation on Researchable Issues (by academic)
4:30–4:45 pm	Break
4:45–6:15 pm	Open Discussion
6:30–7:30 pm	Reception for entire conference
7:30 pm– ?	Dinner for entire conference

SATURDAY, FEBRUARY 1, 2003

7:30–10:00 am	Registration Hotel registration area
7:30–8:30 am	Continental breakfast for entire conference
8:30–10:00 am	Plenary Session: Presentation by Academic Luminary Speaker: Bill Beaver (Stanford University)

REQUIRED MANUSCRIPT SUBMISSION INFORMATION
2003 Financial Accounting and Reporting Section Midyear Meeting
January 31–February 1, 2003

Please make sure to provide the following information with each research paper submitted.

Paper Title: _____

Author 1: _____

Rank*: _____

Affiliation: _____

Author 2: _____

Rank*: _____

Affiliation: _____

Author 3: _____

Rank*: _____

Affiliation: _____

Presenting author**: _____

Address: _____

*Be sure to indicate if the author is either a Ph.D. student or assistant professor.

**If one co-author is either a Ph.D. student or assistant professor, preference will be given in the paper selection process only if that co-author also plans to make the conference presentation.