

ACCOUNTING INFORMATION FOR PROFITABILITY ANALYSIS AND EQUITY VALUATION

Course Description:

The four main topics covered in this course are:

- Economic Uses of Accounting Information
- Return on Investment
- Accounting-Based Equity Valuation
- Accounting versus Economic Profitability

Course Readings:

This course will be taught in a seminar format. Participants are encouraged to sign up to present any of the reading items marked with a (*) on the following list.

Topic 1: Economic Uses of Accounting Information

Penman, S. *Financial Statement Analysis and Security Valuation*, McGraw Hill, 2008, 3. Ed., Chapters 2 and 3.

Pittman, R. "Who Are You Calling Irrational? Marginal Costs, Variable Costs and the Pricing Practices of Firms", Economic Analysis Group, Antitrust Division, U.S. Department of Justice, EAG 09-3, July 2009.

(*) Stark, A. "Estimating Economic Performance from Accounting Data - A Review and Synthesis," The British Accounting Review, 2004, 36, 321-343.

(*) Rogerson, W. "Inter-temporal Cost Allocation and Managerial Investment Incentives: A Theory Explaining the Use of Economic Value Added as a Performance Measure", Journal of Political Economy, 1997, 105, 770-795.

Dutta, S. and S. Reichelstein, "Accrual Accounting for Performance Measurement", Review of Accounting Studies, 2005, 10, 527-552.

Topic 2: Return on Investment

(*) Penman, S. *Financial Statement Analysis and Security Valuation*, McGraw Hill, 2008, 3. Ed., Chapter 16, "Creating Accounting Value and Economic Value".

(*) Fisher, F. and J. McGowan, "On the Misuse of Accounting Rates of Return to Infer Monopoly Profits," American Economic Review, 1983, 96(2), 82-97.

(*) Danielson, M. and E. Press, "Accounting Returns Revisited: Evidence of their Usefulness in Estimating Economic Returns," Review of Accounting Studies, 2003, 8, 493-530.

Rajan, M., Reichelstein, S. and M. Soliman "Conservatism, Growth and Return on Investment," Review of Accounting Studies, 2007, 12, 325-370.

Topic 3: Accounting-Based Equity Valuation

(*) Penman, S. *Financial Statement Analysis and Security Valuation*, McGraw Hill, 2008, 3. Ed., Chapters 5 and 6.

(*) Feltham, G. and J. Ohlson, "Uncertainty Resolution and the Theory of Depreciation Measurement", Journal of Accounting Research. 1996, 34, 209-234.

(*) J. Ohlson and B. Juettner. 2005. Expected EPS and EPS Growth as Determinants of Value. Review of Accounting Studies. 10, 349-365.

(*) J. Ohlson, "Accounting Data and Value: The Basic Results", Contemporary Accounting Research, 2009, forthcoming.

Topic 4: Accounting versus Economic Profitability

(*) Fisher, F. "On the Misuse of the Profit-Sales Ratio to Infer Monopoly Power," RAND Journal of Economics, 1987, 18, 384-396.

(*) Rogerson, "Intertemporal Cost Allocation and Investment Decisions," Journal of Political Economy, 2008, 116, 931-950.

Rajan, M. and S. Reichelstein, "Depreciation Rules and the Relation between Marginal and Historical Cost," Journal of Accounting Research, 2009, 47, 823-865.

(*) Nezlobin, A., "Accrual Accounting, Informational Sufficiency and Equity Valuation", Working paper, Stern School of Business, New York University, 2010.

McNichols, M., Rajan, M. and S. Reichelstein, "Decomposition of the Market-to-Book Ratio: Theory and Evidence" Working paper, Stanford GSB, 2010.