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| <b>Tenttipäivä / Date:</b> 21.2.2013   |
| <b>Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:</b><br>S721191 Financial Accounting Theory<br>Exam 1  |
| <b>Tentaattori(t)/ Examiner(s):</b> Markku Vieru   |
| <b>Sallitut apuvälineet rästetty/ The devices allowed in the exam</b><br>Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) Sallittu/Allowed<br>Sanakirja/Dictionary: Ei sallittu/Not allowed |
| <b>Voit vastata tenttiin / You may answer the questions:</b> suomeksi/ in Finnish: kyllä/Yes,<br>englanniksi/ in English: kyllä/Yes  |
| <b>Kysymyspaperi on palautettava / Paper with exam questions must be returned:</b> Ei/No   |

Käytä vastauksissasi kokonaisia virkkeitä. Please answer to the following questions using full sentences.

1. Describe two separate roles of financial accounting and reporting. Compare fair value accounting and historical cost accounting relative to these roles.
2. What is meant by conditional and unconditional conservatism in accounting? Please explain which four predictions Basu (1997) made related to earnings timeliness and earnings persistence in reporting of bad and good news. What does Basu find out?
3. Imagine that you should construct a research design to answer whether investor sophistication is related to the magnitude of post-earnings-announcement drift. Explain why this type of research question is relevant. In order to answer to the question please formulate a testable model and provide relevant hypotheses. If you wish, you may use Bartov, Radhakrishnan and Krinsky's (2000) study methodology.
4. Accounting quality can be defined as the extent to which the financial statements information reflects the firm's underlying economic situation. However, since economic situation cannot be directly observed indicators based on earnings are used to operationalize the concept. Please present the indicators and models which are used to measure earnings quality. How earnings management affects to earnings quality (Scott, lectures)?