

**Tenttipäivä / Date:** 03.04.2014

**Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:**  
S721191 Financial Accounting Theory

**Tentaattori(t) / Examiner(s):** Markku Vieru

**Sallitut apuvälineet rästetty / The devices allowed in the exam**

Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) Sallittu/Allowed

Sanakirja/Dictionary: Ei sallittu/Not allowed

**Voit vastata tenttiin / You may answer the questions:** suomeksi/ in Finnish: kyllä/Yes,  
englanniksi/ in English: kyllä/Yes

**Kysymyspaperi on palautettava / Paper with exam questions must be returned:** Ei/No

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

1. Describe what is meant by decision usefulness approach to financial accounting and reporting. Decision usefulness approach has two perspectives: i) information perspective and ii) measurement perspective. Please compare these two perspectives to each other. Why these two perspectives are needed? Which direction accountants are argued to move and why? (Scott, lectures)
2. Collins and Kothari (1989) concentrate on the stock price change associated with a given unexpected earnings change (the earnings response coefficient, ERC).
  - a) Describe their hypotheses, research design and empirical findings.
  - b) How the holding period corresponding to a firm's fiscal year affects observed earnings/returns association? Please explain what might be a plausible explanation for that.
  - c) Is their result in line with information perspective or measurement perspective?
3. Please construct a research design to study whether investor sophistication is related to the magnitude of post-earnings-announcement drift.
  - a) Please formulate a testable model and provide relevant hypotheses. If you wish, you may use Bartov, Radhakrishnan and Krinsky's (2000) study methodology.
  - b) Explain why this type of research question is relevant in terms of the decision usefulness approach to financial accounting and reporting.
4. Please describe what is meant by the term economic consequences of accounting standards. Please use two examples from managerial compensation plan (i.e. compensation based on executive stock options and compensation based on net income) that illustrates the meaning of this concept. How positive accounting theory is related to this? (Scott, lectures)