31st ANNUAL
CONTEMPORARY ACCOUNTING RESEARCH CONFERENCE
&
IASB RESEARCH FORUM

UNIVERSITY OF WATERLOO SCHOOL OF ACCOUNTING AND FINANCE
WATERLOO, ONTARIO, CANADA • OCTOBER 15–16, 2016
Doctoral/Junior Faculty Consortium on October 14
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CONFEREE EDBITORS
Patricia C. O’Brien
Alan Webb
Michael Welker

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FINANCE & ADMINISTRATION Vittoria Fortunato
PUBLICATIONS AND GRANTS Carina Hackett
EDITORIAL & COMMUNICATIONS Amber Goldie
MEMBER SERVICES Louise Laroche
FRENCH TRANSLATOR Josée Ouellet Simard
WELCOME TO THE 31ST CAR CONFERENCE

Dear Friends and Colleagues,

Welcome to Waterloo for the 31st annual CAR Conference. This year we are pleased to have the participation of the IFRS Foundation, sponsoring the IASB Research Forum as part of our conference. In addition, the School of Accounting and Finance at the University of Waterloo hosts the conference sessions as well as the doctoral consortium.

Our first three papers on Saturday are IASB Research Forum papers, selected from among 27 submissions to the IASB stream. Each Forum paper will have two discussants, one academic and the other from the IASB. The remaining four papers reflect CAR’s tradition of diversity in accounting topics and in methods. Following our usual format, each of these has a single discussant to illuminate the topic.

Overall, we received 97 submissions to both streams of the conference, from scholars around the world. CAR’s editors and reviewers provided their thoughtful evaluations on a very tight timetable to produce this year’s program. It assembles an impressive group of authors and discussants to share their perspectives on accounting’s role in organizations, markets and society.

The day before the conference opens, our consortium for doctoral students and junior faculty members brings eminent members of our community to offer insights to emerging scholars. This event provides a valuable learning experience, and advance preparation for the conference.

We are grateful to our sponsors, notably our Distinguished Partner CPA Canada, for their continuing generous financial and moral support of this conference. Their willingness to invest in the dissemination of leading-edge research is a credit to the accounting profession, and a great benefit to all of us. This year, CPA Canada has expanded its sponsorship, enabling us to live-stream the event.

In addition to all of the above contributors, we are especially indebted to the CAR and CAAA staff, whose efforts behind the scenes make this event possible. We offer our most heartfelt thanks to Amber Goldie, Carina Hackett, Mary Henricksen, Louise Laroche, and Vittoria Fortunato.

We hope that you will enjoy the conference. If you are able to take time to explore the region, we recommend to you the St. Jacob’s farmer’s market, the Elora Gorge conservation area, the Kitchener-Waterloo Oktoberfest, the Stratford Theatre Festival, and Niagara Falls.

Best wishes for a stimulating and enjoyable conference.

Patricia O’Brien, Alan Webb and Michael Welker
Conference Editors
Contemporary Accounting Research
Dear Friends and Colleagues,

Welcome to the third annual research forum of the International Accounting Standards Board. This year, the IASB Research Forum is held in conjunction with the 2016 Contemporary Accounting Research (CAR) conference. The Forum will comprise discussion of three academic papers by their authors, other academics and IASB members.

Academics can bring a valuable perspective to many of the problems that the IASB is trying to solve. Accordingly, we value the annual IASB Research Forum as an opportunity to engage with current research and with the academic community. Discussing these issues with delegates from a variety of backgrounds today will contribute to our understanding of key issues and possible solutions.

We are grateful to the CAAA, hosts of the CAR Conference, and sponsors for making this event possible. We hope that you find this year’s IASB Research Forum inspirational and stimulating.

Best wishes,

Peter Clark
Technical Director-in-charge of the Research Programme
International Accounting Standards Board
OUR SPONSORS

The CAAA thanks
Chartered Professional Accountants of Canada (CPA Canada)

for its support as the Distinguished Partner of the
31st Annual Contemporary Accounting Research (CAR) Conference
and IASB Research Forum

CPA Canada provides educational, professional learning and development (PLD) resources, thought leadership, and other offerings on a variety of topical areas relevant to accountants in academia.

We also thank the following sponsors for their generous support:
The University of Waterloo School of Accounting and Finance

Sponsor of the webcast of the CAR Conference and IASB Research Forum

Air Canada is the official Canadian airline of this event.
**CAR CONFERENCE & IASB RESEARCH FORUM**  
**SOCIAL EVENT RECEPTION & DINNER**

<table>
<thead>
<tr>
<th>Saturday, October 15, 2016</th>
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<tbody>
<tr>
<td><strong>6:30 p.m.–10:00 p.m.</strong></td>
</tr>
<tr>
<td><strong>Venue:</strong> Langdon Hall Country House</td>
</tr>
<tr>
<td>1 Langdon Drive, Cambridge, ON N3H 4R8</td>
</tr>
<tr>
<td><a href="http://www.langdonhall.ca/">http://www.langdonhall.ca/</a></td>
</tr>
</tbody>
</table>

Following Session 4, buses will be available to transport conference attendees from UWaterloo to the Delta Hotel.

All buses will depart from the Delta Hotel to Langdon Hall at 6:00 p.m.

Return buses from Langdon Hall to the Delta Hotel will depart at 9:00 p.m. and at 10:00 p.m.

The 2016 social event will be held at the Firshade Hall at Langdon Hall Country House. Langdon Hall was built in Canada by the son of an English man who inherited American wealth. The grand home was intended as a summertime contrast to life in New York, London and a château in the Loire valley.

Conference guests should assemble in the hotel lobby between 5:45pm & 6:00pm. Please note that the dress code is business casual. Buses will then take guests to Langdon Hall, where the cocktail reception will begin at 6:30pm, followed by dinner at 7:00pm.

The cost of the social event is included in registration. No onsite tickets will be sold.
**DOCTORAL/JUNIOR FACULTY CONSORTIUM**  
**FRIDAY, OCTOBER 14**

The consortium features senior experts presenting ideas and insights about research to doctoral students and junior faculty members. The overall objectives of the consortium are to broaden emerging scholars’ appreciation of research, and to provide background for the CAR conference that follows.

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
<th>Location</th>
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<tr>
<td>7:30 a.m.–7:00 p.m.</td>
<td>Registration for the Consortium &amp; Conference</td>
<td>Delta Hotel</td>
</tr>
<tr>
<td>7:30 a.m.–8:30 a.m.</td>
<td>Breakfast</td>
<td>Grand River Room A</td>
</tr>
<tr>
<td>8:30 a.m.–9:00 a.m.</td>
<td>Registrants travel from Delta Hotel to UWaterloo</td>
<td></td>
</tr>
</tbody>
</table>
| 9:00 a.m.–10:30 a.m.| **SESSION 1**  
Long-run Product Costs: Identification and Measurement  
Stefan Reichelstein, Stanford University | Hagey Hall (HH) 2104          |
| 10:30 a.m.–11:00 a.m.| Break                                                                | HH 3158                         |
| 11:00 a.m.–12:30 p.m.| **SESSION 2**  
Judgment and Decision Making Research in Accounting  
Kathryn Kadous, Emory University | HH 2104                         |
| 12:30 p.m.–1:30 p.m.| Lunch                                                                | University Club                 |
| 1:30 p.m.–3:00 p.m.| **SESSION 3**  
IASB Engagement with Academics  
Anne McGeachin, IFRS | HH 2104                         |
| 3:00 p.m.–3:15 p.m.| Break                                                                | HH 3158                         |
| 3:15 p.m.–4:45 p.m.| **SESSION 4**  
Design Issues in Empirical Research to Inform  
Standard Setting  
Katherine Schipper, Duke University | HH 2104                         |
| 6:00 p.m.–9:00 p.m.| Welcome Reception  
All registrants are cordially invited to attend this reception. | Delta Hotel Silver Lake Ballroom |
ABOUT THE PRESENTERS

STEFAN J. REICHELSTEIN, PH.D.
William R. Timken Professor of Accounting, Stanford Graduate School of Business

Stefan Reichelstein is known internationally for his research on the interface of management accounting and economics. His work has addressed issues in cost- and profitability analysis, decentralization, internal pricing and performance measurement. His research projects have spanned both analytical models, empirical work and field studies. Reichelstein’s papers have been published consistently in leading accounting and economics journals. Insights from his research have been applied by a range of corporations and government agencies. In recent years, Reichelstein has also studied the cost of reducing carbon emissions and the cost competitiveness of different energy sources, with a particular focus on solar photovoltaics. He currently serves as the Faculty Director of the Sustainable Energy Initiative at the Stanford GSB and as Faculty Research Director of the Steyer-Taylor Center for Energy Policy and Finance at Stanford University.

Stefan Reichelstein received his Ph.D. from the Kellogg School of Management at Northwestern University in 1984. Prior to that, he completed his undergraduate studies in economics at the University of Bonn in Germany. Over the past 30 years, Reichelstein has served on the faculties of the Haas School of Business at UC Berkeley, the University of Vienna in Austria, and the Stanford Graduate School of Business. His teaching has spanned financial and managerial accounting courses offered to undergraduate, MBA, and doctoral students. In recent years, he has introduced new courses on Sustainability and Clean Energy at Stanford. Reichelstein’s research has been supported by the National Science Foundation and private foundations; several of his papers have won “Best-Paper” awards.

Reichelstein serves on the editorial boards of several journals; he is also currently an editor of the Review of Accounting Studies and Foundations and Trends in Accounting. Until 2010, he served as the Department Editor for Accounting at Management Science. Professor Reichelstein has been a consultant to select companies and non-profit organizations. Reichelstein has received honorary doctorates from the Universities of Fribourg (2008) and Mannheim (2011). In 2007, he was appointed an Honorary professor at the University of Vienna.

KATHRYN KADOUS, PH.D.
Professor of Accounting, Goizueta Business School

Kathryn Kadous is Professor of Accounting at Emory University’s Goizueta Business School. She earned a PhD from the University of Illinois. Prior to that, she worked as an auditor and controller. Professor Kadous’ research considers judgment and decision-making issues in auditing and accounting. Her current research is focused on using psychology theory to improve auditor decision making and on identifying the antecedents of auditor skepticism. Professor Kadous’ research has been published in The Accounting Review, Contemporary Accounting Research, Journal of Accounting Research, Organizational Behavior and Human Decision Processes, The Journal of Behavioral Finance, and Auditing: A Journal of Practice and Theory.

Professor Kadous has served as an editor for the past 11 years—she currently is editor for The Accounting Review. She serves on several editorial boards and has served on various research and publications related committees and tasks forces for the American Accounting Association (AAA) and the Auditing and Accounting, Behavior, and Organizations Sections of the AAA. When not writing, editing, or teaching, she likes to ride a bike, preferably up and down mountains.
DOCTORAL/JUNIOR FACULTY CONSORTIUM
FRIDAY, OCTOBER 14

ABOUT THE PRESENTERS

Katherine Schipper, Ph.D.
Thomas F. Keller Professor of Business Administration, Fuqua School of Business

Katherine Schipper is the Thomas F. Keller Professor of Business Administration at Duke University’s Fuqua School of Business. Ms. Schipper holds a BA degree summa cum laude from the University of Dayton, MBA, MA and PhD degrees from the University of Chicago and honorary degrees from Notre Dame University, Norwegian School of Economics, Stockholm School of Economics and Singapore Management University. She has been a Board member of the Financial Accounting Standards Board (FASB) and a faculty member at Carnegie Mellon University and the University of Chicago.

Ms. Schipper has published research papers on topics in financial reporting, corporation finance and corporate governance. She has been named the American Accounting Association’s (AAA’s) Outstanding Educator and Distinguished International Lecturer, and has been elected to the Accounting Hall of Fame. She has served the AAA as Director of Research, as President and as President of the Financial Accounting and Reporting Section. She has served the International Association for Accounting Education and Research as Vice President-Research and she is currently serving as President. She is or has been a member of the governing boards of a mutual fund, a not-for-profit entity and two SEC registrant corporations.

Anne McGeachin
Technical Principal, International Accounting Standards Board

Anne McGeachin has been involved in accounting standard-setting for 20 years, first at the UK Accounting Standards Board and then at the IASB. Before that she worked in the KPMG UK technical accounting department. She also recently spent four years as an academic at Aberdeen University, where she published research on the measurement of liabilities under IFRS Standards and on conservatism in IFRS Standards.

CONSORTIUM REGISTRANTS

Stefan Anchev, Umeå University
Kai Chen, University of Waterloo
Stephanie Fang Cheng, University of Toronto
Luc J. Desrouseaux, HEC Montréal
Amanda Gonzales, University of Nebraska
Wei He, Queen’s University
Khin Phyo Hlaing, University of Waterloo
Min Jeong (Minna) Hong, University of Waterloo
Soonchul Hyun, University of Calgary
Shahid Khan, University of Calgary
Weiming Liu, University of Waterloo
Ross Lu, University of Toronto
Yan Ma, University of Calgary
Kaleab Y. Mamo, University of Waterloo
J. Anne Neal, Carleton University
Lucille Perreault, Carleton University
Karen Pinto, University of Waterloo
Harun Rashid, University of Calgary
Greg Richins, University of Waterloo
Andrea C. Stapleton, University of Waterloo
Barbara Su, University of Toronto
Jing Wang, Queen’s University
Giselle S. White, University of Waterloo
Christopher Wong, University of Waterloo
Dongning Yu, University of Calgary
Wuyang Zhao, University of Toronto
SCHOOL OF ACCOUNTING AND FINANCE

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» 2nd in Canada for accounting research
» 1st in Canada for PhD programs
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» 1st in Canada for managerial accounting research
» 1st in Canada for tax research
» 2nd in Canada for financial accounting research

*According to a 2015 global accounting research survey by Brigham Young University.

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# CAR Conference & IASB Research Forum

**Saturday, October 15**

<table>
<thead>
<tr>
<th>Time</th>
<th>Event Details</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>6:30 a.m.–12:00 p.m.</td>
<td>Conference Registration</td>
<td>Delta Hotel and HH Atrium</td>
</tr>
<tr>
<td>6:30 a.m.–7:45 a.m.</td>
<td>Breakfast</td>
<td>Delta Hotel, Grand River Room</td>
</tr>
<tr>
<td>7:45 a.m. &amp; 8:15 a.m.</td>
<td>Shuttles from Delta Hotel to UWaterloo</td>
<td></td>
</tr>
<tr>
<td>8:30 a.m.–8:45 a.m.</td>
<td>Opening Remarks</td>
<td>Hagey Hall (HH) 1101</td>
</tr>
<tr>
<td>8:45 a.m.–10:15 a.m.</td>
<td><strong>SESSION 1</strong>&lt;br&gt;Moving the Conceptual Framework Forward: Accounting for Uncertainty&lt;br&gt;Richard Barker, University of Oxford&lt;br&gt;*Stephen Penman, Columbia University&lt;br&gt;Academic Discussant: Tom Linsmeier, University of Wisconsin&lt;br&gt;IFRS Discussant: Stephen Cooper&lt;br&gt;Moderator: Sudipta Basu, Temple University</td>
<td>HH 1101</td>
</tr>
<tr>
<td>10:15 a.m.–10:45 a.m.</td>
<td>Break</td>
<td>HH Atrium</td>
</tr>
<tr>
<td>10:45 a.m.–12:15 p.m.</td>
<td><strong>SESSION 2</strong>&lt;br&gt;Assets and Liabilities: When do they Exist?&lt;br&gt;*Nicole Cade, University of Pittsburgh&lt;br&gt;Kim Ikuta Mendoza, University of Washington&lt;br&gt;Lisa Koonce, University of Texas at Austin&lt;br&gt;Academic Discussant: Lynn Rees, Texas A&amp;M University&lt;br&gt;IFRS Discussant: Mary Tokar&lt;br&gt;Moderator: Susan Krische, American University</td>
<td>HH 1101</td>
</tr>
<tr>
<td>12:15 p.m.–1:30 p.m.</td>
<td>Lunch at UWaterloo</td>
<td>Science Teaching Complex (STC) 1001</td>
</tr>
<tr>
<td>1:30 p.m.–3:00 p.m.</td>
<td><strong>SESSION 3</strong>&lt;br&gt;Relative Effects of IFRS Adoption and IFRS Convergence on Financial Statement Comparability&lt;br&gt;*Steve W. Lin, Florida International University&lt;br&gt;William Riccardi, State University of New York at Albany&lt;br&gt;Changjiang Wang, University of Cincinnati&lt;br&gt;Academic Discussant: Pat Hopkins, Indiana University&lt;br&gt;IFRS Discussant: Gary Kabureck&lt;br&gt;Moderator: Ole-Kristian Hope, University of Toronto</td>
<td>HH 1101</td>
</tr>
<tr>
<td>3:00 p.m.–3:30 p.m.</td>
<td>Break</td>
<td>HH Atrium</td>
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<tr>
<td>3:30 p.m.–5:00 p.m.</td>
<td><strong>SESSION 4</strong>&lt;br&gt;How Does Intrinsic Motivation Improve Auditor Judgment in Complex Audit Tasks?&lt;br&gt;Kathryn Kadous, Emory University&lt;br&gt;*Yuepin (Daniel) Zhou, Emory University&lt;br&gt;Discussant: Ann Vanstraelen, Maastricht University&lt;br&gt;Moderator: Peter Clarkson, University of Queensland</td>
<td>HH 1101</td>
</tr>
<tr>
<td>6:30 p.m.–10:00 p.m.</td>
<td>Social Event</td>
<td>Langdon Hall Country House</td>
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*Presenter
To meet the objectives of financial reporting in the IASB’s Conceptual Framework, the ‘balance-sheet approach’ embraced by the Framework is necessary but not sufficient. Critical, but largely overlooked, is the role of uncertainty, which we argue defines the role of accrual accounting in providing useful information to investors. This role is in some sense paradoxical: on the one hand, uncertainty undermines both the balance sheet (because uncertain assets are unrecognized) and the income statement (because mismatching is unavoidable). Yet uncertainty gives purpose to accrual accounting, as a distinctive source of information to help investors distinguish between the certain and the uncertain and thereby embed such information in both stock-based and flow-based valuation. This informational value cannot be provided by a balance-sheet approach alone. Rather, balance sheet recognition and measurement criteria are established by consideration of the impact on the income statement, which in turn requires conceptualising different categories of matching (and mismatching). This combination of balance-sheet and income-statement approaches enhances the communication of information to investors under conditions of uncertainty, thereby giving greater clarity and purpose in satisfying the objective of the Framework to provide information about “the amount, timing, and uncertainty of future cash flows”.

Academic Discussant: Tom Linsmeier, University of Wisconsin; IFRS Discussant: Stephen Cooper
SESSION 2

ASSETS AND LIABILITIES: WHEN DO THEY EXIST?

Nicole Cade, University of Pittsburgh
Kim Ikuta-Mendoza, University of Washington
Lisa Koonce, University of Texas at Austin

In this paper, we investigate whether the references to probability in standard setters’ conceptual definitions of assets and liabilities cause individuals to believe that the probability of a future transfer of economic benefits must be above some meaningful threshold (or even, certain) for an asset or a liability to exist—a belief that is contrary to standard setters’ intent. Results of multiple experiments indicate that the majority of individuals do use a high probability threshold to determine asset existence whereas, for liabilities, the majority use a very low threshold. Thus, even under ceteris paribus conditions, liabilities are more frequently identified than assets—a phenomenon consistent with conservatism on the balance sheet. We also provide evidence showing that standard setters’ definitions are not the cause of this behavior, as individuals naturally use probability when making these existence decisions. Our findings also indicate that a simple definitional change, as proposed by the IASB in its recent Exposure Draft (2015a), leads more individuals to identify assets and liabilities in a manner that is more closely (but not perfectly) aligned with standard setters’ goals. Our study provides important insights both for standard setters as they continue work on their mission to update their conceptual frameworks and for researchers regarding the role of conservatism for assets and liabilities.

Academic Discussant: Lynn Rees, Texas A&M University; IFRS Discussant: Mary Tokar

SESSION 3

RELATIVE EFFECTS OF IFRS ADOPTION AND IFRS CONVERGENCE ON FINANCIAL STATEMENT COMPARABILITY

Steve W. Lin, Florida International University
William Riccardi, State University of New York at Albany
Changjiang Wang, University of Cincinnati

One of the primary objectives of both adoption of International Financial Reporting Standards (IFRS) and convergence between IFRS and U.S. Generally Accepted Accounting Principles (U.S. GAAP) is to increase financial statement comparability. Using a unique setting in Germany, we compare how effective the two methods were in achieving this desired outcome. Our empirical tests show that both adoption and convergence led to an increase in comparability. However, differences-in-differences tests that examine the relative effects of these two regulatory efforts suggest that, in general, adoption of IFRS does not consistently provide a significant incremental increase in financial statement comparability beyond what is achieved through convergence. The findings of this study should be of interest to regulators and standard-setters as they assess the impacts of adoption and convergence.

Academic Discussant: Pat Hopkins, Indiana University; IFRS Discussant: Gary Kabureck
Intrinsic motivation is generally thought to be positively associated with performance on a variety of tasks; however, there is only sparse experimental evidence supporting this idea and we know little about the specific mechanisms behind any effect. We develop theory about how auditors’ intrinsic motivation for their jobs can improve their judgments about complex accounting estimates. Relying on the idea that auditors have intrinsic motivation for their jobs, we experimentally test whether a prompt designed to make auditors’ intrinsic motivation salient improves specific information processing strategies necessary for high quality judgments in complex audit tasks. It does: prompted auditors attend to a broader set of information, process information at a deeper level, and request more relevant additional evidence. Supplemental analyses show that these processing strategies mediate between salient intrinsic motivation and improved judgments about a biased complex estimate. We replicate these effects of salient intrinsic motivation using a trait measure of intrinsic motivational orientation as our independent variable. Our theory and analyses indicate that auditors’ intrinsic motivation for their work provides unique value for improving judgment quality, particularly in the context of performing complex audit tasks.

Discussant: Ann Vanstraelen, Maastricht University
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<thead>
<tr>
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<th>Event</th>
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<tbody>
<tr>
<td>6:30 a.m.–7:45 a.m.</td>
<td>Breakfast</td>
<td>Delta Hotel,</td>
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<td></td>
<td>Grand River Room</td>
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<tr>
<td>7:30 a.m. &amp; 8:00 a.m.</td>
<td><strong>Shuttles from Delta Hotel to UWaterloo</strong></td>
<td>Hagey Hall (HH) 1101</td>
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<tr>
<td>8:30 a.m.–10:00 a.m.</td>
<td><strong>SESSION 5</strong>&lt;br&gt;Relating Product Prices to Long-Run Marginal Cost: Evidence from Solar Photovoltaic Modules</td>
<td>Hagey Hall (HH) 1101</td>
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<tr>
<td></td>
<td>*Stefan Reichelstein, Stanford University&lt;br&gt;<strong>Anshuman Sahoo, Stanford University</strong></td>
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<td></td>
<td>Discussant: John Parsons, MIT&lt;br&gt;Moderator: Sarah McVay, University of Washington</td>
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<tr>
<td>10:00 a.m.–10:30 a.m.</td>
<td>Break</td>
<td>HH Atrium</td>
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<tr>
<td>10:30 a.m.–12:00 p.m.</td>
<td><strong>SESSION 6</strong>&lt;br&gt;How Quickly Do Firms Adjust to Optimal Levels of Tax Avoidance?</td>
<td>HH 1101</td>
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<td>Jaewoo Kim, University of Rochester&lt;br&gt;Sean McGuire, Texas A&amp;M University&lt;br&gt;*Steven Savoy, University of Iowa&lt;br&gt;Ryan Wilson, University of Oregon</td>
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<td>Discussant: Judson Caskey, UCLA&lt;br&gt;Moderator: Jeffrey Pittman, Memorial University of Newfoundland</td>
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<tr>
<td>12:00 p.m.–1:00 p.m.</td>
<td>Lunch</td>
<td>STC 1001</td>
</tr>
<tr>
<td>1:00 p.m.–2:30 p.m.</td>
<td><strong>SESSION 7</strong>&lt;br&gt;One Team or Two? Investigating Relationship Quality between Auditors and IT Specialists: Implications for Audit Team Identity and the Audit Process</td>
<td>HH 1101</td>
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<td>*Tim D. Bauer, University of Illinois at Urbana-Champaign&lt;br&gt;Cassandra Estep, University of Illinois</td>
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<td></td>
<td>Discussant: Bertrand Malsch, Queen’s University&lt;br&gt;Moderator: Chris Agoglia, University of Massachusetts Amherst</td>
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<tr>
<td>2:30 p.m.–2:45 p.m.</td>
<td>Wrap-Up &amp; Announcements</td>
<td>HH 1101</td>
</tr>
<tr>
<td>2:45 p.m.</td>
<td>End</td>
<td>HH 1101</td>
</tr>
<tr>
<td>3:15 p.m.</td>
<td>Shuttles from UWaterloo to Pearson International Airport&lt;br&gt;Please note there will be no return bus to the Delta Hotel. If you are taking the shuttle to Pearson, please check out of the hotel in the morning before travelling to the university. A secure room will be available at UWaterloo for luggage storage.</td>
<td></td>
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* Presenter
SESSION 5
RELATING PRODUCT PRICES TO LONG-RUN MARGINAL COST: EVIDENCE FROM SOLAR PHOTOVOLTAIC MODULES

Stefan Reichelstein, Stanford University
Anshuman Sahoo, Stanford University

This paper develops a model framework and a corresponding empirical inference procedure for estimating long-run marginal cost in industries where production costs decline over time. In the context of the solar photovoltaic (PV) module industry, we rely on firm-level financial accounting data to estimate the long-run marginal cost of PV modules for the years 2008-2013. During those years, the industry experienced both unprecedented price declines and significant expansions of manufacturing capacity. We compare the trajectory of average sales prices with the estimated long-run marginal costs in order to quantify the extent to which actual price declines were attributable to excess capacity as opposed to reductions in production costs. While we find a significant effect attributable to excess capacity for some quarters in our sample period, our analysis also points to a rate of future cost reductions that is even faster than the 80% learning curve that has described the trajectory of average sales prices over the past three decades.

Discussant: John Parsons, MIT

SESSION 6
HOW QUICKLY DO FIRMS ADJUST TO OPTIMAL LEVELS OF TAX AVOIDANCE?

Jaewoo Kim, University of Rochester
Sean McGuire, Texas A&M University
Steven Savoy, University of Iowa
Ryan Wilson, University of Oregon

The tradeoff literature asserts that managers weigh the direct benefits of tax avoidance against the associated nontax costs. This literature implies each firm has a unique optimal level of tax avoidance that balances these costs and benefits. Our study is the first to document how quickly the average firm moves toward its optimal level of tax avoidance. We find that the typical firm converges towards its optimum at a rate of approximately 70 percent over a three-year period. Consistent with varying levels of frictions across the tax avoidance distribution, we find the speed of adjustment is greater for firms above their optimal level of tax avoidance than for firms below. We also perform cross-sectional analysis to provide insight into the frictions that prevent firms from adjusting completely to their optimal level of tax avoidance. We find growth firms exhibit slower adjustment speeds while both multinational firms and income mobile firms exhibit faster adjustment speeds. Finally, we find well governed firms adjust more rapidly than poorly governed firms.

Discussant: Judson Caskey, UCLA
While prior research focuses on the hierarchical audit team comprised of auditors, we focus on the collective audit team comprised of auditors and information technology (IT) specialists. The motivation for understanding this collective audit team comes from complex systems in today’s audits and concerns from researchers and regulators regarding ineffective communication and coordination between the two specializations. Specifically, we investigate how relationships between auditors and IT specialists are perceived and what these relationships mean for the audit. Results of interviews conducted with Big 4 audit and IT practitioners provide evidence that relationship quality between the two is perceived to primarily depend on communication and mutual trust and respect. Auditors assert a one-team view of the collective audit team that includes IT specialists but IT specialists feel auditors see them as a separate team and a “necessary evil.” The audit process vastly differs between relationships perceived as difficult and good. Difficult relationships appear to have less widespread IT specialist involvement and less collaboration when modifying audit procedures given unexpected IT issues. These findings imply audit teams with difficult relationships may be at risk of poor integration, insufficient testing, and unsupported reliance on IT functions, shedding light on recurring threats to audit quality identified by PCAOB inspections. In good relationships, auditors and IT specialists appear motivated to interact often and work together to reduce knowledge gaps and complete the audit. Inferences gleaned from good relationships allow us to highlight potential prescriptions for audit firms to improve the effectiveness of collective audit teams. Keywords: audit team integration; IT specialists; relationship quality; collective team identity.

Discussant: Bertrand Malsch, Queen’s University
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