



Berkeley

CENTER for
FINANCIAL REPORTING
& MANAGEMENT

HAAS SCHOOL OF BUSINESS
UNIVERSITY OF CALIFORNIA

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News

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Commitment to Values and Ethics

Solomon Darwin, Executive Director, Center for Financial Reporting and Management



While I was growing up in India in the late sixties, my father was doing his post-doctoral work at UC San Diego. He wrote many letters describing the greatness of America and sent pictures to support his claim. I distinctly remember several pictures of roadside shops with priced products left unattended. Often the cash register was a small basket where money was deposited and change was taken by the customers. The owners came by at the end

of the day to collect the cash. Today, such outlets do not exist in San Diego. Something has changed in the course of time. Our society is no less affluent, at present, than in the late sixties. Obviously, the change in business practice is not correlated with economic prosperity. It is worth exploring the causes for the abdication of values that we had once held in our society.

My friend, Vishal Mangalwadi, an Indian social activist, author and philosopher told me about an experience he had while visiting Holland in the late eighties. During his visit, his host took him on a short walk to buy milk at the dairy. Vishal had never seen so many cows in their stalls, unattended, automatically milked. There was no one

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A Message from the Executive Director

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taking inventory or attending the cash register. The milk was automatically drained from the cows into a large container. His host simply opened the tap, filled his bottle and pulled out his coins, and put them into a basket and collected the right amount of change. As they were walking back, Vishal remarked, “If I were in India, I would take both the milk and the money.”

You see, if customers are not honest, the owner needs to hire a sales clerk. And, if the customers are not honest, why do the sales clerk and the owners need to be honest? They would just add water to the milk. When the owner is not honest, the customers complain, which means inspectors need to be hired. But if the customers, sales force and owners cheat, why should the inspectors be honest? They will want bribes. Then, a PCAOB is needed to oversee their work. Additional monitoring costs for sales clerks, inspectors and PCAOB are then passed on to the consumer.

Who will pay for all the additional costs--the sales clerks, the inspectors and the bribes? Of course, the customer / tax payer will. Soon, the milk sold in India would be far more expensive than milk sold in Holland and Indian parents will not be able to afford milk for their children. The children of India, the nation's future workforce and economic engine, would be more malnourished than those in Holland.

On his plane back, Vishal, sat next to an Indian businessman who spoke little English, but was able to run prosperous businesses here in the West. He remarked to Vishal that doing business in America and England is much easier because you can trust people there. The values held in the West, he said, are more conducive to doing business than in India where corruption reigns at all levels.

These stories illustrate some of the predicaments we are faced with today.

I was a corporate officer for over 14 years before I entered Academia. I still think we could do a better job of instilling in our workforce ethics and values to promote social and personal responsibility. We are so busy running our shops that we neglect to invest in training or seminars to address these foundational issues. Prevention is better than cure. It is my conviction that our society will continue to pay a high cost for our products unless we address the root of the problem.

“Corporations in America today are realizing that our economic engine is powered by ethics and values that promote social and personal responsibility...”

At our 16th Annual Conference on Financial Reporting, we were fortunate to have with us board members, senior officers, and executives representing the FASB, the SEC, the IASB, the PCAOB, EITF, FEI, major corporations, accounting firms and professional associ-

ations. When I was in college, we did not have as many organizations manning the profession. My accounting professor told me that the profession is “self-regulated” – a noble concept. That was not that long ago. Today things are more expensive because we have the police policing the police.

Corporations in America today are realizing that our economic engine is powered by ethics and values that promote social and personal responsibility--a concept which has been neglected for some time. American corporations are now placing more importance on values that serve as the foundation to their mission statements. Our young people are being trained in business schools that have incorporated ethics into their curricula. This is a good direction, but we still have a way to go.

At our conference, as we engaged in dialogues with the standard-setters, regulators, practitioners and academicians, we addressed our problems, but only in part. All across this nation, at conferences such as these, we wrestle with the consequences of actions -- the branches, but not the root of the problem. After leaving the

conference and returning to their places of work, corporate officers still need to address problems having to do with ethical behavior in the workplace. They may leave the conference with knowledge of the various technical agendas to address our problems, but they are still not equipped to address some of the root causes.

Ralph Larsen, former chairman and CEO of Johnson & Johnson said it best: “The core values embodied in our Mission Statement might be a competitive advantage, but that is not why we have them. We have them because they define for us what we stand for, and we would hold them even if they became a competitive disadvantage.” Here he simply states that his company will not compromise their values even if their profitability suffers. To me, that is a strong foundation for good financial reporting.

Our Dean, Tom Campbell, is a strong advocate of ethics in business. Berkeley is so committed to this cause that we have established a center dedicated to responsible business.

Our Center for Financial Reporting and Management is also very committed to this cause. One way the Center addresses these issues is through engaging in dialogue at conferences. That brings me to say a few words to introduce our Center and its mission. You need to know a bit more about us and who we are than just a sponsor of these conferences:

Our mission is two fold:

To promote the most innovative financial and managerial accounting education in the country through cutting edge research, outstanding teaching, globally focused curriculum and attention to ethical behavior.

To enhance interaction between students, faculty, practitioners, standard-setters, regulators and business leaders.

“...corporate officers still need to address problems having to do with ethical behavior in the workplace.”

These are our values:

1. Instruction

Teach innovatively to produce highly-sought-after graduates and tomorrow’s global leaders through continuous enrichment of the curriculum in response to changing needs in the marketplace.

2. Research

Engage in cutting edge research relevant to the dynamic global business environment.

3. Interaction

Facilitate dialogue between academicians, accountants, regulators, national/international standard-setters and the business community at large.

4. Relationships

Build productive partnerships with business leaders, employers, and alumni, to

explore and seek guidance regarding educational issues that are critical to the future of the accounting profession.

5. Ethics

Nurture and promote corporate and social responsibility including ethics and values to govern businesses and personal behavior.

This is our commitment:

As part of an internationally acclaimed research university, we are committed to promoting high quality financial reporting in the business community worldwide.

At Haas we hope to develop a network of men and women who strive to practice ethical business. While we do not expect to return to the business environment of the sixties, the Center for Financial Reporting and Management can work to reestablish its worthwhile values.

As Director of the Center, I look forward to reaching out to the community and corporations to explore ways we can continue to uphold our mission and values. As I look ahead to a productive year, please feel that you can contact me at any time with your suggestions at darwin@haas.berkeley.edu. ❖

Exciting Changes for CFRM

Dayna Haugh, Assistant Director, Center for Financial Reporting and Management



As the Center for Financial Reporting and Management marks seven years as a Center, positive changes are taking place.

New Executive Director Brings Renewed Vision and Direction

We are pleased that Solomon Darwin, formerly an associate professor of clinical accounting at the Marshall School of Business at the University of Southern California, has joined the Haas School as Executive Director of CFRM. Solomon brings more than nine years experience teaching financial and managerial accounting both at USC and abroad. He has significant international teaching experience as a visiting professor in France and China. Solomon teaches managerial accounting in our MBA program at Haas.

Professor Xiao-Jun Zhang, Chairman of the accounting group says, “We are very fortunate to have Solomon as our new executive director. He has won several prestigious teaching awards at USC and has extensive experience with companies as well as non-profit organizations. More importantly, he has a vision for CFRM and he shares our enthusiasm about the center. He is very committed to the development of the center for the long-term and I am confident that he will lead the center to greater success”.

Solomon has held prominent banking positions as senior finance manager at Bank of America, was vice president of finance and manager of planning and analysis for First Interstate Bank, and corporate controller of Glenfed, Inc.

He is the president of *Hope For People International* and serves as chairman of the board for *Project India*, a nonprofit humanitarian organization, and spearheaded the establishment of a charity hospital and school

in Mori, India. Also, he has had many years of board experience at several other nonprofit and relief organizations.

Please join me in welcoming Solomon to Berkeley. I look forward to working with him and sharing in his vision for the Center.

New Logo



Berkeley

**CENTER for
FINANCIAL REPORTING
& MANAGEMENT**

Our new logo was developed to give the center a distinct identity and prominence within Haas to represent positive upward direction and commitment toward quality financial reporting. We plan to showcase the logo in future publications.

New Web Page

We are in the process of updating our web pages with a new look. Visit <http://groups.haas.berkeley.edu/accounting> to see the changes after the first of the year.

New Direction and Focus

The Center for Financial Reporting and Management continues to look at ways to improve the programs that the Center offers and augment interaction between students, faculty, practitioners, and business leaders.

Areas that we are looking at include:

Education

- Implement improvements to the accounting curriculum.
- Promote Accounting education through career panels and national/international case competitions.
- Offer Executive Accounting Programs to high level financial executives on hot topics for career enhancement.

Development

- Provide financial resources in order to attract and retain the best faculty.
- Fund cutting-edge research.
- Provide stipends to doctoral students in accounting.

Promotion

- Enhance interaction between students and potential employers through career enhancement programs and business fraternities.
- Organize conferences and programs for the benefit of practitioners and Haas accounting faculty, students and alumni.
- Host Dean's Roundtable Breakfasts for CFO's.

External financial support of the Center for Financial Reporting and Management is key to sustaining and strengthening the accounting program at Haas. The Center depends heavily on corporate and individual sponsorship for its annual operating funds. We are especially grateful to the sponsors of CFRM and alumni for their continued financial support of the Center.

We are committed to providing quality programs at Haas. We are currently assessing the interest in the Executive Program accounting courses and welcome your comments. If you are interested in more information about our programs or have suggestions for future conference topics, feel free to contact me at haugh@haas.berkeley.edu. ❖



Solomon Darwin, Executive Director and Xiao-Jun Xhang, Chairman of CFRM

2005 Haas Academic Standing

CPA Passing Rate:

- #1 in the State
- #3 in the Nation

NASBA Statistical Service

Undergraduate Program:

- #9 (Accounting Programs)

US News & World Report

- #3 (Business Schools)

US News & World Report

MBA Program:

- #6 *US News & World Report*
- #7 *Wall Street Journal*

RESEARCH

Divisional Performance and Transfer Pricing for Intangibles



Nicole Johnson's most recent project is a paper that develops a model to examine the role of transfer pricing in motivating managers to make efficient investments in intangible assets. Many international firms are decentralized, giving decision-making authority over investment decisions to divisional managers. When one manager's investments or actions benefit divisions other than his own, a decentralized arrangement can distort that manager's incentives to behave in the best interest of the firm. Consider, for example, a divisional manager who is investing divisional resources to develop an information system to manage divisional operations. It is likely that the information system could also benefit other divisions in the firm, and top management would like

the developing division to consider the benefits to the entire firm when deciding how much to invest. If the investing manager's compensation only reflects the performance of his own division however, he will tend to under-invest.

A royalty-based transfer price that can be renegotiated can alleviate the underinvestment problem to a large degree. If the division that develops the intangible asset anticipates that it will be compensated with a share of the profits of the other divisions that use the asset, it will consider the effects of its investment on the other divisions' profits and invest more efficiently.

Transfer prices can also have a significant effect on the allocation of taxable income among divisions in different countries. Even if separate transfer prices are used for tax reporting and managerial performance evaluation purposes, well-designed internal transfer prices will reflect the tax impact of managers' actions in a way that motivates them to internalize the tax consequences of their decisions.

Professor Johnson recently presented her research on transfer pricing for intangible assets at the Review of Accounting Studies Conference at Columbia University and was the co-winner of the Barclay's Global Investment Best Paper Award.

Merger and Acquisition Transactions



Maria Nondorf's research includes the examination of the effects of accounting on the structure of firms' corporate financing activities, in particular, merger and acquisition transactions. She has several research papers in progress, including examining the treatment of stock options around acquisitions, investigating the financial implications of shell-company reverse merger acquisitions, and assessing the information content of publicly-available SEC comment letters.

In the past year, she has presented her research at Duke University, Santa Clara University, and Washington University.

Additionally, this Fall, Professor Nondorf guided an excellent team of undergraduate students to a second place finish in Haas' first annual xTAX Challenge case

competition sponsored by PricewaterhouseCoopers. Professor Nondorf was quoted in the *Sacramento Bee* on July 15, 2005, discussing the financial reporting implications of Governor Schwarzeneger's involvement with American Media Operations, Inc., and she was quoted on August 26, 2005 and November 7, 2005 in the *East Bay Business Times* discussing the financial reporting environment for companies that are delisted from stock exchanges.

Earnings Management for IPO Firms



Qintao Fan joined the Haas School of Business in Fall 2003 as an assistant professor of accounting after graduating from Stanford University. Her dissertation looks at “earnings management,” particularly in cases where firms prepare for IPOs. She explores whether companies are

reporting inflated earnings figures, and whether such inflation renders accounting reports totally meaningless or serves a useful purpose.

Qintao has found that, surprisingly, earnings management can be an effective way for “higher quality” firms — those with potential to generate a higher stream of earnings — to separate themselves from lower-quality firms in the eyes of investors.

Accounting reports can be manipulated only to a certain extent, she maintains, simply because inflating figures is ultimately costly to any firm. “If you report a high earnings figure now, you are essentially borrowing against your future,” she explains. “Subsequent reports will have to be lower because eventually your total reported earnings have to equal your total cash flows. This can potentially trigger litigation and an increase in the cost of capital.”

Lower-quality firms will overstate their earnings during the IPO process to make themselves appear on par with higher-quality firms. Higher-quality firms will follow suit in part to separate themselves from the lower tier, overstating their earnings at a level that's prohibitively costly for a lower type to mimic.

Firms can also demonstrate their value to investors by strategically combining earnings inflation with

another “signal” — such as retaining a certain degree of ownership in the company. The more ownership the IPO insiders retain, the greater a sign it is to the outside world that they believe in the IPO firm's future earnings potential. “It's like putting their money where their mouth is,” says Qintao. Her explorations of how IPO firms use both ownership retention and reported earnings to signal firm value have generated a rich set of empirical implications regarding market efficiency and the strategic use of earnings management. Data on IPO firms from 1987 to 1997 confirm that investors do pick up on signals such as earnings inflation and ownership retention in valuing an IPO firm. This paper is currently under its second round review at *The Accounting Review*.

Fan's most recent research studies the optimal accounting system when a firm can control the accuracy of its accounting information through unobservable action. In variance with the common view, accounting conservatism, as a commitment to an apparently inefficient classification scheme given the ex post information quality, may positively induce greater effort in controlling information quality ex ante. As a result, commitment to conservatism may improve the overall information

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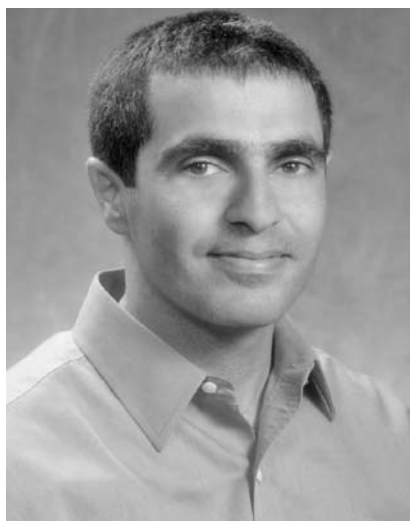
RESEARCH

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quality and enhance the ex ante welfare of accounting information users. This paper, co-authored with Xiao-Jun Zhang at Haas School of Business, was presented at Duke-UNC Junior Faculty Fall Camp in September 2005.

Link to the paper: <http://www.kenan-flagler.unc.edu/Faculty/>

Impact of SFAS 150 on Firms' Financing Decisions: the Accounting Tail Wags the Financing Dog



Shai Levi from the Haas School and his colleague Benjamin Segal from UC Davis investigate the impact of SFAS 150 on firms' use of a financing vehicle called mandatorily redeemable preferred shares (MRPS). MRPS are preferred shares with a debt-like maturity feature: the issuer commits to redeem the amount invested by shareholders at a specific future date. Before SFAS 150, firms were allowed to report MRPS in a mezzanine

[academicarea/accounting/Events/conservatism-duke-winedt.pdf](#)

Together with Gilad Livne, Yulin Long and Maureen McNichols, Qintao is currently investigating the comparative usefulness of GAAP for US and UK real estate companies.

She is also interested in issues related to managerial incentives and compensation.

section, between the liabilities and shareholders' equity section of the balance sheet. In effect, firms could structure their financing deals with creditors as MRPS (or the similar trust preferred stocks) and avoid reporting additional debt. SFAS 150, which went into effect in 2003, changed this long-standing reporting practice and now requires firms to include MRPS in the liabilities section of the balance sheet. In line with the balance sheet classification, dividends on MRPS are now accounted for as interest payments, on the income and cash flow statements. The researchers test whether the requirement to classify MRPS as a liability has influenced the frequency and circumstances in which firms' issue this security.

Levi and Segal find that the proportion of MRPS in firms' financing mixes declined after

the enactment of SFAS 150. The aggregate dollar amount of MRPS issuances as a percentage of firms' total sources of financing (debt and equity) dropped from 1.24% in 2001 to 0.88% in 2002, when the FASB announced its intention to enact SFAS 150. MRPS issuances as a percentage of total financing stayed at the low level of 0.92% in 2003, and in 2004 reached its lowest level in the past twenty-four years, 0.72%. Their analysis shows that this drop cannot be explained by the decline in interest rates or changes in equity market conditions over that period. The results indicate that under the new reporting regime in which MRPS are classified as a liability, these securities are a less popular financing vehicle. Analyzing firms' characteristics, Segal and Levi conclude that the non-debt classification had motivated managers to use MRPS before SFAS 150. Prior to SFAS 150, firms with incentives to avoid the reporting of additional debt - i.e., firms with high levels of pre-existing debt - chose to issue MRPS and not debt.

"This is another example of how the accounting tail wags the financing dog", say Levi and Segal on their findings. Managers choose to raise capital through debt-like hybrid securities in order to evade weighing down their balance sheets with additional debt. According

to anecdotal claims made by managers, they add, the main motives for structuring deals as equity are to skirt the limits set by debt covenants and to meet the capital requirements specified in regulations and operating contracts.

SFAS 150 is part of a larger regime change. The FASB and

IASB are currently considering the conditions in which other hybrid securities should be classified as a liability or as equity, and when the equity and debt components of hybrid securities need to be reported separately. The stated purpose of this reform is to provide users

with useful information about firms' obligations to transfer assets. Judging by the lead of SFAS 150 and its equivalent IAS 32, this reform is also meant to close several loopholes that allow firms to mask debt as equity on their financial reports. ❖

FACULTY

The Accounting Group Welcomes New Faculty

Nicole Bastian Johnson

recently joined the Haas School of Business accounting group as an Assistant Professor. She teaches an undergraduate course "Introduction to Managerial Accounting" and a Ph.D. research seminar in accounting.

Professor Johnson's primary areas of research interest are managerial performance measurement, incentive alignment and transfer pricing. Her current projects include a study of the effectiveness of various transfer pricing methods in motivating managers to make efficient investment decisions in international firms, a study of the effect of adopting a residual-income-based compensation scheme on firm performance

and a study of the effects of employee stock option repricing on firm performance.

Professor Johnson received her B.S. in Accounting and Master's Degree in Accounting and Information Systems from Brigham Young University. She earned a Master's Degree in Statistics and a Ph.D. in Accounting from Stanford University. She has worked previously as a database developer and a lecturer at BYU.

S. Sam Berde recently joined the Haas School of Business as a Lecturer in the Accounting Group. Mr. Berde is an Audit and Assurance Partner with PMB & Company, LLP. Mr. Berde provides auditing and assurance services to publicly and privately held companies, and provides

consulting services related to SEC reporting and compliance matters, merger and acquisition transactions, interim CFO services, and forensic accounting services.

Mr. Berde was a manager in the San Francisco office of KPMG prior to joining PMB. During his seven years at KPMG, he had the opportunity of working in both the audit and consulting divisions. He provided litigation support and business valuation services to consulting services clients. Mr. Berde spent several years working in Kuwait preparing financial compensation claims for Persian Gulf War damages, which were filed with the United Nations Compensation Commission.

Mr. Berde earned a BA in Business Economics from University of California – Santa Barbara, and he is a Certified Public Accountant. ❖

CONFERENCE HIGHLIGHTS

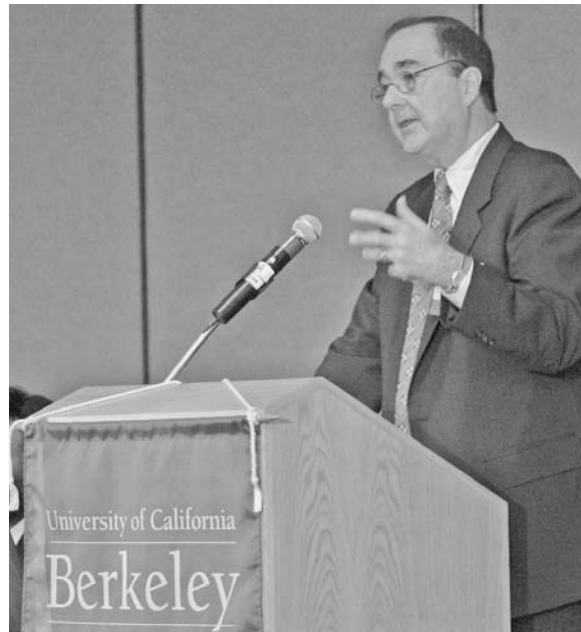
“The 16th Annual Conference on Financial Reporting was an outstanding conference featuring some of the most prominent individuals in the area of financial reporting. Its close proximity to year-end was also useful for individuals about to embark on preparing their annual financial statements.”

*Bob Laux
Director, Technical Accounting and Reporting
Microsoft Corporation*

In today's business and regulatory environment, it is essential that preparers and users of financial statements be current on the latest financial reporting trends and issues. This year's 16th Annual Conference on Financial Reporting, held on November 4, 2005 at the San Francisco Airport Marriott Hotel brought together key standard setters and regulators from FASB, IASB, SEC, PCAOB, EITF, AICPA, and AcSEC, as well as industry experts to discuss challenges and opportunities facing the accounting profession.

Fair Values in Financial Reporting was the topic for the opening address presented by Katherine Schipper, Board Member of the Financial Accounting Standards Board.

John McCaffrey, Managing Partner of PricewaterhouseCoopers LLP introduced the lunch keynote speaker, Toby Bishop, President and Chief Executive Officer of the Association of Certified Fraud Examiners. Mr. Bishop shared true tales of white-collar crime and discussed how CPAs can detect more Financial Statement Fraud. He suggested that companies recognize common false beliefs about financial statement fraud, recognize decision methods that can hinder fraud detection, and apply tips to help overcome these challenges. Mr. Bishop



John T. Smith, IASB Board Member

says “There's too much focus on complying with SAS 99 and too little on actually finding fraud.”

The first panel discussion on Emerging Issues in Financial Reporting – the FASB and IASB Agenda was moderated by Solomon Darwin, Executive Director of the Center for Financial Reporting and Management. Panelists included: Mark Bielstein, Member, Emerging Issues Task Force of FASB and Partner, KPMG LLP; Katherine Schipper, Board Member of the Financial Accounting Standards Board; Grace Hinchman, Senior Vice President of Advocacy of Financial Executives International; and John T. Smith, Board Member of the International Accounting Standards Board and Partner of Deloitte & Touche LLP.

Moderator Sam Berde, who is a Lecturer at the Haas School of Business and Partner of PMB & Company LLP, covered





Current Issues at the SEC and PCAOB. Panelists Helen Munter, Regional Deputy Director for Inspections at the Public Company Accounting Oversight Board; Pamela Schlosser, Professional Accounting Fellow at the Securities and Exchange Commission; and Paul R. Kepple, Member of the American Institute of Certified Public Accountants (AICPA) and Partner at PricewaterhouseCoopers LLP, addressed questions regarding current issues and developments at the SEC and PCAOB.

The first afternoon session began with a discussion of the Problems and Promises of Sarbanes-Oxley. Assistant Professor Maria Nondorf moderated and was joined by panelists Jim Campbell, Vice President and Corporate Controller of Intel Corporation; Pamela Schlosser of the SEC, and John Wolfson, Partner and National Director of SEC Services from Deloitte & Touche LLP.

Nicole Johnson, Assistant Professor at the Haas School of Business moderated the last panel on Revised Share-Based Payment SFAS No. 123(R). Katherine Schipper, of FASB, joined panelists Ben Neuhausen, Chairman of the Accounting Standards Executive Committee (AcSEC); Paul Munter, Partner, Department of Professional Practice at KPMG LLP; and Bob Laux, Director of Technical Accounting and Reporting from Microsoft Corporation.

The day ended with a raffle awarding four lucky participants with a certificate good for free admission to a future conference valued at \$500—all for taking the time to fill out a survey and sharing their interest in Executive Programs in Financial Reporting & Management. Participants were asked to rank the order of their preference for possible future programs. Suggested topics included:

1. Contemporary Issues in Financial Reporting (FASB focus)
2. Enterprise Risk Management & Internal Control (Operational focus)
3. Financial Disclosure Fraud & Sarbanes-Oxley Implementation (PCAOB focus)
4. Cost Management Strategies and Value Creation (Performance focus)
5. Forensic Accounting - fraud prevention, detection and investigation

If you have an interest in any of these programs, contact Dayna Haugh at (510) 642-6334 and she will add your name to the invitation list if these courses are offered in the future.

Be sure to check our website for additional photo highlights of the conference at:

<http://groups.haas.berkeley.edu/accounting> ❖

“I thought the course was very informative. It was a good opportunity to hear about emerging issues for CPA’s straight from those in a position to set policy. In the last three years the profession has seen significant change in the rules and in the way rules are made. A conference such as this helps put all of this change in perspective by hearing the perspectives of the various bodies involved in promulgating the changes.”

*Anette Sparks
Corporate Controller
The Bechtel Group*



CAREER ENHANCEMENT

Engaging Students in Real World Scenarios



The winning students are: Adam Malinowski, Zhuoguang Yu, Jennifer Moon, Lisa Cai, and Taryn Jang. Also pictured from PricewaterhouseCoopers are Michelle Bonesho, Richard Lee, David Marston, Laura Martinez, Vivian Chan, Matt Stolte, and Dell Hutchinson.

On November 10, 2005, eight teams of University of California - Berkeley undergraduates competed in the first annual xTAX Challenge case competition sponsored by PricewaterhouseCoopers (“PwC”). This xTAX learning experience is a program designed by PwC to foster interest among students in the world of tax and provide them with exposure to a “real world” tax case. The xTAX teams had only two weeks to research an assigned high level question about an important tax issue. This year’s assignment required the teams to analyze a proposed change in tax policy for a fictional country called Vastaria that was facing recession because of increasing pressures from global competition.

The winning team, called CalDSP received a \$1,000 prize and is currently being considered for competition in the national finals against teams from other top universities in the country. Team members included: Adam Malinowski, Zhuoguang Yu, Jennifer Moon, Lisa Cai, and Taryn Jang.

David Marston, Partner with PwC commented that “All the Cal students were incredible and exceeded our expectations on every level. We look forward to our 2nd annual case competition in November 2006.”

The second place team, called True Blue Consulting and comprised of Alex Han, Jessica Lee, Grace Liou, Mark Nakawatase, and Chris Wang, was also congratulated on their performance in the competition. Judging was based on critical thinking skills, presentation quality, and teamwork. Creativity and innovation were also rewarded.

Professor Maria Nondorf, one of the faculty advisors for this program, said, “This was a fantastic opportunity for students to work with a team of their peers, a member of the Haas faculty, and advisors from PricewaterhouseCoopers, to research, analyze, and defend their point of view in a competitive, high-pressure situation, much like in the real world. I watched several of the teams make their presentations to the panel of judges who were high-level partners from PwC. Above all, I was highly impressed with the students’ insights, poise, and professionalism. The level of preparedness was so high that I’m certain it was difficult for the PwC judges to choose the winners. With the success of this first year’s competition, I’m positive that this endeavor will become a part of the ongoing academic tradition here at Berkeley.” ❖

Students Learn About the Accounting Profession at Orientation Carnival



The Haas School rolled out the welcome mat to greet 347 new undergraduate business majors with a Friday-afternoon carnival in the Haas School courtyard.

The fun and games were a way to introduce new students to the many UC Berkeley and Haas School organizations they may join while at Haas. In between spinning wheels and winning prizes, the new students learned about the extra-curricular activities available to them through such organizations as the Asian Business

Association, the professional business fraternity Alpha Kappa Psi, Berkeley Consulting, and Students for Responsible Business.

The Center for Financial Reporting hosts a booth at the orientation and is joined by Haas alumni from its sponsoring firms. Representatives bring logo gift items that the students win while playing our game and also answer questions about accounting careers.

CFRM sponsors were represented by:

Deloitte & Touche

Diana Chan

Andrew Fierro-Peretti

Philip Yim

KPMG

Regina Herce

Ken Lee

PricewaterhouseCoopers

Peter Tang

Marina Vainshtein

Seiler & Company

Anthony Rozenvasser

Patrick Stodel

Julie Wang

“This year’s class represents a high level of intellectual curiosity and ability,” says Dan Himmelstein, executive director of the Haas Undergraduate Program. “We look forward to a great two years of study with them.” ❖

ACES Program — An Accounting Career Enhancement Session

Seventy five undergraduate students took advantage of the opportunity to learn about career options within the public accounting profession and ask questions of accounting representatives. Topics covered included:

- Public Accounting: Audit, Tax, Advisory
- Careerpaths
- Training
- International Rotations/Global Development Programs
- Benefits/Perks
- Profiles of a Strong Candidate

Representatives that presented at the ACES class were:

Deloitte & Touche LLP

Zain McKinney, Partner

Kinman Tong, Experience Staff

Jennifer Sabol, Recruiting Coordinator

KPMG LLP

Dara Bazzano, Senior Manager, Audit

Ken Lee, Supervising Senior, Audit

PricewaterhouseCoopers LLP

John Hildebrand, Audit Partner

Dell Hutchinson, Tax Partner

TEACHING ENHANCEMENT

Practitioners Make a Great Impact on Students in the Classroom

Many students have misconceptions about accounting that are best overcome by having practitioners share real world examples of what to expect in an accounting career. To stimulate interest in accounting, CFRM invites accounting professionals to the classroom to share their “true-life” experiences of working in the accounting field.

Introduction to Financial Accounting (Lecturers Rada Brooks and Gary Pieroni) – Topics moderated by Solomon Darwin were: Post Sarbanes-Oxley Challenges, Expanded Role of Auditing, and Public Accounting Career Paths. Partners from the following firms participated: Laura Martinez (PWC); Mark McComb (KPMG), Mike Johnson and Zain McKinney (Deloitte & Touche). The discussion of these topics have greatly enlightened students about the accounting profession. Students commented that the sessions were informative and thought provoking. One student wrote “The panelists opened my eyes to the field and what it entails. Now I am seriously thinking about pursuing a career in accounting” Another student reported gaining a balanced insight into the creative aspects of accounting when finding solutions to client issues and problems. Gary Pieroni indicated that “valuable discussions led by the firms enable students to visualize themselves in business and accounting and, most importantly, validates their difficult work in school”.

Federal Income Tax (Professor Alan Cerf) – “A Day in the life of a Tax Accountant”. Tax accountants share their experiences dealing with complex tax issues and give examples of an ethical issue they encountered and how they solved it. Panelists included Lawrence Varellas (Deloitte); Amy Chan (KPMG); Nancy Young and Patrick Stodel (Seiler); Dell Hutchinson (PWC), Joe DeTrane, (Grant Thornton), and Kent Lawson (Rowbotham & Co.).

Intermediate Accounting and Financial Statement Analysis (Lecturer Vic Stanton) Dr. Gonzolez from KPMG spoke on Forensic Auditing and Dave Marston, (PWC) and Laura Martinez (PWC); talked about auditing and tax.

Auditing (Lecturer Sam Berde) – “A Day in the Life of an Auditor” Michael Berg (PMB & Co.) lectured on SOX 404 issues and PCAOB audit issues; Doug Hart (BDO Seidman) talked about the new audit environment and opportunities outside of the Big 4; Dean Skupen (Stonefield Josephson) lectured on audit planning issues for public companies.

Corporate Financial Reporting (Professor Maria Nondorf) – Tax experts Dell Hutchinson, Jeannine Jacobs, and Sharon Powers from PWC spoke about the financial reporting implications of the American Job Creations Act of 2004, proposed changes to accounting for uncertain tax positions, and merger/acquisition tax trends. The students greatly appreciated their presentations and perspectives, as one student noted, “They definitely added some real world context to a tough topic.” ❖

Congratulations to Undergraduate Accounting Award Recipients of the L.H. Penney Grant-in-Aid Award

Natalya G. Attestatova	Allen Te-En Lee
James Dean Chung	Hazel Hoi Wai Leung
Andrew Fierro-Peretti	Jonathon Anthony Locascio
Thomas Ray Glazier	Wendy Marie Szeto
Jerry C. Hsu	Jack Yung-En Tang
Cathy Hwa-Kay Le	Sarka Vogel

STUDENT ACTIVITIES

Great Achievements of Beta Alpha Psi *A Prominent National Student Fraternity at Berkeley*

For the last 86 years, Beta Alpha Psi has provided its members with academic, professional, and personal development by offering professional workshops and networking functions to the Haas community. As an international honors business fraternity, Beta Alpha Psi is globally recognized for its scholarships, professionalism, and scholastic achievements. The Lambda Chapter, established in 1925, continues this legacy as a professional Haas sponsored business fraternity at the University of California, Berkeley.



This summer, our chapter was a co-host for Beta Alpha Psi's national conference in San Francisco, California. It was an honor to be elected as a host for over 260 chapters and close to 300 professionals. Being part of this experience solidified our presence as a superior chapter in the Western Region for Beta Alpha Psi.

The fall semester started with a bang as we recruited 12 new individuals into our organization. Our blend of activities included company presentations, mock interviews, professional development workshops, career development workshops, and much more in preparation to build the interpersonal, communicative, and leadership skills of our new initiates. To prepare them for the future, we not only honed their professional skills, but also their social capabilities through team-building activities, community service events, and alumni bonding activities to foster brotherhood and solidarity between our members and alumni who embody the traditions of Beta Alpha Psi.

We have established ourselves at UC Berkeley by hosting campus-wide events. Our semi-annual career fair, Meet the Firms, had more than 35 firms and 110 professionals provide career opportunities to over 250 students recruiting in the fall. Moreover, this semester, we also hosted the Big Four Forum and the xTax case competition held by PricewaterhouseCoopers (PwC). On October 27, my BAP brothers and I hosted our third semi-annual Executive Series forum on Sports Management where we hosted the Oakland Raiders, San Francisco 49ers, Oakland Athletics, and San Francisco Giants in a campus wide event to educate the population on Sports and Business.

The Lambda Chapter of Beta Alpha Psi is really excited about this semester. We would like to thank Solomon Darwin, our Faculty Advisor, for his leadership and our alumni, faculty, and professionals for their strong support. Their contributions have allowed us to put on these quality events this semester and provide a solid educational training program for our members. It has definitely been a privilege to be part of such a wonderful network of people that are determined to provide professionalism and academic knowledge to the business community and beyond. With that in mind, please feel free to contact our fraternity if you would like to meet us or speak to us of possible events by directly emailing jessshu@berkeley.edu.

Best Regards,

Jessica Shu

President, Lambda Chapter

PhD STUDENT NEWS

Haas PhD's Placed at Prominent Universities



GAVIN CASSAR
Assistant Professor
The Wharton School
University of Pennsylvania

Gavin Cassar, an Australian scholar specializes in financing and opportunity costs for start-ups, small firms, and entrepreneurial ventures, as well as in empirical financial accounting. His dissertation was titled "External Financing and Firm Operating Performance". Gavin is now teaching managerial accounting at the The Wharton School at the University of Pennsylvania. He received his Bachelor of Commerce (Hons I) from the University of Newcastle in Australia. His thesis was "Voluntary Disclosure in the Australian Banking Sector". His paper "Entrepreneur Opportunity Costs and Intended Venture Growth" is forthcoming in the Journal of Business Venturing.



KATHERINE GUNNY
Assistant Professor of Accounting
College of Business Administration
University of Colorado at Boulder

Katherine Gunny, who has degrees in managerial and agricultural economics from UC Davis is currently an assistant professor at the College of Business Administration at the University of Colorado at Boulder.

Her dissertation was titled, "What Are the Consequences of Real Earnings Management?". While at Berkeley she was the recipient of the Maurice Moonitz Doctoral Fellowship Award.

Katherine says her interest in pursuing a PhD in business was sharpened by the 18 months she spent as

a research analyst for a Bay Area economic consulting firm that does litigation support for insurance, valuation, antitrust, and intellectual property cases.

She continues her research in financial accounting, capital markets research in accounting, and consequences of discretionary accounting choice.



WENLI HUANG
Assistant Professor of Accounting
College of Business University of
Illinois Urbana-Champaign

After receiving her undergraduate degree in Economics from Peking

University in China, Wenli Huang came to the U.S. and earned her M.A. in Economics from the University of Kansas. She then joined the Ph.D. Program of Accounting at the Haas School of Business, UC Berkeley and expects to finish her degree in December 2005.

Wenli joined the Boston University School of Management as a tenure-track Assistant Professor of Accounting in Fall 2005. She is currently hosting the department seminars at Boston University. Starting in Spring 2006 she will be teaching Financial Accounting at the undergraduate level.

Her primary research interest is in the area of accounting information and managerial compensation and her dissertation, titled "Executive Stock Options and Risk-Taking", examines the non-monotonic effects of stock-option compensations on executives' risk-taking behaviors. Wenli has presented this paper in various places including Boston Accounting Research Colloquium, Boston University, University of Illinois at Urbana-Champaign, University of Florida, Nanyang Technological University, Singapore Management

University and University of Hong Kong. Wenli says, “I plan to continue to explore the area of executive compensation because the issues are important and complex for corporate management in American business in both the short and long run. Well-functioning remuneration and governance systems will help align the interests of managers with those of shareholders which are crucial for organizational success; remuneration can also be a source of agency costs if it is not managed properly.”



TRACEY CHUNQI ZHANG

*Assistant Professor
School of Accountancy
Singapore Management
University*

Tracey received her bachelor degree from Renmin University of China (Beijing) majoring in finance. Her dissertation titled “ Pricing Effects of Recognition Versus Disclosure “ investigates whether situations like expensing employee stock options will affect stock market prices and why. Tracey and her fiancée Holden settled in Singapore happily, after their six year long-distance relationship. Tracey is an assistant professor with Singapore Management University, where she teaches financial accounting and continues her research in the area of capital market. Holden took a management position with Johnson & Johnson Asia-Pacific Headquarter.

New Haas Accounting PhD Students



Seungmin Chee, from Seoul, Korea received her BA in Business from Yonsei University in 1998. She received her MS in Management Science and Engineering from Stanford University in 2003. Seungmin worked as a CPA, Audit and

Consulting for Arthur Andersen Company and as a Senior Consultant for Chung-Jeung Accounting Company.



Ke (Kevin) Li, from Beijing, China received his Bachelor of Economics with a major in Finance and minor in Law from Peking University in 1999. In 2005, he graduated with distinction earning his MBA with a specialization in Accounting,

Finance and Statistics from Leonard N. Stern School of Business at New York University.

From 1999 to 2002, Kevin worked for PricewaterhouseCoopers as an Associate and Senior Associate in the Assurance and Business Advisory Services in Beijing.

From 2004 to 2005, he worked for Westdeutsche Landesbank Girozentrale (WestLB AG) as a Credit Analyst in the credit risk management department in New York. He is a public accounting member of the Chinese Institute of Certified Public Accountants. ❖

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- Attracting and retaining the best faculty, staff, and students;
- Funding cutting-edge research;
- Organizing topical conferences and seminars to be presented to outside constituents;
- Strengthening Haas's accounting fraternities;

- Enhancing interactions between students and potential employers; and
- Maintaining the high quality curriculum.
- Providing information to students about the accounting program and accounting careers through career fairs, guest lecturers;
- PhD student aid.

To those of you who have supported the Center in the past, we thank you and hope that you'll be able to continue your support. To those of you who have not yet been able to support us financially, we hope that our mission and purpose will inspire you to help.

For information on how to make a contribution to CFRM, please visit our webpage: <http://groups.haas.berkeley.edu/accounting/cfrm/giving.html>

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