



Please answer all questions in Chinese.

In the 1980s, Xerox faced stiff competition from Japanese copy machine makers. In the 1990s, Xerox faced another threat as companies focused more on 'digital documents,' calling into question the need for large-scale paper copy machines.

In the mid-1990s, the managers of Xerox Mexico relaxed credit standards for customers in order to increase sales to meet revenue targets set by corporate headquarters. This practice did increase immediate sales, but it also increased the estimated amount of bad debts by \$127 million. To avoid recognizing this \$127 million in bad debts, the managers of Xerox Mexico renegotiated the credit terms, lengthening payment periods for delinquent accounts to maintain the appearance that the accounts were actually collectible. In addition, Xerox Mexico received \$27 million in sales returns from 1996 through 2000. To avoid recording this return of merchandise (and associated reduction in net sales), secret warehouses were rented to store the returned merchandise. Again, these activities were done in order to allow the managers of Xerox Mexico to meet the aggressive targets imposed by Xerox company headquarters.

In total, Xerox accelerated the reporting of more than \$6 billion in revenue in the period 1997-2000 and increased reported earnings by \$1.4 billion during the same period. At the peak of the earnings manipulation in 1998, more than 30% of Xerox's reported earnings stemmed from undisclosed changes in accounting practices. An SEC investigation uncovering Xerox's accounting abuses resulted in a \$10 million fine for the company; at the time, this was the largest fine ever imposed for misleading financial reporting.

Until 2001, Xerox's auditor was KPMG. KPMG required Xerox to make many adjustments to its financial statements over the 1997-2000 period. For example, when Xerox proposed the creation of an off-balance-sheet entity dubbed "Project Mozart," KPMG stood firm against the plan because it appeared to be a blatant attempt to transfer reported losses from the Xerox income statement to the Project Mozart income statement. In addition, in early 2000, KPMG refused to sign off on the 1999 audit until Xerox had completed an internal investigation of its accounting practices and made a number of restatements. As a result of this firm stance by KPMG, the Xerox financial statements for the year ended December 31, 1999, were not released until June 7, 2000. However, many businesspeople and regulators argue that KPMG was not tough enough. In April 2005, KPMG agreed to pay \$22 million to settle a civil suit filed by the SEC stemming from the Xerox audit and subsequently KPMG lost the Xerox audit engagement.



Because accounting numbers are so important in so many decisions, there is a predictable tendency of managers to try to manipulate the reported numbers to be as favorable as possible. And because financial accounting involves so many judgments and estimates, such manipulation is possible. Furthermore, as the reported net income is the number that receives the most attention, it is also the number that corporate managers might be most tempted to manipulate.

1. In accounting, earnings management is also referred to as income (earnings) manipulation. What does earnings management mean? (10%)
2. What are the techniques used by the managers of Xerox Mexico to manipulate reported income? (10%)
3. What are the outcomes of earnings management by Xerox and the action taken by SEC during 1997-2000? (10%)
4. What is the predetermined purpose of "Project Mozart" and the stance taken by KPMG? (10%)
5. What is final result of KPMG in its Xerox audit engagement? (10%)

二、 Yunlin Corporation operates under ideal conditions. It has just bought a fixed asset for \$3,178,000 which will generate \$1,210,000 cash flow at the end of the first year and \$2,000,000 at the end of the second year. At that time, the asset will be useless in operations and Yunlin plans to go out of business. The asset will have a known salvage value of \$400,019 at the end of the second year. The interest rate in the economy is constant at 8% per annum.

Yunlin finances the asset by issuing \$600,000 par value of 6% coupon bonds to yield 8%. Interest is payable at the end of the first and second year, at which time the bonds mature. The balance of the cost of the asset is financed by the issuance of common stocks at par value. Yunlin pays no dividends in these two years and has no other assets or liabilities except mentioned above.

Required:

- (1) Prepare the present value-based balance sheet as at the end of the first year.
- (2) Prepare the present value-based income statement for the first year.
- (3) Discuss the role of income statement under ideal conditions. (25%)



三、 Tom is examining the market response to earnings announcements. Following is taken from part of his sample. It shows the share prices of two sample firms and the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX).

Date	Closing Index/Price		
	TAIEX	UMC Co.	ACER Co.
4/1	8990	\$57	\$60
4/2	9000	58	60
4/3	9110	56	61
4/4	9109	55	62

Assume UMC announces it's earnings on April 3.

Required:

- (1) Calculate the actual return of UMC's shares for the day of earnings announcement.
- (2) Calculate the actual return of the market for the day of UMC's earnings announcement.
- (3) Explain how to measure the abnormal return for the share of a particular company. (25%)



1. 一企業為何須作「成本分攤」？又在「不同的成本觀念可用於不同的用途」的理念下，一企業會為那些不同的目的採取那些成本分攤的程序？請詳加分析之。(25%)
2. 一企業作訂價決策時，若以會計資訊為思維基礎，常以成本加成法為之。在個體經濟理論結構上，一企業產品之最適價格是如何決定的？又既然經濟理論已決定企業產品價格了，為何還有依賴會計成本加成法之空間？請詳加分析之。(25%)
3. 代理理論中因為代理人擁有私有資訊，導致隱藏行動 (hidden action) 與隱藏資訊 (hidden information) 的存在，因此在文獻上出現以下五個模型，分別是 (1) 隱藏行動的道德風險模型 (moral hazard with hidden action model)；(2) 隱藏資訊的道德風險模型 (moral hazard with hidden information model)；(3) 逆選擇模型 (adverse selection model)；(4) 信號傳地模型 (signaling model)；與 (5) 信息甄別模型 (screening model)。請對以上五種模型的特性與差別予以說明。【三十分】
4. 在探討經理人薪酬契約設計 (compensation contracts) 的議題中，應以公司營運會計績效 (accounting performance) 為契約制訂基礎還是應以市場價值 (market value) 為契約制訂基礎，常常是討論的焦點之一，請您提出您的看法。【二十分】