
In this two-volume set the reader is provided with an interesting collection of articles that relate to seven topics:

- Accountants and analysts as financial intermediaries (Volume I, Part I)
- Measuring corporate earnings and profitability (Volume I, Part II)
- Financial ratios, the risk of failure, and stock returns (Volume I, Part III)
- Equity valuation (Volume I, Part IV)
- Price-earnings ratios, market-to-book ratios, and stock returns (Volume II, Part I)
- Earnings and stock returns (Volume II, Part II)
- Fundamental analysis and stock returns (Volume II, Part III)

In addition, Professor Werner De Bondt, the editor, writes a set of insightful introductory comments in which he briefly discusses each topic, motivates and describes the articles he chose, and explains how the seven topics are linked together. This is especially helpful as it allows the reader to see the articles, many of which are well known, from Professor De Bondt’s perspective. In particular, an important theme running through the introduction is that extant research provides considerable evidence that accounting numbers are related to equity prices and equity returns, and that they play a role in the risk-assessment process. However, the evidence also implies that, in certain circumstances, capital market participants do not fully understand the implications of past and current accounting numbers for expected future payoffs and outcomes. Hence, many unanswered questions remain regarding the investment-management role of financial accounting numbers.

The collection has many fine qualities, two of which stand out. First, when read together, the articles that relate to a particular topic nicely illustrate how our understanding of that topic has evolved, and they help the reader identify key research questions that remain unanswered. For example, in Volume I, Part I, which relates to the financial intermediation role of accounting and analysts’ reports, Professor De Bondt begins with a 1964 article by the accountant Howard C. Greer, who describes many of the complaints that individual investors had (and continue to have) with the use and interpretation of accounting numbers (Greer 1964). Next, Professor De Bondt includes the seminal 1968 article by Ball and Brown, which demonstrates that, notwithstanding the complaints of individual investors, accounting earnings do have information content (Ball and Brown 1968). An immediate implication of this result is that there is a demand for earnings forecasts and, consequently, the analysts who make them. This clearly motivates the third article chosen by Professor De Bondt, which is by Asquith et al. (2005). These authors show that both the textual content as well as numerical earnings forecasts and price recommendations contained in a sample of Institutional Investor All-American analyst reports have information content.

Finally, Professor De Bondt finishes Volume I, Part I with an article by de Franco et al. (2007), who show that some analysts provide biased information and that small investors do not always fully adjust for the bias. Hence, the reader finishes this part of the collection realizing that analysts’ reports are informative on average but that we do not fully understand the factors that determine their quality or the manner in which capital-market participants use them when making investment decisions.

Second, even though each of the seven topics covered represent well-developed sub-fields of capital markets research, Professor De Bondt manages to link them together in a coherent fashion. He does this in two ways. First, he provides a concise yet illuminating description of the links between the topics in his introduction. Second, he chooses a set of articles that are very complementary. For example, each of the articles in Volume II, Part I, which relates to different valuation multiples (e.g., the price-to-earnings ratio) are clearly related to each of the six remaining topics. This is useful as it helps readers understand better the relation between various sub-fields and to draw connections between different bodies of evidence.

The collection also has some shortcomings, which mostly relate to the choice of articles selected and, thus, are unavoidable, given that there is a vast literature on the seven topics covered. Two of these shortcomings bear mentioning. First, all of the recent analytical work related to residual income valuation (e.g., Ohlson 1995) and abnormal earnings growth valuation (e.g., Ohlson and Juettner-Nauroth 2005) is omitted. Given the impact of this work on research and practice, the failure to include at least one of the key articles in this area is a limitation. Second, none of the recent articles regarding accounting-based estimates of the expected rate of return on equity capital are included. These estimates are becoming increasingly popular; hence, some discussion of why they are used and their properties seems warranted.
The collection will have value to a number of audiences. In my opinion, the individuals who will benefit the most are those with exposure to the fundamentals of finance and accounting (i.e., dividend policy and capital structure irrelevance, market efficiency, asset pricing models, etc.) but are not “black belts” in accounting research. Hence, Ph.D. students in accounting and finance who have progressed beyond their first year; faculty in accounting or finance who want a new perspective, and practitioners with a strong accounting and finance background will likely appreciate the two-volume set the most. However, because Professor De Bondt wisely chooses not to try to cover all seven topics from the ground up, individuals without some exposure to basic accounting and finance may find the two-volume set less useful.

REFERENCES

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This book is divided into two main parts, and divided further into nine chapters. Part I is “How to think ethically about accounting.” It contains an introductory chapter, Chapter 2 on the psychology of moral judgment; Chapter 3 presenting a variety of ethical theories; Chapter 4 on the ethical foundations of accounting in terms of political philosophy; and Chapter 5 on the post- and new-modern approaches to accounting ethics. Part II is “The ethics of accounting practice.” It consists of an analysis (Chapter 6) of the function of accounting in the context of “free” markets and of the morality of markets; Chapter 7 on accounting as a professional occupation; Chapter 8 on the ethics of international accounting; and a concluding chapter on ethics, intellectual capital, and accounting reporting. In addition to the text itself, each chapter contains a list of references and an extensive list of additional resources, including books, articles, podcasts, blogs, websites, and movies. A rough estimate is that one-third of the book is devoted to these reference materials. Since the actual text of the book is quite brief, roughly 140 pages (including a large number of illustrative boxes), the book is a short introduction to the issues and relevant literature, and is best viewed as a reference work rather than as a textbook *per se*.

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This book is intended as a textbook for a course on accounting ethics. As the chapter topics indicate, the primary purpose of the book is to introduce accounting students to a wide range of issues and theories relating to the ethical status of the accounting profession. The discussion is at a “macro” level, for the most part; thus, it addresses issues relating to codes of ethics (e.g., why we have them, where they came from, and the extent to which an effective international code of ethics might be feasible), but does not go into detailed discussions of the contents of any specific code or of any specific ethical issue (such as auditor independence or conflict of interest). Possible uses of this book would be as a basis for a course in accounting ethics or as a supplement to such a course. In either case, the end-of-chapter lists of resources should provide much of this.