

**Commerce 4AF3
Accounting Theory
Fall 2019 Course Outline**

**Accounting and Financial Management Services Area
DeGroote School of Business
McMaster University**

COURSE OBJECTIVE

This course is designed to give an overview of topics relevant to current accounting theory, research, standard setting, and practice through relevant readings and by detailed examination of various accounting models.

INSTRUCTOR AND CONTACT INFORMATION

Section 1: Tuesday 8:30am – 11:20am (TSH B106)

Section 2: Tuesday 2:30pm – 5:20pm (CNH 106)

(Please Note: Students should request permission from the instructor to attend a different section from the one officially registered in)

Instructor: Kevin Veenstra, PhD, MAcc, CPA, CA, CMA, CFA

Email: veenstk@mcmaster.ca

Office: DSB 324

Office Hours: Tuesday 11:45 a.m. to 2:00 p.m. or by appointment

Course Home page: <http://avenue.mcmaster.ca>

Select: Commerce 4AF3: Accounting Theory

COURSE ELEMENTS

Credit Value:	3	Leadership:	Yes	IT skills:	No	Global view:	Yes
Avenue:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Evidence-based:	Yes	Experiential:	No	Final Exam:	Yes	Guest speaker(s):	Yes

COURSE DESCRIPTION

This is NOT a course in which we learn how to do accounting. This is a course in which we examine accounting information critically from users' perspectives. In other words, we will learn what accounting can do for us in investment and corporate control. The primary objective of the course is to focus on contemporary topics and the latest research findings to help students understand why we need accounting information in investment and corporate control and build a strong theoretical foundation on using accounting information. The secondary objective is to improve students' analytical and critical thinking skills by exposing them to academic research and explaining basic research methodologies. Each topic involves substantial reading. You will find you understand accounting better and know what accounting can do for business after studying these materials.

LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Analyze the advantages/disadvantages of the various accounting models
- Assess business health/performance as implied by the various accounting models
- Conduct an assessment of a given situation from a political economy perspective
- Begin to understand the many perspectives from which accounting can be studied

REQUIRED COURSE MATERIALS AND READINGS

Financial Accounting Theory, 8th Edition; William R. Scott, Patricia C. O'Brien, 2019.
\$145.95 hard copy; available in the bookstore.

Avenue registration for course content, readings and case materials

- <http://avenue.mcmaster.ca>

CONDUCT OF CLASSES AND GENERAL APPROACH

Approximately the first 30 minutes of each class will be dedicated to the discussion of assigned homework questions. Students are expected to have attempted all assigned questions and be prepared to participate in the discussion. You may volunteer answers or respond when called upon. The homework questions will consist of material covered in class the previous week. The remaining 140 minutes of class will consist of a combination of lecture, case studies and classroom discussion. Classes will be used to introduce, explain and otherwise clarify new topics and issues. Class lectures are in addition to the textbook. ***It is of utmost importance that students bring their textbook to every lecture.*** Other problems will also be introduced in class from time to time.

Students are expected to be up to date with all topics covered up to and including the previous class.

The following points are of the utmost importance for success in this course:

- **Attempt the end of chapter questions only after having read the chapter thoroughly.**
- Make use of the office hours to ask about anything you do not understand. Do not wait until right before the test or exam.
- Attend each and every class.

EVALUATION

Components and Weights

Nature of Evaluation	Date	Weight
Midterm	Friday, October 25, 2019	30%
Case Assignment/ Presentation	As noted below	25%
In-class Quizzes	As noted below	15%
Final Exam	During exam period	30%
Total		100%

NOTE: Only the McMaster standard calculator (Casio FX-991MS) is allowed during all quizzes, tests and examinations in this course.

The official McMaster University photo identification card **must** be presented at each examination.

Participation

While no marks are assigned, class participation will ensure students keep up-to-date with assigned readings and complete the problems assigned each week. You must have a name card with your **full first and last name** clearly written and displayed in front of you for every class.

In-class Quizzes

There will be 4 quizzes throughout the term. The quizzes will consist of one or two questions. There will be no make-up quizzes if a quiz is missed. The best 3 out of 4 quizzes will be counted in the final grade. Each quiz will be 30 to 60 minutes in length.

Case Assignment/Presentation

In class 3, you will be assigned to a group of 3 or 4 students. You will choose one company from a list of Canadian companies which has been accused of fraud and/or earnings management during the past two decades. Using publicly available information and assigned the role as “lead investigator”, your group will be asked to answer a number of questions and advise as to the proper

allocation of “blame” in the situation. 15% of the total course mark will be allocated to the written assignment, to be handed in at the start of class # 11. 10% of the total course mark will be allocated to the in-class presentation, to be done in class # 11 or class # 12 (as assigned by the instructor).

Midterm Test

The midterm will be written on Friday, October 25, 2019 and will be two hours in length. The test will cover the work covered up to and including the week before the midterm test. Students should be able to answer both quantitative and discussion-type questions.

There will be no makeup if the midterm test is missed. Students missing the midterm without a valid reason or without following the correct procedures will receive zero for the test. For students missing the test with a valid reason, the weight will be transferred to the final examination. (See “Request for relieve from missed academic term work” in this course outline).

Final Exam

The final examination is scheduled by the Academic Programs Office. The examination will be three hours in length and **comprehensive**. **It will include materials discussed during in-class presentations during weeks 11 and 12.** More information about the examination will be provided in class.

Communication and Feedback

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants. Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #9 in the term. Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/missed-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 4AF3 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any others that may be announced during lectures and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor reserves the right to modify elements of the course during the term. There may be changes to the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the

student to check their McMaster email and course websites weekly during the term and to note any changes.

Remarks

- i. Please see Avenue for any updates and course material on a daily basis.
- ii. Any attempt to submit a falsified MSAF for this course for a missed test or midterm exam constitutes academic dishonesty and charges will be filed with the Office of Academic Integrity.
- iii. **We only respond to emails sent from students' McMaster email accounts.** Ensure that your Mac account is activated and has space to receive emails. We reply to emails only once, and if it returns to us as “undeliverable mail” we do not attempt any further replies. Do not use the email provided by Avenue. We do not check Avenue for emails. We do not respond to emails asking questions to which the answer is readily available in the course outline or Avenue.

RECORDING LECTURES

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Avenue materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to “publish” them in anyway. **It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.**

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

<https://multifaith.mcmaster.ca/riso>

COURSE SCHEDULE

Commerce 4AF3 Accounting Theory Fall 2019 Course Schedule

WEEK	DATE	TOPICS
1	September 3	Chapter 1: Introduction <ul style="list-style-type: none"> • Objective of the course • Historical perspective of accounting • Complexity of financial reporting and regulations • Fundamental problem of financial accounting theory • Accounting standard setting and accounting research • New challenges of accounting practice
2	September 10	Chapter 2: Accounting under Ideal Conditions Chapter 3: The Decision Usefulness Approach to Financial Reporting <ul style="list-style-type: none"> • Accounting under ideal conditions • Accounting under information uncertainty • Decision usefulness approach • Reaction of professional accounting bodies to decision approach • Decision usefulness for managers, analysts, and investors Suggested Problems: 2-5, 2-6, 2-10, 2-12 (a), 2-13, 2-15, 2-18, 2-25 Suggested Problems: 3-1, 3-2, 3-3, 3-5, 3-7, 3-8, 3-10, 3-11, 3-17
3	September 17	Chapter 4: Efficient Securities Markets <ul style="list-style-type: none"> • Efficient market hypothesis • Implications of efficient markets for financial reporting • Informativeness of stock price and information asymmetry • Social significance of securities markets that work well • A case of misleading disclosure (2002 Global Settlement Case) Suggested Problems: 4-1, 4-2, 4-3, 4-6, 4-7, 4-10, 4-11, 4-14, 4-16 In-class quiz # 1: Chapters 2/3

WEEK	DATE	TOPICS
4	September 24	<p>Chapter 5: The Value Relevance of Accounting Information</p> <ul style="list-style-type: none"> Accounting theory and accounting research Research methodology Event studies (Ball and Brown 1968) Earnings response coefficients Information content of financial statement information A caveat about the “best” accounting policy <p>Suggested Problems: 5-2, 5-3, 5-4, 5-6, 5-7, 5-9, 5-12, 5-13, 5-15, 5-20, 5-22</p>
5	October 1	<p>Chapter 6: The Measurement Approach to Decision Usefulness</p> <ul style="list-style-type: none"> Efficient securities market: revisit Accounting anomalies and behavioral finance Value relevance of financial statement information Valuation model <p>Guest speaker: Dr. Bill Richardson (Post-Earnings Announcement Drift) – 45 minutes</p> <p>Suggested Problems: 6-1, 6-4, 6-6, 6-8, 6-10, 6-14</p> <p>In-class quiz # 2: Chapters 4 and 5</p>
6	October 8	<p>Chapter 7: Measurement Applications</p> <p>Suggested Problems: 7-2, 7-4, 7-8, 7-10, 7-13, 7-15, 7-19(a) (b), 7-21</p> <p>Chapter 8: The Efficient Contracting Approach to Decision Usefulness</p> <ul style="list-style-type: none"> Efficient contracting theory and corporate governance Accounting policies for efficient contracting Employee stock options <p>Suggested Problems: 8-1, 8-2, 8-4, 8-6, 8-9, 8-11, 8-13, 8-16, 8-17, 8-18</p>
7	October 22	<p>Chapter 9: An Analysis of Conflict</p> <ul style="list-style-type: none"> An overview of agency theory An analysis of conflict: agency theory and management control Accounting numbers in contracting <p>Suggested Problems: 9-1, 9-2, 9-3, 9-6, 9-8, 9-9, 9-11, 9-14, 9-18, 9-21</p> <p>Chapter 10: Executive Compensation</p> <p>Suggested Problems: 10-2, 10-3, 10-4, 10-5, 10-7, 10-9, 10-10, 10-14, 10-18, 10-19</p> <p>In-class quiz # 3: Chapters 6, 7 and 8</p>

WEEK	DATE	TOPICS
	October 25	The midterm is 2 hours and covers material up to and including Chapter 8. It will be held from 6:30 p.m. to 8:30 p.m. (rooms TBD). If you cannot attend the exam at this time, you must inform your professor by email by Tuesday, September 24. Also, you must provide proof that you are unable to attend such as copy of your timetable indicating you have class at this time or documentation from your employer.
8	October 29	Chapter 11: Earnings Management <ul style="list-style-type: none"> • Motivations of earnings management • Empirical earnings management • Case on behavior of market participants: financial analysts, short sellers, and managers Suggested Problems: 11-1, 11-2, 11-3, 11-6, 11-7, 11-11, 11-12, 11-14, 11-15
9	November 5	In-Class Immersive Case: Home Capital Group Inc.
10	November 12	Chapter 12: Standard Setting: Economic Issues Suggested Problems: 12-1, 12-5, 12-8, 12-9, 12-10, 12-12, 12-17 Chapter 13: Standard Setting: Political Issues Suggested Problems: 13-1, 13-3, 13-8, 13-12, 13-18 In-class quiz # 4: Chapters 9, 10 and 11
11	November 19	Group Case Presentations: Day 1 of 2 Case Written Reports due at the Start of Class
12	November 26	Group Case Presentations: Day 2 of 2
13	December 3	Review
	TBD	Final Exam Period: Friday, December 6 to Thursday, December 19