

**Commerce 4AF3
Accounting Theory
Winter 2023 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 (BSB117)

Section 2: Thursday 11:30am – 2:20pm (BSB138)

(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: 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):	No

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	Saturday, February 18, 2023	30%
Case Assignment/ Presentation	As noted below	25%
Class participation	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 tests and examinations in this course.

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

Class Participation

Class participation marks will be based on participation during homework take-up and discussions in class. For homework take-up, students are expected to have read the questions in advance. Students should be prepared to contribute to class discussion by being able to respond to questions and issues raised by other students and the instructor.

In order to provide students with feedback regarding participation, a name card/self-evaluation sheet (name card) will be distributed in the first class and will be required to be completed by the student each class. While the student's final participation grade will be awarded by the instructor, the student evaluation will be considered for the decision. Failure to maintain and complete the self-evaluation card will result in a grade of zero for the class participation component of your final grade.

The success of the course for students depends on active, thoughtful participation and preparation by the members of the class. Attendance is a pre-requisite for participation. The mark each student

receives will reflect the quantity and quality of that student's contribution to the course. Your participation will be graded based on the following scale:

Significant and meaningful contributions	8-10
Regular and useful contributions	6-8
Occasional contributions	4-6
Regular attendance, minimal contribution	2-4
Irregular attendance	0-2

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 Saturday, February 18, 2023 and will be 2.5 hours in length. The test will cover the work covered up to and including the week of 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 relief 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 2.5 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. All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

- *For Level 1 and Level 2 courses, this feedback must equal a minimum of 20% of the final grade.*
- *For Level 3 courses and above, this feedback must equal a minimum of 10% of the final grade.*

Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC INTEGRITY

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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.

For information on the various types of academic dishonesty please refer to the [Academic Integrity Policy](https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/), located at <https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/>

The following illustrates only three forms of academic dishonesty:

- plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
- improper collaboration in group work.
- copying or using unauthorized aids in tests and examinations.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar “Requests for Relief for Missed Academic Term Work” and the link below;

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

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ON-LINE ELEMENT

Some courses may use on-line elements (e.g. email, Avenue to Learn (A2L), web pages, TopHat, MS Teams, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

ONLINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES

Students with disabilities who require academic accommodation must contact [Student Accessibility Services](#) (SAS) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's [Academic Accommodation of Students with Disabilities](#) policy.

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 should submit their request to their Faculty Office *normally within 10 working days* of the beginning of term in which they anticipate a need for accommodation 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.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

RESEARCH USING HUMAN SUBJECTS

All researchers conducting research that involves human participants, their records or their biological material are required to receive approval from one of McMaster's Research Ethics Boards before (a) they can recruit participants and (b) collect or access their data. Failure to comply with relevant policies is a research misconduct matter. Contact these boards for further information about your requirements and the application process.

McMaster Research Ethics Board (General board): <https://reo.mcmaster.ca/>
Hamilton Integrated Research Ethics Board (Medical board): <http://www.hireb.ca/>

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 other that may be announced during lecture 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.

Commerce 4AF3 Accounting Theory Winter 2023 Course Schedule

WEEK	DATE	TOPICS
1	January 10/12	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	January 17/19	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	January 24/26	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

WEEK	DATE	TOPICS
4	January 31/February 2	<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	February 7/9	<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>Suggested Problems: 6-1, 6-4, 6-6, 6-8, 6-10, 6-14</p>
6	February 14/16	<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>

WEEK	DATE	TOPICS
	February 18	The midterm is 2.5 hours and covers material up to and including Chapter 5. Room and time TBD. If you cannot attend the exam at this time, you must inform your professor by email by Thursday, January 26. 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.
7	February 28/March 2	Chapter 9: An Analysis of Conflict <ul style="list-style-type: none"> • An overview of agency theory • An analysis of conflict: agency theory and management control • Accounting numbers in contracting Suggested Problems: 9-1, 9-2, 9-3, 9-6, 9-8, 9-9, 9-11, 9-14, 9-18, 9-21 Chapter 10: Executive Compensation Suggested Problems: 10-2, 10-3, 10-4, 10-5, 10-7, 10-9, 10-10, 10-14, 10-18, 10-19
8	March 7/9	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	March 14/16	In-Class Immersive Case: Home Capital Group Inc.
10	March 21/23	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

WEEK	DATE	TOPICS
11	March 28/30	Group Case Presentations: Day 1 of 2 Case Written Reports due at the Start of Class
12	April 4/6	Group Case Presentations: Day 2 of 2
	TBD	Final Exam Period: Friday, April 14 to Saturday, April 29