

**Commerce 4AF3  
Accounting Theory  
Winter 2025 Course Outline**

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

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***INSTRUCTOR AND CONTACT INFORMATION***

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**Section 1 Wed 2:30pm -5:20pm**

**Dr. Alfred Liu**

Instructor

[liu1873@mcmaster.ca](mailto:liu1873@mcmaster.ca)

Office: DSB 325

Office Hours: Wed 1-2pm or by appointment

Tel: (905) 525-9140 x27860

Class Location: BSB B117

**Student TA**

Zhe (Joyce) Zhang

[zhanz418@mcmaster.ca](mailto:zhanz418@mcmaster.ca)

Office Hours: TBA

**Course website:** <http://avenue.mcmaster.ca>

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***COURSE ELEMENTS***

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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 INFORMATION***

**Lectures:** 3hr x1/wk

**Tutorials:** N/A

**Course Delivery Mode:** In-person

**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.

## ***IMPORTANT LINKS***

- [Mosaic](#)
- [Avenue to Learn](#)
- [Student Accessibility Services - Accommodations](#)
- [McMaster University Library](#)

## ***COURSE 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

## ***COURSE LEARNING GOALS***

This course will improve students' understanding of the use of financial accounting information in the financial markets and economic activities with the following goals:

1. Understand how accounting information is used in investment and stewardship decisions.
2. Analyze why managers choose certain accounting methods, accounting policies, corporate disclosures over other choices.
3. Assess accounting numbers prepared using different measurement bases, such as historical cost accounting, fair value accounting, etc.
4. Obtain greater understanding of accounting concepts such as relevance, reliability, conservatism, earnings quality, etc.
5. Evaluate properties of financial information using sample firms based on their required financial filings by securities exchange committees, stock market share pricing, and analyst forecasts.
6. Critique existing and proposed accounting standards (exposure drafts).

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### ***REQUIRED MATERIALS AND TEXTS***

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*Financial Accounting Theory, 8th Edition*; William R. Scott, Patricia C. O'Brien, 2019.

available in the bookstore. Campus eBookstore price for new \$66.95

no restriction on used book as long as it is 8<sup>th</sup> edition.

Avenue registration for course content, readings and case materials: <http://avenue.mcmaster.ca>

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### ***COURSE EVALUATION***

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- a clear breakdown of the course requirements or expectations including the weight given to each and due date (if possible)
- how work is to be submitted
- **policy on missed work, extensions, and late penalties**

*If applicable include:*

- final exam (specify if a final is included, and whether it tests cumulative knowledge)
- weekly breakdown of class topics and readings
- attendance requirements
- class participation expectations
- group work expectations and how group work will be evaluated
- where possible, include the criteria to be used in evaluating a student's work

## ***COURSE DELIVERABLES***

### **Assessment**

Nature of Evaluation	Date	Weight
Midterm*	Wednesday, Feb 26, 2025	30%
Case Assignment/ Presentation	As noted below	25%
Class participation	As noted below	15%
Final Exam*	During exam period	30%
Total		100%

\*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, October 8, 2022 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.

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## **COMMUNICATION AND FEEDBACK**

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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.*

Students who have concerns about the course content, evaluation methods, or delivery should first reach out to the course instructor. If your concern remains unresolved after speaking with the instructor, you may then reach out to the relevant Area Chair for further consideration.

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## ***REQUESTING RELIEF FOR MISSED ACADEMIC WORK***

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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.degroot.mcmaster.ca/forms-and-resources/missed-course-work-policy/>

\* Non-Commerce students must follow the Missed Course Work protocols outlined by their home faculty and Program Office.

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## ***COURSE MODIFICATION***

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From time to time there may be a need to remove/add topics or to change the schedule or the delivery format. If these are necessary, you will be given as much advance notice as possible.

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## ***GENERATIVE AI***

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### **USE PROHIBITED with EXCEPTIONS**

Unless EXPLICITLY permitted in an assignment or project, students are NOT permitted to use generative AI in this course. In alignment with [McMaster academic integrity policy](#), it “shall be an offence knowingly to ... submit academic work for assessment that was purchased or acquired from another source”. This includes work created by generative AI tools. Also state in the policy is the following, “Contract Cheating is the act of “outsourcing of student work to third parties” (Lancaster & Clarke, 2016, p. 639) with or without payment.” Using Generative AI tools is a form of contract cheating. Charges of academic dishonesty will be brought forward to the Office of Academic Integrity.

For an assignment or project that EXPLICITLY permits AI use, students may use generative AI in the specific assignment/project in accordance with the guidelines outlined by the instructor, and so long as the use of generative AI is referenced and cited following citation instructions given in the syllabus. Use of generative AI outside assessment guidelines or without citation will constitute academic dishonesty. It is the student’s responsibility to be clear on the limitations for use for each assessment and to be clear on the expectations for citation and reference and to do so appropriately.

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## *ACADEMIC INTEGRITY*

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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](#).

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.

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## *AUTHENTICITY/PLAGIARISM DETECTION*

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**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. Avenue to Learn, 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](http://www.mcmaster.ca/academicintegrity).

## ***COURSES WITH AN ON-LINE ELEMENT***

**Some courses may** use on-line elements (e.g. e-mail, Avenue to Learn, LearnLink, web pages, capa, Moodle, ThinkingCap, 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](mailto: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.

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### ***EXTREME CIRCUMSTANCES***

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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, Avenue to Learn and/or McMaster email.

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### ***ACKNOWLEDGEMENT OF COURSE POLICIES***

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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.

**COURSE SCHEDULE**

**Commerce 4AF3  
Accounting Theory  
Winter 2025 Course Schedule (tentative)**

<i>Date</i>	<i>Topic &amp; Textbook Chapter</i>	<i>Problems for Classroom Discussion Context Readings</i>
Jan 8 (Session 1)	Introduction, Ch 1	<ul style="list-style-type: none"> <li>• Objective of the course</li> <li>• Historical perspective of accounting</li> <li>• Complexity of financial reporting and regulations</li> <li>• Fundamental problem of financial accounting theory</li> <li>• Accounting standard setting and accounting research</li> <li>• New challenges of accounting practice</li> </ul>
Jan 15 (Session 2)	Ideal Conditions, Ch 2	<ul style="list-style-type: none"> <li>• Accounting under ideal conditions</li> <li>• Accounting under information uncertainty</li> </ul> <p>Suggested Problems: 2-5, 2-6, 2-10, 2-12 (a), 2-13, 2-15, 2-18, 2-25</p>
Jan 22 (Session 3)	Decision-usefulness Approach, Ch 3	<ul style="list-style-type: none"> <li>• Decision usefulness approach</li> <li>• Reaction of professional accounting bodies to decision approach</li> <li>• Decision usefulness for managers, analysts, and investors</li> </ul> <p>Suggested Problems: 3-1, 3-2, 3-3, 3-5, 3-7, 3-8, 3-10, 3-11, 3-17</p>
Jan 29 (Session 4)	Efficient Securities Markets, Ch 4	<ul style="list-style-type: none"> <li>• Efficient market hypothesis</li> <li>• Implications of efficient markets for financial reporting</li> <li>• Informativeness of stock price and information asymmetry</li> <li>• Social significance of securities markets that work well</li> <li>• A case of misleading disclosure</li> </ul> <p>Suggested Problems: 4-1, 4-2, 4-3, 4-6, 4-7, 4-10, 4-11, 4-14, 4-16</p>

<p>Feb 5 (Session 5)</p>	<p>The Value Relevance of Accounting Information, Ch 5</p>	<ul style="list-style-type: none"> <li>• Accounting theory and accounting research</li> <li>• Research methodology</li> <li>• Event studies (Ball and Brown 1968)</li> <li>• Earnings response coefficients</li> <li>• Information content of financial statement information</li> <li>• A caveat about the “best” accounting policy</li> </ul> <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>
<p>Feb 12 (Session 6)</p>	<p>The Valuation Approach, Ch 6</p>	<ul style="list-style-type: none"> <li>• Efficient securities market: revisit</li> <li>• Accounting anomalies and behavioral finance</li> <li>• Value relevance of financial statement information</li> <li>• Valuation model</li> </ul> <p>Suggested Problems: 6-1, 6-4, 6-6, 6-8, 6-10, 6-14</p>
<p>Feb 19</p>	<p><b>No classes during mid-term recess</b></p>	
<p>Feb 26</p>	<p><b>Midterm exam (2:30 p.m. – 5:00 p.m.)</b></p>	
<p>Mar 5 (Session 7)</p>	<p>Measurement Applications, Ch 7 Efficient Contracting Theory and Accounting, Ch 8</p>	<ul style="list-style-type: none"> <li>• Efficient contracting theory and corporate governance</li> <li>• Accounting policies for efficient contracting</li> <li>• Employee stock options</li> </ul> <p>Suggested Problems: 7-2, 7-4, 7-8, 7-10, 7-13, 7-15, 7-19(a) (b), 7-21 Suggested Problems: 8-1, 8-2, 8-4, 8-6, 8-9, 8-11, 8-13, 8-16, 8-17, 8-18</p>
<p>Mar 12 (Session 8)</p>	<p>Analysis of Conflict, Ch 9 Executive Compensation, Ch 10</p>	<ul style="list-style-type: none"> <li>• An overview of agency theory</li> <li>• An analysis of conflict: agency theory and management control</li> <li>• Accounting numbers in contracting</li> </ul> <p>Suggested Problems: 9-1, 9-2, 9-3, 9-6, 9-8, 9-9, 9-11, 9-14, 9-18, 9-21 Suggested Problems: 10-2, 10-3, 10-4, 10-5, 10-7, 10-9, 10-10, 10-14, 10-18, 10-19</p>
<p>Mar 19 (Session 9)</p>	<p>Earnings Management, Ch 11</p>	<ul style="list-style-type: none"> <li>• Motivations of earnings management</li> <li>• Empirical earnings management</li> </ul>

		<ul style="list-style-type: none"> <li>Case on behavior of market participants: financial analysts, short sellers, and managers</li> </ul> <p>Suggested Problems: 11-1, 11-2, 11-3, 11-6, 11-7, 11-11, 11-12, 11-14, 11-15</p>
Mar 26 (Session 10)	In-Class Immersive Case: Home Capital Group Inc.	
Apr 2 (Session 11)	<p>Group Case Presentations: Day 1 of 2</p> <p><b>Case Written Reports due at the Start of Class</b></p>	
Apr 9 (Session 12)	Group Case Presentations: Day 2 of 2	
TBD	<b>Final Exam Period</b>	