

Subject Code	:	AF5102	
Subject Title	:	Accounting Theory	
Level	:	5	
Credits	:	3	
Mode of Study	:	Seminars	42 hours
Pre-requisites	:	None	
Exclusions	:	None	
Recommended Background Knowledge	:	Some prior exposures to a research methodology course would be helpful	
Assessment	:	Coursework	50%
		Final Examination	50%
Minimum Pass Grade	:	Coursework	(Grade D)
		Final Examination	(Grade D)

Role and Purpose

The purpose of this subject is to give students an understanding of the current financial reporting environment, taking into account the diverse interests of external users and management. It contributes to the achievement of the following Programme Outcomes by enabling students to develop an understanding of the scope, functions, and limitations of the conventional accounting model, and to explore various accounting theories that may explain why accountants do things the way they do (PPA / MPAcc Programme Outcomes 7 and 8; and MSc in ACN Programme Outcomes 1, 2 and 3).

Learning Outcomes

On successfully completing this subject, students will be able to:

- Develop and demonstrate an understanding of the concepts, principles, and practices of financial accounting.
- Develop an understanding of the scope, functions, and limitations of financial accounting.
- Understand why these principles and practices are adopted and how they are justified by underlying theoretical concepts.

Indicative Teaching / Learning Approach

The subject will be built around a variety of teaching / learning approaches including lectures, discussion on relevant issues, problems, or cases, oral presentation, and written assignment.

Lectures will introduce theoretical aspects of accounting and their implications in accounting practices.

Indicative Assessment Tasks

Normally class participation and discussion, group projects, individual assignment, and written examination will be used to assess students' understanding of the scope, functions, and limitations of the conventional accounting model and their ability to explain why current accounting principles and practices are adopted with underlying theoretical concepts (PPA / MPAcc Programme Outcomes 7 and 8; and MSc in ACN Programme Outcomes 1, 2 and 3).

Indicative Content

Some Basic Economic Concepts

Types of information asymmetry and their implications to financial reporting. Adverse selection and moral hazard problems. Concept of signalling and its implications.

The Present Value model of Accounting

Conditions under which financial statements will be "relevant" and "reliable". Asset valuation and income measurement under ideal conditions. Implementation of the present value model. Potentials of the present value model.

Information Perspective of Accounting

Decision theories and capital market theories and their relevance to accounting. Development of the conceptual framework of accounting in various countries. Use of information by market participants. Concepts of information-based herding and cascades.

Efficient Securities Market

Implications of securities market efficiency to accounting. Models of securities prices. Nature of information asymmetry in financial reporting and the resulting problems of moral hazard and adverse selection. Usefulness and information content of financial statements and accounting information. Empirical research in accounting. Measures of unexpected accounting earnings and security price response.

Measurement of Financial Statement Information

Examples of value-based information in financial statements. Current developments in mark-to-market accounting and hedge accounting. The Edward-Bell-Ohlson model of firm valuation.

Economic Consequences

Management's interests in financial reporting. Economic consequences of accounting policy choice. Relationship between theories of market efficiency and economic consequences. Positive Accounting Theory.

Conflict between Contracting Parties

Game theory and agency theory, and their relevance to the study of accounting. Use of accounting information for contracting purposes, as in employment contracts and lending contracts.

Executive Compensation and Earnings Management

Management compensation and incentive plans. Earnings management. Implications of financial statements and generally accepted accounting principles (GAAP). Use of accounting information for contracting purposes, as in employment contracts and lending agreements. Issues of earnings management and their implications to financial reporting.

Setting of Accounting Standards

Theoretical and practical issues in accounting standard setting. Information as a complex commodity and the economic theories of regulation. Setting and harmonisation of international accounting standards.

Indicative Reading

Deegan, Craig, *Financial Accounting Theory*, latest edition, McGraw-Hill Irwin.

Godfrey, Jayne, Allan Hodgson, and Scott Holmes, *Accounting Theory*, latest edition, John Wiley & Sons, Inc.

Henderson, Scott, Graham Peirson, and Kate Harris, *Financial Accounting Theory*, latest edition, Prentice Hall.

Schroeder, Richard G., Myrtle W. Clark, and Jack M. Cathey, *Financial Accounting Theory and Analysis: Text and Cases*, latest edition, John Wiley & Sons, Inc.

Scott, William R., *Financial Accounting Theory*, latest edition, Toronto: Prentice Hall Canada, Inc.

Watts, Ross L., and Jerold L. Zimmerman, *Positive Accounting Theory*, latest edition, Prentice Hall.

Wolk, Harry I., James L. Dodd, and John J. Rozycki, *Accounting Theory: Conceptual Issues in a Political and Economic Environment*, latest edition, Sage Publications Inc.