

Subject Code	AF5102
Subject Title	Accounting Theory
Credit Value	3
Level	5
Normal Duration	One Semester
Pre-requisite / Co-requisite/ Exclusion	Pre-requisite: Completion of 5 core subjects for MPA students
Role and Purposes	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 PgDPA / MPA Programme Outcomes by enabling students to <u>develop an understanding of the scope, functions, and limitations of the conventional accounting model</u> , and to <u>explore various accounting theories that may explain why accountants do things the way they do</u> (Programme Outcome 4).
Subject Learning Outcomes	Upon completion of the subject, students will be able to: (a) develop and demonstrate <u>an understanding of the concepts, principles, and practices of financial accounting</u> ; (b) develop <u>an understanding of the scope, functions, and limitations of financial accounting</u> ; and (c) understand <u>why these principles and practices are adopted</u> and <u>how they are justified by underlying theoretical concepts</u> .
Subject Synopsis/ Indicative Syllabus	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.

	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Teaching/Learning Methodology	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.

<p>Assessment Methods in Alignment with Intended Learning Outcomes</p>	<p>Normally class participation and discussion, group projects, individual assignment, and written examination will be used to assess <u>students' understanding of the scope, functions, and limitations of the conventional accounting model</u> and <u>their ability to explain why current accounting principles and practices are adopted with underlying theoretical concepts</u> (Programme Outcome 4).</p>																																																					
<table border="1"> <thead> <tr> <th data-bbox="495 409 820 619" rowspan="2">Specific assessment methods/tasks</th> <th data-bbox="820 409 974 619" rowspan="2">% weighting</th> <th colspan="6" data-bbox="974 409 1485 556">Intended subject learning outcomes to be assessed (Please tick as appropriate)</th> </tr> <tr> <th data-bbox="974 556 1055 619">a</th> <th data-bbox="1055 556 1136 619">b</th> <th data-bbox="1136 556 1218 619">c</th> <th data-bbox="1218 556 1299 619"></th> <th data-bbox="1299 556 1380 619"></th> <th data-bbox="1380 556 1485 619"></th> </tr> </thead> <tbody> <tr> <td data-bbox="495 619 820 724">Class participation and discussion</td> <td data-bbox="820 619 974 724">5%</td> <td data-bbox="974 619 1055 724">√</td> <td data-bbox="1055 619 1136 724">√</td> <td data-bbox="1136 619 1218 724">√</td> <td data-bbox="1218 619 1299 724"></td> <td data-bbox="1299 619 1380 724"></td> <td data-bbox="1380 619 1485 724"></td> </tr> <tr> <td data-bbox="495 724 820 787">Individual homework</td> <td data-bbox="820 724 974 787">25%</td> <td data-bbox="974 724 1055 787">√</td> <td data-bbox="1055 724 1136 787">√</td> <td data-bbox="1136 724 1218 787">√</td> <td data-bbox="1218 724 1299 787"></td> <td data-bbox="1299 724 1380 787"></td> <td data-bbox="1380 724 1485 787"></td> </tr> <tr> <td data-bbox="495 787 820 850">Group project</td> <td data-bbox="820 787 974 850">20%</td> <td data-bbox="974 787 1055 850">√</td> <td data-bbox="1055 787 1136 850">√</td> <td data-bbox="1136 787 1218 850">√</td> <td data-bbox="1218 787 1299 850"></td> <td data-bbox="1299 787 1380 850"></td> <td data-bbox="1380 787 1485 850"></td> </tr> <tr> <td data-bbox="495 850 820 913">Final examination</td> <td data-bbox="820 850 974 913">50%</td> <td data-bbox="974 850 1055 913">√</td> <td data-bbox="1055 850 1136 913">√</td> <td data-bbox="1136 850 1218 913">√</td> <td data-bbox="1218 850 1299 913"></td> <td data-bbox="1299 850 1380 913"></td> <td data-bbox="1380 850 1485 913"></td> </tr> <tr> <td data-bbox="495 913 820 997">Total</td> <td data-bbox="820 913 974 997">100 %</td> <td colspan="6" data-bbox="974 913 1485 997"></td> </tr> </tbody> </table>	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)						a	b	c				Class participation and discussion	5%	√	√	√				Individual homework	25%	√	√	√				Group project	20%	√	√	√				Final examination	50%	√	√	√				Total	100 %						
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<p>Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:</p> <p>Class participation and discussion – Informal Q & A and discussion both in the classroom and through BlackBoard.</p> <p>Individual homework – Problems and questions for students to discuss and apply subject knowledge in the accounting context.</p> <p>Group project – Students form groups to complete a research project and make oral presentation.</p> <p>Final examination – A three-hour comprehensive examination covering all the intended learning outcomes.</p> <p>Note: To pass this subject, students are required to obtain Grade D or above in BOTH the Continuous Assessment and Examination components. In addition, the specific requirements on individual assessment components discussed above could be adjusted based on the pedagogical needs of subject lecturers.</p>																																																						
<p>Student Study Effort Expected</p>	Class contact:																																																					
<ul style="list-style-type: none"> ▪ 13 weeks of three-hour seminar 							39 Hrs.																																															
Other student study effort:																																																						

	<ul style="list-style-type: none"> ▪ Class preparations, reading subject materials/textbook, assignments and group discussions 	78 Hrs.
	Total student study effort	117 Hrs.
Reading List and References	Scott, William R., <i>Financial Accounting Theory</i> , latest edition, Toronto: Prentice Hall Canada, Inc.	