

ACC616: Accounting Theory and Development

Fall 2023

CRN: 73833

This syllabus contains the most updated guidelines as of August 15, 2023 and is subject to change.

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Course description

Thus far, you might have studied how to account for certain transactions or events. In this class, we will go beyond the mechanics of accounting by studying the *why* behind the mechanics of accounting. In a sense, we will be studying the philosophy of accounting, which we will call “accounting theory.”

An attempt at a more concrete definition of accounting theory is the following: Accounting theory explains why (1) we account the way we do, (2) why accounting is applied in practice a certain way, (3) and what implications accounting techniques and practice have on broader institutions (e.g. markets, regulators, divisions within firms).

To provide a flavor, here is a preview of some topics we will study:

1. Why do firms voluntarily disclose material information (e.g., information about impending lawsuits)? What are the consequences of nondisclosure on share price? Should the SEC mandate disclosure to improve stakeholder value?
2. Why is accounting “conservative?” What are the consequences of conservatism on the informativeness of accounting reports?
3. What are some determinants of CEO compensation? Are younger CEOs paid less or more? How does earnings management influence compensation contracts?

As you might have intuited, the answers to these questions are not commonly included in typical textbooks. To that end, we will delve into accounting research. Accounting researchers have posited interesting solutions to the questions above (and many other questions)!

From a methodological perspective (as opposed to the “topical” perspective above), we will learn the basics of game theory, experimental design, and statistical theory. These methods may sound

weighty but not to worry—we will only cover these methods “enough” that you can read and broadly understand the academic literature in accounting!

While we will delve into academic literature quite a bit, I will integrate plenty of applications into class—you can expect to get a nice mix of theory and practical takeaways from this course.

My goals for you The course is not designed to dive deeply into accounting research. Instead, consider this class a “tasting menu” at an ice cream parlor. At the end of this course, I want you to have tasted the broad methods and topics in accounting research, focusing on *applications* and *thinking*.

To ensure you see several applications of the ideas we discuss in class, I will integrate concepts from current events into the lecture notes and class. We will also brainstorm in class on how ideas from the academic literature can be applicable in different settings, such as management or auditing.

We will carefully study several academic papers to develop your critical thinking skills further. Via a class-based discussion, we will explore the implicit assumptions made, whether these assumptions are appropriate, and whether the conclusions drawn are reasonable and contribute to the body of knowledge. You will also get your hands dirty by conducting a research project.

While the discussions, critiquing, and research project will be challenging, they should not be intimidating. We will learn a framework to critique papers; I will serve as a moderator to structure the discussion of the papers; finally, I will give you an example of what I expect from you for your research project, along with half a class session dedicated to further clarifying my expectations. To be sure, you will be doing all the work—however, I will be there to provide all the support you need!

As a less tangible goal, I also want you to have fun (as with a tasting menu at an ice cream parlor). The topics we will discuss are interesting, have broad implications, and have irrevocably influenced my thinking! I am very enthusiastic about them and hope you will be at the end. By design, the class is supposed to be an overview; however, if at any point you feel that you want to delve deeper into some of what we talk about in class, feel free to drop by my office hours.

A goal I have for me is to “convert” at least one of you over to an academic path (a Ph.D. in accounting or a related field) by the end of the class.

Prerequisites ACC323 with a grade of C minus or higher.

Course Required Readings No textbook is required for this class. Instead of a required text, I will post lecture notes on Laulima for every topic we cover. These notes *are* required reading. The notes will be posted exactly a week before the class session, when we will discuss the relevant topic. I will also provide copies of the research papers we discuss throughout the semester on Laulima.

Finally, there is an *optional* textbook for the class—I will sometimes direct you to sections from the textbook in the posted lecture notes. If you can find a cheap copy at the bookstore or online, I encourage you to get it (any edition). The latest edition is:

Financial Accounting Theory by Scott, William, and O'Brien, Patricia (8th edition).

To reiterate, assigned passages from the textbook are optional and are for you to gain a deeper understanding of the material. In contrast, the lecture notes are not optional. They will form the basis

for the theoretical underpinnings of each session and the lens through which to read an assigned paper, not to mention that the exams will also draw on them.

Office hours Wednesdays and Thursdays from 9-11 AM in BUSAD C402A. I am also available upon request—you can reach out to me via email or talk to me before/after class.

During office hours, we can discuss almost any topic you're interested in—for example, reviewing concepts covered in class and delving further into concepts. When you come to office hours, please bring specific questions or areas of difficulty. This helps me better understand where you might need additional support.

Alternate class location If, for any reason, we cannot meet in our designated classroom (e.g., inclement weather, repair work, etc.), we will move the class session to [Zoom](#).

Excused Absences The following qualify as “excused absences” as long as I am provided with notice and appropriate documentation: medical emergency, family emergency, religious holiday, and university-sponsored conflict. If you anticipate any of these situations or face an unexpected circumstance, please inform me as soon as possible so we can make the necessary arrangements.

Grading and Related Policies

The class is graded out of 600 points.

Assessment Types

Exams There will be two closed-book and individually answered exams—a midterm and a final exam. Both will be held during class sessions noted on the schedule below. The midterm is 75 minutes long, while the final is two hours long. The midterm is worth 120 points which is 20% of the total grade. The final is worth 180 points which is 30% of the total grade.

The exams will draw from the lecture notes, assigned papers for reading, and our in-class discussions. They will feature a mix of math problems, conceptual-style free-response problems, and some true-false (TF) and multiple-choice questions (MCQ).

For each exam, I will post on Laulima a study sheet a week before. This study sheet will outline what topics will be tested, what resources are available for study, what questions might be asked on the exam, and the breakdown of points allocated to math problems, conceptual problems, and TF/MCQ.

Class Participation Research—consuming and conducting—is inherently a collaborative endeavor. Consider the following quote by John Bardeen in his Nobel speech:

Science is a collaborative effort. The combined results of several people working together are often much more effective than could be that of an individual scientist working alone.

Following the spirit of collaboration, a substantial portion of the total grade is class participation. Class participation is worth 120 points or 20% of the total grade.

There are two elements to achieving a high participation grade. First, you need to make comments and answer questions (quantity). Second, these comments need to be value-enhancing (quality). Both elements are necessary, but neither are sufficient conditions for a high participation grade. While clarifying questions (e.g., "Can you explain that again?") are always welcome, remember that for participation points, it's beneficial to also contribute insights or questions that advance the classroom discussion. Similarly, making a sharp, insightful comment once every four classes again will not lead to a high participation grade because the class will only hear from you four times over the length of the semester.

There are multiple ways to participate in class. Here are some examples. When we study the "theory" from the lecture notes, I will pepper the classroom with questions. These questions are often open-ended and may not have a clear-cut answer. Insightfully answering these questions earns you participation points. Raising potential applications of the theory also earns you points. When we discuss papers, the discussion is largely student-led. Advancing the discussion of the paper is another way to earn points. While I will further clarify how paper discussions will work in class, here is a broad overview. On any given day, you can choose to "summarize," "criticize," "clarify," or "apply" a paper as your primary role. Fulfilling your primary role (e.g., summarizing the paper) will be your easiest chance to earn points; contributing to the discussion when someone else is fulfilling their primary role (e.g., criticizing the paper) will also earn you points. Come research project presentation time, volunteering to discuss your project, and providing feedback to your classmates on their ideas is another avenue for points.

I will give you feedback on your participation every five classes. This means that I will give you feedback thrice over the semester. This frequency of feedback (1) tells you where you stand and, more importantly (2) allows you to change your participation strategy if you wish.

There are five tiers you can be in when I give you feedback.

1. *Tier 1*: This typically means making several insightful comments and asking thought-provoking questions. If you consistently get this feedback, your total participation grade will be in the range of 105 – 120 out of 120.
2. *Tier 2*: This typically means engaging in behaviors that would earn you a Tier 1 if you participated more. If you consistently get this feedback, your total participation grade will be in the range of 90 – 105 out of 120.
3. *Tier 3*: This typically means that your presence is noticed in class, but your participation quantity or quality could be improved. If you consistently get this feedback, your total participation grade will be in the range of 75 – 90 out of 120.
4. *Tier 4*: This typically means that you attend class but do not participate. If you consistently get this feedback, you can expect to get about half the points out of 120.
5. *Tier 5*: This tier usually reflects extended absences from class without a valid excuse and can be grounds for a low grade. Please aim for active participation, as it enhances your learning experience. If you face challenges attending regularly, please let me know so we can find a way forward together.

An important note here—your participation grade will be assessed on an “average” basis throughout the semester. That is, on average, which of the above categories did you fall in at the end of the semester? For example, if you get two “Tier-3s” and one “Tier-2”, your total grade is likely to be in the range of 85 – 95 (that is, a high Tier-3 or low Tier-2 grade average).

Another consequence of the average basis grading is that one off day won’t significantly impact your overall participation grade, but consistent non-participation or low-tier participation will. I understand that life can occasionally interfere with class preparation. Occasional lapses in participation are understandable; however, if your interim participation feedback is *consistently* in a range you do not want it to be, then please reach out to discuss strategies with me on how to engage more in class.

If you have an *excused absence*, that day will not factor into your participation grade calculation—it won’t hurt or benefit your grade.

If you ever have concerns or would like to discuss your participation performance, please don’t hesitate to send me an email or visit during office hours.

Quiz on assigned paper There will be a quiz on any class day with an assigned reading. In total, we will have six quizzes. The quiz comprises two parts. The first part is a template, posted on Laulima, that *you have to fill out and upload to Laulima by the start of class*. This template poses straightforward questions, such as “What is the research question in the paper?” or “Identify something that confused you.” The template accounts for 30% of the points on each quiz, aiming to prepare you for the broader talking points during the in-class discussion of the paper. The template is generally graded generously. As long as you answer something reasonable, you should get full credit.

The second part of the quiz is conducted in-class before our paper discussion, lasting around fifteen minutes. It is meant to be closed-book and answered individually. The consists of multiple-choice questions (MCQs), targeting broad ideas within the paper, like the hypotheses, data sources (especially if unique or notable), and the paper’s limitations. Rest assured, I will not ask about specific facts (such as the number of observations in the data sample or coefficients of variables) or details relegated to footnotes. While these MCQs are not intended to be overly difficult, they require a thorough reading of the paper; merely skimming the introductory or concluding sections likely won’t suffice to achieve a top score.

Quizzes, in total, are worth 60 points or 10% of your grade. At the end of the semester, I will only count your best five out of six quizzes.

If you have an *excused absence*, I will arrange for you to take the quiz on an alternative occasion.

Research Project Research, like math, is fully understood only when you do it yourself. To that end, you will complete an *individual/non-group* research project in this class. While I will give you an explicit example of what I expect from you, and we will spend half a class further clarifying my expectations, here is a broad overview. If some words in the overview do not make sense, that is okay! Some of the jargon should get clearer as we go through topics in class.

I want you to develop a “front-end” of a research paper in accounting. This means that I want you to identify a meaningful gap in the literature, posit a research question that fills this gap, and

outline a study to answer the research question (e.g., data sources, the structure of the experiment, etc.). Importantly, you do not need to do any analysis—no math or statistics is required. The entire length of your final submission will be in the range of 9-13 double-spaced pages (with some leeway allowed on both ends). I expect each project to have the following four components (similar to a typical research article).

1. *Introduction*: What is the research question? Who is it important to, and why? (E.g., regulators, investors, auditors, etc.). What research methodology do you plan to use (e.g., experiments)? Close with a summary of the constructs in a “Libby-box” format. The introduction should be about 2-3 double-spaced pages.
2. *Literature Review*: Review at least three relevant academic articles (not news articles or thought pieces). For each article, summarize the research question and main findings in your own words. After summarizing, outline why your research question builds *meaningfully* upon what we already know. The literature review should be about 2-3 double-spaced pages.
3. *Hypotheses Development*: List a minimum of 2 distinct hypotheses that you will test in your study (the minimum on hypotheses ensures that your question and setting of interest yields relatively rich insights). Argue the theory underlying your hypotheses by drawing on prior research and logic. At a philosophical “construct” level, what do you expect to happen and why? The hypothesis development should be about 2-3 double-spaced pages.
4. *Overview of Study*: Describe your dependent, independent, and control variables. Specify moderators and mediators if necessary. Outline data sources for each. Finally, link your data to your hypotheses by “operationalizing” your construct level. Remember to preempt any weaknesses in your design (“limitations”). The overview of your study should be about 3-4 double-spaced pages.

The project is worth 120 points or 20% of your total grade. Each of the above four components is worth 30 points.

Our first few class sessions are explicitly designed to equip you with the tools to do the fourth component of the research project—“Overview of Study.” You will learn how to do the other components as a continual process over the semester as we read other papers. The topics we will cover (see schedule), in-class discussions, and the lecture notes provide a starting point for you to brainstorm ideas for your project and delve into the literature in accounting.

As always, you are welcome to meet me during office hours or by appointment to discuss avenues for your project. The previous caveat applies—please bring specific questions or areas of difficulty. For example, I will not give you a research idea, but I am happy to pick out the most promising idea you have generated from a set of ideas and give you feedback or point you toward relevant resources.

For the research project, you have the flexibility to *choose* a submission date that works best for you: either November 13, 20, or 27. Please ensure you submit your work on Laulima by the beginning of the class on your chosen date. You must sign up for your preferred date on Laulima on a first-come-first-serve basis—*sign-ups on each deadline are limited to five students*. The benefit of going early is that you have more free time toward the end of the semester to focus on finals; the cost is that you have to front-load some of your work. From a class point, there are three deadlines because we will spend

half the time of each class in the last three weeks of November discussing your projects. Limiting the number of sign-ups allows us time to discuss your projects. The structure of these discussions will be similar to how we discuss papers—I will moderate the discussion, and you get to tell the class about your exciting idea!

While presenting your project in class is voluntary, I'd love for you to share your work. It's a wonderful opportunity to get feedback and also to contribute to the class discussion. It is also one of the easiest ways to earn participation points. If you do not get a chance to discuss your project, you can still earn participation points by making insightful comments and asking thoughtful questions to your classmates.

A gentle note on *ChatGPT and other AI models*: It's best to refrain from using them for this course. Here are two arguments for why not.

1. Using ChatGPT deprives you of the opportunity to learn. By using ChatGPT, you *may* get a good grade on the research project (more on this shortly), but you will not have learned and developed as a result of the experience.
2. ChatGPT (even 4.0) is a phenomenal tool. However, the ideas it generates are often a rehashing of previously known ideas, and it is likely to generate phantom citations. Thus, it is almost impossible that using ChatGPT this semester will help you get the top grade you desire on your research project.

Using AI models will constitute "academic dishonesty," the consequences for which are outlined below.

Final Grade As a summary, your final grade will be computed as follows:

Assessment Type	Points	Percent of Total Grade
Exams	300	50%
Participation	120	20%
Research Project	120	20%
Quizzes	60	10%
Total	600	100%

The harshest you can expect the grading guidelines to be is the standard plus/minus of 93 and above = "A," 90-92.99 = "A-," 87-89.99 = "B+," 83-86.99 = "B," 80-82.99 = "B-," 77-79.99 = "C+," 73-76.99 = "C," 70-72.99 = "C-," 67-69.99 = "D+," 63-66.99 = "D," 60-62.99 = "D-," and anything lower than a 60 is an "F." I reserve discretion to make the guidelines more generous—that is, depending on class performance, I can institute a "curve," which may be applied to an individual assignment or to your grade average at the end.

Broadly, my goal is to award an "A" or "A-" to students who had varying degrees of *exceptional* performance. Students who meet or marginally underperform expectations will receive "B+," "B," or "B-" grades. I hope to not award grades that are any lower, but I do reserve the right to do so in cases where expectations are unmet. I do not have a target distribution, and your grade will solely reflect your performance.

At any point you wish to have more clarity on your grade, feel free to visit office hours or reach out to me via email.

A Note on Academic Dishonesty

The University expects students to maintain standards of personal integrity that are in harmony with the educational goals of this institution; to respect the rights, privileges, and property of others; and to observe national, state, and local laws and University regulations.

Here are some examples of cheating: collaborating with classmates or using disallowed resources on individual assignments; submitting unoriginal work as a research project (e.g. ChatGPT).

Evidence of academic dishonesty will be met with a failing grade for the class ("F") in accordance with the [Student Code of Conduct](#). I encourage everyone to familiarize themselves with the student code of conduct to ensure a positive and fair academic experience for all.

Other Policies

Technology in Classroom You are welcome to use whatever devices you want in the classroom as long as distractions are kept to a minimum.

Submission Deadlines Unless explicitly stated, all submissions are due at the start of class on the due date (that is, 5:59 PM). Delayed submissions will be penalized on a case-by-case basis.

Students with Disabilities I'm committed to ensuring that all students have equal access to the course materials and a positive learning experience. If you have a documented disability and require accommodations, please contact the KOKUA Program QLCSS 013.

Title IX The University of Hawai'i is committed to providing a learning, working and living environment that promotes personal integrity, civility, and mutual respect and is free of all forms of sex discrimination and gender-based violence, including sexual assault, sexual harassment, gender-based harassment, domestic violence, dating violence, and stalking. If you or someone you know is experiencing any of these, the University has staff and resources on your campus to support and assist you. Staff can also direct you to resources that are in the community.

If you wish to remain **ANONYMOUS**, speak with someone **CONFIDENTIALLY**, or would like to receive information and support in a **CONFIDENTIAL** setting, contact the confidential resources available here: <http://www.manoa.hawaii.edu/titleix/resources.html#confidential> If you wish to **REPORT** an incident of sex discrimination or gender-based violence including sexual assault, sexual harassment, gender-based harassment, domestic violence, dating violence or stalking as well as receive information and support, contact:

Director and Title IX Coordinator
2500 Campus Road, Hawai'i Hall 124
Honolulu, HI 96822
(808) 956-2299

As a member of the University faculty, I am required to immediately report any incident of sex discrimination or gender-based violence to the campus Title IX Coordinator. Although the Title IX Coordinator and I cannot guarantee confidentiality, you will still have options about how your case will be handled. My goal is to make sure you are aware of the range of options available to you and have access to the resources and support you need. For more information regarding sex discrimination and gender-based violence, the University's Title IX resources and the University's Policy, Interim EP 1.204, go to: <http://www.manoa.hawaii.edu/titleix/>

Access to Lulima The class contents will be hosted on our course page on Lulima. Please ensure that you have regular access to Lulima and all communications therein.

The Shidler College of Business maintains computer laboratories for student use in E 101 and 102, as well as graduate student use in E501. Additionally, the college has wireless capability throughout the courtyard to allow internet access via personal laptops. The School of Travel Industry Management also has a computer lab available in George Hall 114 for TIM students.

The fact that you read this far into the syllabus reflects your commitment and interest in the course, and I wish to appreciate you for that. As a reward, please enter your name by end-of-day on September 03, 2023 at the following [link](#) for four bonus participation points.

Class Format and Schedule

Description of class session Typically, each class will be split into two sessions of one hour and fifteen minutes with a, short break in between. This division allows for a better time allocation to each topic and learning activity. The following is a targeted schedule for the semester. I break down the required readings (📖) and assessments (📝) for each date according to sessions. If there is no breakdown according to sessions, we do the same activity across both sessions. All required readings are posted on Laulima.

One final note—the quantity of reading initially might seem daunting. Three justifications here might provide you with different levels of comfort.

1. “The quantity of reading *initially* might seem daunting.” As you engage more with the material, it will start to become increasingly manageable.
2. Each class is really two of an average-sized class (1:15). So the readings for each class seem slightly exaggerated because they are really the readings for two classes pooled together.
3. There is no homework to do outside class. Your only other major “out of class” requirement is a research project with a generous deadline (though it would be helpful to start early).

Remember, I'm here to support you, so if you ever feel overwhelmed or need clarification, don't hesitate to reach out!

Course outline

August 21, 2023

Session 1

Introduction to the class and syllabus discussion.

Session 2

📖 Required readings

- Course Notes: Overview of Research Questions in Accounting*

August 28, 2023

📖 Required readings

- Course Notes: Analytical Modeling*

September 11, 2023

Session 1

📖 Required readings

- Paper: Lazear, Edward P (2006). “Speeding, terrorism, and teaching to the test”. *The Quarterly Journal of Economics* 121(3): 1029–1061*

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

Session 2

 Required readings

- Course notes*: Empirical Modeling
(More details on which pages to read will follow in class/Laulima).

September 18, 2023

Session 1

 Required readings

- Course notes*: Empirical Modeling
(Read the remaining pages left over from the previous session).

Session 2

 Required readings

- Paper*: Sloan, Richard G (1996). "Do stock prices fully reflect information in accruals and cash flows about future earnings?" *Accounting review*: 289–315

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

September 25, 2023

 Required readings

- Course notes*: Experimental Methods

October 2, 2023

Session 1

 Required readings

- Paper*: Fanning, Kirsten, Williams, Jeffrey, and Williamson, Michael G (2021). "Group recruiting events and gender stereotypes in employee selection". *Contemporary Accounting Research* 38(4): 2496–2520

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

Session 2

 Required readings

- Course notes*: Disclosure
(More details on which pages to read will follow in class/Laulima).

October 9, 2023

Session 1

 Required readings

- Course notes: Disclosure*
(Read the remaining pages left over from the previous session).

Session 2

 Required readings

- Paper: Skinner, Douglas J (1994). "Why firms voluntarily disclose bad news". Journal of accounting research 32(1): 38–60*

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

October 16, 2023

Session 1: Midterm Exam

Session 2: Discussion on Research Project

 Required readings

- Sample research project posted on Laulima.

October 23, 2023

 Required readings

- Course notes: Signaling*

October 30, 2023

Session 1

 Required readings

- Course notes: Conservatism*

Session 2

 Required readings

- Paper: Callen, Jeffrey L et al. (2016). "Accounting conservatism and performance covenants: a signaling approach". Contemporary Accounting Research 33(3): 961–988*

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

November 6, 2023

 Required readings

- Course notes: (Critiques of) Expected Utility Theory*

November 13, 2023

! Research project submission deadline for students who signed up for this date: submit your projects to Laulima *before* class starts.

Session 1

 Required readings

- Paper*: Austin, Chelsea Rae, Bobek, Donna D, and Jackson, Scott (2021). "Does prospect theory explain ethical decision making? Evidence from tax compliance". *Accounting, Organizations and Society* 94: 101251

! In-class quiz on paper. Remember to submit your template on Laulima before the start of class.

Session 2

In-class discussion of research projects submitted by students who signed up for this date.

November 20, 2023

! Research project submission deadline for students who signed up for this date: submit your projects to Laulima *before* class starts.

Session 1

 Required readings

- Course notes*: Moral Hazard
(More details on which pages to read will follow in class/Laulima)

Session 2

In-class discussion of research projects submitted by students who signed up for this date.

November 27, 2023

! Research project submission deadline for students who signed up for this date: submit your projects to Laulima *before* class starts.

Session 1

 Required readings

- Course notes*: Moral Hazard
(Read the remaining pages left over from the previous session)

Session 2

In-class discussion of research projects submitted by students who signed up for this date.

December 4, 2023: Final Exam
