**ACC 616: Accounting Theory & Development[[1]](#footnote-1)**

**Fall 2020**

## Mondays 18:00 to 20:45

*Updated on 2020-09-16*

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| **Instructor:** | Boochun Jung, Ph.D.  |
| **Office:** | BusAd D-305  |
| **Phone:** | 956-8461  |
| **E-mail:** | boochun@hawaii.edu |
| **Office hours:** | By appointment only |
| **Prerequisites:** | Accounting 323. Instructor does not allow students without ACC 323 to enroll in this class. Students without necessary prerequisite will be dropped from the class in the third week of the class. |
| **Course materials:** | 1. Textbook:  *Financial Accounting Theory* (2020) by William R. Scott and Patricia O’Brien (Pearson-Prentice Hall).

<https://www.pearson.com/us/higher-education/program/Scott-Financial-Accounting-Theory-8th-Edition/PGM132792.html>1. Lecture Notes (available on course website: Laulima.hawaii.edu)
	* Students should regularly check this site for resources.
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**Course Objectives:**

* This course is designed to intermingle academic world with practitioners’ view in financial accounting area.
* Understand why financial reporting is important for capital markets. Develop a theoretical framework for understanding the role of accounting information in the efficiency of economic transactions and capital market prices.
* Apply academic research to accounting policy debates.
* Understand the role of ethics in financial reporting.

**Grading**: There are no predetermined quotas for any letter grades. For your information, the grade distribution for this course has been approximately: 30% A’s, 50% B’s, and 20% C’s. Plus/minus grades may be given in the course.

 Midterm Exam 25 percent

 Final Exam 35 percent

 Presentation 20 percent

 Homework 15 percent

 Class participation 5 percent

 Total 100 percent

**Midterm and Final Exams:** If it must be missed, the instructor MUST be notified prior to the absence. **No make-up exam will be given without prior notification**. Make-up exam will be considered only in legitimate, unavoidable circumstances (e.g., serious illness, family emergency, etc). Proper documentation for the absence must be required. When allowed, make-up exam will be scheduled at the discretion of the instructor. Make-up exam is more rigorous, is graded to a higher standard than the original exam, and does not offer bonus points or additional credits of any kind.

**Presentation:** You are to work with your group and read and present the assigned reading material. Each group will have 40 minutes to present the material that is found important and relevant. Groups may find it appropriate to include some additional information obtained from sources other than the assigned reading material (I strongly encourage this). All members of the group must equally contribute to the presentation. **As reading assignment is for the class and not for only a specific group, all students are expected to contribute to discussion**. Groups assigned for presentations are to provide me with a copy of their PowerPoint presentation. I strongly encourage you to make a very professional presentation and practice your presentation (at least once) before you actually do it in the classroom.

**Homework:** You are to write up your analysis/answers and turn them in at the beginning of class period for which the assignment(s) are due. The solution and answer to assignments must be typed and you must make sure that your papers are properly written and are edited for grammatical errors.

* **Preparing an analyst report**: Pick your stock and promote your stock to audience
	+ Why do we have to purchase your stocks?
	+ You will give your presentation to audience (about 15 minutes)
	+ You need to send your report (similar to analysts’ report).
	+ You can refer to many analysts’ reports for your stock.
* All the audience will evaluate your presentation by answering whether they want to buy your stocks or not.
* Your report should have the following contents: (1) company overview, (2) stock analysts’ ratings, (3) financial statement analysis (e.g., balance sheet, income statement, cash flow statement), (4) future growth potential (competitors, future sales and earnings growth), and your recommendations (and target prices)

**Class Participation:** Class participation is vital to the success of this course. Class participation points are based on both class behavior and classroom performance. Students with unprofessional behaviors will get a “0” in class participation points. Unprofessional behaviors include, but are not limited to sleeping, chatting, and text messaging during the class. I reserve the right to make further deductions of the student’s final grade for these unprofessional behaviors. Students are also expected to actively participate in class to get the points. 10% of the total grade for this class is allocated to your participation for the discussion in the class. I may call on you in class to be sure that you are adequately prepared.

**Attendance:** You are expected to attend every class. Attendance will be taken randomly at either the beginning or the end of the class. Please arrive on time. **Arriving late is disruptive to everyone. I also expect that you remain in class for the entire period.** Students being late or leaving early will be deemed as missing the class. Your grade will be lowered if there is more than one absence.

**Communication:** Email is a preferred communication method. **I will not discuss grades through email.** Students are required to check course website one day before the class and be responsible for printing out and bringing lecture notes to class.

**COURSE COMPLIANCE WITH VARIOUS CAMPUS POLICIES:**

All University of Hawaii and Shidler College of Business rules and policies will be followed in the course.

**Statement on Disability—KOKUA PROGRAM**

The University of Hawai‘i at Mānoa is committed to a policy of non-discrimination and provides equal access to its programs, services, and activities to students with disabilities. If you have a disability and related access needs, please contact the KOKUA program (UH Disabled Student Services Office) at 956-7511, kokua@hawaii.edu, or go to Room 013 in the Queen Lili‘uokalani Center for Student Services. I will work with you and KOKUA to meet your access needs based on disability documentation.

**Academic Honesty**

Cheating and Plagiarism will not be tolerated. All incidents will be handled in accordance with the UH *Student Code of Conduct.* The UH Student Code of Conduct, is available at: <http://www.hawaii.edu/student/conduct>. The most relevant portions are included below for your convenience.

*Because UHM is an academic community with high professional standards, its teaching, research, and service purposes are seriously disrupted and subverted by academic dishonesty. Such dishonesty includes cheating and plagiarism as defined below. Ignorance of these definitions will not provide an excuse for acts of academic dishonesty.*

**Be sure to read the following definitions for plagiarism and cheating.**

**Cheating** includes but is not limited to giving or receiving unauthorized assistance during an examination; obtaining unauthorized information about an examination before it is given; submitting another’s work as one’s own; using prohibited sources of information during an examination; fabricating or falsifying data in experiments and other research; altering the record of any grade; altering answers after an examination has been submitted; falsifying any official University record; or misrepresenting of facts in order to obtain exemptions from course requirements.

**Plagiarism** includes but is not limited to submitting, in fulfillment of an academic requirement, any work that has been copied in whole or in part from another individual’s work without attributing that borrowed portion to the individual; neglecting to identify as a quotation another’s idea and particular phrasing that was not assimilated into the student’s language and style or paraphrasing a passage so that the reader is misled as to the source; submitting the same written or oral or artistic material in more than one course without obtaining authorization from the instructors involved; or “drylabbing,” which includes obtaining and using experimental data and laboratory write-ups from other sections of a course or from previous terms.

**Classroom Behavior**

Both students and faculty have responsibility for maintaining an appropriate learning environment. Students who fail to adhere to behavioral standards may be subject to discipline. Faculty must treat students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which students express opinions.

**Counseling Services**

If you are in need of assistance with personal, academic or career concerns, the University of Hawaiʻi has services available through UHM Counseling & Student Development Center (CSDC) located at the Queen Liliʻuokalani Center for Student Services Room 312. Website: http://manoa.hawaii.edu/counseling/ Phone: (808) 956-7927

**TITLE IX**

The University of Hawaii 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:

Dee Uwono

Director and Title IX Coordinator

2500 Campus Road, Hawaiʻi Hall 124

Honolulu, HI 96822

(808) 956-2299

t9uhm@hawaii.edu

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/ **COURSE SCHEDULE**

I have attached an outline of the topics that will be covered in this class. The schedule also indicates the date for the final exam.

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| **Date** | Topic | Reading Assignment |
| **8/24** | * Course introduction
* Syllabus
* Financial accounting research
* Understanding stock returns and risk
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| **8/31** | * Warm-up
	+ Conceptual framework for financial reporting
	+ Regression analysis – How to read tables
	+ Statistical package
	+ Databases for academic research
 | * Graham, Harvey, and Rajgopal (2005), JAE
 |
| **9/7** | * Holiday (Labor Day)
 |  |
| **9/14** | * Efficient Securities Markets
	+ What is market efficiency?
	+ How to measure market efficiency?
* Implications of Efficient Securities Markets for Financial Reporting
* The Informativeness of Price
* CAPM
* Information asymmetry
	+ Definition
	+ Why information asymmetry?
	+ What kind of problems from information asymmetry?
	+ Accounting information can resolve this information asymmetry?
 | * Chapter 4
 |
| **9/21** | * Is accounting information useful for decision making?
	+ Is accounting information value-relevant?
	+ The Ball and Brown study
	+ Earnings response coefficients (ERC)
* **Seminar project presentation**
 | * Chapter 5
* Ball and Brown (1968), JAR (By Boochun Jung)
 |
| **9/28** | * The value relevance of financial statement information
* Trading based on financial statement information – Fundamental analysis
* What are powerful predictors of future earnings and future stock price?
* **Seminar project presentation**
 | * Chapters 5 and 6
* Collins, Maydew, and Weiss (1997), JAE
* Bartov, Faurel, and Mohanram (2018), TAR
 |
| **10/5** | * Valuation application
	+ Can we accurately estimate firm value?
		- DCF model vs. models based on accounting theory
	+ Ohlson’s clean surplus theory
	+ Empirical studies of the residual income model
	+ Do stock analysts use this model for their stock recommendations?
* Fair value accounting
	+ Definition
	+ Its benefits and costs
* **Seminar project presentation**
 | * Chapters 6 and 7
* Bradshaw (2004), TAR
* Song, Thomas, and Yi (2010), TAR
 |
| **10/12** | * We understand that earnings matter in firm valuation. However, there must be variations in earnings quality. What affects earnings quality?
* Economic Consequences and Positive Accounting Theory.
* **Seminar project presentation**
 | * Chapter 8
* Dichev and Skinner (2002), JAR
 |
| **10/19** | * **Mid-term exam**
 |   |
| **10/26** | * An analysis of conflict.
* Understanding agency theory and game theory
* Executive compensation
* **Seminar project presentation**
 | * Chapter 9 and Chapter 10
* Healy (1985, JAE)
* Han and Wang (1998, TAR)
 |
| **11/2** | * Earnings management
	+ What is earnings management?
	+ Why do managers manage earnings?
	+ How to measure opportunistic earnings management?
		- Accruals management vs. Real activities management
	+ Earnings benchmarks
	+ Earnings guidance
* **Seminar project presentation**
 | * Chapter 11
* Roychowdhury (2006, JAE)
 |
| **11/9** | * Earnings quality (or Accounting quality)
	+ What is the definition of earnings quality?
	+ How can we measure earnings quality?
		- Other earnings attributes: Earnings smoothness; Earnings persistence; Financial reporting comparability; Conservatism
		- Dechow, Ge, and Schrand (2010, JAE)
	+ Why do managers improve earnings quality?
* **Seminar project presentation**
 | * Chapter 11
* Burgstahler and Dichev (1997), JAE
 |
| **11/16** | * Earnings management in an international setting
* Earnings restatement
* **Seminar project presentation**
 | * Leuz, Nanda, and Wysocki (2003), JFE
* Hennes, Leone, and Miller (2008), TAR
 |
| **11/23** | * Benefits of adopting high-quality accounting: Is it really beneficial?
	+ e.g., lower cost of capital
	+ higher investment efficiency
* Real impact of accounting information
* **Seminar project presentation**
 | * Francis, LaFond, Olsson, and Schipper (2004), TAR
* Biddle, Hilary, and Verdi (2009), JAE
 |
| **11/30** | * Disclosure
	+ What is the definition of disclosure?
	+ What kind of tools do managers have for disclosure?
	+ What are the benefits and costs of disclosure?
	+ Mandatory vs. voluntary disclosure
	+ Full disclosure: How much information is enough?
* Other capital market participants: credit rating agencies
* **Seminar project presentation**
 | * Chapter 12
* Sengupta (1998), TAR
 |
| **12/7** | * Corporate governance (e.g., audit committee)
	+ What is the definition of corporate governance?
	+ How?
* International integration of capital markets
	+ Convergence of accounting standards
	+ Does adopting high quality accounting standards improve financial reporting quality or financial statement comparability?
	+ Should the U.S. adopt IASB standards?
	+ Foreign firms listing in U.S.: Why are foreign firms listed in the U.S. worth more?
* **Seminar project presentation**
 | * Chapter 13
* Klein (2002), JAE
 |
| **12/14** | * **FINAL EXAM**
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**Papers for Group Seminar Project**

1. Graham, Harvey, and Rajgopal (2005): “The economic implications of corporate financial reporting,” *Journal of Accounting and Economics* 40: 3-73.
2. Ball R. and P. Brown, 1968. “An empirical evaluation of accounting income numbers,” *Journal of Accounting Research* (Autumn) 159 – 178.
3. Collins, D.W., E.L. Maydew, I.S. Weiss, 1997. “Changes in the value-relevance of earnings and book values over the past forty years,” *Journal of Accounting and Economics* 24(1): 39-67.
4. Eli Bartov, Lucile Faurel, and Partha S. Mohanram (2018) Can Twitter Help Predict Firm-Level Earnings and Stock Returns? *The Accounting Review*: May 2018, Vol. 93, No. 3, pp. 25-57.
5. Bradshaw, Mark. T., “How Do Analysts Use Their Earnings Forecasts in Generating Stock Recommendations?” *The Accounting Review*, Vol. 79, No. 1, January 2004, 25-50.
6. Song, C.J., W. Thomas, H. Yi, 2010. “Value relevance of FAS No. 157 fair value hierarchy information and the impact of corporate governance mechanism,” *The Accounting Review* 85 (4): 1375-1410.
7. Dichev, I and D. Skinner, 2002. “Large sample evidence on the debt covenant hypothesis,” *Journal of Accounting Research* 40, 1091-1124.
8. Healy, P., 1985. “The effect of bonus schemes on accounting decisions,” *Journal of Accounting and Economics.*
9. Han, J., S.W. Wang, 1998. “Political costs and earnings management of oil companies during the 1990 Persian Gulf Crisis,” *The Accounting Review*.
10. Roychowdhury, S. 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42 (3): 335-370.
11. Burgstahler, D., and I. Dichev, 1997. “Earnings management to avoid earnings decreases or losses,” *Journal of Accounting and Economics*.
12. Leuz, C., D. Nanda, and P. D. Wysocki. 2003. Earnings management and investor protection: An international comparison. *Journal of Financial Economics* 69 (3): 505–27.
13. Karen M. Hennes; Andrew J. Leone; Brian P. Miller (2008): “The Importance of Distinguishing Errors from Irregularities in Restatement Research: The Case of Restatements and CEO/CFO Turnover” The Accounting Review 83 (6): 1487–1519.
14. Francis, LaFond, Olsson, and Schipper, 2004. “Costs of equity and earnings attributes,” *The Accounting Review* 79(October): 967-1010.
15. Biddle, G., G. Hilary, and R. Verdi. 2009. How does financial reporting quality relate to investment efficiency? *Journal of Accounting and Economics* 48 (2-3): 112-31.
16. Sengupta, P., 1998. “Corporate disclosure quality and the cost of debt,” *The Accounting Review* (October): 459-474.
17. Klien, A, 2002. “Audit committee, board of director characteristics and earnings management,” *Journal of Accounting and Economics* 33: 375-400.
18. Dechow, P., W. Ge, and C. Schrand (2010): “Understanding earnings quality: A review of the proxies, their determinants and their consequences” Journal of Accounting and Economics 50: 344- 401.
1. This syllabus is tentative and subject to change. [↑](#footnote-ref-1)