
Financial Accounting Theory

Course Syllabus

FM0802, School of Management, HUST

February 2011

Professor: Ph. D **Xia Xinping**

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Course Credit: 3 (56 hours), 19 Sessions, 3 hours for each session
3 hours/session × 19 sessions = 57 hours

Advance Courses:

Financial Accounting 1

Financial Accounting 2

Financial Accounting 3

Management Accounting1

Course objective

This course has two main goals. The first is to describe and explore various theories that underlie financial accounting and reporting. The second is to explain and illustrate the relevance of these theories in order to understand the practice of financial accounting and reporting. It covers the major topics in financial accounting theory, including the economic models underlie financial accounting and reporting, the portfolio theory and the efficient market theory, the economics of imperfect information, the conflicts the manager and investor, the regulation and economic view of accounting standard setting. The overall purpose of this course is to integrate and expand upon the theories the students have learned and apply them to the solution of realistic financial accounting and reporting.

Teaching material

- Slides.
- William R. Scott, 2009, **Financial Accounting Theory** (Fifth Edition), Ontario, Prentice Hall.
- CGA, 2010, AT1, **lesson Notes: Accounting Theory & Contemporary Issues**, CGA 2010 printing.

Evaluation

Assignments	30 %
Final Examination	<u>70%</u>
Total	100 %

Schedule

Chapter	Time	Contents
Chapter 1 Introduction	Feb. 22 (9–11)	Give a brief introduction to the course: objective of the course; some historical perspective, ethical behavior; the complexity of information in financial accounting and reporting; the role of financial research; information asymmetry; the fundamental problem in financial accounting theory. Relevance of accounting theory to practice Readings: Chapter 1, Slides, Lesson Notes
Chapter 2 Accounting under Ideal Conditions	March 1 (9–11)	The present value model under certainty; The present value model under uncertainty Reserve recognition accounting (RRA) Historical Cost accounting revisited Assignments: Questions and Problems: 17, 21 Readings: Chapter 2, Slides, Lesson Notes

<p>Chapter 3 The Decision Usefulness Approach to Financial Reporting</p>	<p>March 3 (9–11)</p>	<p>Single person decision theory The rational, risk-averse investor The reaction of professional accounting bodies to the decision usefulness approach</p> <p>Assignments: Questions and Problems: 11, 15 Readings: Chapter 3, Slides, Lesson Notes</p>
<p>Chapter 4 Efficient Securities Market</p>	<p>March 8 (9–11)</p>	<p>Efficient Securities Market Implications of efficient securities markets for financial reporting A capital asset pricing model The social significance of securities market that work well An example of full disclosure</p> <p>Assignments: Questions and Problems: 5, 11 Readings: Chapter 4, Slides, Lesson Notes</p>
<p>Chapter 5 The Information Perspective on Decision Usefulness</p>	<p>March 15 (9–11)</p>	<p>The research problem The Ball and Brown Study Earnings response coefficient Unusual, non-recurring and extraordinary items “Best” accounting policy, information content of RRA</p> <p>Assignments: Questions and Problems: 9, 18 Readings: Chapter 5, Slides, Lesson Notes</p>
<p>Chapter 6 The Measurement Perspective on Decision Usefulness</p>	<p>March 17 (9–11)</p> <p>March 22 (9–11)</p>	<p>Challenges to Efficient security market The value relevance of financial statement information Ohlson’s clean surplus theory</p> <p>Readings: Chapter 6, Slides, Lesson Notes</p> <p>Ohlson’s clean surplus theory(continued)</p> <p>Assignments: Questions and Problems: 12, 13 Readings: Chapter 6, Slides, Lesson Notes</p>

<p>Chapter 7 Measurement Perspective Applications</p>	<p>March 24 (9–11)</p>	<p>Longstanding measurement examples Financial instruments Financial instruments(continued) Accounting for intangibles Reporting on risk</p> <p>Assignments: Questions and Problems: 7, 9 Session 2 Assignments 1 Readings: Chapter 7, Slides, Lesson Notes</p>
<p>Chapter 8 Economic Consequence and Positive Accounting Theory</p>	<p>March 29 (9–11)</p>	<p>Economics consequence Employee’s stock option The relationship between EMH and economic consequence</p> <p>Readings: Chapter 8, Slides, Lesson Notes</p>
	<p>March 31 (9–11)</p>	<p>Positive accounting theory</p> <p>Assignments: Questions and Problems: 10, 11 Readings: Chapter 8, Slides, Lesson Notes</p>
<p>Chapter 9 An Analysis of Conflict</p>	<p>April 5 (9–11)</p>	<p>Non-cooperative game model of manager-investor conflict Some cooperative game theory</p> <p>Readings: Chapter 9, Slides, Lesson Notes</p>
	<p>April 7 (9–11)</p>	<p>Manager’s information advantage Reconciliation of EMH with economic consequences</p> <p>Assignments: Questions and Problems: 9, 11 Session 2 Assignments 2 Readings: Chapter 9, Slides, Lesson Notes</p>
<p>Chapter 10 Executive Compensation</p>	<p>April 12 (9–11)</p>	<p>Incentive contracts A managerial compensation plan</p> <p>Readings: Chapter 10, Slides, Lesson Notes</p>

	April 14 (9–11)	<p>The theory of executive compensation</p> <p>Empirical compensation research</p> <p>Discussion of Executive compensation</p> <p>Assignments: Questions and Problems: 2, 10</p> <p>Readings: Chapter 10, Slides, Lesson Notes</p>
Chapter 11 Earnings Management	April 19 (9–11)	<p>Patterns of earnings management</p> <p>Evidence of earnings management for bonus purpose</p> <p>Readings: Chapter 11, Slides, Lesson Notes</p>
	April 26 (9–11)	<p>The bad and the good side of earnings management</p> <p>Discussion of earnings management</p> <p>Assignments: Questions and Problems: 6, 9</p> <p>Readings: Chapter 11, Slides, Lesson Notes</p>
Chapter 12 Standard Setting: Economic Issues	April 28 (9–11)	<p>Regulation of economic activity</p> <p>Private incentives for information production</p> <p>Readings: Chapter 12, Slides, Lesson Notes</p>
	May 3 (9–11)	<p>Private incentives for information production(continued)</p> <p>Source of market failure</p> <p>Assignments: Questions and Problems: 11, 15</p> <p>Session 2 Assignments 3</p> <p>Readings: Chapter 12, Slides, Lesson Notes</p>

<p>Chapter 13 Standard Setting: Political Issues</p>	<p>May 5 (9–11)</p>	<p>Two theories of regulation Standard setting in Canada and the United States The International Accounting Standards Board(IASB) Relationship to theories of regulation Criteria for standard setting</p> <p>Assignments: Questions and Problems: 7, 8 Readings: Chapter 13, Slides, Lesson Notes</p>
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Reference Books:

- Canadian Institute of Chartered Accountants, **CICA Handbook-Accounting**, Updated to January 2010 release.
- **Ethics Readings Handbook [ERH]**, Third Edition (Vancouver, BC: CGA-Canada, 2010).
- William R. Scott, 2003, **Financial Accounting Theory** (Third Edition), Ontario, Prentice Hall. 陈汉文译, 财务会计理论 (原书第三版), 北京: 机械工业出版社, 2006。