

Subject Code	AF5102
Subject Title	Accounting Theory
Credit Value	3
Level	5
Normal Duration	One Semester
Pre-requisite / Co-requisite/ Exclusion	None (Recommended Background Knowledge: Some prior exposures to a research methodology course would be helpful.)
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 MSc in Accountancy Programme Outcomes by <u>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 (Programme Outcome 1).</u>
Subject Learning Outcomes	Upon completion of the subject, students will be able to: <ul style="list-style-type: none"> a. develop and demonstrate an understanding of the concepts, principles, and practices of financial accounting; b. develop an understanding of the scope, functions, and limitations of financial accounting; and c. understand why these principles and practices are adopted and how they are influenced by underlying theoretical concepts, ethics, and institutional settings and environment.
Subject Synopsis/ Indicative Syllabus	<p>Some Basic Economic Concepts</p> <p>Types of information asymmetry and their implications to financial reporting. Adverse selection and moral hazard problems. Concept of signalling and its implications.</p> <p>The Present Value model of Accounting</p> <p>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> <p>Information Perspective of Accounting</p>

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.																																																						
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.																																																						
Assessment Methods in Alignment with Intended Learning Outcomes	<p>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 (Programme Outcome 1).</p> <table border="1" data-bbox="527 1003 1409 1612"> <thead> <tr> <th rowspan="2">Specific assessment methods/tasks</th> <th rowspan="2">% weighting</th> <th colspan="6">Intended subject learning Outcomes to be assessed (Please tick as appropriate)</th> </tr> <tr> <th>a</th> <th>b</th> <th>c</th> <th></th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Class participation and discussion</td> <td>5%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Individual homework</td> <td>25%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Group project</td> <td>20%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Final examination</td> <td>50%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>100%</td> <td colspan="6"></td> </tr> </tbody> </table> <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 WebCT.</p> <p>Individual homework – Problems and questions for students to discuss and apply subject knowledge in the accounting context.</p>	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>Group project – Students form groups to complete a research project.</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>	<p>Class contact:</p>	
	<ul style="list-style-type: none"> ▪ 3 contact hours of seminar per week for 13 weeks 	<p>39 Hrs.</p>
	<p>Other student study effort:</p>	
	<ul style="list-style-type: none"> ▪ On average students are expected to spend around 2 additional hours for each contact hour for reading subject materials/textbook, doing discussion questions and individual and group assignments. 	<p>78 Hrs.</p>
<p>Reading List and References</p>	<p>Scott, William R., <i>Financial Accounting Theory</i>, latest edition, Toronto: Prentice Hall Canada, Inc.</p>	
	<p>Total student study effort</p>	<p>117 Hrs.</p>