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| 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 | <p>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.</p> <p>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> <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</p> |

| | <p>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> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| <p>Teaching/Learning Methodology</p> | <p>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> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Assessment Methods in Alignment with Intended Learning Outcomes</p> | <table border="1"> <thead> <tr> <th data-bbox="495 1396 820 1606">Specific assessment methods/tasks</th> <th data-bbox="820 1396 974 1606">% weighting</th> <th colspan="6" data-bbox="974 1396 1485 1533">Intended subject learning outcomes to be assessed (Please tick as appropriate)</th> </tr> <tr> <td></td> <td></td> <th data-bbox="974 1533 1055 1606">a</th> <th data-bbox="1055 1533 1136 1606">b</th> <th data-bbox="1136 1533 1218 1606">c</th> <th data-bbox="1218 1533 1299 1606"></th> <th data-bbox="1299 1533 1380 1606"></th> <th data-bbox="1380 1533 1485 1606"></th> </tr> </thead> <tbody> <tr> <td data-bbox="495 1606 820 1701">Class participation and discussion</td> <td data-bbox="820 1606 974 1701">5%</td> <td data-bbox="974 1606 1055 1701">√</td> <td data-bbox="1055 1606 1136 1701">√</td> <td data-bbox="1136 1606 1218 1701">√</td> <td data-bbox="1218 1606 1299 1701"></td> <td data-bbox="1299 1606 1380 1701"></td> <td data-bbox="1380 1606 1485 1701"></td> </tr> <tr> <td data-bbox="495 1701 820 1774">Individual homework</td> <td data-bbox="820 1701 974 1774">25%</td> <td data-bbox="974 1701 1055 1774">√</td> <td data-bbox="1055 1701 1136 1774">√</td> <td data-bbox="1136 1701 1218 1774">√</td> <td data-bbox="1218 1701 1299 1774"></td> <td data-bbox="1299 1701 1380 1774"></td> <td data-bbox="1380 1701 1485 1774"></td> </tr> <tr> <td data-bbox="495 1774 820 1837">Group project</td> <td data-bbox="820 1774 974 1837">20%</td> <td data-bbox="974 1774 1055 1837">√</td> <td data-bbox="1055 1774 1136 1837">√</td> <td data-bbox="1136 1774 1218 1837">√</td> <td data-bbox="1218 1774 1299 1837"></td> <td data-bbox="1299 1774 1380 1837"></td> <td data-bbox="1380 1774 1485 1837"></td> </tr> <tr> <td data-bbox="495 1837 820 1900">Final examination</td> <td data-bbox="820 1837 974 1900">50%</td> <td data-bbox="974 1837 1055 1900">√</td> <td data-bbox="1055 1837 1136 1900">√</td> <td data-bbox="1136 1837 1218 1900">√</td> <td data-bbox="1218 1837 1299 1900"></td> <td data-bbox="1299 1837 1380 1900"></td> <td data-bbox="1380 1837 1485 1900"></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% | √ | √ | √ | | | | | | | | | | |
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| | | a | b | c | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Class participation and discussion | 5% | √ | √ | √ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Individual homework | 25% | √ | √ | √ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Group project | 20% | √ | √ | √ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Final examination | 50% | √ | √ | √ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | Total | 100 % | |
| | <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> | | |
| Student Study Effort Expected | Class contact: | | |
| | ▪ 13 weeks of three-hour seminar | | 39 Hrs. |
| | Other student study effort: | | |
| | ▪ Class preparations, reading subject materials/textbook, assignments and group discussions | | 78 Hrs. |
| | Total student study effort | | |
| Reading List and References | Scott, William R., <i>Financial Accounting Theory</i> , latest edition, Toronto: Prentice Hall Canada, Inc. | | |