



## SCHOOL OF ACCOUNTING & COMMERCIAL LAW

*Telephone 463 5383, Facsimile 495 5076. E-mail: [sacl@vuw.ac.nz](mailto:sacl@vuw.ac.nz)*

# ACCY 412 CURRENT ISSUES IN FINANCIAL ACCOUNTING

Trimester One 2005

## COURSE OUTLINE

Contact Details		Office	Telephone	Email
Course Coordinator & Lecturer	Tony van Zijl	RH 606	463 5329	<a href="mailto:Tony.vanZijl@vuw.ac.nz">Tony.vanZijl@vuw.ac.nz</a>
Lecturer	Rachel Morley	RH 625	463 6474	<a href="mailto:Rachel.Morley@vuw.ac.nz">Rachel.Morley@vuw.ac.nz</a>

### Class Times and Room Numbers

Monday 13.40-15.30, RH G01

Mid-Trimester break: Friday 25<sup>th</sup> March – Friday 8<sup>th</sup> April

University lectures resume: Monday 11<sup>th</sup> April

The final examination will take place during the examination period, June 3 – 18, 2005.

### Lecture Programme

Weeks 1-6 will be taken by Tony van Zijl, and weeks 7-12 by Rachel Morley.

Week	Date	Topic
1:	21 Feb	The standard setting process
2	28 Feb	Conceptual Framework projects
3:	7 March	Intangibles
4:	14 March	Fair Value
5:	21 March	Share-based Payments
6:	11 April	Management Discussion and Analysis
7:	18 April	Harmonisation
8:	25 April	Governance Part 1
9:	2 May	Governance Part 2
10:	9 May	Firm Cultures and Auditor Independence
11:	16 May	The Academy and the Profession: Post-2002 debacles
12:	23 May	Income Measurement

## Course Objectives

At the end of the course, participants should have an understanding of:

- Some of the principal factors shaping the environment of financial reporting and accounting policy choice.
- The usefulness and the impact of accounting information.
- The development of conceptual frameworks for financial reporting.
- Differing perspectives on the concept of income.
- Measurement in accounting.

## Course Content

This course aims to provide a critical insight into, and develop an understanding of, a selection of current issues relevant to the role of financial accounting. This is not a simple examination of the issues in the standard-setters' current work plans, but a review of the economic and political situation within which the standard setters go about their business, and the impact of these factors on the standards that emerge.

There are three major themes in the course: (1) the incentives of the parties (managers, directors, auditors, accounting firms, regulators and users); (2) the environment (governance problems, harmonisation, and the growing importance of intangible assets); and (3) the legacy of unresolved conceptual problems.

The course will be grounded firmly in the knowledge derived from research.

## Readings

### Week 1: The Standard Setting Process

- 1.1 Brown, P. and A. Tarcas, 2001, Politics, Processes and the Future of Australian Accounting Standards, *Abacus*, 267-296.
- 1.2 Alfredson, K., K. Leo, R. Picker, P. Pacter, and J. Radford, *Applying International Accounting Standards*, Queensland: John Wiley & Sons Australia, 2005, (Chapter 1).
- 1.3 Johnson, S. and D. Solomons, Institutional Legitimacy and the FASB, *Journal of Accounting and Public Policy*, 1984, 165-183.
- 1.4 Shapiro, B., 1997, Objectivism, Relativism, and Truth in External Financial Reporting: What's really at Stake Between the Disputes, *Accounting, Organizations, and Society*, 165-185.
- 1.5 Tweedie, D., Background Information on the IASB, address given to US Senate Committee on Banking, Housing and Urban Affairs (14/02/02) and UK Treasury Committee (4/04/02), reproduced as appendix to McGregor, W. and T. van Zijl, International Convergence and Harmonisation, *Chartered Accountants Journal*, July 2002, 6-12.
- 1.6 van Zijl, T., IFRS: Implementation and Impact, *INFINZ Finance Journal*, Winter 2004, 20-32.

## **Week 2: Conceptual Framework Projects**

- 2.1 Alfredson, K., K. Leo, R. Picker, P. Pacter, and J. Radford, *Applying International Accounting Standards*, Queensland: John Wiley & Sons Australia, 2005, (Chapter 2).
- 2.2 Bratton, W., Rules, Principles, and the Accounting Crisis in the United States, *European Business Organization Law Review*, Vol 5, no 1, 2004, 7- 36.
- 2.3 Chambers, R., Ends, Ways, Means and conceptual frameworks, *Abacus*, Vol 32, 1996, 119-132.
- 2.4 Largay, J., Commentaries on Principles- vs. Rules-Based Standards: Schipper, K., AAA Financial Accounting Standards Committee, and M. Nelson, *Accounting Horizons*, March 2003, 59-104.
- 2.5 Peasnell, K., The Function of a Conceptual Framework for Corporate Financial Reporting, *Accounting and Business Research*, Vol 12, 1982, 243-256.
- 2.6 van Zijl, T. and S. Walker, *The New Zealand Convergence Handbook*, ICANZ, 2001 (Chapter 1).

## **Week 3: Intangibles**

- 3.1 Alfredson, K., “Accounting for Identifiable Intangibles – An Unfinished Standard-Setting Task”, *Australian Accounting Review*, Vol 11, 2001, 12-21.
- 3.2 Kanodia, C., H. Sapra, and R. Venugopalan, “Should Intangibles be Measured: What Are the Economic Trade-Offs?”, *Journal of Accounting Research*, March 2004, 89-120.
- 3.3 Canibano, L., M Garcia-Ayuso, and P. Sanchez, “Accounting for intangibles: A Literature Review”, *Journal of Accounting Literature*, Vol 19, 2000, 102-130.
- 3.4 Lev, B. and S. Radhakrishnan, “The Measurement of Firm-Specific Organization Capital”, NBER Working Paper Series, Working Paper 9581, March 2003, 41 pp.
- 3.5 Kallapur, S. and S. Kwan, The Value Relevance of Brand Assets Recognised by UK Firms, *Accounting Review*, January 2004, 151-172.
- 3.6 Upton, W., “Comments”, on Lev, B. *Intangibles - Management, Measurement, and Reporting*, Brookings Institution Press, 2001.
- 3.7 Wyatt, A., Z. Matolcsy, and D. Stokes, “Capitalisation of Intangibles - A Review of Current Practice and the Regulatory Framework”, *Australian Accounting Review*, Vol 11, 2001, 22-38.

## **Week 4: Fair value**

- 4.1 Barth, M., Valuation Based Accounting Research: Implications for Financial Reporting and Opportunities for Future Research, *Accounting and Finance*, March 2000, 7-31.

- 4.2 Bradbury, M., “Issues in the Drive to Measure Liabilities at Fair Value”, *Australian Accounting Review*, July 2000, 19-25.
- 4.3 FASB, Fair Value Measurements, Project Update 4/02/05, [http://www.fasb.org/project/fv\\_measurement.shtml](http://www.fasb.org/project/fv_measurement.shtml)
- 4.4 Horton, J. and R. Macve, “‘Fair Value’ for Financial Instruments: How Erasing Theory is Leading to Unworkable Global Accounting Standards for Performance Reporting”, *Australian Accounting Review*, July 2000, 26-39.
- 4.5 Joint Working Group of Standard Setters, Basis for Conclusions, Chapter 4: Fair Value Measurement (212-231), in *Draft Standard and Basis for Conclusions Financial Instruments and Similar Items*, IASC, December 2000.
- 4.6 van Zijl, T. and G. Whittington, Deprival Value and Fair Value: A Reinterpretation and a Reconciliation, working paper, February 2005, 26pp.

#### **Week 5: Share-based Payments**

- 5.1 Aboody, D., M. Barth, and R. Kasznik, SFAS 123 Stock Based Compensation Expense and Equity market Values, *Accounting Review*, April 2004, 251-275.
- 5.2 Balsam, S., H. Sami, and A. Shahid, “Valuation Implications of Disclosure Mandated by FAS123: Accounting for Stock-Based Compensation”, *American Business Review*, January 2003, 30-37.
- 5.3 Botosan, C. and M. Plumlee, “Stock Option Expense: The Sword of Damocles Revealed”, *Accounting Horizons*, December 2001, 311-327.
- 5.4 Dechow, P., A. Hutton, and R. Sloan, “Economic Consequences of Accounting for Stock-Based Compensation”, *Journal of Accounting Research*, Vol 34, Supplement 1996, 1-20.
- 5.5 Guay, W., S. Kothari, and R. Sloan, “Accounting for Employee Stock options”, *American Economic Review*, May 2003, 405-409.
- 5.6 Kirschenheiter, M., R. Mathur, and J. Thomas, Accounting for Employee Stock Options, *Accounting Horizons*, June 2004, 135-156.
- 5.7 [Knowledge@Wharton](#): “Are Stock Options in Your Future?”, January 2003.

#### **Week 6: Management Discussion & Analysis**

- 6.1 Barron, O., C. Kile, and T. O’Keefe, MD&A Quality as measured by the SEC and Analyst’s Earnings Forecasts, *Contemporary Accounting Research*, Spring 1999, 75-109.
- 6.2 Bryan, S., Incremental Information Content of Required Disclosures Contained in Management Discussion and Analysis, *Accounting Review*, April 1997, 285-301.

- 6.3 Clarkson, P., J. Kao, and G. Richardson, Evidence That Management Discussion and analysis (MD&A) is a Part of a Firm's Overall Disclosure Package, *Contemporary Accounting Research*, Spring 1999, 111-134.
- 6.4 Healy, P. and K. Palepu, Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature, *Journal of Accounting and Economics*, September 2001, 405-440 and Discussion: Core, J., 441-456.
- 6.5 Mercer, M., How do Investors Assess the Credibility of Management Disclosures, *Accounting Horizons*, September 2004, 185-196.

### **Week 7: Harmonisation**

#### *Introductory readings:*

“International Accounting Standards” *The Economist* Dec 28<sup>th</sup> 2004

Tweedie, D., Looking ahead at 2004: a global standard setter's perspective. *Balance Sheet*, Vol 12, 2004, 5 – 7.

#### *Research papers:*

- 7.1 Chen, Charles J. P., Ferdinand A. Gul, and Xijia Su, A comparison of reported earnings under Chinese GAAP vs. IAS: Evidence from the Shanghai stock exchange *Accounting Horizons*, Vol 13, 1999, 91-111.
- 7.2 Chen, Shimin, Zheng Sun, and Yuetang Wang, Evidence from China on whether harmonized accounting standards harmonize accounting practices, *Accounting Horizons*, Vol 16, 2002, 183-197.
- 7.3 Young, Danqing and David A. Guenther, Financial reporting environments and international capital mobility, *Journal of Accounting Research*, Vol 41, 2003, 553-579.
- 7.4 Leuz, Christian, IAS Versus U.S. GAAP: Information Asymmetry–Based Evidence from Germany's New Market, *Journal of Accounting Research*, Vol 41, 2003, 445-472.

### **Week 8: Governance, Part 1**

#### *Introductory reading:*

“Is there money in improving corporate governance?” *The Economist*, Apr 1st 2004.

#### *Research papers:*

- 8.1 Khanna, T., J. Kogan and K. Palepu, “Negotiation, Organizations and Markets”, Harvard University Strategy Unit, Working Paper 02-041, 2002.
- 8.2 Doidge, C., G. A. Karolyi, and R. M. Stulz, “Why do countries matter so much for corporate governance?” ECGI Finance Working Paper Number 50/2004, 2004.
- 8.3 Larcker, David F., Scott Richardson and Irem Tuna, “Does Corporate Governance Really Matter?” Working Paper, Research Center: Accounting Department, Wharton University, USA, 2004.
- 8.4 Bushman, Robert M, Joseph D. Piotroski, and Abbie J. Smith, What Determines Corporate Transparency? *Journal of Accounting Research*, Vol 42, 2004, 207- 252.

*Other references:*

Denis, D. K., and J. J. McConnell, "International Corporate Governance" ECGI Finance Working Paper 05/2003, 2003.

Bedard, Jean C., and Karla M. Johnstone, Earnings Manipulation Risk, Corporate Governance Risk, and Auditors' Planning and Pricing Decisions, *The Accounting Review*, Vol 79, 2004, 277-294.

**Week 9: Governance Part 2: Ownership and protection of investors**

*Introductory reading:*

"The purpose of non-executive directors" *The Economist* Mar 18th 2004.

*Research papers:*

9.1 Shleifer, A. and R. W. Vishny, A Survey of Corporate Governance, *The Journal of Finance*, Vol 5, 1997, 737 – 783.

9.2 Peasnell, K. V., P. F. Pope, and S. Young, Accrual management to meet earnings targets: UK evidence pre- and post-Cadbury, *The British Accounting Review*, Vol 32, 2002, 415-445.

9.3 Klein, A., Economic determinants of audit committee independence, *The Accounting Review*, Vol 77, 2002, 435-452.

9.4 Larcker, David F., and Scott A. Richardson, Fees Paid to Audit Firms, Accrual Choices, and Corporate Governance, *Journal of Accounting Research*, Vol 42, 2004, 625-658.

*Other readings:*

Carcello, Joseph V. and Terry L. Neal, Audit committee characteristics and auditor dismissals following "new" going-concern reports, *The Accounting Review*, Vol 78, 2003, 95-116.

Ge, W. and A. B. Jackson, Corporate Governance, Investor Protection and Earnings Quality, Working Paper, Univ. of Michigan, December 2004.

Menon, K. and D. D. Williams, Former Audit Partners and Abnormal Accruals, *The Accounting Review*, Vol 79, 2004, 1095 – 1118.

Pesqueux, Y., Corporate Governance and accounting systems: a critical perspective. *Critical Perspectives on Accounting* 2004, in Press

**Week 10: Firm cultures and Auditor Independence**

*Research papers:*

10.1 Van Lent, Laurence, The economics of an audit firm: The benefits of partnership governance, *The British Accounting Review*, Vol 31, 1999, 225-254.

10.2 Myers, James, N., Linda A. Myers, and Thomas C. Omer, Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation? *The Accounting Review*, Vol 78, 2003, 779- 799.

10.3 Ashbaugh, Hollis, Ryan LaFond, and Brian W. Mayhew, Do nonaudit services compromise auditor independence? Further evidence, *The Accounting Review*, Vol 78, 2003, 611-639.

- 10.4 Morley, Rachel F., and John Beechey, “Punctuated equilibrium in income allocation systems in accounting partnerships”, Working Paper subsequent to 2004 AFAANZ presentation.

*Other readings:*

Holmes, Scott, and Stephen Marsden, An exploration of the espoused organizational cultures of public accounting firms, *Accounting Horizons*, Vol 10, 1996, 26-53.

Morley, Rachel F., Travis Hui Qiu, David Hay and William Maguire, “The association between partnership financial integration and audit client portfolios”, Conference paper submitted to AFAANZ, Melbourne, July 2005.

**Week 11: The Academy and the Profession: Research post- 2002 debacles**

*Introductory readings:*

“Ahold and other European scandals” *The Economist* Feb 27<sup>th</sup> 2003

“The lessons of the Parmalat scandal” *The Economist* Jan 15<sup>th</sup> 2004

*Research papers:*

In Volume 15 (2004) an issue of *Critical Perspectives on Accounting* devoted to commentary following the Enron Scandal, part of this challenges the absence of much research in JAR, CAR, TAR *et al.* Two selected from that list are:

- 11.1 Froud, Julie, Sukhdev Johal, Viken Papazian and Karel Williams, The temptation of Houston: a case study of financialisation, *Critical Perspectives on Accounting*, Vol 15, 2004, 885-909.
- 11.2 Craig, R. J. and J. H. Amernic, Enron discourse: the rhetoric of a resilient capitalism, *Critical Perspectives on Accounting*, Vol 15, 2004, 813-852.
- 11.3 Rosner, Rebecca L., Earnings manipulation in failing firms, *Contemporary Accounting Research*, Vol 20, 2003, 361-
- 11.4 Chaney, Paul K. and Kirk L. Philipich, Shredded reputation: The cost of audit failure, *Journal of Accounting Research*, Vol 40, 2002, 1221-1245.

*Other readings:*

Brody, Richard G., D. Jordan Lowe, and Kurt Pany, Could \$51 million be immaterial when Enron reports income of \$105 million? *Accounting Horizons*, Vol 17, 2003, 153-160.

Dechow, Patricia M., Richard G. Sloan, and Amy P. Sweeney, Detecting earnings management, *The Accounting Review*, Vol 70, 1995, 193-125.

Dechow, Patricia M., Richard G. Sloan, and Amy P. Sweeney, Causes and consequences of earnings manipulations: An analysis of firms subject to enforcement actions by the SEC, *Contemporary Accounting Research*, Vol 13, 1996, 1-35.

**Week 12: Income Measurement**

*Introductory reading:*

Martin, I., US, UK and international regulators join forces on ‘comprehensive income’ project, *The Accountant*, Issue 6007, 2004, 5.

*Research papers:*

- 12.1 O'Hanlon, J. F. and P. F. Pope, The Value-relevance of UK Dirty Surplus Accounting Flows *British Accounting Review*, Vol 31, 1999, 459 – 482.
- 12.2 Dhaliwal, D., Subramanyam, K. R. and R. Trezevant, Is comprehensive income superior to net income as a measure of firm performance? *Journal of Accounting and Economics*, Vol 26, 1999, 43 – 67.
- 12.3 Schipper, K and L. Vincent, Earnings Quality, *Accounting Horizons*, Supplement Vol 17, 2003, 97 – 110.
- 12.4 Isidron H., J. O'Hanlon, J and S. Young, Dirty Surplus Accounting Flows: International Evidence, *Accounting and Business Research*, Vol 34, 2004, 383 –

*Other readings:*

Barker, Richard, Reporting Financial Performance, *Accounting Horizons*, Vol 18, 2004, 157-172.

Luecke, R. W. and D. T. Meeting, How Companies Report Income, *Journal of Accountancy*, May 1998, 45 – 52.

Skinner, D. J., How well does net income measure firm performance? A discussion of two studies, *Journal of Accounting and Economics*, Vol 26, 1999, 105 – 111.

Vincent, L., The Information Content of Funds from Operations for Real Estate Investment Trusts, *Journal of Accounting and Economics*, Vol 26, 1999, 69-104.

## **Materials and Equipment**

A fee may be charged for course materials. Students will be advised accordingly.

## **Assessment Requirements**

Assessment will be based on the following:

- |  |     |
|--|-----|
| (a) Précis and presentation of assigned articles | 15% |
| (b) One essay                                    | 25% |
| (c) Final exam                                   | 60% |

## **Assignments**

Each student is required to make presentations on each of two assigned articles during the course. Students making presentations are to prepare a précis of the article (1-2 pages) and distribute it to other members of the class and the lecturer by noon on the Friday before the session. All students are expected to contribute to all class discussions.

The essay is due on 27 May 2005. Suggested length: 2, 000 words. Choose your own topic relevant to the themes of the course. Please discuss your choice of topic with the relevant lecturer at your earliest opportunity. A draft of the essay is due with the lecturer by 13 May. Email submissions are acceptable.

## **Mandatory Course Requirements**

Students must complete all items of assessment.



## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

### **Student Conduct and Staff Conduct**

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at:

[www.vuw.ac.nz/policy/StudentConduct](http://www.vuw.ac.nz/policy/StudentConduct).

The policy on Staff Conduct can be found on the VUW website at:

[www.vuw.ac.nz/policy/StaffConduct](http://www.vuw.ac.nz/policy/StaffConduct).

### **Academic Grievances**

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

[www.vuw.ac.nz/policy/AcademicGrievances](http://www.vuw.ac.nz/policy/AcademicGrievances).

### **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

*'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.*

#### ***Plagiarism is not worth the risk.***

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct ([www.vuw.ac.nz/policy/studentconduct](http://www.vuw.ac.nz/policy/studentconduct)) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning

- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

*Find out more about plagiarism and how to avoid it, on the University's website at: [www.vuw.ac.nz/home/studying/plagiarism.html](http://www.vuw.ac.nz/home/studying/plagiarism.html).*

### **Students with Disabilities**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

### **Student Support**

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at [www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/) or email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz).

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz).