

School of Accounting and Commercial Law

## **ACCY412 CURRENT ISSUES IN FINANCIAL ACCOUNTING**

Trimester 1 2015

### **COURSE OUTLINE**

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#### **Names and Contact Details**

<i>Course Coordinator &amp; Lecturer</i>	Dr Noor Houqe <a href="mailto:noor.houqe@vuw.ac.nz">noor.houqe@vuw.ac.nz</a> Office Hours: TBA	RH 712	463 6591
<i>Lecturer</i>	Dr Thu Phuong Truong <a href="mailto:thuphuong.truong@vuw.ac.nz">thuphuong.truong@vuw.ac.nz</a> Office Hours: TBA	RH 615	463 5233 (ext. 8961)
<i>Course Administrator</i>	Rachel Qi <a href="mailto:rachel.qi@vuw.ac.nz">rachel.qi@vuw.ac.nz</a> Office hours: Monday-Friday, 8.30am-5pm (Note: Office closed 10.30am-10.45am and 3.30pm-3.45pm)	RH 708	463 7465

#### **Trimester Dates**

Teaching Period: Monday 2 March – Friday 5 June

Study Period: Monday 8 June – Thursday 11 June

Examination Period: Friday 12 June – Wednesday 1 July (inclusive)

#### **Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before Friday 13 March 2015.
2. The standard last date for withdrawal from this course is Friday 15 May 2015. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks or [online](#).

#### **Class Times and Room Numbers**

Wednesday 8:30 – 11:20 in Railway West Wing RWW311

### **Course Delivery**

The course is made up of a combination of lectures, workshops and student presentations. Students are asked not to use any electronic equipment in class except with the express permission of the lecturer that week. It is important all students appreciate that the dialogue involves all class members.

### **Expected Workload**

The expected workload for ACCY 412 is around 180 hours over the trimester (approximately 12 hours per week over the 15 week period (12 teaching weeks, mid-trimester break, study week and examination period).

### **Prescription**

A critical examination of policy issues related to accounting professionalism, the determination of a body of knowledge, and the scope and control of financial reporting practices.

### **Course Learning Objectives**

By the end of the course students should:

- Understand current financial accounting issues such as and be able to critically evaluate current practices and put propose alternative treatments;
- Be able to explain the relevance and implications of financial accounting based on identified frameworks and accounting theory;
- Understand the standard setting process and standard accounting practices, including international issues;
- Appreciate the shortcomings of and alternatives to established financial performance measures;
- Be able to understand current issues impacting on the audit profession; and
- Demonstrate improvement in communication skills, both written and spoken, in their class involvement.

### **Course Content**

This course aims to achieve the above objectives by critical examination of current issues relevant to the role of financial accounting and reporting. This is not a simple examination of issues in IFRS adoption for financial accounting or standard-setters' and regulators' current work plans, but a review of the economic and political situation within which those regulating and supporting the efficient operation of capital markets go about their business. The course also considers the manner in which research can assess and inform such activities in financial reporting and it is grounded firmly in the knowledge derived from research.

### **Readings**

A list of readings and course topics is part of this Outline. All students are required to send to Dr Noor Houqe or Dr Thu Phuong Truong a PDF copy of the paper they have taken responsibility to present in class (this should be done four days before), so that it can be uploaded onto Blackboard if other students wish to download the paper. Copies of a handout should be provided at all presentations.

### **Materials and Equipment**

A fee may be charged for course materials although this is highly unlikely.

## Assessment

The Assessment Handbook will apply to all VUW courses: see <http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

In particular, there is a new grade scheme, in which the A+ range is 90-100% and 50-54% is a C-.

Assessment will be based on the following (see Schedule on pages 5 – 6):

- a) Class presentations and critiques, 30%<sup>1</sup>
- b) Project, 30%<sup>2</sup>
- c) Final examination, 40%

## Marking guide for presentation in ACCY 412

This will be provided to the class. It will include assessment of the presentation offering

1. Overview of the study
2. Research question; how else could this question have been answered?
3. Motivation and contribution
4. Literature review
5. Theoretical framework and hypotheses
6. Research design including the sample, variables, and method of analysis
7. Results; what does it contribute to practice?
8. Conclusion, Limitations, future research

## Penalties

In the event of unusual, unforeseen circumstances (e.g., serious illness, family bereavement), causing absence from a class meeting students should discuss the waiver of any penalty with the Course Coordinator as soon as possible after the event. Doctor's certificate or similar evidence should be provided

## Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism testing tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin. A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any party for other purposes.

## Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Friday 12 June – Wednesday 1 July (inclusive)

## Mandatory Course Requirements

Students must complete this course with a fair attempt at all items of assessment except where non-completion is supported by a Doctor's certificate or similar.

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<sup>1</sup> Each student will present on three papers during the semester, for up to 45 minutes.

<sup>2</sup> Information about the project requirements will be distributed in Week 1.

If you cannot complete any required assessment or sit an examination, refer to [www.victoria.ac.nz/home/study/exams-and-assessments/aegoratat](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegoratat)

### **Class Representative**

A class representative will be elected in the first class, and that person's name and contact details made available to VUWSA, the course coordinator and the class. The class representative provides a formal communication channel to liaise with the course coordinator on behalf of students.

### **Communication of Additional Information**

Additional information or information on changes will be conveyed to students via Blackboard.

### **Link to general information**

For general information about course-related matters, go to <http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

### **Note to Students**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

## ACCY 412 Course Content

Week	Schedule	Assessment	Learning objectives relevant to the assessment
<b>Part 1: Dr Thu Phuong Truong</b>			
1 Mar 4	Introduction Part 1		
2 Mar 11	Issues in financial accounting research	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
3 Mar 18	Corporate governance	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
4 Mar 25	Disclosure and regulation	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
5 Apr 1	Accounting conservatism	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
<b>Mid-trimester break (April 6-19)</b>			
6 Apr 22	Management compensation	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
<b>Part 2: Dr Noor Houqe</b>			
7 Apr 29	Introduction Part 2		
8 MAY 6	IFRS adoption and international accounting	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
9 May 13	Earnings quality	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
10 May 20	Accounting information and share price	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)

11 May 27	Auditing	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
12 June 3	Corporate Social Responsibility	Presentation on an article and leading discussion for up to 45 minutes	Class involvement, spoken communication skills, evaluation of a research article (methods, findings strengths, weaknesses re methods)
	Project		The overview of the project, research question, motivation and contribution, literature review, conceptual model and hypotheses, research design including the sample, variables and methods of analysis, results and conclusions.
	Comprehensive final examination	Three hour examination	Reflection and critical analysis, synthesis, applying understanding of strengths and weaknesses of different research methods, written communication ability

## Programme and Readings

### Week 1: Introduction to the Course and Part 1, Dr Thu Phuong Truong

- ▶ Presentation guidelines
- ▶ Assessment issues
- ▶ Core readings for weeks 2 to 6

1. Armstrong, C. S., W. R. Guay, and J. P. Weber, 2010, The role of information and financial reporting in corporate governance and debt contracting, *Journal of Accounting and Economics*, Vol. 50, pp. 179-234.
2. Brickley, J. A., and J. L. Zimmerman, 2010, Corporate governance myth: Comments on Armstrong, Guay and Weber, *Journal of Accounting and Economics*, Vol. 50, pp. 235-245.

### Week 2: Issues in financial accounting research

1. Larcker, D. F., and T. O. Rusticus, 2007, Endogeneity and empirical accounting research, *European Accounting Review*, Vol. 16, pp. 207-215.
2. Larcker, D. F., and T. O. Rusticus, 2010, On the use of instrumental variables in accounting research, *Journal of Accounting and Economics*, Vol. 49, pp. 186-205.
3. Tucker, J. W., 2010, Selection bias and econometric remedies in accounting and finance research, *Journal of Accounting Literature*, Vol. 29, pp. 31-57.
4. Tucker, J. W., 2007, Is openness penalized? Stock returns around earnings warnings, *The Accounting Review*, Vol. 82, pp. 1055-1087.
5. Barth, M. E., and G. Clinch, 2009, Scale effects in capital markets-based accounting research, *Journal of Business Finance & Accounting*, Vol. 36, pp. 253-288.
6. Barth, M. E., and S. Kallapur, 1996, The effects of cross-sectional scale differences on regression results in empirical accounting research, *Contemporary Accounting Research*, Vol. 13, pp. 527-567.

### **Week 3: Corporate governance**

1. Brown, P., W. Beekes, and P. Verhoeven, 2011, Corporate governance, accounting and finance: A review, *Accounting and Finance*, Vol. 51, pp. 96-172.
2. Bebczuk, L. A., and M. S. Weisbach, 2010, The state of corporate governance research, *The Review of Financial Studies*, Vol. 23, pp. 939-961.
3. Bowen, R. M., S. Rajgopal, and M. Venkatachlam, 2008, Accounting discretion, corporate governance, and firm performance, *Contemporary Accounting Research*, Vol. 25, pp. 351-405.
4. Baber, W. R., A. K. Gore, K. T. Rich, and J. X. Zhang, 2013, Accounting restatements, governance and municipal debt financing, *Journal of Accounting and Economics*, Vol. 56, pp. 212-227.
5. Larcker, D. F., and D. J. Taylor, 2011, Corporate governance and the information content of insider trades, *Journal of Accounting Research*, Vol. 43, pp. 453-486.
6. Ettredge, M., K. Johnstone, M. Stone, and Q. Wang, 2011, The effects of firm size, corporate governance quality, and bad news on disclosure compliance, *Review of Accounting Studies*, Vol. 16, pp. 866-889.

### **Week 4: Disclosure and regulation**

1. Bischof, J., and H. Daske, 2013, Mandatory disclosure, voluntary disclosure, and stock market liquidity: Evidence from the EU bank stress tests, *Journal of Accounting Research*, Vol. 51, pp. 997-1029.
2. Einhorn, E., 2005, The nature of the interaction between mandatory and voluntary disclosures, *Journal of Accounting Research*, Vol. 43, pp. 593-621.
3. Einhorn, E., and A. Ziv, 2008, Intertemporal dynamics of corporate voluntary disclosure, *Journal of Accounting Research*, Vol. 46, pp. 567-589.
4. Lawrence, A., 2013, Individual investors and financial disclosure, *Journal of Accounting and Economics*, Vol. 56, pp. 130-147.
5. Lehavy, R., F. Li, and K. Merkley, The effect of annual report readability on analyst following and the properties of their earnings forecasts, *The Accounting Review*, Vol. 86, pp. 1087-1115.
6. Kross, W. J., and I. Suk, 2012, Does Regulation FD work? Evidence from analysts' reliance on public disclosure, *Journal of Accounting and Economics*, Vol. 53, pp. 225-248.

### **Week 5: Accounting conservatism**

1. Watts, R. L., 2003, Conservatism in accounting Part I: Explanations and implications, *Accounting Horizons*, Vol. 17, pp. 207-221.
2. Watts, R. L., 2003, Conservatism in accounting Part II: Evidence and research opportunities, *Accounting Horizons*, Vol. 17, pp. 287-301.
3. Wang, R. Z., C. O-Hogartaigh, and T. van Zijl, 2009, Measures of accounting conservatism: A construct validity perspective, *Journal of Accounting Literature*, Vol. 28, pp. 165-203.
4. Basu, S., 1997, The conservatism principle and the asymmetric timeliness of earnings, *Journal of Accounting and Economics*, Vol. 24, pp. 3-37.
5. Beaver, W. H., and S. G. Ryan, 2005, Conditional and unconditional conservatism, *Review of Accounting Studies*, Vol. 10, pp. 269-309.

6. Collins, D. W., P. Hribar, and X. Tian, 2014, Cash flow asymmetry: Causes and implications for conditional conservatism research, *Journal of Accounting and Economics*, Vol. 58, pp. 173-402.

### **Week 6: Management compensation**

1. Banker, R. D., M. N. Darrrough, R. Huang, and J. M. Plehn-Dujowich, 2013, The relation between CEO compensation and past performance, *The Accounting Review*, Vol. 88, pp. 1-30.
2. Garvey, G., and T. Milbourn, 2006, Asymmetric benchmarking in compensation: Executives are rewarded for good luck but not penalized for bad, *Journal of Financial Economics*, Vol. 82, pp. 197-225.
3. Tafkov, I. D., 2013, Private and public relative performance information under different compensation contracts, *The Accounting Review*, Vol. 88, pp. 327-350.
4. Choi, J., Hecht, G., and Taylor, W. 2012, Lost in translation: The effect of incentive compensation on strategy surrogation, *The Accounting Review*, Vol. 87, pp. 1135-1164.
5. Hecht, G., I. Tafkov, and K. Towry, 2012, Performance spillover in a multi-task environment, *Contemporary Accounting Research*, Vol. 29, pp. 563-589.
6. Armstrong, C. S., I. D. Gow, and D. F. Larcker, 2013, The efficacy of shareholder voting: Evidence from equity compensation plans, *Journal of Accounting Research*, Vol. 51, pp. 909-950.

### **Week 7: Introduction Part 2, Dr Noor Houqe**

- ▶ **Presentation guidelines**
- ▶ **Assessment issues**
- ▶ **Core readings for weeks 7 to 12**

1. Beyer, A., Cohen, D. Lys, T., & Walther, B. 2010. The Financial Reporting Environment: Review of the Recent Literature. *Journal of Accounting & Economics*, Vol. 30, p 296-343.

### **Week 8: IFRS adoption and international accounting**

1. Brochet, F., Jagolinzer, A, D., & Riedl, E. J. (2013). Mandatory IFRS Adoption and Financial Statement Comparability. *Contemporary Accounting Research*, Vol. 30 Issue 4, p1373-1400.
2. Ahmed, A. S., Neel, M., & Wang, D. (2013). Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence. *Contemporary Accounting Research*, Vol. 30 Issue 4, p1344-1372.
3. Yip, R., & Young, D. (2012). Does Mandatory IFRS Adoption Improve Information Comparability? *The Accounting Review*, Vol. 87, No. 5, p 1767-1789.
4. Christensen, H, B., Hail, L., & Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting & Economics*, Vol. 56, p147-177.
5. Horton, J., Serafeim, G., & Ioanna S. (2013). Does Mandatory IFRS Adoption Improve the Information Environment? *Contemporary Accounting Research*, Vol. 30 Issue 1, p 388-423.
6. Kim, J-B., Tsui, J., & Yi, C. (2011). The voluntary adoption of International Financial Reporting Standards and loan contracting around the world. *Review of Accounting Studies*, 16 (4):779-811.



### **Week 9: Earnings quality**

1. Kothari, S., Leone, A., & Wasley, C. (2005). Performance matched discretionary accrual measure. *Journal of Accounting & Economics*, Vol. 39, p 163-197.
2. Dechow, P., & Dichev, I. (2002). The Quality of accruals and earnings. The role of accrual estimation errors. *The Accounting Review*, Vol 77, p 35-59.
3. Givoly, D., Hayn, C., & Katz, S. (2010). Does public ownership of equity improve earnings quality? *The Accounting Review*, Vol. 85, p 195-225.
4. Zang, A. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. *The Accounting Review*, Vol. 87, p 675-703.
5. Cohen, D., Dey, A., & Lys, T. (2008). Real and accrual-based earnings management in the pre-and post- Sarbanes Oxley periods. *The Accounting Review*, Vol. 83, p 757-787.
6. Dichev, I. D. Graham, J. R. Harvey, Campbell, R., & Rajgopal, S. (2013). Earnings quality: Evidence from the field. *Journal of Accounting & Economics*, Vol. 56, p1-33.

### **Week 10: Accounting information and share price**

1. Nichols, D. C., & Wahlen, J. M. (2004). How Earnings Numbers Relate Do to Stock Returns? A Review of Classic Accounting Research with Updated Evidence. *Accounting Horizons*, Vol.18, Issue 4, p263-286.
2. Chen, P., & Zhang, G. (2007). How do accounting variables explain stock price movements? Theory and evidence, *Journal of Accounting & Economics*, Vol. 43, No. 2–3, p 219–244
3. Lev. B. (1979). The Impact of Accounting Regulation on the Stock Market: The Case of Oil and Gas Companies. *The Accounting Review*, Vol. 54, No. 3, p 485-503.
4. Healy. P. (1985). The effect of bonus schemes on accounting decisions. *Journal of Accounting & Economics*, Vol. 7, p 85-107.
5. Ertimur, Y., Sletten, E., & Sunder, J. (2014). Large shareholders and disclosure strategies: Evidence from IPO lockup expirations. *Journal of Accounting & Economics*, Vol. 58, p 79-95.
6. Ball, R. & Brown, P. (1968). An Empirical Evaluation of Accounting Income Numbers. *Journal of Accounting Research*, Vol. 6, No. 2, p 59-178.

### **Week 11: Auditing**

1. De Gorge, E. T., Ferguson, C., & Spear, N. (2013). How Much Does IFRS Cost? IFRS Adoption and Audit Fees. *The Accounting Review*, 88(2), p 429-462.
2. Lennox, C., & Pittman, J. (2010). Auditing the auditors: Evidence on the recent reforms to the external monitoring of audit firms. *Journal of Accounting & Economics*, Vol. 49, p 84-103.
3. Badolato, P. G., Donelson, D. C., & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting & Economics*, Vol. 58, p 208-230.
4. Friedman, H. L. (2014). Implications of power: When the CEO can pressure the CFO to bias reports. *Journal of Accounting & Economics*, Vol. 58, p 117-141.
5. Lennox, C., & Li, B. (2012). The consequences of protecting audit partners' personal assets from the threat of liability. *Journal of Accounting & Economics*, Vol. 54, p 154-173.
6. Guedhami, O., Pittman, J. A., & Saffar, W. (2009). Auditor choice in privatized firms: Empirical evidence on the role of state and foreign owners. *Journal of Accounting & Economics*, Vol. 48, p 151-171.

## Week 12: Corporate Social Responsibility

1. Kim, Y., Park, M. S., & Wier, B. (2012). Is Earnings Quality Associated with Corporate Social Responsibility? *The Accounting Review*, 87(3), p 761-796.
2. Dhaliwal, D., Li O. Z., Tsang, A.H., & Yang, Y.G. (2011). Voluntary non-financial disclosure and the cost of equity capital: the case of corporate social responsibility reporting. *Accounting Review*, 86(1): 59–100.
3. El Ghoul, S., Guedhami, O., Kwok, C.C. Y., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking and Finance*, 35(9): 2388–2406.
4. Goss, A., & Roberts, G.S. (2011). The impact of corporate social responsibility on the cost of bank loans. *Journal of Banking and Finance*, 35(7): 1794–1810.
5. Richardson, A., & Welker, M. (2001). Social disclosure, financial disclosure and the cost of equity capital. *Accounting, Organizations and Society*, 26(7), 597-616.
6. Clarkson, P., Li, Y., Richardson, G., & Vasvari, F. (2011). Does it really pay to be green? Determinants and consequences of proactive environmental strategies. *Journal of Accounting and Public Policy*, 30(2), 122-144.

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