

MODULE OUTLINE

ACC 3010 ADVANCED FINANCIAL ACCOUNTING 2011-12

ADMINISTRATIVE AND CONTACT DETAILS

Prerequisites:

ACC 2004

Lecture Times, Location and Room:

Monday 1pm – 2pm PFC/02/026
Monday 4pm – 5pm LAN/01/052

Module Coordinator: Name: Stewart Smyth
Room: 1.06, Block 3 Riddel Hall.
E-mail: s.j.smyth@qub.ac.uk
Tel: (028) 9097 4417

Module Lecturer(s): Name: Ciaran Connolly (CC)
Room: 2.21, Block 3 Riddel Hall.
Office Hours: Fridays 10.00 – 12.00.
Please e-mail: c.j.connolly@qub.ac.uk for an appointment.
Tel: (028) 9097 4796

Name: Stewart Smyth (SS)
Room: 1.06, Block 3 Riddel Hall.
Office Hours: Tuesday 11.00–12.00 & Monday 14.00-15.00
Please email: s.j.smyth@qub.ac.uk for an appointment.
Tel: (028) 9097 4417

Name: Martin Kelly (MK)
Room: 2.29, Block 3 Riddel Hall.
Office Hours: Tuesday 14.00-15.00 & Thursday 10.00 -11.00
Please email: martin.kelly@qub.ac.uk for an appointment.
Tel: (028) 9097 4818

School Student Office: Room LG.02, Block 3, Riddel Hall, Belfast BT5 9EE

Office Hours: Wednesdays 9:30 – 12:30 & 14:00 – 16:30

MODULE DESCRIPTION

Financial accounting serves the purpose of communicating information about firms to the users of financial statements for the purposes of control, financial performance assessment and the valuation of the firm. This module, which builds upon ACC 2004 Financial Accounting, focuses on the preparation and presentation of consolidated financial statements, in particular consolidated statements of financial position, comprehensive income and cash flows together with issues associated with foreign entities. Issues surrounding fair value/deprival measurement and other theories associated with income measurement will be considered. The role of financial regulation and earnings management will be explored. The module concludes with: a review of principal-agent relationships to provide a framework to understand and appraise the role of financial accounting information as a mechanism for aligning the interests of the different user groups (such as managers, shareholders and lenders) that contract with firms; accountability issues, including those within the not-for-profit sector will be explored. Other contemporary accounting issues such as sustainability accounting; accounting for intangible assets; and conceptual frameworks will be addressed.

MODULE AIMS

The aims of this module are to:

- Develop a thorough understanding of group accounting and the related accounting standards; and
- Have a critical understanding of measurement issues within financial statements and have the ability to critically discuss theories and current issues relevant to financial accounting.

LEARNING OUTCOMES

At the end of this module, students will be able to:

- prepare financial statements for groups of companies in accordance with the requirements of International Accounting Standards and International Financial Reporting Standards;
- understand the purposes of income measurement and critically evaluate alternative approaches to income measurement and asset valuation by discussing economic ideas on the theory and measurement of income;
- explain the role of agency theory and the positive accounting theory in the choice of accounting methods;
- explain and discuss the limitations of accounting information together with its role in discharging accountability in organisations; and
- work in small groups and make presentations.

MODULE STRUCTURE

The module contact time for each student consists of:

- **Lectures** – beginning in week 1 @ 2 hours per week x 12 weeks = 24 hours; and
- **Workshops** – beginning in week 2 @ 1 hour per week x 11 weeks = 11 hours. Workshops comprise around 15 – 18 students meeting weekly to solve pre-set questions and discuss the material covered in the previous week's lectures. Students are expected to participate fully in the workshops; those who do not contribute or are inadequately prepared may be asked to leave the workshop. Furthermore, students are expected to have prepared answers for all of the pre-set questions in advance of the workshops and to submit in person their own answers to the student portfolio questions at the beginning of each workshop (see below under Assessment).

In weeks 5, 8 and 11, small group presentations will be held in the workshop classes (see below under Assessment). The module coordinator will assign students to small groups (3 – 4 students) within their workshop class; students will be provided with details of their small group, presentation topic and presentation week in week 2. Each small group will present once (either week 5, 8 or 11). Further information regarding the presentations will be provided separately. If a student does not/cannot attend the presentation, then he/she is still expected to have assisted fully the other group members to prepare for the presentation (the extent to which will be verified by the tutor). The non-attending student may receive a mark of between zero and 50% (to be determined by the tutor) of the mark awarded to the group, with the other members of the group receiving a 'bonus' at the discretion of the tutor.

Students should register for a workshop class electronically via QOL, and it is each student's responsibility to ensure that they are registered for a workshop class during the first week of the semester. Students are expected to attend all of the workshops, including all of presentations, and completion and submission of the Student Portfolio questions and other elements of the continuous assessment are compulsory parts of the module (see below under Assessment).

Students may not swap their registered workshops or assigned small groups without first gaining approval from the module coordinator and mere submission of the relevant work is not a substitute for non-attendance. Any work that is not submitted at the workshop must be received by the tutor prior to the commencement of the relevant workshop, and it is the student's responsibility to ensure that the tutor receives the work prior to the workshop i.e. merely leaving it in the school office is not sufficient. A valid medical certificate is required so as not to be recorded as absent. In addition, students may not attend different workshops on an ad hoc basis; doing so will result in being marked absent and the student portfolio questions not being assessed.

If problems arise regarding workshop allocation, please contact either contact Mrs Rae Arbuckle during school student office hours at 185 Stranmillis Road to speak to the module coordinator.

MODULE ASSESSMENT

The module is assessed by a combination of a final written unseen examination (75%) and continuous assessment (25%). The continuous assessment consists of:

- **Student Portfolio – 15%:** completion and submission of the pre-set workshop questions on a weekly and individual student basis, together with a 250 word summary on the financial

accounting significance of the workshop presentation topic that is not being presented (i.e. students are not required to submit a summary for the topic that their small group is presenting). The mark awarded for the student portfolio will reflect timeliness, presentation, accuracy and completeness of the required work. Students that attend less than eight workshops or submit less than eight portfolio pieces may be awarded a mark of zero for the attendance and portfolio submission elements of the module mark respectively.

- **Small Group Presentation – 10%:** presentation of assigned topic.

Student participation in workshops, including presentations, has three main purposes:

- first, to provide the student with feedback during the module;
- second, to develop communication skills and engender a team-work culture; and
- third, to assist the tutor in making an assessment of student progress during the module.

The tutor will record student effort and achievement during the workshops, and while not contributing to the formal module assessment, they may influence the module mark should a student require special consideration on medical grounds or as a marginal case. Students are therefore strongly recommended to attend and participate fully in all of the workshops, including presentations.

MODULE EXAMINATION

The final examination takes place at the end of the semester. It consists of a two hour fifteen minute unseen paper. Students are required to answer three questions, and all questions carry equal marks. There are three sections, with two questions in each section. Each section corresponds to each four week group of lectures. Therefore Section A will contain questions covering topics in weeks 1-4 and will be in the main computational. Section B will contain questions covering topics in weeks 5-8 and will be a combination of computational and discursive. Section C will contain questions covering topics in weeks 9-12 and will be in the main discursive. **Students are required to answer three questions in total: one question from each section.**

Narrative examination questions are marked in accordance with the conceptual equivalent marking scale that is described in the Student Handbook.

KPMG DISTINGUISHED VISITING LECTURER

Each year KPMG sponsor a distinguished visiting lecturer award. Details of the 2011/12 recipient of this award will be provided during year, together with date, location and theme of the lecture. The lecture will be on a relevant accounting topic, and it is hoped that all students will attend this lecture.

TEACHING PLAN AND READING LIST

Teaching Plan:

[E] = Essential reading [R] = Recommended reading

Week

- 1**
- Consolidated statement of financial position (CC)**
 IAS 27 *Separate Financial Statements* (2011) [E]
 IFRS 3 *Business Combinations* [E]
 IFRS 10 *Consolidated Financial Statements* [E]
 Connolly, Chapters 26 and 27 [E]
 Elliott and Elliott, Chapters 20 and 21 [R]
 Tagesson, T. (2009), 'Debate: Arguments for Proportional Consolidation: The Case of Swedish Local Government', *Public Money & Management*, Vol. 29, No. 4, pp. 215-16 [R]
- 2**
- Consolidated statement of comprehensive income and statement of financial position (CC)**
 Connolly, Chapters 27 and 28 [E]
 Elliott and Elliott, Chapters 21 and 22 [R]
 Chow, D., Humphrey, C. and Moll, J. (2008), *Whole of Government Accounting in the UK*, Research Report 101, The Association of Chartered Certified Accountants, Certified Accountants Educational Trust, London (ISBN: 978-1-85908-441-0) [R]
 Heald, D. and Georgiou, G. (2009), 'Whole of Government Accounts Developments in the UK: Conceptual, Technical and Timetable issues', *Public Money & Management*, Vol. 29, No. (4), pp. 219-28 [R]
- 3**
- Theory and practice of foreign currency translations and consolidations (CC)**
 IAS 21 *The Effects of Changes in Foreign Exchange Rates* [E]
 IAS 29 *Financial Reporting in Hyperinflationary Economies* [E]
 Connolly, Chapter 31 [E]
 Elliott and Elliott, Chapter 24 [R]
 Demirag, I. (1987), 'A review of the objectives of foreign currency translation', *The International Journal of Accounting*, Vol. 2, November, pp. 69-85 [R]
 Rotenberg, W. (1998), 'Harmonization of Foreign Currency Translation Practices: Canadian Treatment of Long-term Monetary Items', *The International Journal of Accounting*, Vol. 33, No. 4, pp. 415-431 [R]
 Ziebart, D. A. and Choi, J. H. (1998), 'The Difficulty of Achieving Economic Reality Through Foreign Currency Translation', *The International Journal of Accounting*, Vol. 33, No. 4, pp. 403-414 [R]
- 4**
- Cash flow accounting (CC)**
 IAS 7 *Statement of Cash Flows*
 Connolly, Chapters 19 and 33 [E]
 Elliott and Elliott, Chapter 26 [R]
 Kousenidis, D. V. (2006), 'A Free Cash Flow Version of the Cash Flow Statement: a Note', *Managerial Finance*, Vol. 32, No. 8, pp. 645-653 [R]
 Nurnberg, H. (1993), 'Inconsistencies and Ambiguities in Cash Flow Statements under FASB Statement No. 95', *Accounting Horizons*, Vol. 7, No. 2, pp. 60-75 [R]



5 **Income and asset valuation (SS)**

Elliott and Elliott, Chapter 3 [E]

Bromwich, M.; Macve, R. And Sunder, S. (2010), 'Hicksian Income in the Conceptual Framework', *Abacus*, Vol. 46, No. 3, pp. 348-376 [R]

Bryer, R. A. (1994), 'Why Marx's Labour Theory is superior to the Marginalist Theory of Value: the case from modern financial reporting', *Critical Perspectives on Accounting*, Vol. 5, No. 4, pp. 313-340 [R]

Bryer, R.A. (1999), 'A Marxist critique of the FASB's conceptual framework', *Critical Perspectives on Accounting*, Vol. 10, No. 5, pp. 551-589 [R]

Clarke, F.L. (2010), "'Alas Poor Hicks", Indeed! Sixty Years of Use and Abuse – Commentary on Bromwich et al.', *Abacus*, Vol. 46, No. 3, pp. 377-386 [R]

Fisher, I. (1930), 'Income and Capital', reprinted in R. H. Parker and G. C. Harcourt (1969) *Readings in the concept and measurement of Income*, CUP [R]

Hicks J. R. (1946), 'Income' in *Value and Capital*, 2nd Edition, OUP [R]

Parker, H. and Harcourt, G. C. (1969), *Readings in the Theory and Measurement of Income*, CUP [R]

Whittington, Chapters 1-3 [R]

6 **Accounting for Inflation (SS)**

Elliott and Elliott, Chapter 4 [E]

Thompson, G. (1987), 'Inflation accounting in a theory of calculation', *Accounting Organizations and Society*, Vol. 12, No. 5, pp. 523-543. [E]

Barker, R. (2004), 'Reporting financial performance', *Accounting Horizons*, Vol. 18, No. 2, pp. 157-172 [R]

Lin, Y.C. and Peasnell, K.V. (2000), 'Asset Revaluation and Current Cost Accounting: UK Corporate Disclosure Decisions in 1983', *British Accounting Review*, Vol. 32, pp. 161-187 [R]

Robson, K. (1994), 'Inflation accounting and action at a distance: the Sandilands episode', *Accounting, Organization and Society*, Vol. 19, No. 1, pp. 45-82 [R]

Whittington, Chapter 4-6 [R]

7 **Deprival value/ fair value (SS)**

Connolly, Chapter 6 & 25[E]

Elliott and Elliott, Chapter 12 [E]

Accounting & Business Research (2007), Special issue, International Accounting Policy Forum [R]

Barth, M. E. (2000), 'Valuation-based research: implications for financial reporting and opportunities for future research', *Accounting and Finance*, Issue 40, pp. 7-31 [R]

Baxter, W. (2003), *The Case for Deprival Value*, Institute of Chartered Accountants in Scotland [R]

Hitz, J. M. (2007), 'The decision usefulness of fair value accounting - a theoretical perspective', *European Accounting Review*, Vol. 16, No. :2, pp. 323-362 [R]

International Accounting Standards Board (IASB) (2006), 'Fair Value Measurements', *Discussion Paper Part 1: Invitation to Comment and Relevant IFRS Guidance* [R]

IASB (2006), 'Fair Value Measurements', *Discussion Paper Part 2: SFAS 157 Fair Value Measurements* [R]

Laux, C. & Leuz, C., (2009), 'The crisis of fair-value accounting: Making sense of the recent



- debate', *Accounting, Organizations and Society*, Vol. 34, No. 6/7, pp. 826-834 [R]
- Rayman, R. A. (2007), 'Fair value accounting and the present value fallacy: the need for an alternative conceptual framework', *British Accounting Review*, Vol. 39, September, pp. 211-225 [R]
- Wyatt, A. (1991), 'The SEC says: mark to market!', *Accounting Horizons*, Vol. 5, No. 1, pp. 80-84 [R]
- van Zijl, A. and Whittington, G. (2006), 'Deprivation Value and Fair Value: A Reinterpretation and A Reconciliation', *Accounting and Business Research*, Issue 36, July, pp. 121-130 [R]

8 Earnings management and creative accounting (SS)

Griffiths, Chapter 2 [E]

- Lambert, C. & Sponem, S. (2005), 'Corporate governance and profit manipulation: a French field study', *Critical Perspectives on Accounting*, Vol. 16, No. 6, pp. 717-748 [E]
- Peasnell, K.V.; Pope, P.F. & Young, S., (2000) 'Accrual Management to meet earnings targets: UK evidence pre- and post-Cadbury', *British Accounting Review*, Vol. 32, No. 4, pp. 415-445 [E]
- Sunder, Chapter 5 [E]
- Beneish, M. D. (1999), 'The Detection of Earnings Manipulation', *Financial Analysts Journal*, Vol. 55, No. 5, pp. 24-36 [R]
- Beneish, M. D. (2001), 'Earnings Management: A Perspective', *Managerial Finance*, Vol. 27, Issue 12, pp. 3-17 [R]
- Healy, P. M. and Wahlen, J. M. (1999), 'A Review of the Earnings Management Literature and its Implications for Standard Setting', *Accounting Horizons*, Vol. 13, No. 4, pp. 365-383 [R]
- Marnet, O. (2007), 'History repeats itself: The failure of rational choice models in corporate governance', *Critical Perspectives on Accounting*, Vol. 18, No. 2, pp. 191-210 [R]
- Rezaee, Z. (2005), 'Causes, consequences and deterrence of financial statement fraud', *Critical Perspectives on Accounting*, Vol. 16, No. 3, pp. 277-298 [R]
- Scott, Chapter 8, Section 7.3 and Chapter 11 [R]

9 Financial accounting information: agency theory and economic consequences (MK)

Deegan & Unerman, Chapter 7 [E]

- Deegan, C. (1997), 'Varied Perceptions of Positive Accounting Theory: a useful tool for explanation and prediction, or a body of vacuous, insidious and discredited thoughts?', *Accounting Forum*, Vol. 21, No. 1, pp 63-73[E]
- Jensen, M. C. and Meckling, W. (1976), 'Theory of the Firm: Managerial Behaviour, Agency Costs Ownership and Structure' *Journal of Financial Economics*, pp. 305-360 [R]
- Sunder, Chapters 1-4 [R]
- Sterling, R. (1990), 'Positive accounting: an assessment' *Abacus*, Vol.26, No.2, pp. 97-135 [R]
- Zeff, S. (1997), 'Economic consequences of accounting policy choice', reprinted in *Readings and notes on financial accounting*, 1997, (eds) Zeff, S. A. and Dharan, B. A., 5th Edition, pp. 6-16, McGraw-Hill [R]

10 Accountability and organisations. (MK)

Deegan & Unerman, Chapters 8 and 9 [E]

- Dillard, J. F., Brown, D. and Marshall, R. S. (2005), 'An Environmentally Enlightened Accounting', *Accounting Forum*, Vol. 29, No, 1, pp. 77-101.



- Deegan, C. (2002), 'The legitimating effect of social and environmental disclosures: A Theoretical Foundation', *Accounting, Auditing and Accountability Journal*, Vol. 15, No. 3, pp.281-311.[E]
- Laughlin, R. (2008) A Conceptual Framework for Accounting for Public-Benefit Entities [R]
- Kearns, K. P. (1994), 'The Strategic Management of Accountability in Non-profit Organisations: An Analytical Framework', *Public Administration Review*, Vol. 54, No. 2, pp. 185 - 203.[E]
- Ebrahim, A. (2003), 'Making Sense of Accountability: Conceptual Perspectives for Northern and Southern Nonprofits', *Nonprofit Management and Leadership*,14: 191–212.[E]
- Stewart, J. (1984), 'The Role of Information in Public Accountability', in *Issues in Public Sector Accounting*, Hopwood, A. G. and Tomkins, C.R. (Editors), Oxford: Philip Allan.[R]
- Unerman, J. and O'Dwyer, B. (2006) 'On James Bond and the Importance of NGO Accountability,' *Accounting, Auditing and Accountability Journal*, Vol. 19, No. 3, pp. 306-318.[R]

11 Sustainability accounting (MK)

- Deegan & Unerman , Chapter 9 [E]
- Unerman, Bebbington and O' Dwyer Chapters 10 and 15 [E]
- Elliott and Elliott, Chapter 31. [R]
- Bebbington, J. and Gray, R. (2001), 'An Account of Sustainability: Failure, Success and Reconceptualisation', *Critical Perspectives on Accounting*, Vol. 12, No.5, pp. 557-87. [E]
- Deegan, C., Rankin, M. and Tobin, J. (2002), 'An Examination of the Corporate Social and Environmental Disclosures of BHP from 1983-1997', *Accounting, Auditing and Accountability Journal*, Vol. 15, No. 3 pp.312-343.[E]
- Gray, R. (2010) 'Is Accounting for Sustainability Actually Accounting for Sustainability...and How Would We Know? An exploration of narratives of organisations and the planet', *Accounting, Organizations and Society*, Vol. 35, Issue 1, pp. 47-62.[R]
- Gray, R. and Milne, M. J. (2004), Towards Reporting on the Triple Bottom Line: Mirages, Methods and Myths, In A. Henriques and J. Richardson (eds) *The Triple Bottom Line: Does it all Add Up?* London: Earthscan.[E]
- Gray, R., Kouhy, R. and Lavers,S. (1995), 'Corporate Social and Environmental Reporting: A Review of the Literature and a Longitudinal Study of UK Disclosure', *Accounting Auditing and Accountability Journal*, Vol. 8, No. 2, pp. 47-77 [R]
- O'Donovan, G. (2002), 'Environmental Disclosures in the Annual Report: Extending the Applicability and Predictive Power of Legitimacy Theory', *Accounting Auditing and Accountability Journal*, Vol. 15, No. 3, pp. 344-371 [R]
- Parker, L. D. (2005), Social and Environmental Accountability Research: A View from the Commentary Box, *Accounting, Auditing and Accountablity Journal*, Vol.18, No. 6, pp. 842-880.

12 User-needs and accounting information. Intangible assets. (MK)

- Connolly, Chapter 9 [E]
- Elliott and Elliott, Chapter 17 [E]
- Aboody, D. and Lev, B. (1998), 'The Value Relevance of Intangibles: The Case of Software Capitalisation', *Journal of Accounting Research*, Vol. 36, pp. 161-191 [R]
- Nixon, B. (1997), 'The Accounting Treatment of Research and Development Expenditure:



- Views of UK Company Accountants', *The European Accounting Review*, Vol. No. 2, pp. 265-277 [R]
- Oswald, D.R. and Zarwown, P. (2007), 'Capitalisation of R & D and the Informativeness of Stock Prices' *European Accounting Review*, Vol. 16, No. 4, pp. 703-726 [R]
- Skinner, J. D. (2008), 'Accounting for intangibles: A Critical Review of Policy Recommendations' *Accounting and Business Research*, Vol 38. No. 3, pp. 191-204 [E]
- Connolly, C. and Hyndman, N. (2003), *Performance Reporting by UK Charities: Approaches, Difficulties and Current Practice* (Edinburgh: The Institute of Chartered Accountants of Scotland). [R]
- Connolly, C. and Hyndman, N. (2004), 'Performance Reporting: A Comparative Study of British and Irish Charities', *British Accounting Review*, Vol. 36, Issue 2, pp. 127-154.[R]
- McCartney, S. (2004) 'The Use of Usefulness: An Examination of the User Needs Approach to the Financial Reporting Conceptual Framework', *Journal of Applied Accounting Research*, Vol. 7 Issue: 2, pp.52 – 79. [E]
- Lennard, A. (2007), 'Stewardship and the Objectives of Financial Statements: A comment on IASB's preliminary views on an improved conceptual framework for financial reporting: the objective of financial reporting and qualitative characteristics of decision-useful financial reporting information', *Accounting in Europe*, Vol. 4, No. 1-2, pp. 51-66. [R]
- Mayston D (1992), 'Capital Accounting, User Needs and the Foundations of a Conceptual Framework for Public Sector Financial Reporting', *Financial Accountability & Management*, Vol.8, No.4, pp.227–248.[R]

Reading List:

Essential

- Connolly, C. (2011), *International Financial Accounting and Reporting*, 3rd Edition, Dublin: Chartered Accountants Ireland.
- Deegan, C. and Unerman, J. (2011), *Financial Accounting Theory: European Edition*, 2nd Edition, McGraw Hill.
- Elliott, B. and Elliott, J. (2009), *Financial Accounting and Reporting*, 13th Edition, FT Prentice Hall.

Recommended

- Barker, R. (2001), *Determining value: valuation models and financial statements*, FT Prentice Hall.
- Beaver, W. H. (1998), *Financial Reporting: an accounting revolution*, 3rd Edition, FT Prentice Hall.
- Griffiths, I. (1995), *The New Creative Accounting: how to make your profits what you them to be*, Macmillan
- Scott, W. R. (2008) *Financial Accounting Theory*, 5th Edition, FT Prentice Hall.
- Sunder, S. (1997), *Theory of Accounting and Control*, ITP.
- Unerman, J., Bebbington, J. and O' Dwyer, B. (2007), *Sustainability Accounting and Accountability*, Routledge, London.
- Watts, R. and Zimmerman, J. (1986), *Positive Accounting Theory*, FT Prentice Hall.
- Whittington, G. (1983), *Inflation accounting: an introduction to the debate*, Cambridge University Press.

In order to gain a full understanding of current developments in financial reporting it is essential to read professional journals (e.g. Accountancy or Accountancy Ireland) and relevant academic journals (e.g. *British Accounting Review*) that are available electronically through QOL.

Furthermore, the following web sites contain useful information, particularly the Accounting Standards Board, Deloitte and International Accounting Standards Board web sites, in relation to current projects.

Useful Web Addresses

Accounting Standards Board

<http://www.asb.org.uk>

Association of Chartered Certified Accountants

<http://www.acca.co.uk>

Chartered Institute of Management Accountants

<http://www.cima.org.uk>

Deloitte

<http://www.iasplus.com>

International Accounting Standards Board

<http://www.iasb.org>

Institute of Chartered Accountants in England and Wales

<http://www.icaew.co.uk>

Chartered Accountants Ireland

<http://www.charteredaccountants.ie>

Institute of Chartered Accountants of Scotland

<http://www.icas.org.uk>

Prince of Wales Accounting for Sustainability Project

<http://www.accountingforsustainability.org/home/>

Global Reporting Initiative (GRI)

<http://www.globalreporting.org/Home>

Shell's Sustainability Reports

http://www.shell.com/home/content/environment_society/reporting/s_reports/