

MODULE OUTLINE - ACCOUNTING

110 ACC 310 ADVANCED FINANCIAL ACCOUNTING 2007-8

Administrative and Contact Details

PREREQUISITES:

110 ACC 101

110 ACC 204

LECTURE TIMES, LOCATION AND ROOM:

Monday	13.05 - 13.55	Room LAN/G9
Monday	16.05 - 16.55	Room LAN/G9

The course contact time for each student consists of 24 lectures, 11 weekly workshops and three presentation tutorials. These sessions will be 50 minutes long. **Workshops** will comprise about 25 students meeting weekly to solve numerical questions and to discuss the material covered in the previous week's lecture. Students will also be expected to submit answers to selected exercises on a weekly basis as part of their **Student Tutorial Portfolio (see below under Assessment)**. **Presentation tutorials** will comprise of smaller groups of students (15-18). These tutorials will consist of small group presentations (three students) of case study and other open-ended material. Each small group will make one presentation and this will be graded and contribute 4% of the module mark.

Students should register for workshops and tutorials electronically via QOL. It is the student's responsibility to ensure they are in a workshop and tutorial group. Attendance at workshops and tutorials and completion of coursework is a compulsory part of the module. Workshops begin in the second week of the semester.

MODULE COORDINATOR: John Forker
Room 25.203, 25 University Square.
E-mail: j.forker@qub.ac.uk
Tel: 028 90973684

MODULE LECTURER(S): John Forker
Office Hours Monday & Thursday 9.00 -10.00

Ciaran Connolly

Office Hours Fridays 10.00 – 12.00. Please e-mail c.j.connolly@qub.ac.uk for an appointment

Ann-Marie Ward
Office Hours: Tuesday 11.00 – 12.00. Please email a.m.ward@qub.ac.uk for an appointment

STUDENT OFFICE HOURS: Wednesdays 9.30 – 12.30 & 2.00 – 4.30, G02, 24 University Square

MODULE DESCRIPTION

Advanced Financial Accounting, builds on Financial Accounting 110 ACC 204 and focuses on regulatory and accounting standard setting issues in the context of the incentives facing users and preparers of financial statements for incorporated and listed entities.

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. The module begins by covering the topics of intangibles, brands, R&D and accounting for leases and accounting for foreign currencies, cash flow accounting deprival value for depreciating assets and accounting for long term contracts and reporting EPS. 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 groups, such as managers, shareholders and lenders, that contract with firms. The impact of incentives on preparers will then be considered in the context of the evidence that earnings are 'managed'. The role of financial accounting regulation in theory and practice is then compared and contrasted as an aid to understanding and evaluating financial accounting principles, concepts and regulatory requirements.

MODULE AIMS

Develop a critical understanding of the role of accounting regulation and the accounting standard setting process in shaping the demand for and supply of accounting information in incorporated and listed entities. To review in depth selected key topics in accounting for the transactions of companies.

LEARNING OUTCOMES

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

1. explain the role of financial accounting as a means to resolve conflict among contracting parties and to apply this understanding to evaluate financial reporting requirements of organizations
2. describe and discuss the arguments for and against the regulation of financial accounting
3. explain the relationship between accounting information and capital markets and highlight this relationship by reference to empirical evidence including that on earnings management.

4. understand alternative foreign currency translation objectives and accounting standards in preparing group financial statements involving foreign subsidiaries in accordance with current legal and professional requirements
5. critically assess the alternative treatment of intangibles, R&D, leases and long term contracts in published accounts.
6. work in small groups and make tutorial presentations.

MODULE ASSESSMENT:

The module will be assessed by a combination of continuous assessment and a final written examination. Continuous assessment is twofold, consisting of:

1. **Student Tutorial Portfolio:** completion and submission of workshop exercises (consult module question pack) on a weekly and individual student basis, constituting **6%** of the overall module mark - these will be collected in workshops and presentation tutorials from students **each week** and assessed. The mark awarded for the tutorial portfolio will reflect timeliness, presentation, accuracy and completeness of the required work. Students will also be required to submit a 100 word summary on the financial accounting significance of each of the presentation topics and **4%** of the module mark will be allocated to the tutorial portfolio presentation.
2. Completion of a small group (3-4 students per group) project constituting **15%** of the overall module mark. The module coordinator will assign students in presentation tutorials to groups and inform students of same in week two. **Students will only be allowed to change groups in extenuating circumstances and if a space is available in another grouping.**

The final examination will contribute **75%** of the total mark.

MODULE EXAMINATION

The examination will take place at the end of the semester. It will consist of a two hour fifteen minute paper. Students are required to answer three questions. There will be two sections consisting of four questions in section A and three questions in Section B. Students will be required to answer two questions from section A and one question from Section B. The topic of the continuous assessment will be announced by the end of the second week in the first semester. The small group project and essay questions in the examination will be marked in accordance with the conceptual equivalent marking scale that is described in the Student Handbook.

WRITTEN WORK DEADLINES (CONTINUOUS ASSESSMENT)

Small Group Project

Identify and discuss the application of fair value accounting in the financial statements of BP plc for the year ended 31 December 2006 in the light of *question one* in the IASB's discussion paper *Fair Value Measurements* (IASB, 2006). Compare and contrast the IASB's proposed definition of fair value to that set out in FAS 157 *Fair Value Measurements* (FASB, 2006) basing your discussion on the responses in Comment Letter 10 to *questions two and three* (Appendix 2). Finally, discuss the merits of fair value accounting citing findings / recommendations in any TWO of the following papers.

van Zijl, A. and Whittington, G. 2006. "Deprivation Value and Fair Value: A Reinterpretation and A Reconciliation", *Accounting and Business Research*, 36, July (2006), 121-130.

Published in Accounting & Business Research, 2007, Special issue, International Accounting Policy Forum (copies on QOL)

"Standard-setting measurement issues and the relevance of research" - Professor Mary E. Barth, Graduate School of Business, Stanford University, and International Accounting Standards Board

"Is fair value accounting information relevant and reliable? Evidence from capital market research" - Wayne R. Landsman, Kenan-Flagler Business School, University of North Carolina

"Financial reporting quality: is fair value a plus or a minus?" - Stephen H. Penman, Graduate School of Business, Columbia University.

"How does changing measurement change management behaviour? A review of the evidence" - Anne Beatty, Deloitte and Touche Chair in Accounting, Fisher College of Business, The Ohio State University

In addition to complying with the requirements of the specific question the following will influence the mark awarded.

- Evidence of independent research ie reference to other research papers that have dealt with this issue
- Form, layout, clarity and presentation of the report.
- Harvard style referencing and relevance of the references that are cited.

Note: Use UK spelling.

The deadline for submission is **Wednesday 28th November 2007 by 4 pm**. Projects will be retained for consideration by the external examiner. Students who wish to have a copy returned should therefore submit **two** copies of each project (to the General Office) together with an Assessment Report Title form (refer to your Handbook for more details). Copies of this form are available from the School Student Office. On receipt of the project the pathway secretary, or other member of staff on duty, will sign the "Received By" box and give the third copy of the form to the student as proof of receipt.

The following penalties for **late submission** will apply: **'Assessed work submitted after the deadline will be penalised at the rate of 5% off the assessed mark awarded for each working day late up to a maximum of five working days (i.e. Monday to Friday excluding days of official University closure) after which a mark of zero will be awarded'**. Exemptions from such penalties will require the production of written evidence at the time of project submission, such as a medical certificate and completion of a form which can be obtained from the School Student Office.

The Learning Log should be submitted with the assignment. The leaning log should show the record of the group meetings, the attendance of group members, agreed allocation of work, the decisions reached and a record of the tasks completed. It should also record: the group number, the members' student numbers, the assignment title, the module description & code, and the lecturer's name & submission date for the assignment.

GROUP FORMATION FOR STUDENT PRESENTATION IN TUTORIALS

The groups for the purposes of the presentation tutorials will be the same as those allocated for the small group assignments. ***Student groups must present their presentation as a group effort.*** Participation in workshops will also be required by way of presenting solutions and discussion of the issues arising.

Student presentation and participation in workshop and tutorial discussions has three main purposes: first, to provide you with feedback during the course; second, develop communication skills and a team-work culture; and last but not least, allow your tutor to make an assessment of your progress during the course. Beware that your tutor will record your effort and achievement in the course. The grades from your presentation and attendance, while not contributing to your formal course assessment, will inform these records and may therefore influence your course results should you require special consideration on medical grounds or as a marginal case. You are therefore strongly recommended to attend the workshops and presentation tutorials.

TEACHING PLAN

There are two lectures per week. **John Dowdall, Comptroller and Auditor General, Northern Ireland Audit Office is this year's KPMG Distinguished visiting lecturer. He will give a lecture to second and third year accounting students on Tuesday 13th November 2007 on the topic "Improving Public Sector Performance through better accounting, accountability and governance". The lecture will take place at 16.00 in Physics/Larmour Lecture Theatre.**

WEEK

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|-----|---|
| 1 | Leases (AMW) |
| 2&3 | Intangibles: Brands; R & D, Intellectual capital (AMW) |
| 4 | Deprival value, depreciation and fair value. Accounting for long term contracts (JJF) |
| 5 | Earnings Management (JJF) |
| 6 | Foreign currency accounting theory (CC) |
| 7 | Foreign currency accounting practice and consolidation (CC) |
| 8 | Cash flow accounting (CC) |
| 9 | EPS and equity valuation (CC) |
| 10 | Financial accounting information: agency theory and economic consequences (JJF) |
| 11 | Conceptual and Regulatory frameworks and standard setting (JJF) |
| 12 | Accounting and capital markets (JJF) |

ESSENTIAL READING:

Elliott, B. and Elliott, J. (2007), *Financial Accounting and Reporting*, 12th Edition, FT Prentice Hall. This text is up to date and covers international accounting standards applicable for EU listed companies.

Student website: http://www.booksites.net/elliott_elliott

Recommended reading:

Deegan, C. & Unerman, J., (2006), *Financial Accounting Theory: European Edition*, McGraw Hill.

FURTHER READING:

Alfredson, K., Leo, K., Picker, R., Pacter, P. and Radford, J. (2005), *Applying International Accounting Standards*, J Wiley, (ALPPR)

Sunder, S. *Theory of Accounting and Control*, (1997), ITP, cost £16. An excellent text explaining, among other things, the relationships between contracting parties in organizations, accounting and the stock market.

Watts, R. and Zimmerman, J. (1986), *Positive Accounting Theory*, Prentice Hall

Beaver, W.H. (1998), *Financial Reporting: an accounting revolution*, Third edition, Prentice Hall

Scott, W. R. (2006) *Financial Accounting Theory*, Fourth edition, Prentice Hall.

Barker, R. (2001), *Determining value: valuation models and financial statements*, Prentice Hall.

MODULE OUTLINE AND READING LIST

Week 1

Leasing

B. Elliott & J. Elliott (2006), *Financial Accounting and Reporting*, 11th Ed., Ch. 16, [E]

IAS 17 'Leases'/ or 12th Ed., Ch. 16. [E]

Alfredson, K., Leo, K., Picker, R., Racter, P. and Radford, J. (2005), *Applying International Accounting Standards*, Chapter 12[U]

Beattie, V., Goodacre, A. and Thomson, S.J., (2006), 'International lease-accounting reform and economic consequences: The views of UK users and preparers', *The International Journal of Accounting*, Vol. 41, pp75-103. [U]

Beattie, V., Edwards, E. and Goodacre, A., (1998), 'The impact of constructive operating lease capitalization on key accounting ratios', *Accounting and Business Research*, Vol. 28, No. 4, pp 233 – 254. [U]

Week 2 & 3

Research and development, goodwill and impairments.

Intangibles

B. Elliott & J. Elliot (2006), *Financial Accounting and Reporting*, 11th Ed, Ch. 17 [E]

IAS 38 'Intangible assets'/12th Ed, Ch 17.[E]

Alfredson, K., Leo, K., Picker, R., Racter, P. and Radford, J. (2005), *Applying International Accounting Standards*, Chapter 9 and 11[U]

Lev, B., 2002, 'Rethinking Accounting' [U]

A. Carey, "Getting a grip on intangibles", *Accountancy*, April 16, 1998 (Library) [U]

Buckley, E. (2000), *The Hidden Value of Intellectual Capital*. [U]
Kirk, R. & Wall, A., (2002), *Intellectual Capital: The Missing Asset*, The Irish Accounting Review, Vol. 9, No. 2, pp 49-72. [U]
Sonnier, B., Carson, K., and Phillips Carson, P., (2007), 'Accounting for Intellectual Capital: The Relationship between Profitability and Disclosure', The Journal of Applied Management and Entrepreneurship, Vol. 12, No. 2, pp 3-14[U]
Kirk, R., (1998), 'Are you ready to impair your Fixed Assets?', CPA, September, pp26-27. [U]

Research and development

Elliott & J. Elliott, (2006), *Financial Accounting and Reporting*, 11th Ed., Chapter 17/12th Ed., Chapter 17 [E]
IAS 38 'Intangible assets' [E]
To be advised [U]
Aboody, D. & Lev, B., (1998), 'The Value Relevance of Intangibles: The Case of Software Capitalisation', Journal of Accounting Research, Vol. 36, pp161-191. [U]

Goodwill

Elliott & J. Elliott, (2006), *Financial Accounting and Reporting*, 11th Ed., Chapter 17/12th Ed., Chapter 17 [E]
Alfredson, K., Leo, K., Picker, R., Pacter, P. and Radford, J. (2005), Applying International Accounting Standards, Chapter 10 and 11[U]
IFRS 3 'Business combinations'[U]
IAS 22 'Business combinations'[U]
IAS 27 'Consolidated and separate financial statements'[U]

Week 4 Deprival value, depreciation and accounting for long term contracts

Baxter, W. T. (1971) *Depreciation*, Sweet & Maxwell, Chapters, 7 & 8 [U]
Amir E and G Livne, (2005) "Accounting, Valuation and Duration of Football Player Contracts" Conference volume, *Journal of Business Finance and Accounting*, 32 (3) & (4) April/May pp. 549-586 [E]
Forker, J. (2005) *Discussion of "Accounting, Valuation and Duration of Football Player Contracts"* by E Amir and G Livne, Conference volume, *Journal of Business Finance and Accounting*, 32 (3) & (4) April/May, 2005, pp. 587-598. [E]
Forker, J. (1996) and M Greenwood (1996) "European Harmonisation and the True and Fair View: the case of long term contracts in the UK", *European Accounting Review*, 4, 1, pp 1-31, 1995. [U]
Elliott & Elliott (2006), Chapter 15 (for revision)
Elliott & Elliott (2006), Chapter 19 [E]
EQL, UIFR, MODULE 10.3

Week 5 Earnings Management

Scott Chapter 8., Section 7.3 and Chapter 11 [E] [PT 2a&b]
Sunder Chapter 5
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 [E] [PT 2a&b]
Beneish, M. D. (1999). 'The Detection of Earnings Manipulation', *Financial Analysts Journal*, Vol. 55, No. 5, pp. 24 – 36 [E] [PT 2a&b]

Beneish, M. D. (2001). 'Earnings Management: A Perspective', *Managerial Finance*, Vol. 27, Issue 12: pp. 3 – 17. [U]

WEEKS 6 & 7 Foreign Currency Accounting (theory and practice)

Manual Readings [E]

Elliott and Elliott, Chapter 24 [E]

International Accounting Standards Board (2003), IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IASB [E]

ALPPR, Chapter 21 [U]

Demirag, I. (1984), 'Overseas profit: can we find a happy medium?' *Accountancy*, August, pp. 80-81 [U]

Demirag, I. (1987), 'A review of the objectives of foreign currency translation', *The International Journal of Accounting*, Vol. 2, November, pp. 69-85 [U]

Demirag, I. and Goddard S. (1994), *Financial Management for International Business*, Chapter 6, McGraw-Hill [U]

International Accounting Standards Board (1994), IAS 29 *Financial Reporting in Hyperinflationary Economies*, IASB [U]

Ross, D. (1988), 'Managing Foreign Exchange: Translation Risk', *Accountancy* February, pp. 98-99 [U]

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 [U]

Walker D. P. (1977), 'An economic analysis of foreign exchange risk', *The Institute of Chartered Accountants*, Occasional Paper, No.14, December [U]

Wojciechowski, S. (1982), Du Pont evaluates FAS 52, *Management Accounting (USA)*, July, pp. 31-35 [U]

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 [U]

Week 8 Cash Flow Accounting

Manual Readings [E]

Elliott and Elliott, Chapter 26 [E]

EQL, UIFR, MODULE 7 [E]

International Accounting Standards Board (1992), IAS 7 *Cash Flow Statements*, IASB [E]

ALPPR, Chapter 15 [U]

Charritou, A, Clubb, C. and Andreou, A. (2001), 'The effect of earnings permanence, growth and firm size on the usefulness of cash flows and earnings in explaining security returns: empirical evidence for the UK', *Journal of Business Finance & Accounting*, Vol. 28, Nos. 5 & 6, pp. 563-594 [U]

Egginton, D. A. (1984), 'In Defence of Profit Measurement: Some Limitations of Cash Flow and Value Added as Performance Measures for External Reporting', *Accounting and Business Research*, Spring, pp. 99-111 [U]

Lee, T. A. (1981), 'Reporting Cash Flows and Net Realisable Values', *Accounting and Business Research*, Spring, pp.163-170 [U]

Lee, T. A. (1985), 'Cash Flow Accounting, Profit and Performance Measurement: A Response to a Challenge', *Accounting and Business Research*, Spring, pp. 93-97 [U]

Week 9 EPS and Equity Valuation

Manual Readings [E]

Elliott and Elliott, Chapter 25 [E]

EQL, UIFR, MODULE 10.6 [E]

International Accounting Standards Board (2003), IAS 33 *Earnings per Share*, IASB [E]

Week 10 Financial accounting information: agency theory and economic consequences

Deegan & Unerman, Chapter 7

Revsine, L, Collins, D.W. and Johnson, W.B. Financial Reporting and Analysis, Ch. 1 [E] Jensen, Jensen, M. C. and Meckling, W. (1976). 'Theory of the firm: Managerial Behaviour, Agency Costs Ownership and Structure' *Journal of Financial Economics*: 305-360. (SH 23560-4) [U]

Sunder, (chapters 1-4) [U]

Zeff, S. 'Economic consequences of accounting policy choice', reprinted in Zeff and Dharan, (eds). *Readings and notes on financial accounting*: 6-16,1997, McGraw-Hill [U]

Week 11 Conceptual and regulatory frameworks and standard setting

Deegan & Unerman, Chapter 6 [E]

Lev, B, 'Toward a theory of equitable and efficient accounting policy'. *The Accounting Review*, Vol. LX111, 1: 1-22 January 1988. [U]

Shyam Sunder, 'Minding Our Manners: Accounting as Social Norms', *British Accounting Research*, 37, pp.367-387. [U]

Ronald Dye and Shyam Sunder, "Why Not Allow the FASB and the IASB Standards to Compete in the U.S.?", *Accounting Horizons*, 15:3 (September 2001), pp. 257-7 [U]

Geoffrey Whittington, 1996, Accounting Standards: a mixed blessing? In *Essays in accounting thought: a tribute to W T Baxter* edited by I Lapsley, ICAS. [U]

Geoffrey Whittington, 2005, The Adoption of International Accounting Standards in the European Union *European Accounting Review*, Vol. 14, No. 1, 127–153, 2005 [U]

Katherine Schipper, 2005, The introduction of International Accounting Standards in Europe: Implications for international convergence, *European Accounting Review*, 14(1):101-126, 2005 [U]

Katherine Schipper and Linda Vincent, 2003, Earnings quality, *Accounting Horizons*, 17, pg. 97-110 [U]

Week 12 Accounting and capital markets

Efficient market hypothesis, positive accounting theory, earnings response coefficients and EVA

Scott, Chapters 4,5 & 8 [E]

Beaver, Chapter 6 [U]

Watts and Zimmerman, Chapters 2, 8, 9 and 10 [U]

Sunder, Chapter 7 [U]

Ball, R and Brown, P. (1968), 'An empirical evaluation of accounting income numbers', *Journal of Accounting Research*: 159-177. [U]

Beaver, W. (1968), 'The information content of annual earnings announcements', *Journal of Accounting Research*, 67-92. [U]

Bernard, V. L. Thomas, J. K. and Abarbanell, J. S (1993) 'How sophisticated is the market in interpreting earnings news' reprinted in *Readings and Notes on Financial Accounting*, (1997) (eds)

Zeff, S. A. and Dharan, B. A., 5th edition: 220-234 [U]

