



UNIVERSITY OF NEW SOUTH WALES  
SCHOOL OF ACCOUNTING

**ACCT3573:  
ISSUES IN FINANCIAL REPORTING & ANALYSIS (HONOURS)  
COURSE OUTLINE - SESSION 1 – 2006**

**COORDINATOR:**

**Associate Professor Richard Morris**

Location: Room 3066  
3<sup>rd</sup> Floor Quadrangle Building (West Wing)

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**CLASS CONTACT TIMES:**

Lectures: Tuesday & Thursday  
(Combined with Pass course - ACCT3563)

**Stream 1**

**Stream 2**

Seminar:	Tue. 1-2 pm	Wed. 1-2 pm
Tutorial:	Tue. 2-3 pm	Wed. 2-3 pm
Location:	Webster Room 250	Goldstein G04

**CONSULTATION:**

Monday 3-4pm, Wednesday 3-4pm; Thursday 3-4pm  
(or other times by appointment)

**PREREQUISITES:**

To take this course your average mark obtained across the two courses ACCT2522 and ACCT2542 must be at least **75%**.

***Note: this outline supplements but does not replace the outline for ACCT3563 Issues in Financial Reporting and Analysis (the 'Pass' course). In particular, all examination dates for ACCT 3573 are the same as for ACCT 3563.***

## 1. Nature of the Course

This course is an introduction to financial accounting research. While your previous studies in financial accounting (e.g. ACCT 2542 - Corporate Financial Reporting & Analysis) primarily focused on the practical applications of accounting by single and group entities, ACCT 3573 focuses on the foundations of research in financial accounting. The course will teach you (a) the foundations of scientific research; (b) an introduction to some of the main types of research in financial accounting; and (c) some applications of that research in the form of relatively straight-forward research papers from the literature. The course will be of benefit to those who may be required to undertake research in accounting and finance related positions in the private or public sector. The course also provides a very useful foundation for further studies in financial accounting theory and research, especially the fourth year honours subject ACCT4851.

## 2. Course Objectives

*The specific objectives of this course are to teach you:*

- (1) Some foundations of research in financial accounting;
- (2) Positive accounting theory in more depth than is covered in ACCT 3563;
- (3) An introduction to the impact of accounting information on share prices;
- (4) A brief look at earnings management research; and,
- (5) An introduction to behavioural research in financial accounting.

*Upon successful completion of the course, you will be able to:*

- (1) Demonstrate some understanding of basic scientific method in investigating accounting issues;
- (2) Explain the incentives for the adoption of alternative accounting policies and the effects of these policy choices on capital markets and decision-makers; and,
- (3) Apply basic accounting research methods to investigate financial accounting issues.

## 3. Linkage with ACCT3563 IFRA

This course is integrated with ACCT3563 *Issues in Financial Reporting and Analysis* (the 'Pass' course) in that you will cover the same lecture and tutorial material as in ACCT3563. However, the additional material covered in ACCT3573 extends and supplements the ACCT3563 material and will provide you with a broader understanding of issues covered in the Pass course. All honours work will be covered in the weekly seminars. A higher level of effort and commitment is required to satisfactorily complete the additional work. Given the more research-oriented nature of ACCT 3573, the teaching method, readings and assessment will differ in a number of important ways (as outlined below).

## 4. Student Requirements & Learning Approach

- You will be required to attend the normal (ACCT3563) lectures and tutorials (two have been specifically allocated to ACCT3573 students) and complete the work assigned to the 'Pass' students. (See the ACCT3563 Course Outline for details).
- In addition, you will be required to attend a one-hour weekly seminar which will precede the tutorial. This class will cover the additional material assigned to

ACCT3573 students. You will be expected to have completed the assigned honours readings and exercises **prior** to attending these classes.

- The general format of honours seminars will involve a week on a particular approach to accounting research followed by one or two papers (one paper per week) which are relatively straight forward applications of the research technique to selected accounting issues.

## 5. Assessment

Assessment methods and assessment item marks are as follows:

(a)	Mid-session test ( <i>in Week 8, same as ACCT 3563.</i> )	25%
(b)	Final Examination ( <i>3 hours</i> )	50%
(c)	Honours Research Project	<u>25%</u>
		100%

The midsession test will be exactly the same as for ACCT3563. The final examination will be the same as for ACCT 3563 except that there will be a special question for honours students which covers the honours readings. The Honours Research project replaces the ACCT 3563 Group Assignment. Further details are outlined below.

### ***Research Project***

The objective of the project is to apply basic accounting research methods to investigate the determinants of disclosure in one or two Asian countries. Further details will be provided later. From past experience, the report often provides excellent evidence of your research skills that can presented to prospective employers when applying for jobs.

The project is by 5 pm, Friday, 26 May (Week 12).

## 6. Student Resources

### ***Required Readings (for the Honours Seminars):***

There is no special textbook for the honours seminar. Readings are drawn from various academic journals and from textbook chapters. Textbook chapters will be handed out a week in advance throughout the semester. Students must download readings from academic journals themselves from the UNSW library website. All papers set from journals are available electronically from the UNSW library. You might find some of the accounting theory textbooks (shown below) useful in certain areas of the course.

### ***Useful References:***

Beaver, W.H., *Financial Reporting: An Accounting Revolution*, 3<sup>rd</sup> ed., New Jersey: Prentice Hall, 1998.

Belkaoui, A. and Jones, S., *Accounting Theory*, First Australian Edition, Harcourt Brace Australia, 1996.

- Brown, P., *Capital Markets-Based Research in Accounting: An Introduction*, Coopers and Lybrand Accounting Research Monograph No. 1, Melbourne: Coopers and Lybrand and AAANZ, 1994.
- Deegan, C., *Financial Accounting Theory*, McGraw-Hill Australia, 2000.
- Godfrey, J., Hodgson, A. and Holmes, S., *Accounting Theory*, 5<sup>th</sup> ed., John Wiley and Sons Australia, 2003.
- Henderson, S., Peirson, G., and Harris, K., *Financial Accounting Theory*, Prectice Hall Australia, 2004.
- Jones, S., Romano, C. and Ratnatunga, J., *Accounting Theory: a contemporary review*, Harcourt Brace, 1995.
- Mathews, R. M. And Perera, M.H.B., *Accounting Theory and Development*, 3<sup>rd</sup> ed., Melbourne: Nelson, 1996.
- Palepu, K.G., Bernard, V.L., and Healy, P.M., *Business Analysis and Valuation Using Financial Statements*, 2<sup>nd</sup> ed., Thomson South-Western, Ohio, 2004.
- Penman, S.H., *Financial Statement Analysis and Security Valuation*, McGraw Hill, 2001.
- Scott, W. R., *Financial Accounting Theory*, 3<sup>rd</sup> ed. Upper Saddle River, NJ: Prentice Hall, 2003.
- White, G.I., Sondhi, A.C., and Fried, D., *The Analysis and Use of Financial Statements*, 3<sup>rd</sup> ed., New York: John Wiley and Sons, 2003.
- Wolk, H. I. And Tearney, M. G., *Accounting Theory: A Conceptual and Institutional Approach*, Cincinnati: South-Western College Publishing, 1997.
- Zeff, S. A. and Dharan, B. G., *Readings & Notes on Financial Accounting*, New York: McGraw Hill, 1997.

### ***Other Reference Material***

In addition to the above references, a range of academic and professional accounting journals are available through the Library providing useful reference material for the research project and other requirements of this course. Membership of the professional bodies (CPA Australia or the Institute of Chartered Accountants in Australia) also provides students with access to a wide range of material through their respective libraries.

*The following text is a very useful guide when preparing assignments and reports:*

Cotesta, P. V., Crosling, G. M. and Murphy, H. M., *Writing for Accounting Students*, Butterworths Australia, 1998.

## **7. Further Information**

Other important information relating to this course is covered in the ACCT3563 course outline. In particular, please read the information on **academic misconduct (including plagiarism)**, **examination procedures**, and **study recommendations**.

SEMINAR SCHEDULE		
Week	TOPIC	REQUIRED READINGS*
1	<b>Introduction (Combined with ACCT3563 Lectures)</b>	No honours seminar in week 1
2	<b>Research Fundamentals in Accounting</b> <ul style="list-style-type: none"> <li>• Scientific method</li> <li>• Causality</li> <li>• Hypothesis formation</li> <li>• Hypothesis testing – experimental designs</li> <li>• Causality vs correlation</li> </ul>	Seminar notes (on WebCT Vista)
3	<b>Information Asymmetry, Agency Theory and Accounting Policy Choice</b> <ul style="list-style-type: none"> <li>• How does financial reporting attempt to reduce information asymmetry and the agency problem?</li> <li>• What influences accounting policy choices and are they opportunistic?</li> <li>• Do we need to regulate financial reporting?</li> </ul>	Whittred, Zimmer, Taylor & Wells <i>Financial Accounting</i> 6 <sup>th</sup> ed., Chapter 1 “The accounting process: an economic perspective” (2004) (handed out in week 2’s class)
4	<b>Information Asymmetry, Agency Theory and Accounting Policy Choice</b> <u>Application 1</u> : bonus schemes and accounting choices	P. Healy “The effect of bonus schemes on accounting decisions” <i>Journal of Accounting &amp; Economics</i> Vol. 7 (1985) pp. 85-102 and 106-07. Omit section 7 of the paper
5	<b>Information Asymmetry, Agency Theory and Accounting Policy Choice</b> <u>Application 2</u> : determinants of voluntary disclosure	G. Meek, C. Roberts and S. Gray “Factors Influencing Voluntary Annual Report Disclosures by US, UK and Continental European Multinational Corporations” <i>Journal of International Business Studies</i> 26 (3) 1995, pp. 555-572.
6	<b>Information Asymmetry, Agency Theory and Accounting Policy Choice</b> <u>Application 2</u> : determinants of disclosure (continued)	Jaggi and Lowe “Impact of Culture, Market Forces and Legal System on Financial Disclosures” <i>International Journal of Accounting</i> 35 (4) 2000, pp.495-519.
7	<b>Earnings Management &amp; Accounting Quality</b> <ul style="list-style-type: none"> <li>• How can earnings management be detected?</li> <li>• Is earnings management opportunistic?</li> <li>• What are the implications for earnings quality?</li> <li>• Is there a need for further regulation?</li> </ul>	Burgstahler and Dichev “Earnings management to avoid earnings decreases and losses” <i>Journal of Accounting &amp; Economics</i> 24 (1) December pp 99-126. Omit section 3 of paper (pp 112-120).

8	<b>Accounting Information and Share Prices</b> <ul style="list-style-type: none"> <li>• How is the market response measured?</li> <li>• Ball and Brown (1968)</li> <li>• Earnings response coefficients</li> </ul>	WR Scott <i>Financial Accounting Theory</i> 3 <sup>rd</sup> ed (2003) Ch.5 “The information perspective on decision usefulness” (handed out) P. Brown <i>Capital Markets-based Research in Accounting: An Introduction</i> 1994, pp.23-24 (handed out).
9	<b>Accounting Information and Share prices: Application # 1</b>  A replication of Ball and Brown (1968) using recent data  (Special guest: Professor Philip Brown)	D.C. Nichols and J.M. Wahlen “How Do Earnings Numbers Relate to Stock Returns? A Review of Classic Accounting Research with Updated Evidence” <i>Accounting Horizons</i> 18 (4) December 2004 pp263-286
10	<b>Accounting Information and Share Prices Application # 2 –</b>  The abolition of full cost accounting for US oil and gas firms	B. Lev “The Impact of Accounting Regulation on the Stock Market: The Case of Oil and Gas Companies” <i>The Accounting Review</i> 54 (3) July 1979 pp. 485-503
11	<b>Special class on using SPSS: to help with your honours project</b> – you will be shown how to run multiple regression using SPSS and how to interpret the output	Andy Field <i>Discovering Statistics Using SPSS</i> 2 <sup>nd</sup> ed 2005, chapter 5 (handed out)
12	<b>An Introduction to Behavioural Research in Accounting</b>	Craig Deegan <i>Financial Accounting Theory</i> 2000 chapter 11 on behavioural research (handed out)
13	<b>Behavioural research: application - Leases</b>	Wilkins and Zimmer “The effect of leases and different methods of accounting for leases on credit evaluations” <i>The Accounting Review</i> 58 (3) (October) 1983 pp. 749-764.
14	<b>Feedback on group project:</b> a discussion of the statistical results and return of your marks	No set reading