

**AFM 401: Accounting Theory (SAF)**  
**Fall 2022 Course Syllabus**  
**Instructor: Prof. Duane Kennedy**

**Course Instructor:**

|               |  |
|---------------|--|
| Name:         | Duane Kennedy  |
| Office:       | HH 383G  |
| E-mail:       | <a href="mailto:dkennedy@uwaterloo.ca">dkennedy@uwaterloo.ca</a> |
| Office hours: | T/Th 2:30-3:30 pm or by appointment                              |

**Lecture Schedule:**

| Section | Days of the Week   | Time          | Location |
|---------|--------------------|---------------|----------|
| 001     | Monday & Wednesday | 8:30 – 9:50   | HH 1104  |
| 002     | Monday & Wednesday | 10:00 – 11:20 | HH 1104  |
| 003     | Monday & Wednesday | 2:30 – 3:50   | HH 1104  |
| 004     | Tuesday & Thursday | 8:30 – 9:50   | HH 1106  |
| 005     | Tuesday & Thursday | 10:00 – 11:20 | HH 1106  |

**Course Description and Goals:**

The course reviews accounting theories as a background for applying underlying accounting concepts to current financial issues. This course is intended to improve your understanding of the use of financial accounting information in the market economy with the following goals:

1. Obtain greater understanding of the investment decision making and managerial stewardship uses of accounting information.
2. Assess the reasons why managers choose certain accounting methods, accounting policies, corporate disclosures etc. over other choices.
3. Examine properties of accounting numbers prepared using different measurement bases, such as historical cost accounting, fair value accounting, etc.
4. Obtain greater understanding of accounting concepts such as relevance and reliability, conservatism, sensitivity and precision, earnings quality, etc.
5. Evaluate properties of financial information using sample firms based on their required financial filings by securities exchange committees, stock market share pricing, and analyst forecasts.
6. Critique existing and proposed accounting standards (exposure drafts).

## Course Resources:

Textbook: *Financial Accounting Theory* by William R. Scott, and Patricia C. O'Brien, Pearson Canada, 8<sup>th</sup> Edition. [Note that the 7<sup>th</sup> edition is allowed, but students are responsible to identify and reconcile differences between the 7<sup>th</sup> and 8<sup>th</sup> editions.]

Course readings: The articles that will be discussed in class are posted on library e-reserves. Questions based on each article will be posted on LEARN before class.

Online questions: Please upload questions on the discussion forum entitled "General Comments" which is an open forum. This allows both you and your classmates to benefit from your questions and subsequent comments.

Feel free to email suggestions, comments, or items of a personal nature to the instructor. If your questions/comments are more appropriate for the discussion board, the instructor will ask you to post them to LEARN "General Comments".

External Speaker: A guest speaker has been invited to speak on specific accounting theory topics. The talk will be scheduled for a SAF 4B conflict-free time on a Friday near the end of the term. There *will* be questions in the Final Examination based on the talk.

## Course Schedule:

The projected course schedule is posted on LEARN. For your convenience, separate schedules are provided for the Monday/Wednesday and Tuesday/Thursday sections.

## Course Evaluation:

| Assessment Method   | Description                               | Percent of Total Grade |
|---------------------|---|------------------------|
| Participation       |   | 10%                    |
| Problem assignments | 3 assignments spread out through the term | 20%                    |
| Midterm examination | 4:30-6:00pm, Friday Oct. 21               | 25%                    |
| Final examination   | Scheduled by Registrar's Office           | <u>45%</u>             |
| Total               |   | <u>100%</u>            |

**\*\*\* Students must pass the weighted average of the mid-term and final examinations in order to pass the course. \*\*\***

### Participation:

You are expected to come to class prepared to discuss the material assigned for that week. The participation grade will be determined based on attendance and participation in class. To encourage preparation for class and class attendance, students will be randomly called upon to answer questions related to the assigned problems and readings. Positive contribution includes good answers to the random questions or constructive extension of the classroom discussion. Note that contribution can be negative as well as positive. Negative contribution will be considered when determining your participation grade.

Negative contribution can include being unprepared to answer the random questions, activities such as arriving late, interrupting class, not showing respect for the instructor or classmates, and allowing cell phones, PDAs, or computers to disrupt the class.

Attendance and participation will be recorded by a TA. Students are expected to use their name cards and sit in the same seat in each class so that the TA can properly record participation activities. You will be asked to record your seating location during class on Monday/Tuesday, September 12/13.

There are 23 classes during the term. The participation grade will be based on attendance/participation in the best 20 classes. This ensures that your participation grade is not affected if you miss a class due to illness, self-isolation, or time conflict with another activity. In terms of expectations, students who rarely attend class or rarely participate can expect a mark close to 0 while students who attend and participate in most classes can expect a mark in the 8 to 10 range.

Students may occasionally attend a section other than their assigned section, but a student must attend their assigned section to obtain credit for attendance/participation.

### **Problem Assignments:**

The purpose of the problem assignments is to give you an opportunity to apply concepts in the course to business situations and to develop your evaluation skills. These assignments are done individually (i.e., not group work). The assignments contain three stages: (i) submission of a report; (ii) evaluation of reports submitted by other students; and (iii) feedback on the evaluation. The due dates for report submission are listed as below and will be posted on LEARN. The evaluation and feedback will be due in the week following submission of the report. The problem assignments use the [Kritik](#) platform. Information about Kritik and the assignments is available on LEARN. The three assignments have equal weight in the calculation of the grade for problem assignments.

#### **Deadlines for Report Submissions**

**(Tentative Schedule; details posted in Kritik)**

| <b>Assignment</b> | <b>Deadline at 11:30 pm on</b> |
|-------------------|--------------------------------|
| 1                 | Monday, Sept. 26               |
| 2                 | Monday, Oct. 31                |
| 3                 | Monday, Nov. 21                |

The report, evaluation of the report, and feedback on the evaluation must be submitted by **11:30 pm** on relevant date. **Late submissions will not be accepted.** Students are encouraged to complete the assignments ahead of the deadline to allow time for potential technical difficulties.

A practice activity, entitled Intro to Kritik, is available at the beginning of the term. The submission deadlines are posted in Kritik. Students can earn up to 2 bonus marks for completing the practice activity.

### **Midterm Examination:**

The midterm examination is scheduled to be held on Friday, October 21, from 4:30 to 6:00 PM. The midterm exam will cover material from the beginning of the term up to the week of the midterm. This includes content in the textbook, readings, class notes, and classroom discussions. If a question is based

on an e-reserve reading, relevant excerpts from the reading would be included in the question so there is no need to memorize content of the readings.

Solutions to the midterm will be posted on LEARN when the mid term exams are returned to you. Requests for re-grading the midterm exam must be submitted within **one week after the marks for the examination are made available**. To ensure consistent and fair treatment, late requests for re-grading will not be accepted. A TYPED request must be submitted that indicates your reasons for believing that a question was improperly graded. The instructor reserves the right to re-grade the entire exam. Accordingly, exam marks may increase, decrease, or remain the same upon re-grade.

### **Final Examination:**

The final examination is comprehensive, covering material throughout the course. This includes content in the textbook, readings, class notes, and classroom discussions. If a question is based on an e-reserve reading, relevant excerpts from the reading would be included in the question so there is no need to memorize content of the readings. The final examination will be 2.5 hours in duration and will be scheduled by the Registrar's Office during the Fall term examination period in December.

All examinations must be the exclusive work of each individual student. Detailed instructions on the final exam writing will be announced later in the term.

“Faculty of Arts policy provides that students who wish to review their final examination papers informally may do so without instituting a formal appeal procedure. Such review will take place under supervised access only and will be arranged in a way that is mutually convenient for the instructor and the student.”

### **Covid-19 Contingency Planning:**

In the event of a disruption to in-person classes, videos of lecture material will be posted on LEARN. Course assessments should continue more or less as normal, except that students may need to write exams on their own computers. Some or all of the grade assigned to participation may be shifted to the final exam based on the extent of the disruption to in-person classes.

### **University and School Policies:**

Details regarding University of Waterloo (UW) and School of Accounting and Finance (SAF) policies can be found at [My SAF Community](#). Click on “Content” to see the Learn module entitled “SAF Course Syllabus - Policies for Students”. *Note that these policies are an integral part of this course syllabus.* They have been posted on the SAF Learn site because they are not specific to any individual course, but instead are common for all SAF program courses. Ensure that each term you are informed regarding these policies. They include:

#### **SAF Policies:**

- Academic Integrity Expectations
- Accommodations for Missed Assessments
- Process for Requesting Accommodation for Missed Assessments
- Recording of Lectures
- Textbooks and Intellectual Property Rights
- Attendance at the Registered Section

**UW Policies:**

- Academic Integrity
- Grievance
- Discipline
- Appeals
- Academic Offenses and Implications
- Accommodation for Students with Disabilities
- I-clickers
- Mental Health Support
- Territorial Acknowledgement
- Chosen/Preferred First Name

**Projected AFM 401 Course Schedule - Fall 2022**  
**Monday/Wednesday Classes (Sections 001-003)**

| <i>Date</i>     | <i>Topic<br/>[Important Due Date]</i>         | <i>Textbook<br/>Readings</i>                     | <i>Problems for<br/>Classroom<br/>Discussion</i> | <i>E-reserve Readings</i>                                       |
|-----------------|---|--|--|---|
| Sept 7          | Introduction                                  | Ch 1<br><b>Exclude</b> 1.2, 1.3                  |  | N/A   |
| Sept 12 & 14    | Ideal Conditions                              | Ch 2   | 14, 18   | New Accounting Rules Are Giving Banks a Coronavirus Headache    |
| Sept 19 & 21    | Decision-usefulness Approach                  | Ch 3<br><b>Exclude</b> 3.5                       | 4, 11  | SEC Weighs Making Companies Liable for Climate Disclosures      |
| Sept 26 & 28    | Efficient Securities Markets                  | Ch 4<br><b>Exclude</b> 4.5.2                     | 2, 4, 10   | Opinion: The frustrating illogic in the rise of the meme stocks |
| Oct 3 & 5       | The Value Relevance of Accounting Information | Ch 5   | 6, 10, 18  | Zoom to report fiscal Q2 2022 earnings                          |
| Oct 10 & 12     | <b>No classes during reading week</b>         |  |  |   |
| Oct 17 & 19     | The Valuation Approach                        | Ch 6<br><b>Exclude</b> 6.4, 6.5, 6.9.2, 6.11     | 6, 7, 17   | Starbuck's China Sales Slow With Covid-19 Bout                  |
| Oct 21 (Friday) | <b>Midterm exam</b>                           |  |  |   |
| Oct 24 & 26     | Efficient Contracting Theory and Accounting   | Ch 8<br><b>Exclude</b> 8.10                      | 2, 5, 8, 9                                       | Companies Plan to Pour Even More Cash Into Buybacks             |
| Oct 31 & Nov 2  | Analysis of Conflict                          | Ch 9<br><b>Exclude</b> 9.3.2, 9.3.4, Example 9.8 | 8, 9, 15   | Wells Fargo claws back \$75M                                    |
| Nov 7 & 9       | Executive Compensation                        | Ch 10<br><b>Exclude</b> 10.4.2, 10.5             | 5, 7, 8, 11                                      | SEC Issues New Guidance on Measuring Cost                       |
| Nov 14 & 16     | Earnings Management                           | Ch 11<br><b>Exclude</b> 11.6.2, 11.6.3           | 3, 8, 15   | SEC Digs Deeper Into Companies' EPS Manipulation                |

|                    |   |  |          |                                       |
|--------------------|---|--|----------|---------------------------------------|
| Nov 21 & 23        | Standard Setting                          | Ch 12<br><b>Exclude</b> 12.9.2,<br>12.9.3, 12.10,<br>12.11 | 7, 9, 15 | When Companies Fire<br>Their Auditors |
| Nov 25<br>(Friday) | <b>Guest speaker</b> (tentative)          |  |          |                                       |
| Nov 28 & 30        | Standard Setting                          | Ch 13 <b>Exclude</b><br>13.6, 13.7, 13.8,<br>13.9, 13.10   | 4        |                                       |
| Dec 5              | Class replaced by guest speaker on Nov 25 |  |          |                                       |