

# Course Outline

## **RSM 425 H1F**

### **Financial Reporting and Control: Theory and Contemporary Topics**

Fall 2020

Course Meets: 4-6 PM Wednesday (EST) online

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Course Delivery: This course will be offered online synchronously. The synchronous online meetings will be held on a weekly basis.

Instructor: Hai Lu  
Email: [hai.lu@rotman.utoronto.ca](mailto:hai.lu@rotman.utoronto.ca)  
Webpage: <https://q.utoronto.ca>  
Phone: 416-946-0677  
Office Hours: By appointment, online via MS Teams or in-person at RT530,

## Course Scope and Mission

This is not a course in which we learn how to do accounting. This is a course in which we examine accounting information critically from users' perspective. In other words, we will learn what accounting can do for us in investment and corporate control.

The course is designed for the fourth year undergraduate students. Since the course is not about specific accounting rules, it is also open to finance and management students and the third year students with good academic standing.

The primary objective of the course is to focus on contemporary topics and research to help students understand why we need accounting information in investment and corporate control.

The secondary objective is to improve students' analytical and critical thinking skills by exposing them to academic research and explaining basic research methodologies.

## Course Prerequisites

Course Prerequisites: RSM 222H1, RSM 332H1;

Course Co-Requisite: RSM 333H1. If you drop course RSM333H1 (the co-requisite) during the academic term, you must also drop this course. Contact Rotman Commerce Academic Program Services for academic advising if needed.

## Statement on Equity, Diversity and Inclusion

The University of Toronto is committed to equity, human rights and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another's differences. U of T does not condone discrimination or harassment against any persons or communities.

## Required Technology

For Fall-Winter 2020-21, this course may be conducted entirely online. To participate fully and to complete the course successfully, you must ensure you have a computer with a working webcam, microphone and reliable access to an internet connection. For further details, please visit this link: [Recommended Technology Requirements for Remote/Online Learning](#)

## Required Readings

**Textbook:** *Financial Accounting Theory* by William R. Scott and Patricia C. O'Brien, Eighth Edition, PEARSON, 2020.

**Supplemental Readings:** Additional reading materials/cases may be assigned

## Evaluation and Grades

Work	Weight
Quizzes	15%
Class participation and homework	20%
Mid-term test	35%
Independent research project	30%
Total	<u>100%</u>

## Course Format and Expectations

### **Quizzes**

There are 3 in-class quizzes throughout the term. If you miss a quiz for a reason beyond your control, you need to get instructor's approval in advance in order to receive a make-up quiz. Each quiz will be 30 minutes in length.

### **Class Participation and Homework**

The primary goal of the participation portion of the grade is to reward you for your preparation and individual contributions to the learning environment. It includes but is not limit to online attendance, asking and answering questions, etc. I will ask you write up and submit a case analysis, a summary of an assigned article, or some other small assignments. Participation and homework will be graded for both effort and quality.

### **Term Test**

The term test is open-book and open-notes and will be held in class. It will be one hour and fifty minutes long. It will test your understanding of the course materials covered up to the week before the midterm test. The test includes both quantitative and qualitative questions.

### **Independent Research Project**

Students should complete the project independently. More details will be given around the time of the term test.

## Financial Reporting and Control: Theory and Contemporary Topics

### TENTATIVE COURSE OUTLINE

Class Date	Topic	Materials Covered	Self-study problems
Class 1, September 16	Overview	<ul style="list-style-type: none"> <li>• Objective of the course</li> <li>• Historical perspective of accounting</li> <li>• Complexity of financial reporting and regulations</li> <li>• Fundamental problem of financial accounting theory</li> <li>• Accounting standard setting and accounting research</li> <li>• New challenges of accounting practice</li> </ul> <p>Readings: Chapter 1</p>	
Class 2, September 23	Financial Reporting for Decision Making	<ul style="list-style-type: none"> <li>• Accounting under ideal conditions</li> <li>• Accounting under information uncertainty</li> <li>• Decision usefulness approach</li> <li>• Reaction of professional accounting bodies to decision approach</li> <li>• Decision usefulness for managers, analysts, and investors</li> </ul> <p>Readings: Chapters 2 and 3</p>	<p>2.5, 2.6, 2.10, 2-12(a), 2.13, 2.15, 2.18</p> <p>3.3, 3.4, 3.7, 3.10, 3.11, 3.12</p>
Class 3, September 30	Efficient Securities Market and Implications	<ul style="list-style-type: none"> <li>• Efficient market hypothesis</li> <li>• Implications of efficient markets for financial reporting.</li> <li>• Informativeness of stock price and information asymmetry</li> <li>• Social significance of securities market that work well</li> <li>• A case of misleading disclosure (2002 Global Settlement Case)</li> </ul> <p>Readings: Chapter 4 Additional Readings:</p>	<p>4-1, 4-2, 4-3, 4-6, 4-7, 4-10, 4-11, 4-14</p>

		The Ability of Earnings to Predict Future Operating Cash Flows Has Been Increasing – Not Decreasing. Myungsun Kim and William Kross, <i>Journal of Accounting Research</i> 2005, 43: 753-780.	
Class 4, October 7	Value relevance of Accounting Information	<ul style="list-style-type: none"> <li>• Accounting theory and accounting research</li> <li>• Research methodology</li> <li>• Event studies</li> <li>• Earnings response coefficients</li> <li>• Information content of financial statement information</li> <li>• A Caveat about the “best” accounting policy</li> </ul> <p>Readings: Chapter 5 Additional Readings: Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium. Victor Bernard and Jacob Thomas. <i>Journal of Accounting Research</i> 1989, 27: 1-36.</p>	5-3, 5-4, 5-6, 5-7, 5-9, 5-12, 5-20, 5-22.
Class 5, October 14	Valuation Approach to Decision Usefulness	<ul style="list-style-type: none"> <li>• Accounting anomalies and behavioral finance</li> <li>• Value relevance of financial statement information</li> <li>• Valuation model</li> <li>• Valuation applications</li> </ul> <p>Readings: Chapters 6 and 7</p>	6-1, 6-4, 6-6, 6-8, 6-14, 7-2, 7-4, 7-8, 7-13, 7-15.
Class 6, October 21	Efficient Contracting	<ul style="list-style-type: none"> <li>• Efficient contracting theory and corporate governance</li> <li>• Accounting policies for efficient contracting</li> <li>• Employee stock options</li> </ul> <p>Readings: Chapter 8</p>	8-1, 8-2, 8-4, 8-6, 8-9, 8-11, 8-13, 8-16
Class 7 October 28	Conflict of Interests and Management Control	<ul style="list-style-type: none"> <li>• An overview of agency theory</li> <li>• An analysis of conflict: Agency theory and management control</li> <li>• Accounting numbers in contracting</li> <li>• Executive compensation</li> </ul> <p>Readings: Chapters 9 and 10</p>	9-1, 9-2, 9-3, 9-6, 9-8, 9-9, 9-11, 9-18, 9-21

			10-2, 10-3, 10-4, 10-5, 10-7, 10-9, 10-10, 10-18, 10-19
<b>Class 8, November 4</b>		<ul style="list-style-type: none"> <li>• <b>Mid-term Test (1 hr 50 mins): Cover the materials in classes 1-7</b></li> </ul>	
	<b>November 9-13, Reading Week, No Classes</b>		
Class 9, November 18	Applications of Agency Theory: Compensation and Cases on Behavior of Market Participants	<ul style="list-style-type: none"> <li>• Empirical compensation research</li> <li>• Motivations of earnings management</li> <li>• Empirical earnings management</li> <li>• Cases on behavior of market participants: Financial analysts, short sellers, and managers.</li> </ul> <p>Readings: Chapter 11</p>	11-1, 11-2, 11-3, 11-6, 11-7, 11-11, 11-14, 11-15
Class 10, November 25	Information Asymmetry, Earnings Management and Regulations	<ul style="list-style-type: none"> <li>• Information asymmetry</li> <li>• Adverse selection and moral hazard</li> <li>• Regulations</li> </ul> <p>Readings: Chapter 12. Watch either movie and write a memo</p> <ul style="list-style-type: none"> <li>• “Enron: The Smartest Guys in the Room” (2006).</li> <li>• “<i>The Big Short</i>” (2016)</li> </ul>	12-1, 12-5, 12-8, 12-9, 12-10, 12-12
Class 11, December 2	Standard Setting and Regulations: Economics and Political Issues	<ul style="list-style-type: none"> <li>• Two Theories of Regulation</li> <li>• Conflict and Compromise</li> <li>• Group Presentations</li> </ul> <p>Readings: Chapter 13</p>	13-1, 13-3, 13-8, 13-12

Class 12, December 9	Review/Presentations	<ul style="list-style-type: none"><li>• Review</li><li>• Presentations</li></ul>	
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Note: The last day you can drop this course without academic penalty is November 9, 2020.

## Policies and Procedures

### Missed Tests and Assignments (including mid-term and final research project)

Students who miss the test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration.

In such cases, students must:

1. Notify the instructor AND the Rotman Commerce Program Office on the date of the missed course deliverable, e.g. missed test, final assessments, assignment or class (in the case of participation marks).
2. Complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation this may include either your Self-Declaration of Absence on ACORN, or [Verification of Student Illness or Injury form](#) to the Rotman Commerce Office within 2 business days of the originally scheduled course deliverable.

Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

Note that documentation must clearly establish that you were ill or had other circumstances that prevented you from attending on the date in question. After-the-fact reports are not sufficient.

For mid-term test missed, you will be given a make-up test. For final term project, you will be given an extension.

### Late Assignments

All assignments are due on the date and at the time specified. Late submissions will not be accepted. Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor in advance for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a temporary or ongoing disability or health concern, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible at [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or [studentlife.utoronto.ca/as](http://studentlife.utoronto.ca/as).

For courses with deliverables that require you to work in teams, please note the following. If you are a student registered with Accessibility Services, and extensions are one of your academic accommodations, requests for extensions impact everyone in the group. As a result, requests for late submissions of any component of teamwork will require compelling reasons, advance notice, and must work for everyone in the team. You are encouraged to discuss with your course instructor, Accessibility Advisor, and other team members what you need in order to successfully complete your coursework. Additionally, the Rotman Commerce Centre for Professional Skills offers Teamwork Mentors (see section above) who can help you and your team discuss how to support you effectively and how to develop a work plan that meets the needs and constraints of all team members.

## Volunteer Notetaking

If you're interested in helping to make our classroom more accessible, volunteer to be a notetaker!

Accessibility Services needs dependable volunteer notetakers to assist students living with a disability to achieve academic success. All you have to do is attend classes regularly and submit your notes consistently.

1. Register online as a Volunteer Note-Taker at:

<https://clockwork.studentlife.utoronto.ca/custom/misc/home.aspx>

2. Follow the link that says "Volunteer Notetakers"

3. Select your course and upload a sample of your notes

4. Once you have been selected as a notetaker, you'll get an email notifying you to upload your Notes.

If you have any questions or require assistance, please email [as.notetaking@utoronto.ca](mailto:as.notetaking@utoronto.ca) or call 416-978-6186.

Volunteers may receive co-curricular credit or a certificate of appreciation.

## Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly and fairly in this academic community ensures that the U of T degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

[The University of Toronto's Code of Behaviour on Academic Matters](#) outlines the behaviours that constitute academic misconduct, the process for addressing academic offences and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.



- Falsifying or altering any documentation required by the University, including (but not limited to) medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other U of T resources such as College Writing Centres or the Academic Success Centre.

## Email

At times, the course instructor may decide to communicate important course information by email. As such, all U of T students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up and properly entered on ACORN. For more information visit [help.ic.utoronto.ca/category/3/utmail.html](http://help.ic.utoronto.ca/category/3/utmail.html).

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

## Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to [g.utoronto.ca](http://g.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ACORN, wait 48 hours.

## Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted. Students who have been previously granted permission to record lectures as an accommodation for a disability are excepted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission for recording is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

## FIPPA Language

### **Notice of video recording and sharing (Download and re-use prohibited)**

This course, including your participation, will be recorded on video and will be available to students in the course for viewing remotely and after each session.

Course videos and materials belong to your instructor, the University, and/or other sources depending on the specific facts of each situation, and are protected by copyright. Do not

download, copy, or share any course or student materials or videos without the explicit permission of the instructor.

For questions about recording and use of videos in which you appear please contact your instructor.