Fall 2015

ACCT 6125

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Text: There is no text. However, there will be Required Reading material (RR) available online (hopefully) through "Moodle," in .pdf format. Do not print these out; in most cases, you will find it easiest to merely skim the readings online. The RR sections will correspond very generally to topics in my Lecture Notes, which will be available at the University Copy Shop hopefully soon.

Prerequisites: ACCT 3121 and ACCT 3122. The material covered in this class is somewhat technical in nature, and a firm ex ante understanding of financial accounting is required. A certain comfort level with economics, finance, math, and statistics is also presumed.

Objectives: Note the title of the class at the top of the page. This is a class about theory, not applications, practice, or procedures. Our questions focus on "why," rather than "how to."

A. Financial economics concerns behavior under uncertainty; in particular, how rational agents make investing, financing, contracting, resource allocation, and other value-relevant decisions. You will learn how the need for accounting information arises naturally in such situations, and will develop an understanding of how economics, finance, and accounting are inextricably interrelated. This class is thus interdisciplinary.

B. Financial accounting intends to measure and report quantitative information about economic events. If stock price inculcates economic information, then accounting reports and firm value should be related. In this class, you will learn how information is reflected in stock price, how to estimate a firm's intrinsic value with accounting information, and develop an appreciation of the delimiting assumptions underlying related modeling efforts.

C. This class will help you develop an understanding of the limitations of the traditional "historical cost" accounting model and a familiarity with alternative theoretical measurement models. In particular, you will learn how theoretical disagreements about measurement lead to multiple accounting methods and the opportunity to manage earnings. You will also learn why firms seek to manage earnings, and why regulators allow firms to.

D. You will also develop an understanding of some of the theory and research in
accounting and financial economics, and how theoretical developments relate to current issues in financial reporting and regulation (standard setting).

Assignments: 4 components will determine your grade in this class: problem sets (PS), a valuation project (V), a term paper (T) which extends the valuation project, and a comprehensive final exam. Assignments not conforming to instructions will be marked down, and email submissions will not be accepted. Tentative due dates are on the attached schedule. Details and weight:

A. Problem Sets will (hopefully) be posted soon on Moodle. One (of 4 total) will be due every couple of weeks (see attached schedule). They will be based on the RR and my lectures. You are responsible for all material referenced, but must submit answers only for “group C” (©) questions. Weight: 32%.

B. The Valuation Project will require that you select a publicly-traded U.S. firm whose name begins with the same letter as your last name. This cannot be the firm you currently work for. You will obtain financial information and security analyst earnings forecasts for your firm from Value Line and the internet (yahoo.com is required for this), and estimate its stock price. I will show you how in class. On Moodle, I will provide you with hints and other important information. Weight: 18%.

C. You will write a brief term paper on the firm you have selected, providing additional information and analyses I request. On Moodle, I will post a detailed outline, which must be followed. The paper will incorporate (by reference) your valuation analysis (#B above). The paper must be turned in at my office, not in class. Weight: 17%.

Please do not buy a fancy binder for the paper. I am required by UNO regulations to keep the papers for a year; after that, space constraints force me to toss 'em, binder included.

D. The comprehensive final exam will resemble the PS questions and will thus be based on the RR and my lectures. Weight: 33%.

Attendance: Not required, but highly recommended. Although the readings are substantial, much of the material I present in class is not found in the readings. Given the readings and the technical nature of the lecture material, a satisfactory outcome will be less likely if classes are missed. I may also say something interesting without warning.

Drop date: 10/14 is the last day to drop/withdraw.

Grading: The assignment of grades will be based on your weighted average component percentage score, as follows: 90-100%, A; 80-89%, B; 70-79%, C; 60-69%, D.
This assumed distribution may be perturbed in your favor at my discretion.

**Cell Phones:** *No cell phone usage allowed.* If you bring one to class, have it turned completely off and stowed. If you are expecting an important call, do not come to class; arrange to get notes from a colleague. Also: *No text messaging, and no photos.* If you want copies of the overhead solutions, no problem; ask to borrow the overheads from me after class. This policy has been recommended by Student Affairs. Failure to follow these guidelines constitutes a violation of UNO Judicial Code item #19 concerning annoyances and disrupting class. Violations will be dealt with as indicated by the Code.

**Remarks:**

A. Students are expected to conduct themselves according to the principles of academic integrity as defined in the statement on Academic Dishonesty in the UNO Judicial Code. Any student or group found to have committed an act of academic dishonesty shall have their case turned over to Judicial Affairs for disciplinary action which may result in penalties as severe as indefinite suspension from the University. Academic dishonesty includes, but is not limited to: cheating, plagiarism, fabrication, or misrepresentation, and being an accessory to an act of academic dishonesty.

B. It is University policy to provide, on a flexible and individualized basis, reasonable accommodations to students who have disabilities that may affect their ability to participate in course activities or to meet course requirements. Students with disabilities should contact the Office of Disability Services as well as their instructors to discuss their individual needs for accommodations.

C. My Lecture Notes will provide the organizational center for the course. However, the Required Readings will provide much explanatory and complementary background.

D. Check Moodle periodically for announcements concerning changes in scheduling of classes or tests, assignment due dates, or the availability of course project assignments. In the event of campus closures due to hurricanes or other unforeseen events, Moodle may be our only means of communication. Make-up classes (if needed) will be held at times determined to be the most inconvenient for the largest number of persons affected.

E. I will render the concepts and material as intuitive and transparent as possible. *You are strongly advised to read the assigned material before coming to class.* Be advised that this may require some planning on your part, since the volume of readings is somewhat uneven.
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<td><strong>Final Exam</strong> 1730-1930</td>
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Required Readings (RR)

RR1.
Schulte, Erin. Tomorrow's Profits Matter Today. *The Wall Street Journal Sunday*, July 2004, theory1.pdf. This is a short newspaper article, easy to skim; in fact, I'll probably go over it in class. It demonstrates much of what this class is about. E.g., why is financial accounting important, and why do professional stock-pickers and the financial press obsess over earnings? Because (read title).

Basenese, Louis. The Truth about First-Quarter Earnings, *Wall Street Daily* 2012. I’ll go over this in class; otherwise, it’s real short so you can read it. rr-earnings-wallstreetdaily.doc.

Background on the FASB’s Conceptual Framework; *just skim these* to get an idea of the arguments behind the Framework we now have:


RR3.


Fellingham, John and Rick Young. *Accounting in Perfect and Complete Markets*. 2002, 261.pdf. I go over this in class, so you may skip it, unless you get lost or have questions.

You may just skim this one.

**RR4.**
You may just skip this one; I'll go over it in depth in class.

**RR6.**
(Review RR3, file 257.pdf, especially topics 2.4-2.6 which were skipped earlier.)


The Money Store. *News Release*. July 28, 1993, 275.pdf. This is just an example (I refer to it in class) of a quarterly earnings release; have a look, but there's nothing to read here.


**RR7.**


Kinney Jr., William. *Letter to Accounting Faculty and Ph.D. Students, Re.: FASB and Market Value Accounting*. January 30, 1991, 280.pdf. Read the first part, but just skim the rest; this is
actually just a class example I will refer to and comment on.


**RR8.**


**RR9.**


Not RR10.
Investment.pdf. This class is not about investing, but if it were, then these articles (mostly from the popular financial press) might be required. You may skip this entirely. However, someday you may have some money to invest. You might wonder whether all our discussions about portfolio theory, efficient markets, and valuation contain some lessons about how to invest for long-term wealth accumulation. These articles build on the financial-economic theoretical foundation we have constructed and iterate a simple, logical conclusion.

RR11.


John Mauldin, John. "Why Trade Deficits Matter." Thoughts From the Front Line, Millennium Wave Advisors, 2005, whytradedeficitsmatter.doc. You can skip this one too, if you like. It's only here to illustrate why/how game theory keeps popping up periodically among the cognoscenti. [Hopefully you are among the cognoscenti also. Look it up.]

RR12.


von Hayek, Friedrich. It’s a short read; be sure to read the ‘Note to the Reader,’ Forward, and Summary first.


RR13.


Zeff, Stephen. The Evolution of U.S. GAAP, Part 1. CPA Journal, 2005, History1.pdf. This article, and part 2 below, are easy to read and even interesting. Go ahead & read ’em. See how GAAP has evolved through lobbying, market failure, poor understanding of economics and market efficiency, and competing regulatory authorities. Things have changed so little!
