II. Course Description and Objectives

This doctoral seminar introduces selected topics of theoretical accounting research, focusing on the usefulness of financial reporting information in capital markets, the behavior of firms in disclosing private information, and issues related to auditing of firms’ publicly released financial reports. While the theme of the seminar is theoretical research, we will also bring related empirical studies into discussion and show how theory is important for properly developing empirical research.

The course consists of three parts. Part I introduces models of equity value and returns that feature the role of financial reporting information, and examines the implications of these models for users and regulators of financial reporting. Part II discusses models of corporate disclosures in settings where firms strategically interact with other economic players in the product and capital markets. In Part III, we introduce selected theoretical research on auditing.

This course aims to:
1. Familiarize you with theoretical research on accounting-based valuation, voluntary disclosure, and auditing;
2. Develop your ability to read and critically evaluate theoretical research;
3. Help you generate innovative research topics; and
4. Develop your skills to conduct theoretical research and to empirically test theoretical predictions.

III. Course Learning Outcomes (CLOs)

On completion of this course, you should be able to:
1. Perform critical evaluation of published papers.
2. Develop innovative research topics.
3. Demonstrate effective communication skills.

IV. Alignment of Program Learning Outcomes (PLOs) and Course Learning Outcomes

<table>
<thead>
<tr>
<th>Learning Goals</th>
<th>Program Learning Outcomes (PLOs)</th>
</tr>
</thead>
</table>
| To conduct quality research independently in their area of specialization | To be able to demonstrate:
  - PLO1: a detailed understanding of research methodologies and techniques for advanced academic enquiry
  - PLO2: the ability to conceptualize, design and implement a scholarly research project for the generation of new knowledge, applications or understanding and to have astute analysis and synthesis, critical interpretation and presentation of principles of the study field.
  - PLO3: the ability to adjust the research project design in the light of unforeseen matters and ill-structured problems. |
| To be able to teach subjects in their specialization | PLO4: skills to support the learning of others effectively when involved in teaching or demonstrating activities. |
| To inculcate professionalism and leadership | PLO5: a systematic acquisition and understanding of a substantial body of knowledge which is at the forefront of an academic discipline or area of applied/professional practice.
  - PLO6: the ability for the creation and interpretation of new knowledge, through original research, or other advanced scholarship, of a quality to satisfy peer review, extend the forefront of discipline, and merit publications.
  - PLO7: the ability to evaluate ethical and social issues, function in teams effectively and display leadership traits.
  - PLO8: to understand and observe research integrity. |
| To master communication skills | PLO9: the ability to construct coherent arguments and articulate ideas clearly to a wider range of audiences.
  - PLO10: the ability to make effective oral presentation of their research papers. |

<table>
<thead>
<tr>
<th>Course Learning Outcomes</th>
<th>Aligned Program Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLOs 1–3</td>
</tr>
<tr>
<td>CLO1. Perform critical evaluation of published papers.</td>
<td>x</td>
</tr>
<tr>
<td>CLO2. Develop innovative research topics.</td>
<td>x</td>
</tr>
<tr>
<td>CLO3. Demonstrate effective communication skills.</td>
<td>x</td>
</tr>
</tbody>
</table>
V. Teaching and Learning Activities (TLA)

<table>
<thead>
<tr>
<th>Course Teaching and Learning Activities</th>
<th>Expected contact hour</th>
<th>Study Load (% of study)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLA1. Lecture</td>
<td>27 hours</td>
<td>14%</td>
</tr>
<tr>
<td>TLA2. Paper presentation and interactive Q&amp;A</td>
<td>20 hours</td>
<td>10%</td>
</tr>
<tr>
<td>TLA3. Reading and evaluation of papers</td>
<td>73 hours</td>
<td>36%</td>
</tr>
<tr>
<td>TLA4. Research proposal</td>
<td>80 hours</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>200 hours</td>
<td>100%</td>
</tr>
</tbody>
</table>

VI. Assessment (AS)

<table>
<thead>
<tr>
<th>Points</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AS1. Participation and leadership in class discussions</td>
<td>20</td>
</tr>
<tr>
<td>AS2. Paper presentation and critique</td>
<td>30</td>
</tr>
<tr>
<td>AS3. Research proposal</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

VII. Assessment Standards

Course grade descriptors

The table below describes grades and the corresponding performance standards (expected performance on the course learning outcomes).

<table>
<thead>
<tr>
<th>Grade</th>
<th>Performance Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>Excellent • Presentation that demonstrates logical consistency, a strong understanding of all relevant knowledge, and professional handling of questions • Active participation in discussions • A research proposal that provides innovative ideas and has the potential to significantly advance the related literature</td>
</tr>
<tr>
<td>A</td>
<td>(4.0 4.0 3.7) Good • Presentation that demonstrates logical consistency, a good understanding of all relevant knowledge, and good handling of questions • Good participation in discussions • A research proposal that provides good ideas and has the potential to advance the related literature</td>
</tr>
<tr>
<td>A-</td>
<td>(3.3 3.0 2.7) Satisfactory • Presentation that demonstrates a basic understanding of the concepts involved and fair handling of questions • Moderate participation in discussions • A research proposal that provides limited innovations and has low potential to advance the related literature</td>
</tr>
<tr>
<td>B+</td>
<td>(3.3 3.0 2.7) Pass • Presentation that displays a poor understanding of the concepts involved and poor handling of questions</td>
</tr>
<tr>
<td>B</td>
<td>(2.3 2.0 1.7) Pass • Presentation that demonstrates a poor understanding of the concepts involved and poor handling of questions</td>
</tr>
<tr>
<td>B-</td>
<td>(1.3 1.0) Pass • Presentation that displays a poor understanding of the concepts involved and poor handling of questions</td>
</tr>
</tbody>
</table>
Course grades are assigned based on the total you earn on the assessment items. In general, a total of 100-85 is regarded as "excellent", 84-70 is regarded as "good", 69-60 is "satisfactory", 59-50 is a "pass", and 49-1 is a "fail". These ranges have flexibility of up to plus or minus five points to allow for unforeseeable factors.

**Specific grading criteria for assessment items**

Each of the assessment items described below will be graded using the performance standards in the course grade descriptors section (100-85 for excellent, 84-70 for good, 69-60 for satisfactory, 59-50 for pass, and 49-1 for fail). The total marks will be determined as a weighted average of your marks on the individual assessment items. The weights on AS1/2/3 are 0.2/0.3/0.5, respectively.

**AS1. Participation in class discussions**

All students are expected to participate actively in class discussions by raising insightful points about the paper being discussed and by asking intelligent questions.

**AS2. Paper presentation and critique**

Students will be assigned to published papers for presentation in class. Your presentation will be divided into two parts. In Part 1, you should present the assigned paper as if you were the author. You should cover the following aspects: the research question, motivation, related literature, analysis, and main results and implications. In part 2, you should critique the paper as a discussant. You should evaluate the strengths and weaknesses of the paper and give some direction for future work.

**AS3. Research proposal**

Each student is required to write a research proposal on a topic related to accounting-based valuation, company disclosure, and/or auditing. In your proposal, you should specify the research question, explain the motivation, and discuss the related literature and the expected contribution of your proposed study to the literature.

For an empirical research proposal, you need to develop hypotheses, and describe the methods to test the hypotheses (e.g., regression equations) and what data you plan to use. For a theoretical research proposal, you should sketch out a rough model structure (the players and their decisions, the information available to the various players, etc.) and the steps for carrying out the analysis.

This is an open-ended assignment. You are encouraged to develop the idea and move forward as far as you can. Empirical data analysis is encouraged where feasible, but not required for this assignment (I am aware of the time limitation). Your work will be evaluated in terms of novelty of the idea, innovativeness of the research design, and the potential for eventually developing the proposal into a complete paper.

The deadline for proposal submission is Wednesday, May 31, 2017.
VIII. Academic Conduct

Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

a. **Plagiarism** - The representation of someone else's ideas as if they are their own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.

b. **Unauthorized Collaboration on Out-of-Class Projects** - The representation of work as solely one's own when in fact it is the result of a joint effort.

c. **Cheating on In-Class Exams** - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.

d. **Unauthorized Advance Access to an Exam** - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.

You are expected to do your own work whenever you are supposed to. Incident(s) of academic dishonesty will NOT be tolerated. Cheating or plagiarism of any kind would result in an automatic F grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behavior.

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: [http://www.hku.hk/plagiarism/](http://www.hku.hk/plagiarism/)
PART I: FINANCIAL REPORTING AND FIRM VALUATION


Lecture notes will be provided to registered students before each class.

Students may also read the original papers of this literature (most of which are listed below).

SESSION 1. INTRODUCTION; THE RESIDUAL INCOME MODEL


SESSIONS 2. EQUITY VALUE MODELS BASED ON THE LINEAR INFORMATION DYNAMICS APPROACH


SESSIONS 3-4. EQUITY VALUE AS A FUNCTION OF REALIZED ACCOUNTING DATA: RECOGNIZING REAL OPTIONS


**SESSION 5. APPLYING REAL OPTIONS BASED VALUATION TO MULTIPLE-SEGMENT FIRMS**


**SESSION 6. ACCOUNTING MODELS OF STOCK RETURNS**

- Zhang, G. 2014. Chapters 9, 10, and 12.

**SESSION 7. IMPLICATIONS OF VALUATION THEORY FOR STANDARD SETTING**

ADDITIONAL PAPERS (FOR REFERENCE)

Other valuation models

Empirical implementation of valuation models

Testing linear models

Using accounting data to explain stock prices

PART II: VOLUNTARY DISCLOSURE

BACKGROUND

SESSION 8. BEHAVIOR OF VOLUNTARY DISCLOSURES

Models of voluntary disclosure in financial markets
Models of voluntary disclosure in product markets


Related empirical studies


SESSION 9. DISCLOSURE AND COST OF CAPITAL


Related empirical studies

READINGS FOR PART III: AUDITNG THEORY

SESSIONS 10-11

- Chan, Derek. 2015. The Effects of Internal Control Reporting Regulation on Control Quality, Compensation and Audit Quality. Working Paper. The University of Hong Kong.

Empirical studies


Journal abbreviations:

CAR – Contemporary Accounting Research;
JAAF – Journal of Accounting, Auditing, and Finance;
JAE – Journal of Accounting and Economics;
JAR – Journal of Accounting Research;
RAST – Review of Accounting Studies;
TAR – The Accounting Review