



ACCT3113
Accounting for business valuation and financial contracting:
Theory and application

GENERAL INFORMATION	
<p>Instructor: Prof. ZHANG Guochang</p> <p>Email: acgzhang@hku.hk Office: Room 1214, KK Leung Building, University of Hong Kong Phone: 39171076 Consultation times: By appointment</p> <p>Tutor: to be assigned</p>	
COURSE DESCRIPTION	
<p>This course provides a high-level view of what accounting is about and why and how it is important for the real economy and financial markets. Going beyond the rules and procedures that are taught in other accounting courses, this course takes the perspective of those who apply accounting information to decision-making in business organizations and financial markets (i.e., analysts and investors, lenders, the board of directors, regulators). Topics include the use of accounting information in business valuation, investment strategies, debt contracts, and executive compensation. The course emphasizes both practical techniques for <i>how</i> to properly use accounting information and the theoretical foundation for the techniques (the <i>why</i> question).</p> <p>Pre-requisite(s):</p> <ul style="list-style-type: none"> • ACCT1101 Introduction to Financial Accounting; • FINA1310 Corporate Finance; • ECON1280 Analysis of Economic Data, or STAT1602 Business Statistics, or STAT1603 Introductory Statistics) 	
COURSE OBJECTIVES	
<p>The objective of the course is to develop students' knowledge and skills with regard to:</p> <ol style="list-style-type: none"> 1. the importance of accounting and financial reporting for the real economy and financial markets; 2. theory and techniques for using accounting information in business and financial decisions, 3. the incentives of corporate insiders in reporting and disclosing information, 4. how accounting theory extends and enriches finance theory. 	
FACULTY LEARNING GOALS (FLGs)	
<p>FLG1: Acquisition and internalization of knowledge of the programme discipline FLG2: Application and integration of knowledge FLG3: Inculcating professionalism FLG4: Developing global outlook FLG5: Mastering communication skills FLG6: Cultivating leadership</p>	
COURSE LEARNING OUTCOMES (CLOs)	
Course Learning Outcomes	Aligned Faculty Learning Goals (FLGs)
CLO1: Explain the role of accounting information in capital markets.	FLG1, FLG2, FLG3, FLG4, FLG5

CLO2: Understand the importance of accounting information for contracting.	FLG1, FLG2, FLG3, FLG5, FLG6
CLO3: Develop insights into managerial incentives that influence financial reporting outcomes.	FLG1, FLG2, FLG3, FLG4, FLG5, FLG6
CLO4: Gain knowledge of the Conceptual Framework that underpins financial reporting standards.	FLG2, FLG3, FLG4, FLG6

COURSE TEACHING AND LEARNING ACTIVITIES

Course Teaching and Learning Activities	Expected Study Hours	Study Load (% of study)
T&L1: <i>Interactive lectures.</i> Interactive lectures are conducted with the lecturer explaining and illustrating the concepts. Students will be invited to share their views and experiences in applying the concepts.	25	40
T&L2: <i>In-class discussions.</i> The lecturer will raise discussion questions in class. Students should actively participate in discussions and share opinions with their peers	8	10
T&L3: <i>Individual and group assignments.</i> Students are required to complete individual and group assignments. Through these assignments, students acquire hands-on experience using analytical skills covered by this and other courses, and also learnt to work with one another in a team.	100	50
Total	133	100

Assessment Methods	Brief Description (Optional)	Weight	Aligned Course Learning Outcomes
A1: Class attendance and discussion participation		10	CLO1, CLO2, CLO3, CLO4
A2: Group assignments		50	CLO1, CLO2, CLO3
A3: Essay		40	CLO1, CLO2, CLO3
	Total	100%	

Coursework / Examination Ratio: 100 % / 0 %

STANDARDS FOR ASSESSMENT

Course Grade Descriptors	
A+, A, A-	Demonstrate a deep and thorough understanding of course materials and show excellent performance overall
B+, B, B-	Demonstrate a very good understanding of course materials and show good performance overall
C+, C, C-	Demonstrate a fair understanding of course materials and show satisfactory performance overall
D+, D	Demonstrate a limited understanding of course materials and show barely satisfactory performance overall

F	Demonstrate a poor understanding of course materials and show unsatisfactory performance overall
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Assessment Rubrics for Each Assessment (Please provide us the details in a separate file if the space here is not enough)

Assessment 1: Class attendance and participation (10%)

Students are expected to be well prepared for classes and actively participate in class discussions.
Focus: ILOs 1, 2, 3, & 4.

Grading Criteria

A+ A A-	B+ B B-	C+ C C-	D+ D	F
Extremely well prepared for class discussion, active in sharing views, attended at least 90% of classes. Submitted all homework with 90% accuracy.	Partially prepared for class discussion, quite active in sharing views and attended at least 80% of classes. Submitted at least 80% of homework with 80% accuracy.	Not well prepared for class discussion, limited active in sharing views and attended at least 70% of classes. Submitted at least 70% of homework with 70% accuracy.	Not well prepared for class discussion, no sharing of views and attended at least 60% of classes. Submitted at least 60% of homework with 60% accuracy.	Poorly prepared for class discussion and no sharing of views and experience and attended less than 60% of classes. Submitted less than 60% of the homework with less than 60% accuracy.

Assessment 2: Group assignments (50%)

There are three group assignments, with each group consisting of 2-3 students.

- **Assignment 1:** detecting financial fraud: a case study
- **Assignment 2:** using financial reporting data to explain stock prices, returns, and risk. Data are to be collected from public sources.
- **Assignment 3:** understanding the role of financial reporting information in debt contracts and executive compensation contracts. Data are to be collected from public sources.

Each group will conduct analyses and submit written reports. The detailed requirements and assignment due dates will be announced later. Students must hand in group reports on time, in accordance with the specified requirements.

Focus: ILOs 1, 2 & 3.

Grading Criteria

A+ A A-	B+ B B-	C+ C C-	D+ D	F
The reports demonstrated a deep understanding and comprehension of the topic. The analysis was performed in a highly professional and organized manner.	The report demonstrated a sound understanding and comprehension of most aspects of the topic. The analysis was performed in a professional and organized manner.	The report demonstrated a good understanding and comprehension of most aspects of the topic. The analysis was performed in an organized manner.	The report demonstrated a basic understanding and comprehension of most of the topic. The analysis was performed in a basic manner.	The report did not demonstrate a sufficient understanding and comprehension of the topic. The analysis was not performed at an acceptable level and was poorly organized.

Assessment 3: Essay (40%)

The essay is designed to examine the student's understanding of the course materials in a

comprehensive way. It covers a majority of, if not all, the topics discussed in class.

Focus: ILOs 1, 2, 3 & 4.

Grading Criteria

Grading Criteria

A+ A A-	B+ B B-	C+ C C-	D+ D	F
The essay demonstrated a deep and thorough understanding of the topics covered in the course, and of the subject as a whole. The analysis was performed in a highly professional and organized manner.	The essay demonstrated a sound understanding of the topics covered in the course, and most aspects of the subject. The analysis was performed in a professional and organized manner.	The essay demonstrated a good understanding of the topics covered in the course, and most aspects of the subject. The analysis was performed in an organized manner	The essay demonstrated a basic understanding of the topics covered in the course, and most aspects of the subject. The analysis was performed in a basic manner.	The essay did not demonstrate a sufficient understanding of the topics covered in the course and most aspects of the subject. The analysis was not performed at an acceptable level and was poorly organized.

COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

TOPICS

Topic	Coverage
Topic 1 Introduction to the role of accounting in the economy	<ul style="list-style-type: none"> • Fundamental economic role of accounting • Features of accounting and reporting • A historical perspective of accounting development
Topic 2 The missing role of accounting in financial economic theory	<ul style="list-style-type: none"> • The MM world of perfect capital markets • Capital budgeting rules • Finance approaches to valuation • How to measure business performance
Topic 3 Accounting information and business valuation Part 1 & Part 2	<ul style="list-style-type: none"> • How accounting information is used in valuation practice • A real-options based model of firm value (ROM) • Implications of ROM for relative valuation • Applying ROM to multiple-segment firms
Topic 4 Accounting information and stock returns	<ul style="list-style-type: none"> • Asset pricing theory and empirical findings • Models of stock returns from ROM • Explaining stock price reactions to earnings news • Firm competitiveness and stock returns among industry peers
Topic 5 Market processing of financial reporting	<ul style="list-style-type: none"> • Efficient market hypothesis and market anomalies

information	<ul style="list-style-type: none"> • Price drift to earnings information • A systematic view of how capital markets process financial reporting information • Price drift to segment-level information • The accrual anomaly
Topic 6 Earnings management and financial fraud	<ul style="list-style-type: none"> • Why managers might manipulate financial reporting information • Different approaches to earnings management • Insights from academic research
Case study	<i>China Metal Recycling: A case study on financial fraud</i>
Topic 7 Corporate disclosure	<ul style="list-style-type: none"> • Economics theory of disclosure • Motives for voluntary disclosure • Do firms withhold bad news? • Why do firms redact information at IPOs? • Information spillover across firms
Topic 8 Accounting information and debt contracting	<ul style="list-style-type: none"> • Debt covenants • The debt contracting role of accounting • Bond price reaction to earnings news
Topic 9 Executive compensation	<ul style="list-style-type: none"> • Principal-agent theory • Executive compensation in practice • Accounting information and compensation contracts • Relative performance evaluation
Topic 10 Real options applied to investment decisions	<ul style="list-style-type: none"> • Real options applied to investment decisions
Essay preparation	

REQUIRED/RECOMMENDED READINGS & ONLINE MATERIALS (e.g. journals, textbooks, website addresses etc.)

Lecture slides and supplementary readings will be available on HKU's course Moodle.

The course materials are derived from published research articles and books (which represent up-to-date knowledge of the accounting field). There are no designated textbooks. The following are two reference books:

- Scott, William, and Patricia O'Brien. 2020. *Financial Accounting Theory* 8th ed. Pearson Canada Inc.
- Zhang, Guochang. 2014. *Accounting Information and Equity Valuation: Theory, evidence and applications*. New York: Springer.

MEANS/PROCESSES FOR STUDENT FEEDBACK ON COURSE

Online response via Moodle site

COURSE POLICY (e.g. plagiarism, academic honesty, attendance, etc.)

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/>

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 one's 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. Cheating on Exams** - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.

ADDITIONAL COURSE INFORMATION (e.g. e-learning platforms & materials, penalty for late assignments, etc.)

Course materials will be made available on the course Moodle.