

**47-719 Accounting and Information Economics II (1<sup>st</sup> Half)**  
**Carnegie Mellon University**  
**Graduate School of Industrial Administration**

Spring 2001, Mini 4  
Course 47-719  
Class room: GSIA 261  
Class time: Tuesdays & Thursdays, 1:30pm – 3:20pm

Instructors: Professor Jonathan Glover  
GSIA 356, 268-8499  
Professor Pierre Jinghong Liang  
GSIA 362, 268-3315

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### **Course Objective**

In this short course, we sample varied academic literature on a set of notions important to accountants: accounting standards, relevance, reliability, etc. To achieve some structure, we'll start with history and end with philosophy. In between, we organize our reading sequence with some help from the FASB conceptual statements, the latest attempt of accounting theory construction at the practical (policy) level.

The purpose of these exercises is to compare and contrast the difference between the practical and the formal approaches to theory construction. We also illustrate the way accounting notions are modeled in the literature and suggest further research to enhance our understanding.

### **Course Material**

FASB Statements of Accounting Concepts (1 and 2)  
Published and working papers listed below

### **Course Requirements**

Class Presentation each of you shall present assigned papers in class.

For each assigned paper, you are required to give a brief presentation (15-20 minutes) in class and provide a one-page typed write-up outlining the major elements of the paper. Your goal is to promote in class discussion of the ideas of the paper, not necessarily to reproduce the proofs.

Short Essay an essay requirement to be specified.

**47-880 Spring 2001 Mini 4  
Tentative Schedule**

Dates	Topics/papers	Readings
Tue 3/13	<p>Some History and the Objective Debate Sorter, G. H., and M. Gans. "Opportunities and Implications of the Report on Objectives of Financial Statements." <i>Journal of Accounting Research</i> 12, no. supp (1974): 1-12. Beaver, William H., and Joel S. Demski. "The Nature of Financial Accounting Objectives: A Summary and Synthesis." <i>Journal of Accounting Research</i> 12, no. Supp (1974): 170-87.</p>	FASB con1 §32-54
Thur 3/15	<p>Accounting Standards Demski, Joel S. "The General Impossibility of Normative Accounting Standards." <i>Accounting Review</i> 48, no. 4 (1973): 718-23. Dye, Ronald A. "Transaction Manipulation and Nash Accounting Standards." Northwestern University working paper, 2000.</p>	FASB con1 §1-55
Tuesday 3/20	<p>Relevance 1: informativeness Feltham, Gerald. <i>Information Evaluation</i>. Sarasota, FL: American Accounting Association, 1972. (chapter 6) Lo, K., and T. Lys. "Bridging the Gap between Information Content and Value Relevance." Northwestern University working paper, 2000.</p>	FASB con2 on Relevance §27-57
Thursday 3/22	<p>Relevance 2: timeliness Feltham, Gerald. <i>Information Evaluation</i>. Sarasota, FL: American Accounting Association, 1972. (chapter 7) Antle, Rick, and Joel S. Demski. "Revenue Recognition." <i>Contemporary Accounting Research</i> 5, no. 2 (1989): 423-51.</p>	
Tue 3/27 Thu 3/29	Spring Break/No classes	
Tuesday 4/3	<p>Reliability 1: Bias Fischer, Paul E., and Robert Verrecchia. "Reporting Bias." <i>Accounting Review</i> 75, no. 2 (2000): 229-45. Liang, P. J., "The Equilibrium Reliability of Accounting Measures." GSIA working paper, 2001.</p>	FASB con2 on Reliability §58-90
Thursday 4/5	<p>Reliability 2: Verifiability and Neutrality Bull, Jesse, and Joel Watson. "Evidence Disclosure and Verifiability." University of California San Diego working paper, 2000. Antle, Rick. "Auditor Independence." <i>Journal of Accounting Research</i> 22, no. 1 (1984): 1-20.</p>	
Tuesday 4/10	<p>Why Theory? Sims, C. A. "Macroeconomics and Methodology." <i>Journal of Economics Perspectives</i> (1996): 105-20. Devine, Carl Thomas. "Accounting -- Toward a Suitable Philosophy." In <i>Essays in Accounting Theory</i>, 1-13. Sarasota, FL: American Accounting Association, 1985.</p>	

## For Further Readings

### Accounting History

- Storey, Reed K., and Sylvia Storey. *The Framework of Financial Accounting Concepts and Standards*. Vol. 181-C, *Financial Accounting Series*. Norwalk, CT: Financial Accounting Standards Board, 1998.
- Previts, Gary John, and Barbara Dubis Merino. *A History of Accountancy in the United States: The Cultural Significance of Accounting*. Columbus, OH: Ohio State University Press, 1998.
- Chambers, A. "Blueprint for a Theory of Accounting." *Accounting Research* 6 (1955): 17-25.
- Chatfield, M. *A History of Accounting Thought*. Hinsdale, IL: Dryden Press, 1974.

### The Accounting Objective Debate

- AICPA Objective Committee. *Objectives of Financial Statements*. New York, NY: American Institute of Certified Public Accountants, 1973.
- Ijiri, Yuji, and Richard Cyert. "Problems of Implementing the Trueblood Objectives Report." *Journal of Accounting Research* 12, no. supp (1974): 29-42.
- Gonedes, N., and Nicholas Dopuch. "Capital Market Equilibrium, Information Production, and Selection of Accounting Technique: Theoretical Framework and Review of Empirical Work." *Journal of Accounting Research* 12, no. supp. (1974).

### Relevance

- Marschak, J., and K. Miyasawa. "Economic Comparability of Information Systems." *International Economic Review* 9, no. 2 (1968): 137-74.
- Holmström, B. "Moral Hazard and Observability." *Bell Journal of Economics* 10, no. 1 (1979): 74-91.
- Gjesdal, F. "Accounting for Stewardship." *Journal of Accounting Research* 19 (1981): 208-31.
- Kim, S. K. "Efficiency of an Information System in an Agency Model." *Econometrica* 63 (1995): 89-102.

### Reliability

- Ijiri, Yuji, and Robert Jaedicke. "Reliability and Objectivity of Accounting Measurements." *Accounting Review* (1966): 474-83.
- Ijiri, Yuji. *Theory of Accounting Measurement, Studies in Accounting Research #10*. Sarasota, FL: American Accounting Association, 1975. (Chapter 3)

### Audit Independence

- Antle, Rick. "Accounting Firms, the Accounting Industry, and Accounting Research." *British Accounting Review* 31 (1999): 1-13.
- Antle, Rick, Paul A. Griffin, David J. Teece, and Oliver E. Williamson. "An Economic Analysis of Auditor Independence for a Multi-Client, Multi-Service Public Accounting Firm" Chicago, IL: American Institute of Certified Public Accountants, 1997.

### Why Theory

- Devine, Carl Thomas. *Essays in Accounting Theory*. 5 vols. Sarasota, FL: American Accounting Association, 1985.