

Theories of Accounting Behavior Course Outline and Reading List

Financial Accounting

Academic Year 2004/2005

Graduate School of Economics, Kyoto University

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Course Objective

The objective of this course is to review and discuss basic theories of accounting behavior that have been conceptualized on the economics since 70's in UK and US. By the end of the course you should have an overview of the major theories used in current accounting research and ideas for your own dissertation or paper. Students in the first year of master course will be required to submit a short paper to summarize their understanding the theories by 25 January 2005 and this will be assessed for assessment purpose. If you are second-year student in M.C., a dissertation proposal can substitute for this as far as it will contain any of the theories reviewed in this course.

Format of Course

You are divided into five groups and each group is required to translate the assigned material into Japanese and to discuss the topic with your own comments. As seen below, the sessions will be on Tuesday in every other week from 4.45 to normally 6.00.

Assessment

You will be required to submit a short paper to summarize your understanding the theories reviewed in this seminar by 25 January 2005. The paper should be about 1,000 words in English or more than 5 pages in Japanese in length and should include your own comments on the theories you want to summarize or you intent to use in your dissertation.

Lecture Topics and Schedule

1. **Politicization of Accounting** (12 October 2004)

We will review the political characteristics of setting standards. D. Solomons, one of the most influential leaders in the early stage of FASB's regulatory activities, insists the needs for conceptual approach to standard setting in order to avoid the politicization of accounting.

【 Material 】 Solomons, D.[1983], " The Political Implications of Accounting and Accounting Standard Setting, " *Accounting and Business Research*, Vol.13, No.50, pp.107-118.

2. **Efficient Market Theory** (26 October 2004)

If markets would be fully efficient in terms of economics, there would be no use of accounting regulation at all, because the markets could always take adequate reactions at once by reading any reality of firms no matter what information might be disclosed. Since early 70's, many researchers have been doing their research on the basis of what's called " efficient market hypothesis, "which implies uselessness of accounting regulation. Wyatt points out examples that show the real world of accounting is ignoring the efficient market hypothesis.

【 Material 】 Wyatt, A.R.[1983], " Efficient Market Theory: Its Impact on Accounting, " *The Journal of Accountancy*, Vol.155, No.2, pp.56-65.

3. **Information Inductance** (16 November 2004)

Impacts of accounting information are surely bilateral, that is, not only users but also senders are to be influenced by the information that they themselves produce and send. Rational senders may change their own behaviors or even expectations in advance through feedforward of users' reaction. Prakash and Rappaport discuss the implications of this " information inductance " for financial reporting.

【 Material 】 Prakash, P. and A. Rappaport[1977], " Information Inductance and Its Significance for Accounting, " *Accounting, Organizations and Society*, Vol.2, No.1, pp.29-38.

4. **Market for Lemons** (14 December 2004)

This topic will be explored on the basis of one of the most famous classical researches on market mechanism. Akerlof shows the significance of information disclosure to make market efficient. His discussion will give you many implications for your accounting and finance research.

【 Material 】 Akerlof, G.A.[1970], " The Market for 'Lemons': Quality Uncertainty and the Market Mechanism, " *The Quarterly Journal of Economics*, Vol.84, No.3, pp.488-500.

5. Positive Theory of Accounting (18 January 2005)

Positive theory is one of the most standardized theories in accounting research across the world. We will be reading here the first co-work of founders of the theory, which might be regarded as the germ of their immortal work of Positive Accounting Theory published in 1986.

【Material】 Watts, R. and J. L. Zimmerman[1978], "Towards a Positive Theory of the Determination of Accounting Standards," *The Accounting Review*, Vol.53, No.1, pp.112-134.

Further Reading

The following is reading for further understanding of the theories, which may be helpful when you are preparing your presentation. It covers a broad range of material and you are not expected to read it all. But it gives you some source material that you may want to refer to later.

AAA[1978], *Report of the Committee on the Social Consequences of Accounting Information*, Committee Report.

Anderson, J.A.[1977], "The Potential Impact of Knowledge of Market Efficiency on the Legal Liability of Auditors," *The Accounting Review*, April.

and S.L. Myers[1975], "Some Limitations of Efficient Markets Research for the Determination of Financial Reporting Standards," *Abacus*, June.

Baker, C.R.[1976], "Defects in Full-Cost Accounting in the Petroleum Industry," *Abacus*, December.

Bebee, R.F., L.L. Steinmetz and W.D. Wilsted[1975], "Managing the Income Number," *Management Accounting* (US), February.

Brown, V.H.[1979], "The Economic Impact of Financial Accounting Standards," *Financial Executive*, September.

Bryant, M.J. and M.C. Mahaney[1981], "The Politics of Standard Setting," *Management Accounting* (US), March.

Chambers, R.J.[1974], "Stock Market Prices and Accounting Research," *Abacus*, June.

Collins, D.W. and W.T. Dent[1979], "The Proposed Elimination of Full Cost Accounting in the Extractive Petroleum Industry: An Empirical Assessment of the Market Consequences," *Journal of Accounting and Economics*, March.

Cowton, C. and N. Garrod[1981], "Clearing the Fog around the Efficient Capital Market

- Hypothesis, " *Accountancy*, August.
- Dascher, P.E. and R.E.Malcom[1970], " A Note on Income Smoothing in the Chemical Industry, " *Journal of Accounting Research*, Autumn.
- Deakin , E.B.[1979], " An Analysis of Differences between Non-major Oil Firms Using Successful Efforts and Full Cost Methods, " *The Accounting Review*, October.
- Dhaliwal, D.S.[1980], " The Effect of the Firm's Capital Structure on the Choice of Accounting Methods, " *The Accounting Review*, January.
- Dyckman, T.R., D.H.Downes and R.T. Magee[1975], *Efficient Capital Markets and Accounting, A Critical Analysis*.
- Eckel, N.[1981], " The Income Smoothing Hypothesis Revisited, " *Abacus*, June.
- Eijgenhuijsen, H.G. and J. Klaassen[1978], " Stock Market Efficiency and the Information Content of Financial Reports, " in Cess van Dam (ed.), *Trends in Managerial and Financial Accounting: Income Determination and Financial Reporting*.
- Fujii, H. and T. Yamamoto[2001], " Empirical Study on Stock-Price-Explanatory Power of Feltham-Ohlson Model: Case of Japanese Firms and Stock Market, " *The Kyoto University Economic Review*, Vol.70, No.1/2, pp.1-11.
- Gerboth, D.S.[1973], " Research, Institution, and Politics in Accounting Inquiry, " *The Accounting Review*, July.
- Greer, W.R. and L.E. Morrissey Jr.[1978], " Accounting Rule-Making in a World of Efficient Markets, " *Journal of Accounting, Auditing and Finance*, Fall.
- Horngren, C.T.[1973], " The Marketing of Accounting Standards, " *The Journal of Accountancy*, October.
- Kamin, J.Y. and J. Rosen[1978], " The Smoothing of Income Numbers: Some Empirical Evidence on Systematic Differences among Management-Controlled and Owner-Controlled Firms, " *Accounting, Organizations and Society*, October.
- Koch, B.S.[1981], " Income Smoothing: An Experiment, " *The Accounting Review*, July.
- Kripke, H.[1975], " A Search for a Meaningful Securities Disclosure Policy, " *The Business Lawyer*, November.
- Lee, T.A.[1979], " The Role of Accounting and Evidence of Efficient Markets, " *The Accountant's Magazine*, June.
- May, R.G. and G.L. Sundem[1976], " Research for Accounting Policy: An Overview, " *The Accounting Review*, October.
- Mayer-Sommer, A.P.[1979], " Understanding and Acceptance of the Efficient Markets Hypothesis and Its Accounting Implications, " *The Accounting Review*, January.
- Mlynarczyk Jr., F.A.[1969], " An Empirical Study of Accounting Methods and Stock

- Prices, "Empirical Research in Accounting: Selected Studies, Supplement to Vol.7 of *Journal of Accounting Research*.
- Most, K.S.[1970], " A New Method of Accounting for Oil and Gas Producers, " *Management Accounting* (US), May.
- Rappaport, A.[1977], " Economic Impact of Accounting Standards Implications for the FASB, " *The Journal of Accountancy*, May.
- Selto, F.H. and B.R. Neumann[1981], " A Further Guide to Research on the Economic Consequences of Accounting Information, " *Accounting and Business Research*, Autumn.
- Solomons, D.[1978], " The Politicization of Accounting, " *The Journal of Accountancy*, Vol.146, No.5, pp.65-72.
- Sterling, R.R. and W. Harrison[1974], " Discussion of Capital Market Equilibrium, Information Production, and Selecting Accounting Techniques: Theoretical Framework and Review of Empirical Work, " *Empirical Research in Accounting, Selected Studies, Supplement to Vol.12 of Journal of Accounting Research*.
- Tinker, A.M., B.D. Merino and M.D. Neimark[1982], " The Normative Origin of Positive Theories: Ideology and Accounting Thought, " *Accounting, Organizations and Society*, May.
- Watts, R. and J.L. Zimmerman[1979], " The Demand for and Supply of Accounting Theories: The Market for Excuses, " *The Accounting Review*, Vol.54, No.2, pp.273-305.
- Watts, L.R. and J.L. Zimmerman[1986], *Positive Accounting Theory*, Prentice-Hall, 須田一幸訳『実証理論としての会計学』白桃書房、1991年。
- Wilner, N.A.[1982], " SFAS 8 and Information Inductance: An Experiment, " *Accounting, Organizations and Society*, February.
- Williams, E.E. and M.C. Findlay [1980], " Beyond Neoclassical Economics Theory as a Foundation for Financial Accounting, " *Abacus*, December.
- Wyatt, A.[1977], " Economic Impact of Accounting Standards, " *The Journal of Accountancy*, October.
- Zeff, S.A.[1978], " The Rise of 'Economic Consequences', " *The Journal of Accountancy*, Vol.146, No.6, pp.56-63.
- Zimmerman, J.L.[1979], " The Costs and Benefits on Cost Allocations, " *The Accounting Review*, Vol.54. No.3, pp.504-521.