



MASTER OF SCIENCE (MSc) IN INTERNATIONAL SHIPPING, FINANCE & MANAGEMENT

Assignment in Financial Accounting

This assignment consists of two independent parts. In the first part, you have to write an essay on a research topic explored in the academic literature. In the second part, you have to solve a revision exercise that covers practical accounting issues. Additional details on the above two requirements are provided in the separate sections following.

Part A: Assignment Essay (50%)

In the first part of your assignment, you have to write an essay on one of the topics provided in Table 1. All topics have been examined extensively in academic research and entail important implications for accounting practice. Consequently, you have to choose one of them (the one that stimulates you more) and prepare a thorough discussion. To this end, you should study the relevant literature meticulously and obtain a clear picture of the alternative (and frequently, opposing) arguments. Discussion of the extant empirical evidence is also essential. Your goal is to write an essay that will reflect your understanding of the matters covered in each topic.

An expected outcome rubric is presented in Table 2. This serves as a useful guidance on the expected attributes of your essay. Finally, keep in mind that this is a team work. Your team has to exercise a concerted effort in order to elicit the best results of this venture. Your essay should not exceed 10,000 words.

Finally, an indicative references list is provided in Table 3. This shall facilitate your research as initial guidance for the most relevant studies for each topic. Apparently, you have to dig further in the literature to accomplish your essay, but this is a useful first step. An excellent search machine for scholarly articles is google scholar: <https://scholar.google.com/>

The number of references for each article (presented also by google scholar) is an indication of its impact on the literature.

Table 1: List of essay topics

1 st Topic	International Financial Standards: adoption and consequences
2 nd Topic	Earnings management: types, incentives and empirical evidence
3 rd Topic	Conservatism: causes, types and empirical evidence
4 th Topic	Auditing: the role and the importance of external auditors. Theory and empirical evidence.

Table 2: Expected outcome rubric

Criteria	Description
Structure	The essay is well-organized and coherent. Points and reasoning are presented with clarity and instances are aptly justified. Unity culminates in the conclusions section. An indicative structure is the following: Introduction, Literature Review (theoretical concepts and empirical evidence), Discussion, and Conclusions.

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Content	The topic is presented clearly. Appropriate definitions are provided. Underlying arguments and potential dissenting theories or empirical evidence are discussed thoroughly. The overall content indicates synthesis of ideas and original thought. Points are well-developed and critically discussed.
Writing Style	The writing style is formal. Sentences are free of punctuation and grammatical errors.
References	References are presented appropriately in the text, following the Harvard System. A reference management software, such as Mendeley or Endnote, is highly recommended. A full reference list shall be provided at the end of the essay.
Format	The font used is Times New Roman or Calibri. The text is single-spaced. A consistent format regarding margins and indentation is necessary.

Table 3: Indicative reference list

1st Topic	International Financial Standards: adoption and consequences
<p>Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. <i>Contemporary Accounting Research</i>, 30(4), 1344–1372.</p> <p>Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International Accounting Standards and Accounting Quality. <i>Journal of Accounting Research</i>, 46(3), 467–498.</p> <p>Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. <i>Journal of Accounting Research</i>, 46(5), 1085–1142.</p> <p>Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions. <i>Journal of Accounting Research</i>, 51(3), 495–547.</p>	
2nd Topic	Earnings management: types, incentives and empirical evidence
<p>Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting Earnings Management. <i>The Accounting Review</i>, 70(2), 193–225.</p> <p>Healy, P., & Wahlen, J. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. <i>Accounting Horizons</i>, 13(4), 365–383.</p> <p>Jones, J. (1991). Earnings management during import relief investigations. <i>Journal of Accounting Research</i>, 29(2), 193–228.</p> <p>Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. <i>Journal of Financial Economics</i>, 69(3), 505–527.</p>	
3rd Topic	Conservatism: causes, types and empirical evidence
<p>Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. <i>Journal of Accounting & Economics</i>, 24(612), 3–37.</p> <p>Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. <i>Contemporary Accounting Research</i>, 15, 1–24.</p> <p>Gassen, J., Uwe Fülber, R., & Sellhorn, T. (2006). International Differences in Conditional Conservatism – The Role of Unconditional Conservatism and Income Smoothing. <i>European Accounting Review</i>, 15(4), 527–564.</p> <p>Lara, J. M. G., Osma, B. G., & Penalva, F. (2009). The economic determinants of conditional conservatism. <i>Journal of Business Finance & Accounting</i>, 36(3 4), 336–372.</p> <p>Ryan, S. G. (2006). Identifying Conditional Conservatism. <i>European Accounting Review</i>, 15(4), 511–525.</p>	
4th Topic	Auditing: the role and the importance of external auditors. Theory and empirical evidence
<p>Boone, J. P., Khurana, I. K., & Raman, K. K. (2010). Do the Big 4 and the Second-tier firms provide audits of similar quality? <i>Journal of Accounting and Public Policy</i>, 29(4), 330–352.</p> <p>DeAngelo, L. E. (1981). Auditor size and audit quality. <i>Journal of Accounting and Economics</i>, 3(3), 183–199.</p> <p>Francis, J. R., & Yu, M. D. (2009). Big4 Office size and Audit Quality. <i>Accounting Review</i>, 84(5), 1521–1552.</p> <p>Khurana, I. K., & Raman, K. K. (2004). Litigation risk and the financial reporting credibility of big 4 versus non-big 4 audits: Evidence from Anglo-American countries. <i>Accounting Review</i>, 79(2), 473–495.</p>	

Assignment Exercise (50%)

In this part of your assignment you face a revision exercise on the most important topics covered during the lectures. Again, team work is essential, but make sure that each member of the team feels confident about all the parts of the solution. Accounting requires a complete knowledge of all technical concepts, and therefore, the participation of each team member in all aspects of the solution is pivotal.

ABC is a maritime firm that provides transportation services and hires out vessels to charter firms.

Using the following information, you are required to:

1. Make the journal entries for December and post them to the General Ledger.
2. Prepare a Trial Balance for December
3. Make the necessary correction entries and post them to the General Ledger
4. Make the adjusting entries and post them to the General Ledger
5. Prepare an Adjusted Trial Balance for December
6. Make the closing entries and post them to the General Ledger
7. Prepare the Post-closing Trial Balance for December.
8. Prepare all the financial statements. The income statement should present operating expenses by activity. ABC allocates operating expenses according to the following rates: Production: 70%, Administration: 20%, and Selling Activity: 10%. However, Management Fees are allocated exclusively to Administration Activity, whereas Fuel Expenses, Victual Expenses, and Depreciation Expense of Vessels are allocated exclusively to Production Activity.

ABC Ltd, Maritime Firm			
Trial Balance 30/11/20X2			
N.	Account	Balance	
		Debit	Credit
1.	Licenses	100,000	
2.	Buildings	550,000	
3.	Fuel Supplies	20,000	
4.	Land	500,000	
5.	Salaries Expense	250,000	
6.	Furniture	150,000	
7.	Vessels	1,950,000	
8.	Accounts Receivable	955,000	
9.	Marketable Securities	15,000	
10.	Bank Deposits	680,000	
11.	Cash	390,000	
12.	Prepaid Insurance Expense	50,000	
13.	Notes Receivable	165,000	
14.	Victuals	3,000	
15.	Management fees	200,000	
16.	Share Capital		3,650,000
17.	Retained Earnings		263,000
18.	Mortgage Loan		750,000
19.	Checks Payable		35,000
20.	Accounts Payable		43,000
21.	Service Revenue		900,000
22.	Notes Payable		50,000
23.	Charter Revenues Received in Advance		12,000
24.	Depreciated Buildings		75,000
25.	Depreciated Vessels		170,000
26.	Depreciated Furniture		30,000
	TOTAL	5,978,000	5,978,000

Transactions for December:

- 1/12/ Hire of an employee with a monthly salary €1,000.
- 2/12/ Purchase of fuel supplies €26,000 on account.
- 3/12/ Receive cash €30,000 in advance of a transportation service.
- 4/12/ Provision of transportation services for €50,000 on account.
- 5/12/ Cash payment €80,000 in advance for the acquisition of a vessel €100,000.
- 6/12/ The vessel that the payment in advance was made on 5/12 is received. The rest amount is settled with notes.
- 7/12/ Hiring out a vessel to a chartering firm for €40,000. The chartering period is the period 7/12-27/12. The money was transferred to ABC's bank account.
- 8/12/ Receipt of a long-term bank loan €20,000. The money was transferred to ABC's bank account.
- 9/12/ Purchase of various victuals €15,000 with checks.
- 10/12/ Receipt cash of €30,000 in advance for the sale of a vessel to firm XYZ in the future.
- 11/12/ Sale of a vessel for €50,000 to firm XYZ. XYZ paid in advance €30,000 on 10/12. The rest amount is settled with notes. The acquisition cost of the vessel was €80,000. Until 31/12/20X1, the vessel has been depreciated by 60%. The depreciation expense for the period 1/1/20X2-11/12/20X2 is estimated to €4,000.
- 12/12/ Land with a cost of €50,000 is sold for €60,000 in cash.
- 13/12/ A fire destroys furniture. The acquisition cost of the furniture was €8,000. Until 31/12/20X1 the furniture had been depreciated €4,000. Depreciation expense for the period 1/1/20X2-13/12/20X2 is estimated to €1,000.
- 14/12/ ABC makes an agreement with a shipbroker to receive ship-broking services for the next year. The total fee will be €60,000.
- 15/12/ The ABC shareholders contribute €100,000 in cash.
- 30/12/ ABC recognizes Salaries Expense €50,000. All employees were paid except the employee that was hired on 1/12 who was ill.
- 31/12/ The internal audit found the following accounting errors:
 - 1. A purchase of furniture €5,000 has been recorded as an equal purchase of buildings.
 - 2. The Depreciation Expense- Buildings of the previous fiscal year was recorded €10,000 more in 31/12/20X1.

Moreover, the balances should be adjusted to the following information:

- 3. The ending fuel inventory is valued at €14,000.
- 4. The ending inventory of victuals is valued at €5,000
- 5. Depreciation Expense for 20X2 is:

Depreciation Expense for Buildings:	45,000
Depreciation Expense for Vessels:	50,000
Depreciation Expense for Furniture:	15,000
- 6. Prepaid Insurance covers the period 1/1/20X2 - 31/12/20X3
- 7. Charter revenues received in advance on 7/12 have been earned. Charter revenues received in advance presented on the trial balance cover the period 1/7/20X2 - 30/6/20X3
- 8. The transportation service agreed on 3/12 has been completed by 80%. The rest service will be completed next year.
- 8. Interest Expense for 20X2 is €75,000
- 9. There are General Expenses €3,000 that have not been recognized and paid yet.
- 10. The fair value of land is €600,000. ABC presents land on fair values.
- 11. Tax Expense is estimated 20% of net income before taxes provided that net income is positive. In case of a loss, tax expense is zero. Taxes are to be paid in 20X3.

You are finally informed that ABC wants to declare dividends €88,000 from retained earnings.