

FINANCIAL ACCOUNTING

COURSE OUTLINE

1. Introduction

The principal aim of this course is to help you understand better the financial information companies publish in financial reports such as annual accounts and prospectuses.

2. Objectives

To the above end, we shall explain the form and purpose of the three principal financial statements (balance sheet, income statement, and cash flow statement), define the key terms in them, learn how to interpret the information, and understand the limitations of financial accounting.

Although, as managers, you're primarily interested in how to use financial statements, you need to know – at least in outline – how they've been prepared for two reasons: 1) because you will not understand a transaction unless you know how to account for it; 2) you will not know how to interpret a firm's financial statements unless you know how the transactions of the firm can affect its financial statements' appearance. In this way, you'll have a better idea of what they can and cannot tell you about a company. In addition, communication with accountants will be easier. So in the course, we show how financial events are recorded and summarized in financial statements.

Financial statements are rarely neutral. A company's top managers are evaluated on the numbers in them. But those same managers are also responsible for preparing the statements. Moreover, in many countries they have the ability as well as the incentive to make the numbers look better. For example, managers in all companies must make estimates when preparing financial statements. They often have discretion over the method used to account for a particular item in the accounts. The accounting estimates and methods that a firm adopts make up its accounting policies. We devote much of the course to describing and illustrating the key accounting policy choices managers must make and examining the potential impact of those choices on the firm's accounts.

3. Learning Outcomes

At the end of the course, you will have a sound basic understanding of financial statements. In particular, you will be able to:

Understand how the financial statements have been prepared

Understand the main accounting estimates made by managers when preparing the financial statements and its impact on them
Show how useful information about a company can be extracted from the financial statements
Understand the limitations of financial statements
Assess the consequences of managerial decisions on the financial statements
Gain insights on the ethical aspects of management's accounting choices

4. Competences

This course builds and reinforces the following competences:

- Students should possess and understand knowledge that provides the basis or opportunity for originality in the development and/or application of ideas, often in a research context.
- Students should know how to apply the knowledge acquired and their problem-solving capacity in new and little-known settings within broader (or multidisciplinary) contexts related to their area of study.
- Students should be able to integrate knowledge and deal with the complexity of making judgements based on information that is incomplete or limited, but includes considerations of the social and ethical responsibilities linked to the application of the students' knowledge and judgements.
- Identifying and effectively dealing with information that is relevant to the job (Information Management)
- Using material and economic resources in the best, fastest, most economical and effective way possible to obtain the desired results (Resource Management).
- Performing critical analysis and interpretation of the contents of a company's balance sheet, income statement and cash flow statement to diagnose problems and make decisions. Developing criteria for understanding the limitations of financial information and its subjective nature.
- Estimating needs for operating funds and choosing the most suitable financial products to finance them: loan policies, factoring, confirming, collection and payment terms with customers and suppliers, etc.

5. Content and Methodology

There is quite a lot of technical material in the course and some of it is tricky. Explanation and illustration of that material using lectures, cases and problem assignments form the heart of the course. The reading and problem assignments for each session will be made available on Virtual Campus with enough time for preparation.

I assume that you have covered on your own the contents of Note CN-14001. In particular, you are expected to be familiar with the mechanics of journal entries and T-accounts before the first day of class.

None of your case analyses or solutions to problem assignments will be collected. Desire to master the material should be incentive enough to do them. Solutions to assigned problems will be made available on the Virtual Campus after the class session. In addition, Practice Sets will also be posted regularly on the Virtual Campus. These are collections of exercises that review the topics covered during the previous weeks. The solutions are included and you are not supposed to turn in those exercises.

It is important that you set up and follow a regular study schedule. Accounting is often called (and not just by accountants) 'the language of business'. As with the study of any language, to become proficient requires constant practice.

6. Evaluation

Your course grade will be based on your preparedness for class (10%) and your performance in two exams (90%). The exam portion of the grade will be the higher of: (1) the average of the grades earned in the midterm and final exams (each being weighted equally); or (2) the grade earned in the final exam. The exams will measure your understanding of the first four learning outcomes and your class contributions will confirm your understanding of the last learning outcome.