FINANCIAL ACCOUNTING I

Course Objectives

A business or an organization needs a tool to communicate its results and position to stakeholders, a tool that is commonly understood by all. For that purpose, accounting serves as the “language of business”. Stakeholders, in return, use this information make sound decisions. Bearing these in mind, this course aims to convey sufficient knowledge for an adequate interpretation, analysis and use the information provided by financial accounting.

Following an investigation of the accounting information system and accounting cycle, the course will deepen knowledge on all the components of the balance sheet, using a double entry bookkeeping perspective. By the end of the course, students are expected be able to analyze a company’s financial statements and come to a reasoned conclusion about the financial situation of the company.

Materials

Required

- The electronic package: exercises and case (to be provided throughout the course)
- A calculator that performs basic business functions
Recommended text

- Anthony, Reece & Hertenstein, *Accounting: Text and Cases*, Irwin
- Urías, *Introducción a la contabilidad; Teoría y supuestos*, Pirámide (if you prefer something in Spanish)

Useful web site

- http://www.iasb.org

Course Delivery

The classes will be delivered through presentations. Additionally, a selection of the exercises provided in the package will be solved in class. The course will be finalized with a real life case analysis. The purpose of the chosen case is not to cover all the topics covered in class, but to illustrate how various financial accounting concepts affect the decisions on real-world problems.

Homework

For each class session, you should familiarize yourself with the topics covered in the relevant chapters of the suggested textbooks. At the end of every week, you are responsible for reading one or more articles relevant to the accounting topics we are studying taken from the business press. I encourage you to bring them to the attention of the class the following day.

Additionally, when necessary, you will be asked to solve relevant exercises at home. I strongly encourage you to put utmost effort into solving those exercises regularly, as it would otherwise be harder to follow the course.
The last two sessions of the course will be devoted to a case. You are expected to be prepared to discuss the assigned case and to participate actively in case analysis. To help you practice for the case discussion, I require a written report (approximately one page). Potential issues one may raise in a case report are the main problem of the case, the alternative ways to approach it, a discussion of the exhibits or any matter that you find interesting in the case. You may also provide suggestive solutions. Your response is to be prepared prior to class to provide evidence that you were ready for the case analysis that day. The emphasis here is on EFFORT and not result. Working toward the “correct” answer is not the point; working to understand the case and the underlying accounting issues is what it’s all about.

**NOTE:** Not all the exercises provided electronically will be solved in class. Those questions represent the fundamentals of the course and will be selected as a subset of problems that you should be able to complete.

### Course Outline

**Topic 1:** Accounting Information System, Accounting Principles, Accounting Concepts.

**Learning Objectives**
- Explaining the nature and role of accounting.
- Identifying the main users of financial information
- Distinguishing between financial & management accounting

**Topic 2:** Financial Statement Concepts.

**Learning Objectives**
- Explaining the nature of three major financial statements.
- Preparing a simple balance sheet, interpreting the information that it contains.
- Discussing the accounting conventions underpinning the balance sheet.
Discussing the limitations of the balance sheet in portraying the final position of an enterprise.

**Topic 3: Accounting Cycle, Recording of Transactions.**

**Learning Objectives**

Understanding the steps of accounting cycle, which include:
Recording of a transaction, presenting the trial balance, recording adjustments, presenting the adjusted trial balance, presenting the financial statements, recording the closing of an account, presenting the post-closing trial balance

**Topic 4: Balance Sheet – Current Assets.**

**Learning Objectives**

Analyzing the items that belong to current assets account, including cash, accounts receivable and inventory.
Understanding allowance method of accounting for bad debts Inferring bad debt expense from account analysis.
Clarifying revenue recognition concepts.
Explaining inventory systems and inventory valuation methods.

**Topic 5: Balance Sheet – Long-term Operating Assets**

**Learning Objectives**

Analyzing the items that belong to long term assets account, including tangible and intangible assets.
Understanding the acquisition, depreciation and disposal of tangibles.
Discussing the decision to capitalize or not to capitalize.

**Topic 6: Balance Sheet - Marketable Securities and Long Term Investments**

**Learning Objectives**

Understanding the differences between various marketable securities: trading, available for sale and held to maturity.
Analyzing the investments in affiliate or associate companies equity
Explaining investments in subsidiaries—consolidation of financial statements

**Topic 7: Balance Sheet – Liabilities**

**Learning Objectives**
- Distinguishing between current and long-term liabilities.
- Understanding financing activities through debt.
- Analyzing bonds and leases.
- Analyzing deferred income taxes as noncurrent liabilities.

**Topic 8: Balance Sheet – Owner’s Equity**

**Learning Objectives**
- Understanding financing through equity
- Discussing the difference between common & preferred stock
- Analyzing the issuance and repurchase of stocks
- Explaining retained earnings and cash dividends

**Topic 9: Statement of Cash Flows**

**Learning Objectives**
- Understanding its purpose and preparation
- Analyzing the information included in cash flow statements
- Explaining cash flows from operating, investing, and financing activities; direct and indirect method

**Topic 10: General analysis and Interpretation of Financial Statements – a Case Study**

**Learning Objectives**
- Raising the questions or objectives of analysis
- Understanding tools of analysis
FINANCIAL ACCOUNTING

GRADING POLICY
The course is graded from 0 to 10 points. Passing the course necessitates a minimum grade of 4.0 point obtained in the final exam AND an average grade of 5.0 points in total.

Evaluation at the ordinary term
At the ordinary term, the final grade for the course will be determined on the following basis:

- Class Participation, quizzes, assignments: 20%
- Midterm exam: 15%
- Final exam: 65%

Evaluation in September
For students retaking the exam in September, the grading basis will be as follows:

- Class participation, quizzes and assignments: 10%
- Midterm exam: 10%
- September exam: 80%

Specifications on the Assignments
1. If two (or more) students turn in same/very similar assignments or quizzes, both assignments will be graded as zero points.
2. If a student does not hand in any of the assignments throughout the course, he/she will receive zero points from the whole category of class participation, quizzes and assignments in the ordinary period (15%), and zero points from the whole category of participation, quizzes and assignments in the September exam (10%).