

Financial Accounting

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Characteristics

Code: JEB044, JEM337

Level: Bachelor's, Master's

Credits: 6

Term: Fall (WS)

Description

The main aim of this course is to develop students' understanding of the general principles that govern the use of financial accounting, the ways how these principles are reflected in specific financial accounting standards, the choices company managers make in implementing these standards, and the ways company owners and creditors can use financial accounting information as a valuable input for their investment decisions. We put special emphasis on highlighting the inter-relations between the accounting concepts and the economic consequences of using alternative accounting methods. By the end of the course, students should be able to understand the possibilities and limitations of financial accounting approaches, interpret and analyze financial accounting numbers, build up a perspective of a company's financial position and current performance based on the accounting numbers, critically evaluate arguments explaining performance differences across companies and trends over time, and use financial reporting disclosures to draw conclusions relevant for business and investment decisions.

The course does not require any prior knowledge of financial accounting. A basic understanding of business economics is helpful but not absolutely essential. We recommend students take this course before taking a course in Company Valuation (JEM132). Taking both courses in parallel is also possible but more challenging. The course is primarily intended for second-year and third-year students. First-year students are welcome to take the course provided that they feel confident to interact with the instructors in English.

Literature

Students are required to complement their attendance of lectures and seminars by studying selected textbook chapters specified below. These chapters concern topics covered at the lectures and seminars. Students are welcome to use older editions of the textbook, but they should note that the number of individual chapters may differ from the ones specified below (which refer to the 11th edition published in 2018).

Harrison, W. T., C. T. Horngren, C. W. Thomas, W. M. Tietz, and T. Suwardy (2018) [*Financial Accounting: International Financial Reporting Standards*](#). 11th edition, global edition. Pearson Education.

Contents

The course covers the following modules. Find below the information on the textbook chapters assigned for each module. The abbreviation “HHTTS” refers to the Harrison, Horngren, Thomas, Tietz, and Suwardy textbook. See above for a full reference.

1. Accounting Framework

Key concepts. Financial statements. Balance sheet. Income statement. Recording transactions.

(HHTTS: Chapter 1 – Conceptual Framework and The Financial Statements, Chapter 2 – Recording Business Transactions.)

2. Revenues & Expenses

Revenue recognition. Expense matching. Earnings.

(HHTTS: Chapter 3 – Accrual Accounting)

3. Inventory

Inventory valuation. FIFO, LIFO, AC.

(HHTTS: Chapter 6 – Inventory and Merchandising Operations.)

4. Accounts Receivable

Accounts receivable. Allowance method. Direct write-off method.

(HHTTS: Chapter 5 – Internal Control, Cash, and Receivables.)

5. Fixed Assets

Fixed assets. Depreciation. Write-offs. Asset sales.

(HHTTS: Chapter 7 – PPE and Intangibles.)

6. Cash Flow

Statement of cash flow. Accruals.

(HHTTS: Chapter 11 – Cash Flows.)

7. Earnings vs. Cash Flows

Performance measurement. Earnings vs. cash flows.

(HHTTS: Chapter 11 – Cash Flows.)

Formats

The course consists of lectures and seminars.

Lectures provide an overview and a broad exposition of key financial accounting topics. The lectures also offer in-depth discussions of selected issues that may be considered more complicated. Some of the lectures are offered by guests who have extensive professional experience with accounting practice. Lecture handouts are made available to the students before each lecture. Attendance at the lectures is optional but strongly recommended. Active participation at the lectures is rewarded with bonus points that are considered when deciding about potential improvements of students' grades.

Students are expected to complement their learning at the lectures and seminars by reading the assigned textbook chapters *before* attending the lectures. Furthermore, before the start of every module, students are invited to watch a lecture prelude video and individually respond to corresponding questions using an online form. These lecture preludes are intended to get the student started in their studies of a given topic and help them prepare for the ensuing discussion at the lectures. Students receive feedback on their responses to the lecture prelude questions at the lectures. The quality of students' responses to lecture prelude questions is considered when deciding about potential improvements of students' grades.

Seminars are intended to demonstrate practical application of the topics covered at the lectures. At the seminars, students solve case studies and compute exercises to practice the concepts covered conceptually at the lectures. Before attending the seminars, students are assigned practical tasks and asked to prepare their proposed solutions, which are then discussed at the seminars. To avoid giving out the answers too early and to ensure engaging discussions, handouts are typically provided only after seminars. Attendance at the seminars is optional but strongly recommended. Active participation at the seminars is rewarded with bonus points that are considered for potential improvements of students' grades.

Grading

Students take a written, closed-book, in-class exam. The exam contains open-ended questions that examine the depth of students' understanding of the topics covered in the course. The questions may address issues covered at the lectures, guest lectures, seminars, or assigned textbook chapters. Students may be asked to explain important financial accounting concepts, discuss how they are interconnected, discuss regulatory requirements concerning the use of various accounting approaches, discuss the advantages and drawbacks of different accounting treatments from the perspective of various stakeholders, perform computations, and provide verbal

interpretation of the obtained results. Points are given for relevant, precise, sophisticated, comprehensive, well-explained, and well-structured answers. No communication between students is allowed during the exams. Students are not allowed to use any printed material or electronic devices other than simple pocket calculators.

Students are offered three attempts to take the final exam. To pass the exam, students need to get more than half of the available points. Students who do not meet this condition may retake the exam. Students may not retake the exam to improve their grade. The final grade is determined based on the results of the final exam. Students may be upgraded (but not downgraded) based on the quality of their responses to lecture precludes and the value of their contribution to in-class discussions at the lectures and seminars.

The grading follows the scale below:

- 91 pts: A – excellent
- 81 pts: B – very good
- 71 pts: C – good
- 61 pts: D – fair
- 51 pts: E – satisfactory
- less: F – fail

Conclusion

Students should find this course useful for acquiring a rich understanding of fundamental concepts in financial accounting. The course should also be rewarding for developing an in-depth understanding of alternative accounting methods, their advantages and drawbacks, and the regulatory requirements that guide their use. It should nurture students' professional development in the areas of financial reporting and financial analysis. It should make the students "fluent in the language of accounting." The acquired knowledge should enhance students' competence in finance and strengthen their position when applying for jobs in the financial industry.

Resources

Approximately one week prior to the start of class, all students registered for the course in the Student Information System (SIS) will be given access to the shared online repository below. Students will be notified of this via email.

- [Files \(ACT24, JEB044, JEM337, IES FSV UK, Financial Accounting\) | Google Disk](#)
 - Online folder that contains all teaching material shared with students, e.g., lecture and seminar handouts, supplementary readings, etc.
 - [Financial Accounting \(ACT, JEB044, JEM337, IES FSV UK\) | YouTube Video Playlist](#)
 - A playlist containing lecture prelude videos for all modules. Note that the numbering may not reflect the order in which the topics are covered.
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