



## FINANCIAL ACCOUNTING

### 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.

### Objectives

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

### Competences

#### Basic Competences

- CB7. The students know how to apply the knowledge acquired and their ability to solve problems in new or unfamiliar environments within broader (or multidisciplinary) contexts related to their area of study.
- CB8. The students can integrate knowledge and face the complexity of formulating judgments based on information that, being incomplete or limited, includes reflections on social and ethical responsibilities linked to the application of their knowledge and judgments.
- CB9. Students know how to communicate their conclusions and the knowledge and ultimate reasons that support them to specialized and non-specialized audiences in a clear and unambiguous way.
- CB10. Students possess the learning skills that allow them to continue studying in a way that will be largely self-directed or autonomous.

#### General Competences

- CG1 - Listen, understand and contrast the points of view of others to make an objective composition of a business situation. Communicate in a structured and persuasive way. (Interpersonal communication).
- CG2 - Work effectively in multicultural teams, assuming the leadership of a project when required. Integrate the value of diversity in the decision process and team work. (Ability to work in multicultural teams).
- CG3 - Critically evaluate the information and the context of a business situation to reach its own conclusions for making prudential decisions. (Critical thinking).

### Specific Competences

- CE09 - Judge the quality of financial information based on the accounting policies adopted by the company's management in order to make the pertinent adjustments that allow the diagnosis of the business for decision-making.
- CE10 - Develop financial management control models that integrate and analyze the impact of commercial, productive and organizational decisions on the financing needs and profitability of the company.
- CE12 - Apply financial diagnostic tools with general direction criteria to determine the intrinsic value of a business.

## Content

To the above end, we shall discuss 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.

## Evaluation

Your course grade will be based on your class participation (30%) and your performance in two exams (70%). 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. However, I reserve the right to improve any student's course grade, based on my subjective assessment of the student's class participation. The exams will measure your understanding of the first four learning outcomes and your class contributions will confirm your understanding of the two last learning outcomes.

The IESE Business School's Honor Code and Learning Partnership apply to all activities in this course. For individual assignments, unless explicitly stated, you should not interact with anyone else. For deliverables to be done in teams you should interact only with the members of your team.