

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

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.

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

Competences

The Financial Accounting course reinforces the following general competences:

- Decision making
- Critical Thinking
- Judgment
- Communication

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.

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.

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.

Professor's Biography



Prof. Fernando Peñalva

Professor of Accounting and Control

Ph.D. in Business Administration (Accounting), University of California-Berkeley M.Sc. in Business Administration, University of California-Berkeley B.Sc. Industrial Engineering, Universitat Politècnica de Catalunya

Dr. Fernando Peñalva is a Professor of the Accounting and Control Department since 1998. His research focuses on the impact of accounting conservatism, fair value, earnings management and other accounting attributes, corporate governance, corporate disclosure, and international accounting (IFRS and US GAAP). Professor Peñalva has published in the top journals of his field: Journal of Accounting and Economics, Review of Accounting Studies, European Accounting Review, Journal of Business, Finance and Accounting, among others. Member of the Editorial Board of the European Accounting Review.

He was a member of the experts' committee to improve the Spanish Governance Code of publicly traded companies appointed by the Government of Spain in May of 2013 on behalf of the Ministry of Economics. This committee produced the current governance code of the Spanish regulator of the stock exchange (CNMV).

He was Secretary General of IESE's Executive Committee for ten years until August 2016, and Vice Dean for Research and Development for three years. In total, he has served thirteen years as a member of IESE's Executive Committee. He was the Head of the Department of Accounting and Control for six years.

Research Interests

- Accounting Attributes: Fair value, Conservatism, etc.
- Earnings management and accounting discretion
- Corporate Governance
- Corporate Disclosure
- International accounting (IFRS and US GAAP)