

## **Financial Accounting (5 ECTS)**

### **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.

### **Content**

See outline in Virtual Campus.

## Evaluation

Your course grade will be based on your preparedness for class (70%) and your performance in the final exam (30%). Preparation for class includes your class participation in each case discussion and your written preparation of specific cases I will indicate throughout the course.

## Competences

### Basic

CB6. Possess and understand knowledge that provides a basis or opportunity to be original in the development and / or application of ideas, often in a research context.

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.

### General

CG7. Effectively distinguish and categorize relevant information for business decision-making.

CG11. Formulate and evaluate business strategies in decision making, anticipating the economic consequences of action plans.

### Specific

CE03. Evaluate the quality of the information contained in the financial statements and detect cases of accounting manipulation.

CE21. Estimate the operational needs of funds and choose the most appropriate financial products for financing: credit policies, factoring, confirming, terms of collection and payment with customers and suppliers, etc.

CE23. Evaluate asset and business purchase decisions with strategic, economic-financial, and operation execution criteria.

CE25. Analyze operational decisions economically (e.g., accept an order or not, manufacture or subcontract, withdraw a product, close a department, offer a discount, etc.) with cost differential analysis.

CE26. Design cost allocation systems to evaluate the profitability of products, clients, and departments. Understand the incentives and behaviours derived from the system within the organization.

CE28. Learn to manage control tools to help implement the company's strategy.