

PRINCIPLES OF ACCOUNTING

Quarter: FALL

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Class Hours: Monday, 9.00 – 12.00

Office Hours: Tuesday & Thursday, 15.00 – 17.00

SHORT COURSE DESCRIPTION

This course is designed to provide learners with the basic elements of financial accounting. It will focus on understanding and interpreting accounting information, and developing strategic decisions upon financial statements.

OBJECTIVES

After this course you should be able to:

1. Be comfortable looking through the financial statements and annual report
2. Begin to develop the ability to use financial statements to assess a company's performance
3. Write and present financial reports of professional quality
4. Make strategic decisions using financial statements with a consideration of professional ethics

LEARNING OBJECTIVES

Course Objectives	PROGRAM LEARNING OUTCOMES (see Appendix)											Evaluation Methods/instruments
	1.1	1.2	1.3	1.4	1.5	2.1.a	2.1.b	2.2.a	2.2.b	2.3.a	2.3.b	
1	X	X			X							Quiz and cases
2	X	X			X							Cases and team project
3	X		X	X		X	X	X	X	X	X	Team project
4	X		X	X		X	X	X	X	X	X	Team project

EVALUATION CRITERIA

40% Final Exam

20% In-Class Quizzes: There are 8 in-class quizzes during the course, which will be given at the beginning of the class (late arrivals will not be accommodated, thus please try to be punctual). Each quiz take about 5 to 10 minutes. The material covered in each quiz is the one of the preceding session. Quiz scores will be posted in Aula Global before final exam.

40% Two team projects: There will be two team projects. The first team project will be about the use of accounting information on strategic decision. The second project will be the analysis of past accounting information and the forecast of future performance based on it. Student will present one of two projects in the last session of the course.

Note to Students

Proper understanding of accounting information is a key element for successful business. This course is designed to provide learners with the elementary foundation of accounting theory and practice. Thus, this course does not intend to make students as accountants. Rather, it purposes students to be capable of critically analyzing accounting information. Students are expected to have a basic knowledge of accounting principle and practice. For

those who are not confident with accounting principle, the textbook will provide enough grounds to gain a proper level of knowledge.

The lectures and assignments will be based on the lecturer's teaching and materials.

Teaching will be delivered using the presentation files containing personal work of the lecturer, the academic researches, and recent new articles. This means that teaching materials can be more advanced than the textbook. Therefore, students are required to download and read the teaching materials before and after each class.

Assignments will consist of financial statement analysis and evaluation of performance using current public accounting issues. The specific contents of assignments will be determined during the semester. Assignments require students to collaborate with team members. The lecturer sees these team assignments as opportunities to enhance students' skills to analyze the issue, communicate the issue with team members, and search the solution with other people having different perspectives.

Small quiz in every week and final exam in the final week will test your overall understanding on the course.

REFERENCE BOOKS

1. Reference book for accounting principle: Financial Accounting: International Financial Reporting Standards by Harrison, Horngren, Thomas, and Swardy. Global edition 9th edition.
2. Reference book for financial statement analysis: Business Analysis and Valuation by Palepu, Healy, and Peek. 4th edition.

Additional recommendations

Financial Accounting Theories, 7th edition. William R. Scott, 2015. Pearson.

- This book is a classic for graduate students in accounting. Although it requires deep understanding on accounting as well as academic terminology, it summarizes recent academic researches on many accounting issues. For those who want to pursue academic career in accounting domain, this book is necessary.

DETAILED PROGRAM OF THE COURSE

- ▶ Class 1: Basic elements of financial accounting.
Readings: Slides, Ch. 1, 3, & 4 of Harrison et al.
- ▶ Class 2: The Cash flow statement
Readings: Slides, Ch. 11 of Harrison et al.
- ▶ Class 3: Income statement, recognition of revenue and valuation of receivables.
Readings: Slides, Ch. 3 & 5 of Harrison et al.
- ▶ Class 4: Accounting for inventories
Readings: Slides, Ch. 6 of Harrison et al.
- ▶ Class 5: Accounting for long term assets
Readings: Slides, Ch. 7 of Harrison et al.
Group Assignment: To be announced
- ▶ Class 6: Accounting for financial investments and equity method
Readings: Slides, Ch. 8 of Harrison et al.

- ▶ Class 7: Accounting for liabilities and shareholder's equity
Readings: Slides, Ch. 9 & 10 of Harrison et al.
- ▶ Class 8: The rises of knowledge industry and sustainability issue, and accounting
Readings: Slides, Ch. 7 of Harrison et al.
- ▶ Class 9: Financial statement analysis and people who analyze financial statements
Readings: Slides, Ch. 12 of Harrison et al.
Group Assignment: To be announced
- ▶ Class 10: Student's presentations

ADVANCING YOUR KNOWLEDGE

- CLASS 1
 - (1) Dechow, P. M. 1994. Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. *Journal of Accounting and Economics* 18, pp.3-42.
 - (2) Graham, J. R., C. R. Harvey, and S. Rajgopal. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics* 40, pp. 3-73.
- CLASS 2
 - (1) Fresard, L. 2010. Financial strength and product market behavior: The real effects of corporate cash holdings. *Journal of Finance* 65, pp. 1097-1122.
 - (2) Dickinson, V. 2011. Cash flow patterns as a proxy for firm life cycle. *The Accounting Review* 86, pp. 1969-1994.
- CLASS 3
 - (1) Roychowdhury, S. 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42(3), pp. 335-370.
 - (2) Stubben, S. R. 2010. Discretionary revenue as a measure of earnings management. *The Accounting Review* 85(2), pp. 695-717.
- CLASS 4
 - (1) Frankel, M., and R. Trezevant. 1994. The year-end LIFO inventory purchasing decision: An empirical test. *The Accounting Review* 69, pp. 382-398.
 - (2) Feng, M., C. Li, S. E. McVay, and H. Skaife. 2015. Does inefficient internal control over financial reporting affect a firm's operations? Evidence from firms' inventory management. *The Accounting Review* 90, pp. 529-557.
- CLASS 5
 - (1) Gan, J. 2007. Collateral, debt capacity, and corporate investment: Evidence from a natural experiment. *Journal of Financial Economics* 85, pp. 709-734.
 - (2) Alimov, A. 2016. Product market effects of real estate collateral. *Journal of Corporate Finance* 36, pp. 75-92.
 - (3) Cho, H., J. R. Chung, and Y. J. Kim. 2015. Asset revaluation and external financing: Evidence from Korea. Unpublished working paper.
- CLASS 6
 - (1) Blankespoor, E., T. J. Linsmeier, K. R. Petrini, and C. Shakespeare. 2013. Fair value accounting for financial instruments: Does it improve the association between bank leverage and credit risk? *The Accounting Review* 88, pp. 1143-1177.

- (2) Cantrell, B. W., J. M. McInnis, and C. G. Yust. 2014. Predicting credit losses: Loan fair values versus historical costs. *The Accounting Review* 89, pp. 147-176.
 - (3) Badertscher, B. A., J. J. Burks, and P. D. Easton. 2012. A convenient scapegoat: Fair value accounting by commercial banks during the financial crisis. *The Accounting Review* 87, pp. 59-90.
- CLASS 7
 - (1) Cascino, S., M. Clatworthy, B. Garcia Osma, J. Gassen, S. Imam, and T. Jeanjean. 2014. Who uses financial reports and for what purpose? Evidence from capital providers. *Accounting in Europe* 11, pp. 185-209.
 - (2) Lin, C., Y. Ma, P. Malatesta, and Y. Xuan. 2013. Corporate ownership structure and the choice between bank debt and public debt. *Journal of Financial Economics* 109, pp. 517-534.
 - (3) Almeida, H., V. Fos, and M. Kronlund. 2016. The real effects of share repurchases. *Journal of Financial Economics* 119, pp. 168-185.
 - (4) Rubio, S. 2016. The bright side of stock repurchases. Unpublished working paper.
 - CLASS 8
 - (1) Kothari, S. P., T. E. Laguerre, and A. J. Leone. 2002. Capitalization versus expensing: Evidence on the uncertainty of future earnings from capital expenditures versus R&D outlays. *Review of Accounting Studies* 7, pp. 355-382.
 - (2) Srivastava, A. 2014. Why have measures of earnings quality changed over time? *Journal of Accounting and Economics* 57, pp. 196-217.
 - CLASS 9
 - (1) Lev, B., and R. Thiagarajan. 1993. Fundamental information analysis. *Journal of Accounting Research* 31, pp. 190-215.
 - (2) Abarbanell, J., and B. J. Bushee. 1997. Fundamental analysis, future earnings, and stock prices. *Journal of Accounting Research* 35, pp. 1-24.
 - (3) Cho, H., S. Choi, W.-J. Lee, and L.-S. Hwang. 2017. Asset Growth and Analysts' Multi-period Earnings Forecasts. Unpublished working paper.
 - (4) Baghai, R. P., H. Servaes, and A. Tamayo. 2014. Have Rating Agencies Become More Conservative? Implications for Capital Structure and Debt Pricing. *The Journal of Finance* 69(5), pp. 1961-2005.

Appendix: PROGRAM LEARNING OUTCOMES

1. BUSINESS KNOWLEDGE AND SKILLS

1.1. Students should gain a thorough understanding of the problems relevant to the different functional areas.

Students should have a complete understanding of the most important Finance, Accounting, Management, Marketing and Operations problems. They should understand the most relevant aspects of the problems as well as the potential solutions to them. Regular course work is designed to meet this objective.

1.2. Students should be able to diagnose potentially complex real-world problems.

For this purpose, they should be able to gather and analyze the relevant data. Regular course work, electives, case studies and the Business plan are designed to meet this objective.

1.3. Students should be able to relate theory and practice.

Students should be prepared to tailor general concepts and solutions to specific organizational settings. Case studies, simulation games and the Business Plan are designed to meet this objective.

1.4. Students should be able to understand the role of ethics and sustainability in business decision making

Students should have a complete understanding of the causes and consequences of ethic behavior and sustainability issues. Students should be able to provide potential solutions to them. Regular course work, electives, case studies and the Business plan are designed to meet this objective.

1.5 Students should be able to understand the role of digitalization in business decision making

Students should have a full understanding of how digitalization affects the business world. They should be able to understand the problems and create potential solutions to them. Regular course work, electives, case studies and the Business plan are designed to meet this objective.

2. ORGANIZATION TEAM AND PERSONAL SKILLS

2.1. Students should be able to explain their diagnosis and the solutions they propose in a clear and convincing way.

(a) Students should be able to effectively communicate verbally in both English and Spanish languages with different types of people, particularly senior managers, teammates, subordinates, clients and suppliers. The team work that is being carried out throughout the year, electives and the Business Plan are designed to meet this objective.

(b) Students should be able to effectively communicate in writing ideas and arguments in both English and Spanish languages with different types of people, particularly senior managers, teammates, subordinates, clients and suppliers. Case studies, projects and the Business Plan are designed to meet this objective.

2.2. Students should be able to work effectively in teams and to demonstrate their capacity in managing diversity

(a) Students should demonstrate their capacity to listen, manage and influence others and facilitate their development.

(b) Students should demonstrate their capacity to perceive commonalities and differences in other's values, styles and perspectives. To this purpose they will intensively work in teams throughout the program.

2.3. Students should be able to demonstrate their capacity to lead others and their own professional life

(a) Each graduate will use team building and high performance management behaviors to lead a team task that results in effective team performance

(b) Students should be able to assess their own strengths and weaknesses and manage risk in the design of their professional careers