

Accounting II

MBA Full Time 2009-2010

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The purpose of this course is to provide MBA students with a basic understanding of how accounting is used in business as an input for decision-making, including an appreciation for the distinct roles of financial and management accounting.

The concepts and topics covered in Accounting II presume that participants have a thorough understanding of the material covered in the pre-term course Accounting I. The knowledge acquired in Accounting I about the features of and the interrelationships among the fundamental financial statements will be used in this course to better understand some of the most relevant topics within the two functional areas of accounting: financial and management accounting.

Financial accounting refers to the preparation and reporting of financial statements and complementary information in order to portray the financial situation and performance of a company. Financial accounting information has a wide audience including present and potential investors, creditors, government agencies and management. The financial accounting section of this course (five units) will develop in some detail the criteria, procedures and formats used to represent and report some of the most significant components of the financial statements (e.g. revenue recognition, cost of goods sold, operating assets, inter-corporate investments, capital sources), so that students are well equipped to properly interpret the meaning of the reported information and can subsequently engage in financial analysis.

The financial accounting section of Accounting II aims to:

- To analyze some of the most significant individual components of financial statements and the different ways in which they can be presented as well as to gain an appreciation for the impacts different accounting methods may have in this regard. Most of the issues discussed here are valid in most countries and in most sets of accounting standards. In those cases where particular concepts or practices covered here might vary from one country to another, we will take International Accounting Standards / International Financial Reporting Standards (IAS / IFRS) as the reference framework.
- To provide awareness regarding some common financial accounting and reporting misunderstandings and minefields.
- To extend the concepts and tools covered in Accounting I to have an overview of the representation provided by consolidated financial statements (statements at group level), understanding the differences between individual financial statements (i.e. firms) and consolidated financial statements (i.e. corporations or groups).
- To provide a solid grounding for properly engaging in financial analysis (object of the Finance I course)

As opposed to financial accounting, management accounting focuses mainly on internal users. It refers to the process within an organization that provides information used by an organization's management in planning, implementing, and controlling the organization's activities. The management accounting section of this course (five units) will provide participants with an understanding of the economic decisions made by management, what information to support those decisions is necessary and useful, where the information can be obtained and how accounting information is used by managers to effectively carry out their responsibilities. This part of the course covers the fundamental conceptual and quantitative tools to help participants become more effective facilitators and users of management accounting information and better decision makers.

The management accounting section of Accounting II aims to:

- To introduce cost- and management-accounting terminology
- To describe the logic of cost accumulation for inventory valuation and profit measurement
- To analyze the relationship between costs, volume, and profit
- To show how accounting information can be used in decision making
- To provide tools for the preparation and variance analysis of budgets

Materials

The **textbook** of the financial accounting section of the course is

Stolowy, H. and Lebas, M. (2006). *Financial Accounting and Reporting: A Global Perspective*. Thomson (<http://www.cengage.co.uk/stolowylebas2/>)

This textbook will be complemented with additional materials that will be provided in the form of readings and problem sets.

Participants who want to use additional materials are welcome to do so, but with some caution. They should be particularly aware of the real risk of confusion between international practices (that generally look the same, although sometimes they are not). If additional material is to be used, it is recommended that you use books that explicitly indicate that they are consistent with the terms of the International Accounting Standards (IAS/IFRS). Some suggested books are:

Alexander, D. and Nobes, C. (2007). *Financial Accounting: An International introduction*. Financial Times/Prentice Hall.

Kinserdal, A. (1998). *Financial Accounting: An International Perspective*. Financial Times/Pitman.

Kothari, J. & Barone, E. (2006). *Financial Accounting: An International Approach*. Financial Times/Prentice Hall

Nobes, C. & Parker, R. (2008). *Comparative International Accounting*. Pearson.

Pratt, J. (2008). *Financial Accounting in an Economic Context*. John Wiley & Sons, Inc.

Walton, P. and Aerts, W. (2006). *Global Financial Accounting and Reporting*. Thomson.

Excerpts from the following textbooks have been selected as required materials for the Management accounting section of the course:

Atkinson, A.A., Banker, R.D., Kaplan, R.S. and Young, S.M. (2001). *Management Accounting*.
Prentice-Hall

Anthony R.N. Hawkins D.F. and Merchant K.A. (2007). *Accounting: Text and cases*. McGraw-Hill

Drury, C. (2003). *Management and Cost Accounting*. Thomson Learning

Drury, C. (2001). *Management Accounting for Business Decisions*. Thomson Learning

Hilton, R.W. (1991). *Managerial Accounting*. McGraw Hill

Assignments and grades

You will find three types of **assignments** in the syllabus:

- a) **READINGS.** You are expected to read these materials before the session they refer to, so that they can be used as a basis for class discussion.
- b) **EXERCISES.** These are problems which are useful to illustrate specific aspects of the issues covered in the course. In most of the cases, solutions will be provided.
- c) **HOMEWORK PACKAGES.** These are problem sets to be prepared in groups. They must be turned in one session after the reference material is covered in class. Look at the syllabus for details on specific dates. For example, the material to turn in on October 22nd will be listed under "Homework #2. October 15th" because it refers to the material covered in class by September 15th. Homeworks will be graded.

Grades

Grades will be based on a combination of inputs that include individual-based criteria, group-based criteria and class participation:

	Fin Acc & Rep	Mgmt Acc	Total
Individual-based	25% Exam # 1	25% Exam # 2	50%
Group-based	20% Group Homework (HW # 1, 2, 3 & 7)	20% Group Homework (HW # 4,5 & 6)	40%
Class participation	10%		10%

In order to pass the course, participants must obtain a minimum grade of 35/100 in the individual -based grades (that is, in *each of the cells* in the first row in the table above). Should the individual-based grade of any of the cells in the first row be below 35/100, the final grade of the course would not be based on the criteria mentioned in the table, but only on the individual-based components below 35/100. In this case, a make-up exam for the part graded below 35/100 would be necessary in order to pass the course.

SYLLABUS

PART I. FINANCIAL ACCOUNTING AND REPORTING (1)

October 8th, 2009

Introduction to the course

Unit 1. Long-lived assets and depreciation

Categories of fixed or long-lived assets. Tangible and intangible fixed assets. Depreciation and amortization: concept, meaning and misunderstandings. Depreciation methods. Disposal of fixed assets. Revaluation of assets. Impairment of assets.

Readings: Stolowy & Lebas (2006). *Financial Accounting and Reporting: A Global Perspective*. pp. 229-290
Sutton (2004). *Corporate Financial Reporting*, pp. 203-224.

Exercises: 1.1., 1.2., 1.3.

HOMEWORK #1 due Oct 15th

October 15th, 2009

Unit 2. Revenues and Accounts Receivable

Revenue recognition. Measurement of revenues. Taxes on sales. Discounts and returns of sales. Accounts receivable and bad debts.

Readings: Stolowy & Lebas (2006). *Financial Accounting and Reporting: A Global Perspective*. pp. 194-198 & 327-336.

Exercises: 2.1., 2.2., 2.3.

HOMEWORK #2 due Oct 22nd

October 22nd, 2009

Unit 3. Inventories and Cost of Goods Sold.

Merchandising vs. manufacturing inventories. Gross margin, cost of goods and inventories. The impact of recognition and measurement of inventories on cost of goods sold. Perpetual and periodic inventory systems. Recording and measuring purchases. Accounting for VAT. Discounts and returns of purchases. Inventory valuation methods: FIFO, LIFO and WAC.

Readings: Stolowy & Lebas (2006). *Financial Accounting and Reporting: A Global Perspective*. pp. 297-317.
 Pratt (2008). *Financial Accounting in an Economic Context*, pp. 274 - 296.

Exercises: 3.1., 3.2., 3.3.

HOMEWORK #3 due Oct 29th

PART II. MANAGEMENT ACCOUNTING

October 29th, 2009

Unit 4a. The scope of management accounting

Differences between management accounting and financial accounting. The decision-making process. Functions of management accounting. Basic terminology.

Readings: Drury, C. (2003). *Management and Cost Accounting*, p. 3-17.
Drury, C. (2003). *Management and Cost Accounting*, p. 21-33.

Exercises: t.b.a.

Unit 4b. Cost behavior and Cost-Volume-Profit analysis

The economist's model vs. the accountant's Cost-Volume model. Cost-volume-profit Analysis. The break-even chart. Margin of safety. Cost-volume-profit analysis assumptions. How to deal with multiple products.

Readings: Hilton, R.W. (1991). *Managerial Accounting*, p. 271-295.

Exercises: t.b.a.

HOMEWORK #4 due Nov 5th

November 5th, 2009

Unit 5. Standard costing, budgets and variance analysis

Budgets. Establishing cost standards. Variance analysis. Flexible budgeting and performance reports.

Readings: Drury, C. (2001). *Management Accounting for Business Decisions*, p. 357-382.

Exercises: t.b.a.

HOMEWORK #5 due Nov 12th

November 12th, 2009

Unit 6. Cost accumulation for inventory valuation and profit measurement

Cost assignment: assignment of direct and indirect costs. Accounting for overhead expenditure. Job and process costing. Activity-Based Costing systems.

Readings: Anthony, R.N. et al. *Accounting: Text and cases*. p. 508-524, and p. 537-565
Atkinson, A.A., Banker, R.D., Kaplan, R.S. and Young, S.M. (2001). *Management Accounting*. p.158-191

Exercises: t.b.a.

HOMEWORK #6 due Nov 19th

November 19th, 2009

Unit 7. Pricing decisions and profitability analysis

Role of product costs in pricing and product mix decisions. Price-setters and price-takers. Long-term pricing decisions. Long-term product-mix decisions. Short-term pricing decisions. Short-term product-mix decisions.

Readings: Atkinson, A.A., Banker, R.D., Kaplan, R.S. and Young, S.M. (2001). *Management Accounting*. p.268-293

Exercises: t.b.a.

November 26th, 2009

EXAM #1

Unit 8. Measuring relevant costs for decision making

The meaning of relevance. Importance of qualitative factors. Product mix decisions when capacity constraints exist. Replacement of equipment. Outsourcing and make or buy decisions. Discontinuation decisions. Misconceptions about relevant costs.

Readings: Drury, C. (2001). *Management Accounting for Business Decisions*, p. 81-103.
Anthony, R.N. et al. *Accounting: Text and cases*. p. 829-851

Exercises: t.b.a.

PART III. FINANCIAL ACCOUNTING AND REPORTING (2)

December 3rd, 2009

Unit 9. Owners' equity

The role of share capital as source of financing. Contributed capital vs. earned capital. Profit appropriation and the retention and distribution of earned capital. Accounting for the issuance of shares. Repurchase of previously issued stock. Dividend policy. Accounting for share option plans and the controversy surrounding their reporting. Changes in shareholder equity and the components of comprehensive income. Using accounting information to measure the intrinsic value of the entity: accounting based valuation model.

Readings: Stolowy & Lebas (2006). *Financial Accounting and Reporting: A Global Perspective*. pp. 355-388.
Handout : *Accounting information to measure the intrinsic value of the entity: accounting based valuation model*.

Exercises: 9.1, 9.2, 9.3

HOMEWORK #7 due Dec 10th

December 10th, 2009

Unit 10. Business combinations and consolidated financial statements.

Types of business combinations and the role of consolidated financial statements. Reporting the acquisition of a financial interest: Equity method, Proportionate and Full consolidation. Accounting for Mergers.

Readings: Stolowy & Lebas (2006). *Financial Accounting and Reporting: A Global Perspective*. pp. 452-473; 479.
Handout: *Consolidated financial statements*

Exercises: 10.1; 10.2

Conclusion

December 16^h, 2009

EXAM #2