

**KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI**

<u>BS (BBA) – V</u>	
Course Title	: FINANCIAL ACCOUNTING
Course Number	: BA(BS) – 501
Credit Hours	: 03

Course Contents

1. Introduction of Financial Accounting and Principles:

- 1.1. The Impact of International Accounting Standards as Applicable in Pakistan for the Preparation of Financial Statements and their Disclosure Requirement.
- 1.2. Forms of Business Enterprises such as Non-Profit Organization, Sole Proprietorship, Partnerships and Corporation

2. Financial Statement Analysis: An Introduction

- 2.1. Describe the roles of financial reporting and financial statement analysis;
- 2.2. Describe the roles of the key financial statements (statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows) in evaluating a company's performance and financial position;
- 2.3. Describe the importance of financial statement notes and supplementary information including disclosures of accounting policies, methods, and estimates and management's commentary;
- 2.4. Describe the objective of audits of financial statements, the types of audit reports, and the importance of effective internal controls;
- 2.5. Identify and describe information sources that analysts use in financial statement analysis besides annual financial statements and supplementary information;
- 2.6. Describe the steps in the financial statement analysis framework.

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Scope of financial statements analysis
Major Financial Statements and other information
Financial Statement Analysis Framework

3. Financial Reporting Mechanics

- 3.1. Explain the relationship of financial statement elements and accounts, and classify accounts into the financial statement elements;
- 3.2. Explain the accounting equation in its basic and expanded forms;
- 3.3. Describe the process of recording business transactions using an accounting system based on the accounting equation;

- 3.4. Describe the need for accruals and other adjustments in preparing financial statements;
- 3.5. Describe the relationships among the income statement, balance sheet, statement of cash flows, and statement of owners' equity;
- 3.6. Describe the flow of information in an accounting system;
- 3.7. Describe the use of the results of the accounting process in security analysis.

Contents

Classification of business Activities
Accounts and Financial Statements
The Accounting Process
Accruals and Valuation Adjustments
Accounting Systems
Using financial Statements in security analysis

4. Financial Reporting Standards

- 4.1. Describe the objective of financial statements and the importance of financial reporting standards in security analysis and valuation;
- 4.2. Describe roles and desirable attributes of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards, and describe the role of the International Organization of Securities Commissions;
- 4.3. Describe the status of global convergence of accounting standards and ongoing barriers to developing one universally accepted set of financial reporting standards;
- 4.4. Describe the International Accounting Standards Board's conceptual framework, including the objective and qualitative characteristics of financial statements, required reporting elements, and constraints and assumptions in preparing financial statements;
- 4.5. Describe general requirements for financial statements under International Financial Reporting Standards (IFRS);
- 4.6. Compare key concepts of financial reporting standards under IFRS and US generally accepted accounting principles (US GAAP) reporting systems;
- 4.7. Identify characteristics of a coherent financial reporting framework and the barriers to creating such a framework;
- 4.8. Describe implications for financial analysis of differing financial reporting systems and the importance of monitoring developments in financial reporting standards;
- 4.9. Analyze company disclosures of significant accounting policies.

Contents

The objective of financial reporting
Financial Reporting Standards-setting bodies and regulation authorities
Convergence of global financial reporting standards
International Financial Reporting Standards Framework
Comparison and IFRS with Alternative Reporting systems
Effective financial reporting
Monitoring developments in financial reporting standards

5. Understanding Income Statements

- 5.1. Describe the components of the income statement and alternative presentation formats of that statement;
- 5.2. Describe general principles of revenue recognition and accrual accounting, specified revenue recognition applications (including accounting for long-term contracts, installment sales, barter transactions, gross and net reporting of revenue), and implications of revenue recognition principles for financial analysis;
- 5.3. Calculate revenue given information that might influence the choice of revenue recognition method;
- 5.4. Describe general principles of expense recognition, specified expense recognition applications, and implications of expense recognition choices for financial analysis;
- 5.5. Describe the financial reporting treatment and analysis of non-recurring items (including discontinued operations, extraordinary items, unusual or infrequent items) and changes in accounting standards;
- 5.6. Distinguish between the operating and non-operating components of the income statement;
- 5.7. Describe how earnings per share is calculated and calculate and interpret a company's earnings per share (both basic and diluted earnings per share) for both simple and complex capital structures;
- 5.8. Distinguish between dilutive and antidilutive securities, and describe the implications of each for the earnings per share calculation;
- 5.9. Convert income statements to common-size income statements;
- 5.10. Evaluate a company's financial performance using common-size income statements and financial ratios based on the income statement;
- 5.11. Describe, calculate, and interpret comprehensive income;
- 5.12. Describe other comprehensive income, and identify major types of items included in it.

Contents

Components and Format of the Income Statement
Revenue recognition
Expense recognition
Non Incurring Items and Non-Operating Items
Earnings per Share
Analysis of the Income Statement
Comprehensive Income

6. Understanding Balance Sheets

- 6.1. Describe the elements of the balance sheet: assets, liabilities, and equity;
- 6.2. Describe uses and limitations of the balance sheet in financial analysis;
- 6.3. Describe alternative formats of balance sheet presentation;
- 6.4. Distinguish between current and non-current assets, and current and noncurrent liabilities;
- 6.5. Describe different types of assets and liabilities and the measurement bases of each;
- 6.6. Describe the components of shareholders' equity;
- 6.7. Convert balance sheets to common-size balance sheets and interpret common size balance sheets;

- 6.8. Calculate and interpret liquidity and solvency ratios.

Contents

Components and format of the balance sheet
Measurement basis of assets and liability
Equity
Uses and analysis of balance sheet

7. Understanding Cash Flow Statements

- 7.1. Compare cash flows from operating, investing, and financing activities and classify cash flow items as relating to one of those three categories given a description of the items;
- 7.2. Describe how non-cash investing and financing activities are reported;
- 7.3. Contrast cash flow statements prepared under International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (US GAAP);
- 7.4. Distinguish between the direct and indirect methods of presenting cash from
- 7.5. Operating activities and describe arguments in favor of each method;
- 7.6. Describe how the cash flow statement is linked to the income statement and the balance sheet;
- 7.7. Describe the steps in the preparation of direct and indirect cash flow statements, including how cash flows can be computed using income statement and balance sheet data;
- 7.8. Convert cash flows from the indirect to direct method;
- 7.9. Analyze and interpret both reported and common-size cash flow statements;
- 7.10. Calculate and interpret free cash flow to the firm, free cash flow to equity, and performance and coverage cash flow ratios.
- 7.11.

Contents

Components and format of the cash flow statement
The cash flow statement: linkages and preparation
Cash flow statement analysis

8. Inventory Accounting

- 8.1. Nature and Classes of Inventories
- 8.2. Periodic and Perpetual Inventory Valuation as per International Accounting Standard (IAS-2)
- 8.3. LIFO, FIFO Methods, Weighted Average Method, Moving Average
- 8.4. Inventory Valuation at Cost or NRV Whichever is Lower

9. Current Liabilities and Accounting for Long Term Liabilities

- 9.1. Definition and Recognition of Liabilities
- 9.2. Types of Current Liabilities
- 9.3. Types of Long Term Liabilities
- 9.4. Bonds
- 9.5. Accounting for Bonds by Borrowers
- 9.6. Accounting for Bonds by the Investor
- 9.7. Other Forms of Long Term Debt
- 9.8. Time Value of Money Concept

10. Stockholders Equity Retained Earnings and Dividends

- 10.1. Corporate Income Statements
- 10.2. Earnings Per Share
- 10.3. Dividends
- 10.4. Stock Splits Prior Period Adjustments, Appropriations, and Treasury Stock
- 10.5. Retirement of Capital Stock
- 10.6. Statement of Stockholder's Equity

Recommended Books:

1. Gary, A. P. & Curtis, L. N. (2009). *Financial Accounting: The Impact on Decision Makers*. South-Western Cengage
2. Horngren, H. R. (1995). *Financial Accounting*. Prentice Hall
3. Meigs, R. F. Williams, J. R. (1999). *Accounting*. McGraw-Hill.
4. Weygandt, K. K. (1998). *Financial Accounting*. John Wiley and Sons.
5. Elaine Henry, CFA, and Thomas R. Robinson, CF (2012). *International Financial Statement Analysis: An Introduction*, 2nd Edition, Wiley Publishers, New Jersey.
6. Thomas R. Robinson, CFA, Jan Hendrik van Greuning, CFA, Elaine Henry, CFA, and Michael A. Broihahn, (2015). CFA *International Financial Statement Analysis*, New Jersey: Wiley Publishers.
7. Belverd E. Needles, Marian Powers, (2012). *International Financial Reporting Standards*, 3rd Edition, Cengage Learning.
8. CFA Curriculum