

MGT 211: Financial Accounting and Analysis

*Nature of course: Core
LHs: 150*

*Full Marks: 100
Pass Marks: 35*

Course Objectives

The main objective of this course is to provide in-depth knowledge and understanding of basic principles, concept and practices of financial accounting. This course also aims to develop students' understanding on business transactions, record such transactions in an accounting system and enable them to prepare and analyze the basic financial statements.

Course Description

This course contains conceptual and theoretical foundation of financial accounting; processing and recording business transactions; accrual accounting concept; adjusting entries, closing entries,; preparation of basic financial statements like income statement, statement of retained earnings, balance sheet, value added statement and cash flow statement; and their analysis.

Course Details

Unit I: Basic Understanding of Financial Accounting

8 LHs

Forms of business entities: sole proprietorship, partnership and corporate entities; Cyclical nature of business: financial cycle and operating cycle; Financial accounting : concept, features objectives and scope ; Book-keeping, accounting and accountancy; Nature of accounting; Qualitative features of accounting information; Users and uses of accounting information: internal users and external users; Limitations of financial accounting; Bases of accounting: cash and accrual bases of accounting; and Accounting and other disciplines.

Unit 2: Conceptual Framework of Accounting

8 LHs

GAAP and its features; Basic accounting concepts: the business entity concept, the monetary concept, the going concern concept, the cost concept, the dual aspect concept, the accounting period concept, the realization concept, the accrual concept and the matching concept; Accounting concepts Vs. Accounting conventions; Basic accounting conventions: consistency, conservatism, materiality and full disclosure; Accounting standards: meaning, nature, need and significance of accounting standards; NAS, IAS, NFRS, IFRS; Classification of Accounting standards; Ethics in accounting.

Unit 3: Accounting Process

23 LHs

Accounting events of business: concept and types; Source documents: concept, types and role in recording transactions; Accounting equation for analyzing the transactions; Debit and credit and their rules; Recording process of accounting events: journal, sub-division of journal, ledger, and trial balance.

Unit 4: Accrual Basis of Accounting

10 LHs

Accrual versus cash basis of accounting; Adjusting entries: concept and types of adjusting entries; Adjusted trial balance; Closing entries: concept and types of closing entries.

Unit 5: Accounting for Inventories and Cost of Goods Sold**8 LHs**

Concept, nature and cost of inventory; Cost of goods sold model; Inventory valuation and income measurement: periodic and perpetual system; Methods of inventory valuation in periodic and perpetual system; Inventory estimation: retail inventory method and gross profit method; Effect of inventory valuation on cost of goods sold and its disclosure; Analyzing the management of inventory: inventory turnover ratio and number of days' sales in inventory.

Unit 6: Accounting for Cash and Internal Control**6 LHs**

Concept and nature of cash ; Internal control and principles of internal control activities; Cash receipts and disbursement control; Preparation of bank reconciliation statement; adjusting entries; petty cash fund; Effect of cash in balance sheet; Internal control procedures.

Unit 7: Accounting for Receivables**6 LHs**

Concept, nature and types of receivables; Recognition and valuation of accounts receivables: presentation of accounts receivable in balance sheet, Recognition and valuation of notes receivables; Balance sheet presentation of notes receivable; Analyzing the management of accounts receivable: Accounts receivable turnover ratio and days' sales outstanding.

Unit 8: Accounting for Current Liabilities and Contingencies**6 LHs**

Concept and nature of current liabilities; types of current liabilities: Accounts payable, notes payable, tax payable, other accrued liabilities (accrued expenses and unearned income) and current maturities of long-term debt; Recognition and valuation of accounts payable and notes payable; Balance sheet presentation of accounts and notes payable; Concept of contingent liabilities; Accounting entries of product warranty and guarantees; Analyzing the management of current liabilities.

Unit 9: Accounting for Long-Lived Assets**10 LHs**

Concept, features and types of long lived assets; Acquisition cost of tangible long lived assets; Depreciation of tangible long lived assets: Straight-line method, diminishing balance method, unit of activity method and depreciation fund method; Choice of depreciation method; Disposal of long lived assets; Impact of depreciation on profit measurement; Capital versus Revenue expenditure; Effect of long lived assets in balance sheet; Analyzing the management of long lived assets.

Unit 10: Accounting for Long Term Liabilities**8 LHs**

Concept of long term liabilities; Concept, features and types of debentures or bonds ; Accounting entries for issuance and retirement of debentures or bonds; Balance sheet presentation of debentures or bonds;

Concept and types of leases: Acquisition of capital lease; depreciation of leased asset; amortization of lease obligation; balance sheet presentation of lease obligation; analyzing the management of long-term debt.

Unit 11: Accounting for Shareholders' Equity**7 LHs**

Concept of shareholder's equity; Components of shareholders equity: Common share, preference share, additional paid-in capital, and retained earnings; Balance sheet presentation of shareholder's equity; Accounting entries for issuance of share; Accounting entries for treasury share or stock; Accounting entries for cash and stock dividend, stock split and its effect on shareholder's equity; Analyzing the management of shareholders' equity.

Unit 12: Basic Financial Statements**20 LHs**

Financial statements-means of communicating accounting information: concept, purpose, types and relationship;

Income statement: concept and types of income statement, components of an income statement, preparation of single step and multi step income statement;

Statement of retained earnings: concept, components and preparation of retained earnings statement;

Statement of financial position or balance-sheet: concept, purpose, components and preparation of classified statement of financial position or balance sheet;

Statement of changes in owners' equity: concept, components and preparation of statement of changes in owners' equity.

(Disclosure required for financial statements as per Nepal Company Act and NFRS).

Unit 13: Cash Flow Statement**12 LHs**

Meaning, objectives and importance of cash flow statement; Contents of cash flow statement; preparation of cash flow statement using trail balance of a year; Preparation of cash flow statement using balance-sheets of two dates under direct and indirect method.

Unit 14: Value Added Statement**6 LHs**

Value added: concept and its application; Value added statement: concept, contents and advantages; Preparation of value added statement showing value added generated and applied.

Unit 15: Analysis of Financial Statement**12 LHs**

Meaning, objectives, need and importance of financial statement analysis; Types of financial statement analysis: Horizontal and vertical analysis, comparative and common size statement analysis and their application.

Ratio analysis: concept, uses, importance and limitations of ratio analysis; Types, computations and interpretations of: liquidity (current ratio and quick ratio), capital structure (debt-equity ratio, debt to total capital ratio, interest coverage ratio and debt coverage ratio), efficiency (stock turnover ratio, receivable turnover ratio including collection period, payable turnover ratio including payable period, fixed assets turnover ratio, total assets turnover ratio, capital employed turnover ratio), profitability (gross profit ratio, net profit ratio, operating ratio, return on equity, return on total assets and return on common shareholders equity) and earning evaluation ratios (EPS, DPS and price earning ratio) for evaluating the financial performance of the business.

Suggesting Readings

Accounting Standards Board, (2003). Nepal Accounting Standards. Kathmandu: ASB.

Greunung & Keen, (2000). International Accounting Standards. A Practical Guide, USA: World Bank

Narayanaswamy. R. *Financial Accounting: A Managerial Perspective (Fourth Edition)*. New Delhi: PHI Learning Private Limited.

NFRS (2014). Nepal Accounting Standards. Kathmandu: ASB.

Porter. G. & Norton, C. L. *Introduction to Financial Accounting (8th Edition)*. Delhi: Cengage Learning India Private Limited.

Tulsian, P. C.. *Fundamental of Accounting*. New Delhi: Mc Graw Hill Education Private Ltd.