

Financial Reporting

Lecturer: Maria Kravtsova

Class teacher: Maria Kravtsova

Prerequisites

The following course must be passed before this course may be attempted:
Principles of accounting.

Course description

The course is designed to introduce a number of theoretical approaches to financial accounting and develop background for preparing financial statements of the company under alternative accounting conventions (mainly under International Financial Reporting Standards (IFRSs)). The course describes a number of regulatory issues relating to financial accounting and explores the detailed issues and problems of financial reporting. It provides basic skills in recording and interpretation of financial data and covers basic techniques of financial analysis. The course requires the knowledge of basics of accounting and microeconomics. This is a two-semester course designed to prepare students for UoL examination.

Learning objectives

The student should be able to prepare consolidated financial statements for the group of companies, and also use financial, accounting and other information contained in the statements of enterprises of various forms of ownership, organizations, departments, etc., for making management decisions.

Teaching objectives

The course is focused on developing skills in preparing and analyzing companies' Individual and consolidated financials. By the end of the second module students are expected to understand the role of financial reporting, main approaches to preparing financial statements and to be able to calculate the main items of statement of financial position, income statement and statement of comprehensive income. By the end of the course students are expected to prepare statement of cash flows, consolidated statements and interpret financials.

Teaching methods

The course is studied by means of the following methods:

- ✓ lectures
- ✓ classes with practical trainings
- ✓ additional consultations
- ✓ written home assignments
- ✓ self-study

Assessment

Continuous assessment includes: written home assignments, participation in classwork by solving exercises and case presentations.

Interim assessment is based on autumn mid-term test and winter term exam in UoL format.

Final exam is set in UoL format exam in April (spring term exam).

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

All grades are given initially out of 100. The final grades are also transferred to 10- and 5-points grades in accordance with the ICEF Grading Regulations (par.3) available at https://icef-info.hse.ru/goto_icef_file_29833_download.html

Retakes are organized in accordance with the [HSE Interim and Ongoing Assessment Regulations](#) (incl. Annex 8 for ICEF). Grade determination after retakes is done in accordance with ICEF Grading Regulations (par. 5) available at https://icef-info.hse.ru/goto_icef_file_29833_download.html

Grade determination

The first half-year grade is based on the following weights:

- 12% – for written home assignments;
- 12% – for class participation;
- 26% – for the autumn MOCK exam;
- 50% – for the winter internal exam.

$$1^{\text{st}} \text{ HY G} = 0.12 \cdot \text{HA} + 0.06 \cdot \text{Tests} + 0.06 \cdot \text{Att} + 0.26 \cdot \text{Mock} + 0.5 \cdot \text{WE}$$

The final grade is based on the spring internal exam (50%) and the remaining 50% is given for performance evaluation during the course including:

- 40% – for the first half-year grade;
- 5% – for home assignments in the second half-year;
- 5% – for class participation in the second half-year.

$$\text{Final G} = 0.4 * 1^{\text{st}} \text{ HY G} + 0.025 * \text{Tests} + 0.025 * \text{Att} + 0.05 * \text{HA} + 0.5 * \text{SE}$$

Essential reading

David Alexander, Anne Britton, Ann Jorissen, Martin Hoogendoorn, Carien van Mourik

International Financial Reporting and Analysis
Seventh edition, 2017 (IFRA)

Additional reading

- Collins, B. and J. McKeith *Financial Accounting and Reporting*. (London: McGraw-Hill, 2010)
- Nobes, C. *The Penguin Dictionary of Accounting*. (London: Penguin Books Ltd, 2006)
- Owen, G. *Dictionary of Accounting*. (Oxford: Oxford University Press, 2005)
- Deegan, C. and J. Unerman *Financial Accounting Theory*. (London: McGraw-Hill, 2011)
- Glautier, M.W.E. and D. Morris *Accounting Theory and Practice*. (Harlow: Financial Times Prentice Hall, 2011)
- Lewis, R. and D. Pendrill *Advanced Financial Accounting*. (Harlow: Financial Times Prentice Hall, 2004)
- Palepu, K.G., and P.M. Healy *Business Analysis and Valuation: Using Financial Statements*. (Mason, OH: Thomson South-Western, 2008)
- Nobes, C. and R. Parker *Comparative International Accounting*. (Harlow: Financial Times Prentice Hall, 2012)
- Choi, F.D. and G.K. Meek *International Accounting*. (Harlow: Pearson, 2012)
- Ernst and Young, *International GAAP 2015: Generally Accepted Accounting Practices Under International Reporting Standards*. (Chichester: John Wiley and Sons, 2015)
- Scott, W. *Financial Accounting Theory*. (London: Prentice-Hall, 2003)

Internet Resources

University of London - Virtual Learning Environment (Student Portal)
(<https://my.london.ac.uk/>)

Course outline

1. Introduction to the course. Rationale for financial reporting and its regulation.

Financial accounting theory. Financial accounting and its role. Financial accounting

regulation. Accounting standards. Descriptions of accounting and its regulation. UK accounting regulation and the influence of international accounting standards. Institutional setting for accounting regulation: the UK. Statutory regulation: IASs/IFRSs gained force of law. Mandatory regulation: standard-setting and the case of the UK. (IFRA Ch. 1-3)

2. Conceptual framework.

Definition of a conceptual framework. Rationale for a conceptual framework. Advantages claimed for a conceptual framework. The US, IASC and UK initiatives compared. Objectives of financial reporting. Qualitative characteristics of accounting information. Elements of financial statements. Presentation of financial information. Review of the conceptual framework. (IFRA Ch. 9)

3. Preparation of financial statements.

Main forms of statements in financials. Statement of financial position. Income statement. Statement of other comprehensive income. Statement of changes in equity. Cash flow statement. Correlation between the main forms. (IFRA Ch. 10)

4. Ethics for accountants.

Personal ethics. Professional ethics. Corporate social responsibility. (IFRA Ch. 11)

5. Fair value and other accounting systems of price adjustments. Accounting for changing prices/values.

Fair value concept. IFRS 13. Measurement process. Disclosure. Characteristics of HCA. Advantages and disadvantages of HCA. Alternatives to HCA. Introducing CPP accounting. General and specific changes in price. Profit recognition and capital maintenance. Assessing CPP accounting. Converting from HCA to CPP: a step-by-step guide. Worked example and explanation of CPP. Advantages and disadvantages of CPP. Introduction to current value accounting (CVA). Replacement cost accounting (RCA). Advantages and disadvantages of replacement cost. Net realisable value (NRV). Present value (PV). Deprival value (DV). Advantages and disadvantages of deprival value. Holding gains and current operating profit. Capital maintenance concepts. Current value accounting using replacement cost. Worked example and explanation of CVA. Combined CPP/CVA system. (IFRA Ch. 5-8)

6. Accounting for tangible non-current assets.

Tangible non-current assets (owned). Measurement of tangible non-current assets. Borrowing costs. Measurement after recognition: revaluation. Depreciation. Investment property. Reclassifications. Change of intention regarding use of non-current asset. Tangible non-current assets (not owned): leases. IAS 17. Classification of lease. Accounting by lessees. Accounting by lessors. Sale and leaseback transactions. (IFRA Ch. 13, 16)

7. Accounting for intangible assets.

Goodwill: history of accounting approaches. Intangible assets (other than goodwill). Impairment: IAS 36. Research and development. International differences. (IFRA Ch. 14-15)

8. Accounting for inventories and construction contracts.

Components of inventory. Implications of inventory for the accounts. Inventory valuation: definitions. Implications of fair value accounting. Construction contracts. Profit recognition methods. (IFRA Ch. 17)

9. Accounting for financial instruments.

IAS 39. Definition of financial instrument. Recognition and derecognition of financial instruments. Categories of financial assets and liabilities. Measurement of financial instruments. Moving to IFRS 9. (IFRA Ch. 18)

10. Accounting for equity and liabilities.

Share capital and reserves. Ordinary shares. Preference shares. Accounting issues: equity or liability? Off-balance sheet financing. (IFRA Ch.18)

11. Accounting for employee benefits.

Short-term employee benefits. Post-employment benefits. Defined contribution plans. Defined benefit plans: recognition and measurement. (IFRA Ch. 22)

12. Accounting for provisions, contingent assets, contingent liabilities. Events after reporting period.

IAS 37. Recognition of a provision. Disclosure of contingent assets and contingent liabilities. IAS 10. Events after reporting period: adjusting and non-adjusting. (IFRA Ch. 20)

13. Consolidated accounts. Business combinations.

Key principles and rationales. Requirement for consolidated accounts. Different models of group accounting. Different types of relationships within a group. Concept of influence and control. Accounting for subsidiaries. (IFRA Ch. 26)

14. Consolidated accounts. After date of acquisition.

Post-acquisition profit. Intergroup transactions. Dividend elimination. Unrealised profit. Non-controlling interest. Goodwill impairment. Consolidated statement of total comprehensive income. Consolidated statement of changes in equity. Consolidated cash flow statement. (IFRA Ch. 27-28)

15. Consolidated accounts. Associates and joint arrangements.

IAS28. Significant influence concept. "Upstream" and "downstream" transactions. IFRS11. Joint ventures. Joint operations. (IFRA Ch. 29)

16. Accounting for foreign currencies

Foreign currency conversion: business transactions. Foreign currency translation: business transactions. Exchange rates that should be used to record foreign currency translations. Accounting for the closing rate method and the temporal method. Consolidation of foreign subsidiaries. (IFRA Ch. 30)

17. Accounting for taxation

An introduction to corporation tax systems. UK: corporation tax. Deferred taxation: taxable profit versus accounting profit. Approaches to the accounting treatment of deferred tax. Value-added tax (VAT). (IFRA Ch. 21)

18. Analysis and interpretation of financial reports

Introduction to the interpretation of financial statements. Ratio analysis – introduction. Trend analysis. Earnings per share. IAS33. (IFRA Ch. 12, 32)

Distribution of hours

No	Topic	Lecture hours	Class hours	Self-study	Total hours
1	Introduction to the course. Rationale for financial reporting and its regulation.	2	2	8	12
2	Conceptual framework.	2	2	8	12
3	Preparation of financial statements.	2	2	8	12
4	Ethics for accountants.	2	2	8	12
5	Fair value and other accounting systems of price adjustments. Accounting for changing prices/values.	4	4	18	26
6	Accounting for tangible non-current assets.	4	4	18	26
7	Accounting for intangible assets.	2	2	9	13
8	Accounting for inventories and construction contracts.	2	2	9	13
9	Accounting for financial instruments.	6	6	27	39
10	Accounting for equity and liabilities.	2	2	9	13
11	Accounting for employee benefits.	2	2	9	13
12	Accounting for provisions, contingent assets, contingent liabilities. Events after reporting period.	2	2	9	13
13	Consolidated accounts. Business combinations.	4	4	18	26
14	Consolidated accounts. After date of acquisition.	4	4	18	26
15	Consolidated accounts. Associates and joint arrangements.	2	2	9	13
16	Accounting for foreign currencies.	6	6	27	39
17	Accounting for taxation.	4	4	18	26
18	Analysis and interpretation of financial reports.	4	4	18	26
		56	56	248	360