# Advanced financial accounting

## Prof. Alberto Marchesi

***COURSE AIMS AND EXPECTED LEARNING OUTCOMES***

*Course aims*

The course approaches the themes of corporate financial accounting, financial public information, and financial analysis in an International Financial Reporting Standards (IFRSs) setting. Its aim is to develop an advanced and critical understanding - methodological as well as application oriented - of some of the major issues arising from drawing-up, interpretation and analysis of financial statements. These skills are useful for top executives, accounting, finance and business managers and consultants, controllers, auditors, as well as for financial analysts of banks, of institutional investors and of other professional investors.

Considering the complexity and broadness of the subject, an applied selective approach is adopted, integrating theory and discussion of case studies related to financial statements of entities (both banks and industrial companies or groups).

In the first part of the course, the financial reporting system and its principles are reviewed in an application-oriented approach, to lead the student to develop an applied overview of the general relations and problems arising from financial reporting drawing-up and analysis: these skills are essential for a profitable attendance at the course.

In the following parts of the course, some of the major financial accounting, analysis and reporting issues are discussed: equity and Earnings Per Share, impairment of fixed assets, financial instruments, consolidated financial statements.

Management commentary and other public corporate financial information issues are discussed during case studies.

Each topic will be considered from three related points of view: representation; measurement problems and models; impacts on information interpretation and analysis.

*Expected learning outcomes*

1. *Knowledge and comprehension skills*

At the end of the course, students will have: an overall view of the public financial information system according to IFRSs and to the best international practice; a related micro-language interactive knowledge (i.e. using correctly specific technical language and concepts); a good understanding of the content, logic and approach of some selected IFRS principles; an analytical attitude, enabling them to deal also with other or new accounting principles and with subsequent amendments and interpretations.

*b) Applied skills*

At the end of the course, students will be able to: approach properly the reading and interpretation of separate and consolidated financial statements; apply the accounting and valuation techniques discussed during the course; both prepare correctly financial accounting data and analyze them effectively, with particular attention to consistency-comparability issues.

*c) Overall cross-skills*

Overall cross-skills of students - in particular critical analysis, ability to deal with different cases and situations, and aptitude to financial communication in English - will also be enhanced.

***COURSE CONTENT***

1. *The financial information system and its basic principles: an applied overview*

– The relations connecting the statements of financial position, of income, of comprehensive income, of changes in equity and of cash flows.

– The statement of cash flows: operating, investing, and financing activities.

– Comparing financial statements and using main financial ratios.

2. *Equity and Earnings per Share (EPS)*

– Stockholders’ equity fundamentals.

– EPS in a simple and in a complex capital structure.

– From EPS to Price Earnings (P/E).

3. *Impairment of tangible and of intangible fixed assets*

– Impairment of fixed assets basics.

– Impairment of property, plant, and equipment, and of intangible assets.

4. *Financial Instruments*

– The complexity of accounting rules for Financial Instruments

– Classification and Measurement.

5. *Consolidated financial statements*

– Consolidated financial statements: principles.

– Consolidated financial statements with non-controlling interest.

– Group financial analysis and ratios: basics.

6. *Management commentary and other public corporate financial information*

– Shareholders letter and Management commentary to financial statements.

– Interim reporting.

– Public information in mergers, acquisitions, reorganizations, and restructuring.

***READING LIST***

*Basic textbook and for mandatory preliminary readings*

S.M. Bragg, Interantional Accounting: 2023 Edition, Accounting Tools Inc., 2022.

*Further textbooks and papers*

PKF International, Wiley Interpretation and Application of IFRS Standards 2023, Wiley, 2023.

J. Maynard, Financial Accounting, Reporting, and Analysis, Oxford University Press, 2017.

International Accounting Standards Board, The IFRS Accounting Standards – Issued at 1 January 2023, International Accounting Standards Board, 2023. Official english text of current IFRSs and accompanying documents, three volumes: Part A (issued standards); Part B (accompanying guidance); Part C (bases for conclusions). Also available on-line at www.ifrs.org.

IFRS, Practice Statement 1 - Management commentary, March 2018; also available on-line at www.ifrs.org.

S. Pisano - F. Alvino, New European Union’s Requirements and IFRS Practice Statement “Management Commentary”: Does MD&A Disclosure Quality Affect Analysts’ Forecasts?, Journal of Modern Accounting and Auditing , June 2015.

*Textbooks and other marterials use: notes*

The list of the mandatory preliminary readings chapters is available on Blackboard.

*Basic textbook*, providing summaries of the accounting principles and examples, shall be the main reference both for mandatory preliminary readings and for the course.

*Further textbooks and papers* are suggested for specific needs of in-depth and updated study on particular topics.

Due to the continual evolution process of IFRSs, differences in contents between current IFRSs and texbooks, papers, business cases are, of course, common and help to better understand and deal with the evolution process itself: additional suggestions and materials on current IFRSs discussed during lessons will be available for students.

Indications on relevant chapters in textbooks and further readings suggestions will be given during lessons.

Additional materials (slides, business cases, papers, comments or schemes on current IFRSs, separate or consolidated financial statements of companies or groups, former exam questions and solution drafts, audio podcasts, etc.) are posted on the professor’s Blackboard page.

An integrated study of textbooks-papers, of the relevant parts of current IFRSs standards and interpretations, and of additional materials and financial statements discussed during lessons is recommended.

***TEACHING METHOD***

Individual mandatory preliminary readings are requested, in order to reach a uniform students’ entry level, concerning both basic contents and specific financial accounting vocabulary. An early start of preliminary readings is recommended, preferably during the first part of the course.

Lessons will combine theory with case studies, discussion of financial statements of listed entities, and related financial analyses: an active participation by students is encouraged and recommended.

Additional materials are aimed at helping students to develop a critical and applied approach to financial accounting and financial analysis problems, as well as to enhance their communication skills on the subject.

***ASSESSMENT METHOD AND CRITERIA***

*a) Exam structure and contents*

Written exam. Time allowed: approximately 120 minutes.

Assessment combines theory issues and application problems, with a particular attention to problems discussed during lessons and to materials provided.

*b) Assessment*

Assessment covers several topics of the course through a set of questions (varying from 4 to 6, depending on the length and complexity of the answers required), structured in subquestions in order to draw a logical path for the student’s answer. In some cases schemes are provided as a further guidance to answer applied parts of questions.

Usually each question has a similar weight in total valuation. For instance: in the case of 5 questions, each question usually weighs 1/5 of total valuation, that is 6/30 of total maximum valuation of 30/30; in the case of 5 questions having equal weight, valuation for the answer to the single question will vary from 0 (in case of missing, or of strongly not acceptable, or of totally not pertinent answer) to 6 (in case of excellent answer). Possible relevant differences in weight assigned to questions, if any, are communicated at the beginning of the written exam.

Valuation of the exam papers will consider with particular interest: pertinence and depth of answers, correct use of concepts and specific terms, quality and coherence of applied solutions and of their interpretations. These issues might influence final valuation in a range approximately between 30% and 40%.

*c) Previous exam texts and solution drafts*

A wide collection of former exam texts and of solution drafts for the applied questions is available on the professor’s Blackboard page and should be used as exercise book (of course paying attention to changes during time in IFRSs).

Please note that some of the fairly recent exam texts are shorter (with time allowed approximately 60 minutes), due to on-line exam procedures applied during the pandemic restrictions period, but methodological approach and contents are unchanged.

***NOTES AND PREREQUISITES***

*Notes and warnings*

All further information and news are posted on the professor’s Blackboard page. Some of the most important of them are also posted on instructor’s University open webpage (English section) at *https://docenti.unicatt.it.*

*Preliminary requirements*

Students are required to have, as entry level, a basic knowledge of the major issues in General management, Financial accounting, Corporate finance, Financial analysis, Corporate Law and Corporate Tax.

*Office hours*

Office hours (if not differently specified) take place at Dipartimento di Scienze dell’economia e della gestione aziendale, nr. 7 via Necchi, Milano, first floor:

– either at the dates announced both on Blackboard and on the News of the professor’s University open webpage;

– or by specific meeting (in person or remotely), to be requested by e-mail to *alberto.marchesi@unicatt.it*.