

ACC 201: Financial Accounting

BIM 3rd Semester

Credits:3

Lecture Hours:48

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 profit and loss account, balance sheet and cash flow statement and their analysis.

Course Details

Unit 1: Basic Understanding of Financial Accounting

2 LHs

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; Elements and components of financial statement; Limitations of financial accounting.

Unit 2: Conceptual Framework of Accounting

3 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; Basic accounting conventions: consistency, conservatism, materiality and full disclosure; Differences between accrual versus cash basis of accounting; Differences between accounting and accountancy. Accounting standards: meaning, nature, need, significance and classification of accounting standards; Concept of Nepal Accounting Standards (NASs), International Accounting Standards (IASs), Nepal Financial Reporting Standards (NFRSs), International Financial reporting Standards (IFRSs); Disclosures required as per NFRS.

Unit 3: Accounting Process

8 LHs

Accounting events of business: concept and types; Accounting equation for analyzing the transactions; Debit and credit and their rules; Recording process of accounting events: journal, ledger, and trial balance. Opening and closing entries: concept and types of closing entries; Adjusting entries: concept and types of adjusting entries; Prepaid and outstanding items; Adjusted trial balance.

Unit 4: Accounting for Cash and Bank Reconciliation Statements

4 LHs

Concept of cash and bank; Types of bank account; Cheques: concept and types, parties to a cheque, honor and dishonor of cheque; Bank Statement: concept and importance; Preparation of bank reconciliation statement.

Unit 5: Accounting for Property, Plant and Equipment**4 LHs**

Concept, features and types of property, plant and equipment; Acquisition cost of property, plant and equipment; Depreciation of property, plant and equipment: Straight-line method, diminishing balance method, and unit of activity method; Choice of depreciation method; Disposal of property, plant and equipment; Impact of depreciation on profit measurement; Intangible assets: concept and types; Capital versus Revenue: concept and types.

Unit 6: Basic Financial Statements**18 LHs**

Financial statements: concept, objectives and limitations; Basic Nepal Accounting Standards (NASs): NAS 1: Presentation of financial statements, NAS 2: Inventories, NAS 7: Statement of cash flow, NAS 8: Accounting policies, changes in accounting estimates and errors, NAS 10: Events after reporting period, NAS 16: Property, plant and equipment

Preparation of financial statement under NFRS: Statement of Profit or Loss (Income Statement): concept, types and components of profit or loss statement

Statement of financial position (Balances Sheet): concept, purpose, components and preparation of classified statement of financial position or balance sheet;

Statement of other comprehensive income: concept, components and preparation of other comprehensive income statement;

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

Cash Flow Statement: Meaning, objectives and limitations of cash flow statement; Contents of cash flow statement; Preparation and interpretation of cash flow statement using balance-sheets of single and two periods under direct and indirect method.

Unit 7: Value Added Statement**3 LHs**

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

Unit 8: Analysis of Financial Statement**6 LHs**

Meaning, objectives, need and importance of financial statement analysis; Types of financial statement analysis: Horizontal, vertical and trend 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, 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-earnings ratio) for evaluating the financial performance of the business.

Suggested Readings

Accounting Standards Board, (2018). *Nepal Financial Reporting Standards* Kathmandu: ASB.

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.