

## PRINCIPLES OF ACCOUNTING (AC110)

**Course duration:** 54 hours lecture and class time (Over three weeks)

**LSE Teaching Department:** Department of Accounting

**Lead Faculty:** Ahmed Abdalla

**Pre-requisites:** None. This course is a first-level introduction to accounting, and therefore students do not need any prior knowledge of the subject. However, as accounting involves the manipulation of data expressed in numerical terms, students should have a basic grounding in mathematics.

### Course Aim:

The course is intended to introduce students to the basic concepts, methods and practices of accounting. By the end of the course, students should be in a position to understand:

- the uses to which accounting information may be put
- different types of accounting entity
- the fundamental concepts of accounting, and the various accounting conventions that apply these concepts
- the generation of the data recorded in accounting systems
- the recording of basic transactions within the double-entry system
- the periodic measurement of profit by businesses
- the preparation of annual financial statements (statement of financial position, income statement, statement of cash flows) for simple businesses
- the various elements of financial statements: assets, liabilities and capital
- the regulation of financial statements
- measures of profitability and liquidity, including cash flow statements
- the analysis and interpretation of financial accounting information
- some of the problems with historical cost accounting in times of changing prices and how they might be overcome
- basic issues relating to the accounting statements of groups of companies.



**Course Structure:**

In the main the course is based around:

- **Atrill & McLaney, *Financial Accounting for Decision Makers*, Pearson, 8<sup>th</sup> edition 2015**

References are given to this book in the course programme (below). However you may wish to extend your knowledge of the subject by reading beyond the material specified, and the textbook gives additional references at the end of each chapter. We will introduce additional material where necessary, and supplementary readings will be provided. Lecture notes will be provided for all sessions, and students will be able to access an interactive tutorial for further practice at double-entry bookkeeping.

**Interactive Bookkeeping Tutorial:**

Students who have no previous knowledge of accounting, and in particular double-entry bookkeeping, will find the interactive bookkeeping tutorial which is available on School-based PCs helpful. It is entirely menu-driven, and all you need to access it is to be registered on the LSE's computer network with a user name and password. It is available off and on campus under the following link:

<http://ac100web2.lse.ac.uk/bookkeeping/ubv8.4/>.

To access the package you would need to register once. You may choose any login and password (though you may wish to use your normal LSE network login and password for convenience).

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**Lectures and Classes:**

Lectures will normally commence at 10 am. The sessions end at 1 pm, and there will be a short break in the middle for refreshments. It may be necessary to vary this occasionally.

The accompanying classes will be one-hour-and-a-half-hour sessions, normally at 2 pm, 3:30 pm and (if numbers require it) 5 pm. It may be necessary to vary this occasionally. Class exercises will be distributed at the start of the course, and will be discussed in class with your class teacher.

**Classwork:**

The work specified for classes is of two types. Some of the classwork will be prepared by students before the class takes place, and then discussed in class, while other work will not require advanced preparation, but will simply be discussed in class.

You should note that some of the problems at the end of each chapter of the course textbook have outline solutions at the end of the book, and you are encouraged to try as many problems as you like and check your answers against the solutions provided.



## Course Programme July/ August 2016

### Week 1

#### Monday: Basic Accounting Concepts

The course will begin with a consideration of accounting as an information system. Basic concepts of accounting will be introduced, and the alternative systems and conventions of accounting that have been developed to apply these concepts will be introduced and discussed.

**Reading:** Atrill & McLaney - Chapters 1 and 2

#### Tuesday: Processing Accounting Data I

This session will examine the generation of the data recorded in accounts. The structure of the double-entry system of bookkeeping will be explained, and its application in different contexts illustrated.

**Reading:** Atrill & McLaney - Chapters 1 and 2 (review), Appendix A

#### Wednesday: Processing Accounting Data II

This session will address the recording of transactions and the preparation of the trial balance.

**Reading:** Atrill & McLaney - Appendix A

#### Thursday: Processing Accounting Data and Preparing Financial Statements I

This session will examine the periodic measurement of profit by businesses, and will deal with the preparation of the statement of financial position and income statement from the accounting records.

**Reading:** Atrill & McLaney - Chapters 2 (review) and 3, review also Appendix A

#### Friday: Preparing Financial Statements II

This session will examine the periodic measurement of profit by businesses, and will deal with the preparation of the statement of financial position and income statement from the accounting records.

**Reading:** Review Atrill & McLaney - Chapters 2 and 3 and also Appendix A



## **Week 2**

### **Monday: Preparing Financial Statements III**

By the end of this session, students should be able to prepare simple financial statements from basic accounting records and from details of transactions. There will be a brief introduction to the accounts of companies.

**Reading:** Review Atrill & McLaney - Chapters 2 and 3 and also Appendix A

### **Tuesday: Group Accounts I**

This session will look at the problems of accounting for groups of companies. It will introduce basic techniques for preparing group accounts. Most large businesses (especially those listed on stock exchanges) are groups. By the end of this session, students should be able to prepare simple group accounts.

**Reading:** Atrill & McLaney - Chapter 10

### **Wednesday: Mid-Sessional Exam**

There will be no lecture today

**Reading:** None

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### **Thursday: Group Accounts II**

This session will conclude the basic rules of consolidation for preparing group accounts. It will move on to review important issues relating to group accounting (e.g. determining control, off-balance sheet entities, special purpose entities).

**Reading:** Atrill & McLaney - Chapter 10

### **Friday: Preparing Financial Statements III: The Cash Flow Statement**

This session will engage with the preparation of the third basic financial statement; the statement of cash flows. It will focus on the links between the three financial statements and review the main methods for preparing the statement of cash flows. By the end of this session, students should be able to prepare simple cash flow statements.

**Reading:** Atrill & McLaney - Chapter 6



### Week 3

#### **Monday: Preparing Financial Statements III: The Cash Flow Statement and introduction to financial statement analysis**

The main focus of the session will be on the interpretation of the cash flow statement and the information that could be extracted over and above the information contained in the statement of financial position and the income statement. After highlighting the uses of the cash flow statement the session will move on to an introduction of financial statement analysis.

**Reading:** Atrill & McLaney - Chapter 6

#### **Tuesday: Analysing and interpreting financial statements I**

This session will provide an overview of the methods of analysing and interpreting financial statements. The session will focus on the use of ratios to analyse the firm's profitability, efficiency, liquidity and solvency.

**Reading:** Atrill & McLaney – Chapters 8 & 9

#### **Wednesday: Analysing and interpreting financial statements II**

This session continues with ratio analysis. It will look into how investors and others use financial statements and market information to assess the company's investment potential (i.e. invest in, hold or sell the company's shares). After outlining the key limitations of ratio analysis the session will move on to consider the use of financial statement analysis for valuing the company's shares and the critical issues that analysts need to consider therein.

**Reading:** Atrill & McLaney – Chapter 9

#### **Thursday: Revision**

There will be no lecture today.

**Reading:** None

#### **Friday: Final Examination**

There will be no lecture today.

**Reading:** None



**Credit Transfer:** If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to [summer.school@lse.ac.uk](mailto:summer.school@lse.ac.uk)