

Making the Transition from Accounting to Finance: Cash Flow Analysis

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It is common for business students to take courses in principles of financial and managerial accounting before enrolling in principles of finance (sometimes called corporate finance or managerial finance). After a general overview of financial management, most introductory finance courses and textbooks proceed with a discussion of the relationship between financial statements and cash flow. In our experience, students struggle with this material and end up memorizing formulas rather than understanding the important link between accounting information and valuation. We attempt to identify some problems with the standard methods used to teach cash flow analysis at the introductory level and offer some suggestions on how to present the material. In addition, we ask a more fundamental question: How should we conclude the introductory accounting sequence?

Most students enrolled in principles of accounting will not go on to take more advanced courses in accounting, but will continue to use the concepts they have learned and apply them in other business courses. In light of this fact, we believe that it is important for accounting educators to carefully consider how an introductory accounting sequence will conclude. Equally important from a finance perspective, is an awareness of what students understand and retain from these courses.

In this paper we propose a possible “exit strategy” for principles of accounting, one with an eye toward the majority of business students. This strategy involves a broad view of financial statements, linking them to firm value and cash flow. We view this approach as a holistic method of ending the accounting sequence and one that attempts to prepare students for the transition to other courses in business and management, especially finance.