

Université du Québec en Outaouais

# Advanced Financial Accounting CTB 6053A

Course Outline – Fall 2007

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## Subject matters

Courses	Subjects	Duration
#1-2	<u>Selected accounting practices</u> <ul style="list-style-type: none"> <li>- Intangible assets and R&amp;D</li> <li>- Ownership equity and comprehensive income</li> <li>- Bonds and interest-bearing securities</li> <li>- Earnings per share</li> <li>- Accounting changes</li> </ul>	12h
#3	<u>Foreign currency translation</u> <ul style="list-style-type: none"> <li>- Temporal method</li> <li>- Current rate method</li> </ul>	6h
#4	<u>Mid-term exam</u> <ul style="list-style-type: none"> <li>- Covering subjects of courses #1 to #3</li> </ul>	3h + 1h
#5-6	<u>Hedge accounting and derivatives</u> <ul style="list-style-type: none"> <li>- Economic aspect</li> <li>- Accounting methods (speculating, hedging)</li> </ul>	8 h
#6-7	<u>Corporate investments and international standards</u> <ul style="list-style-type: none"> <li>- Conceptual framework (theory, business combinations)</li> <li>- Accounting methods (cost, fair value, equity method, proportionate and full consolidation)</li> <li>- Particular issues (such as minority interest, inter-company transactions, foreign subsidiaries)</li> <li>- International accounting standards (IFRS)</li> <li>- Other (related party transactions, segment disclosures, differential reporting)</li> <li>- Application in the business world</li> </ul>	10 h
#8	<u>Final exam</u> <ul style="list-style-type: none"> <li>- Covering primarily subjects of courses #5 to #7</li> </ul>	3h + 1h
	Total	42h + 2h

# Introduction

This course is part of the CMA Executive Program offered at Université du Québec en Outaouais. The course outline contains the following sections:

- 1- Introduction
- 2- Main objectives
- 3- Methodology
- 4- Grading
- 5- References
- 6- Detailed readings and study-guide

The subjects of the course "Advanced Financial Accounting" are relatively simple in terms of theory and concepts, but some issues may become quite complex in the application. To succeed, students need to:

- 1- Have a solid base of the accounting conceptual framework and know the basic rules of balance sheet (assets, liabilities, net worth), income statement (revenues, expenses, gains, losses), comprehensive income (new standard 1530 of the CICA Handbook), and cash flow statement (operating, investing, financing)
- 2- Be accustomed to identify the economic substance of operations and understand the consequent accounting treatments
- 3- Adopt a critical and open attitude towards accounting and related disciplines
- 4- Be able to apply and adapt knowledge to new contexts
- 5- Study by giving greater importance to judgment rather than just memorizing formulas
- 6- And with due care weekly because the subjects are very connected and require integration

*It is very important to adopt a critical attitude towards the subject matters and not accept to learn without understanding why. One way to achieve this is to listen carefully during lectures and participate by asking questions and making comments. Students should attend lectures with the objective of understanding the logic of accounting practices, rather than trying to note all the details told by the teacher.*

Several factors contribute to the growth of international business. Free trade agreements are signed and international partnerships are common practice. Subjects relating to advanced accounting are in the news daily and closely connected to strategic decisions of many organizations.

*Look at any financial newspaper and you will find some articles dealing with corporate investments (mergers and acquisitions, etc.) and international business (exports, alliances with foreign partners, etc).*

There are numerous publications dealing with advanced accounting topics. There is, of course, the *CICA Handbook*, but also specialized textbooks and scientific and professional articles. Students must show discernment in deciding which readings and exercises to do and how much time to spend on them. The present document certainly provides indications for that, but each student must adapt his/her efforts according to his/her own strengths and weaknesses, in regard to the objectives of the course.

# Main objectives

The objectives of the course are:

- To provide students with an understanding of the fundamental concepts and accounting treatments concerning financial statement presentation underlying complex business structures
- To enable them to understand the effects of international transactions for financial statement users

After this course, students should be able to do the following in the context of the topics covered:

- Recognize the theory and concepts underlying accounting practices
- Use prior knowledge in financial accounting and related subjects and adapt it to the topics of the course
- Combine and summarize financial information
- Analyse and criticize information
- Enlarge the vision of accounting in terms of financial issues and ethical considerations applicable to the business world

The objectives of the course meet the specific cognitive skills and learning objectives of the CMA Entrance Examination Syllabus in regards to the subjects addressed.

## Methodology

### Teaching approach

The teaching approach includes lectures and discussions during classes, along with self-study, a practical assignment and exams.

Computer is used in various ways :

- A website is available, including a section entitled *Infos* for ongoing communication by the teacher of informations weekly (e.g. homework; solution of a problem discussed in class)
- Softwares such as Excel and PowerPoint during lectures (by the teacher)
- E-mails for individual communication
- Academic results will be available in WebCT (from UQO website under "Symbiose")

The different types of in-class activities are:

- Lectures
- Exercises and case-study analyses drawn from the business world
- Discussions
- Exams

The main vehicle of individual communication is through e-mail. If necessary, students can take an appointment with the teacher if e-mail is not appropriate. Questions/requests must be prepared beforehand.

### What is expected from students

Performance in this course depends on a number of factors including the ability to understand accounting logic and relationships between items of financial statements. This understanding can be gained by attending lectures and doing self-study during the course, but it also follows from the knowledge acquired in previous financial accounting courses (CTB6033A and CTB6043A). To pass the course and meet its

objectives, students need to obtain a global result of 64% or more (refer to the section "Grading" below).

In addition to attend classes, students need to study prior and after each class. The amount of self-study depends on the background and capabilities of each student. For each hour in class, two to three hours of self-study should be planned.

#### Before classes

Generally, students should skim through *recommended readings* beforehand. They should also look at some of the recommended problems. This overview should enable them to recognize the terminology used and prepare some questions in advance. This work is estimated at 90 minutes per week.

#### During classes

During classes, students will be asked for participating and criticizing accounting practices. Prior preparation and constructive attitude are important to create a good learning environment. Students should note that their input is important to allow them to ask relevant questions and also to help the teacher in adapting discussions to the appropriate level.

#### After classes

After each class, students should study in details the recommended readings and problems in accordance to the specific objectives aimed at. It is suggested to write a summary of each subject. *Optional* readings and exercises can also be studied if needed. This work requires approximately 10 to 16 hours of self-study per week.

#### Exams

It is important to have a good exam technique to maximize exam performance, taking into consideration personal strengths and weaknesses. Basic techniques and fundamental concepts will be weighted higher than technical details in the marking of exams. For example, it is expected that students apply very well the consolidation technique as a whole, and errors in this area would be penalised much more severely than deficiencies in some specific calculations or adjustments that do not call into question the understanding of the basic technique.

## Grading

The grading tools measure how well students meet the objectives of the course.

Two exams	On 80
Preparation and participation, including a practical assignment	On 20
Total	On 100

#### Exams (80%)

No material is allowed during exams. Mid-term exam is at course #4 and covers the subjects "Selected accounting practices" and "Foreign currency translation". Final exam is at course #8 and covers primarily the subjects "Hedge accounting and derivatives" and "Corporate investments and international standards". Previous subjects are also included in the final exam because they are an implicit sub-part (for example: foreign currency translation is required to apply foreign currency hedge accounting; consolidation implies the recognition of intangible assets and goodwill).

Exams account for 80% of total evaluation. Higher exam will count for 45% and lower for 35%.

#### Preparation and participation (20%)

Self-study is important to follow lectures and contribute effectively to discussions in class. It is also important to verify how the theory is applied in practice. Preparation and participation marks aim at recognizing this work which is part of the learning process. They count for 20% of final grade and are

broken down as follows:

- 10% for a practical assignment
- 10% for preparation and participation in general

Take note that exams are considered the most important elements of evaluation to determine if a student passes or fails the course. However, preparation and participation marks may allow students to improve their exam results. These marks will correspond to the higher of the following results:

- Actual result for preparation and participation on 20
- Actual result of exams standardized on 20

The criteria to evaluate preparation and participation in general are:

- Sufficient preparation prior to classes, including homeworks when required
- Attendance to classes
- Participation and performance in pedagogical activities during classes
- Self-evaluation after exams (if required by teacher)

Details of the practical assignment are presented below.

#### Practical assignment

The practical assignment's objective is to show and discuss real-life examples of financial statement presentation about subjects covered in the course. It is done individually.

- 1) Each student chooses a subject from the list in the Table below and submits it to the teacher by e-mail for approval.<sup>1</sup>
- 2) Teacher approves the subject by e-mail (subjects are attributed on the basis of first-come-first-served), or asks the student to submit another choice.
- 3) Student reads the *recommended readings* regarding the approved subject and searches for real financial statements (including accompanying notes) showing items relating to it. For this purpose, the data base named *Sedar* can be used ([www.sedar.com](http://www.sedar.com)), or any other source of data. Some tips are suggested in the second column of the Table.
- 4) Student prepares *photocopies* for every student of the group and prepares some *observations* and *comments*.  
*Photocopies* are the financial statements (balance sheet, income statement, cash flow statement, statement of retained earnings or shareholders' equity, statement of comprehensive income if available) and appropriate accompanying notes. This corresponds usually to a few pages only.  
*Observations* are elements identified in the selected financial statements and that are concerned by the subject chosen.  
*Comments* are questions that the student asks regarding the match (or mismatch) in the theory Vs its application in practice. They do not aim at explaining the accounting standards applicable as the subject has not yet been covered in class when student does the assignment.<sup>2</sup>
- 5) Student makes an oral presentation of his/her assignment during the course in which the subject is covered. The objective is to present *observations* and *comments*, as described above, and not to

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<sup>1</sup> The student can suggest several subjects in case his/her first choice would not be available.

<sup>2</sup> In certain situations, one *observation* can be the fact that no separate presentation has been found in actual financial statements, or that the presentation seems to be incomplete. This can be appropriate and meet the objective of the assignment if this accounting disclosure is representative of the common practice in the business world. In such a situation, the student could decide to refer to financial statements of several companies to give more depth to his/her assignment.

explain theory. Student distributes photocopies to other students and teacher (photocopies include only the selected financial statements and those notes considered relevant). The expected dates are indicated in the third column of the Table. Duration is 5 to 7 minutes.

The criteria to evaluate the practical assignment take into consideration the level of difficulty applying to subjects and the fact that it is done during the learning process, before all concepts and techniques have been covered. Quality is more important than quantity. Criteria are as follows:

- Effort and autonomy
- Relevance (accuracy and clarity of observations/comments, without important omission)
- Contribution to the learning process of the group and efficiency of presentation
- Instructions followed and professionalism<sup>3</sup>

**Table : Subjects for the practical assignment**

<i>Subject</i>	<i>Tips</i>	<i>When</i> <sup>4</sup>
Intangible assets (excluding R&D)	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	Course #1
Research and development	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	#1
Ownership equity	Show an example of note about several categories of shares (common and preferred) + presentation of the shareholders' equity in the balance sheet + presentation of the statement of retained earnings, including at least one component relating to a repurchase of shares	#1
Comprehensive income	Show an example of presentation by a company using US GAAP	#1
Bonds (investment and payable)	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	#2
Earnings per share	Show an example of basic earnings per share + a diluted earnings per share	#2
Accounting changes	Show an example of accounting policy about the use of estimates + an example of note about an accounting change with prior period adjustment + the statement of retained earnings showing this adjustment	#2

<sup>3</sup> Take note that the choice of *photocopies* to distribute is part of the evaluation. Photocopies must be related to the subject chosen, without overloading with irrelevant informations. Also, the presentation should consist mainly of *observations* and *comments*, not of theoretical explanations; presentations with more than 2 minutes of theoretical explanations will be penalized.

<sup>4</sup> Presentations scheduled at course #1 are prepared before the beginning of the session, unless a different date is authorized by the teacher.

<i>Subject</i>	<i>Tips</i>	<i>When</i> <sup>4</sup>
Foreign currency translation (excluding hedge accounting)	Show an example of accounting policy for both methods (Temporal and Current rate) + presentation in the balance sheet + presentation in the income statement	#3
Financial instruments (excluding hedge accounting)	Show an example of note	#5
Hedge accounting	Show an example of accounting policy	#5
Accounting policies for consolidation (full and proportionate)	Show an example of accounting policies	#6
Minority interest (noncontrolling shareholders)	Show examples of presentation in the balance sheet + in the income statement	#6
Cost method (portfolio investments) and Equity method (significant influence)	Show an example of accounting policies + presentation in the balance sheet + presentation in the income statement	#6
International accounting standards (IFRS)	Show an example of financial statements prepared in accordance to IFRS	#7
Related party transactions	Show an example of note	#7
Segment disclosures	Show an example of note	#7
Differential reporting	Show an example of note	#7

#### Final grade

Final results are established using the following scale:

Final result	Scale
A+	92-100 %
A	88-91 %
A-	84-87 %
B+	80-83 %
B	76-79 %
B-	72-75 %
C+	68-71 %
C	64-67 %
E	0-63 %

# References

References are indicated in the website : [w3.uqo.ca/michel.blanchette/6053menu.htm](http://w3.uqo.ca/michel.blanchette/6053menu.htm)

## Obligatory textbooks

Obligatory textbooks are supplied by the program. Normally, obligatory textbooks should have been provided to students in the course CTB6043A Issues in Financial Accounting. If not, please contact Ms. Carolle Moyneur to get them ([carolle.moyneur@uqo.ca](mailto:carolle.moyneur@uqo.ca), 819-595-3900 ext 1905), or to order updates. The third reference will be provided by Ms. Moyneur.

- 1) Canadian Institute of Chartered Accountants, *CICA Handbook* (including update no 43, March 2007)
- 2) Beechy, T.H. and J.E.D. Conrod, *Intermediate Accounting*, McGraw-Hill Ryerson Limited, 3rd edition, 2005
  - 2.1) Volume One (ISBN 0-07-093031-7)
  - 2.2) Volume Two (ISBN 0-07-093035-X)
- 3) Hilton, M.W. and D. Herauf, *Modern Advanced Accounting in Canada*, McGraw-Hill Ryerson Limited, 4th edition, 2005
  - 3.1) Textbook (ISBN 0-07-093037-6)
  - 3.2) Solutions Manual (cover-page in French, content in English) (ISBN 2-7651-0482-4)

## Other references

Please refer to the course website.

# Detailed readings and study-guide

## Preparation

### Overview

Subjects of the course "Advanced Financial Accounting" are structured in a progressive way, i.e. starting with the less complex issues (courses #1-2), followed by topics related to foreign currency and hedging (courses #3-6), and finishing with integrative issues (courses #6-7).

At courses #1 and #2, we continue the study of financial statement items that began in the courses "Financial Statements" (CTB 6033A) and "Issues in Financial Accounting" (CTB 6043A). These items are intangible assets including research and development, ownership equity and comprehensive income, bonds and interest-bearing securities (investments and debts), earnings per share, accounting changes.

At course #3, we study the methods of foreign currency translation: temporal and current rate.

Mid-term exam is at course #4.

At courses #5 and #6, financial risks and strategies are covered, including the use of derivatives and hedge accounting.

At courses #6 and #7, the conceptual framework at the base of accounting for corporate investments and business combinations is established. And we study the impact on financial statements of the various types of investments (portfolio, subject to significant influence, joint venture, subsidiary). International accounting standards are also discussed. Other subjects are introduced: related party transactions, segment disclosures, differential reporting.

Final exam is at course #8.

### Prior Knowledge

The courses "Financial statements" (CTB 6033A) and "Issues in Financial Accounting" (CTB 6043A) are prerequisite to the course "Advanced Financial Accounting" (CTB 6053A). Students need to understand the conceptual framework underlying the basic issues in accounting: recognition, measurement and presentation. The important thing is not to remember all technical details previously learned but to be able to transpose this knowledge by adapting it to the subjects studied. It is recommended to revise the following accounting standards (*CICA Handbook*) prior to the course:

- 1000 Financial Statement Concepts
- 1540 Cash Flow Statements

Other standards may also be referred to if needed:

- 1100 Generally accepted accounting principles
- 1400 General Standards of Financial Statement Presentation
- 1505 Disclosure of Accounting Policies
- 1508 Measurement Uncertainty
- 1520 Income Statement
- 3061 Property, Plant and Equipment
- 3063 Impairment of Long-lived Assets
- 3280 Contractual Obligations
- 3290 Contingencies

- 3820 Subsequent Events
- 3831 Non-monetary Transactions

Finally, previous courses in finance, taxation and management accounting are connected with the subjects covered in advanced accounting. Students may refer to these courses if needed.

## Levels of importance

The rest of this section presents the following information per subject :

- 1) Specific objectives (list of knowledge and abilities to develop)
- 2) Readings
- 3) Suggested problems

Readings must be studied in relation with the specific objectives aimed at. These objectives are mainly based on the *CMA Entrance Examination Syllabus* and comprise three levels of cognitive skills: "Knowledge" which is at a basic level (ex: to define, list, describe, identify); "Comprehension" which implies to show an understanding of the subjects in addition to recalling (ex: to explain, differentiate, summarize); and "Application" which means to be able to apply knowledge to problem situations (ex: to calculate, use, formulate, determine, prepare). Reference to *CMA Entrance Examination Syllabus* and required levels are indicated in brackets at the end of each specific objective:

- A = Application (highest level)
- B = Comprehension
- C = Knowledge

For example, the reference (4.4 - A) mentioned in the second specific objective of the sub-section "Intangible assets and R&D" below means that the objective corresponds to the point 4.4 of the financial accounting section in the *CMA Entrance Examination Syllabus* and that the required cognitive skill (A) is the highest (be able to apply knowledge to problem situations).

*Caution: Understanding<sup>5</sup> is not necessarily correlated with the number of hours spent in studying. The author of this document observed that students who perform better in advanced accounting are those who listen attentively in class and who use discernment in deciding what readings and problems to do. They often spend less time in studying than other students who are unable to use their judgment and adapt their study according to the importance of subjects. Another key-success-factor is that their self-study and preparation is up-to-date with the flow of the course. It is better to have a good overview of the forest as a whole (and be able to make logical deductions and adapt to various situations) than to concentrate on some isolated trees (and have no idea of the underlying substance).*

Readings are classified into two categories: recommended and optional.

- *Recommended readings* must be carried out in relation to the specific objectives per subject. They begin with Canadian accounting standards available in the *CICA Handbook*. Other recommended readings refer to Beechy/Conrod, Hilton/Herauf and some other references usually available from the website.
- *Optional readings* provide more details about the various subjects covered and the prior knowledge required. Some of these references may be looked at by students who need more explanations or wish to see other approaches for the subject matters.

*Readings provide explanations aiming at understanding the subject matters. They should be studied in conjunction with the specific objectives they relate to. More importance should be attached to the*

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<sup>5</sup> Memorizing is not understanding...

*parts of readings directly addressing the specific objectives per subject and less importance to the parts extending beyond these objectives or addressing exceptional cases. This is due to the fact that many references include extended issues and exceptional cases in addition to the basic theory, for example in standards 3855 and 3865 of CICA Handbook and in many chapters of Beechy/Conrod and Hilton/Herauf. It is therefore strongly suggested to keep in mind the specific objectives when doing the readings.*

Suggested problems are also presented in two categories: recommended and optional.

- *Recommended problems* are considered as a minimum to cover the subject matters. All these problems should be done by students (in relation to the specific objectives).
- *Optional problems* are for those who need more practice. The quantity of optional problems to do depends on the skills and understanding of each person.

*Making a large number of problems does not guarantee a better understanding. Doing several similar problems may even bring a person on neglecting to understand the substance and developing automatic mechanisms based on memorization rather than logic. In such a case, the memorized formulas or recipes may not be adapted to solve problems for which data would be presented differently. The most important thing is not the quantity of problems solved, but the quality of the time spent in understanding the application of the techniques in relation to the underlying theory, so that one can solve problems on his/her own.*

## - - - Intangible assets and R&D<sup>6</sup> - - -

### Specific objectives

- Recognize the uncertainty inherent in the measurement of intangible assets compared to tangible (B)
- Understand and demonstrate the ability to appropriately account for intangible assets and research & development costs (4.4 - A)

### Recommended readings

- CICA Handbook:
  - . Standard 3062 Goodwill and Other Intangible Assets, parag. 01-21, 48-54, appendix on examples of acquired intangible assets
  - . Standard 3063 Impairment and Long-lived Assets, parag. 01-06, 09-10, 12, 18, 24, A1-A5, A25
  - . Standard 3450 Research and Development Costs
- Beechy/Conrod:
  - . Chapter 9 Capital Assets, Goodwill, and Deferred Charges (excluding goodwill)
  - . Chapter 10 Amortization and Impairment

### Optional readings

- CICA Handbook:
  - . Standard 3061 Property, Plant and Equipment
  - . Standard 3062 Goodwill and Other Intangible Assets, example 1 (at the end)
  - . Standard 3063 Impairment and Long-lived Assets, parag. 07-08, 11, 13-17, 19-23, A6-A24, B1-B19

### Problems

Intangible assets and R&D	Recommended	Optional
Beechy/Conrod - Chapter 9		
- questions	7, 8, 15, 18	6, 9, 22
- assignments	21, 23, 28	7, 22
Chapter 10		
- questions	7, 10, 11	6-8
- assignments	26	31

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<sup>6</sup> Excluding goodwill which is covered later with corporate investments.

## - - - Ownership equity and comprehensive income - - -

### Specific objectives

- Account for ownership equity – including organization costs, investments by and distributions to owners (3.5 - A)
- Understand comprehensive income and account for some unrealized gains and losses in other comprehensive income (B)
- Apply generally accepted accounting principles relating to the issuance, reacquisition and retirement of shares (3.5 - A)
- Account for stock splits and stock dividends (3.5 - A)
- Define and prepare a statement of retained earnings (3.5 - A)
- Recognize the importance of excluding capital transactions from the income statement (A)
- Recognize that some financial instruments require the recognition of ownership equity items, such as convertible debts (C)

### Recommended readings

- CICA Handbook:
  - . Standard 1530 Comprehensive income
  - . Standard 3240 Share Capital
  - . Standard 3251 Equity
  - . Standard 3610 Capital Transactions
  - . Standard 3861 Financial Instruments, parag. 10-26
- Beechy/Conrod:
  - . Chapter 3 The Income Statement and the Retained Earnings Statement (comprehensive income and retained earnings)
  - . Chapter 13 Shareholders' Equity
  - . Chapter 14 Complex Debt and Equity Instruments (convertible debt and stock options, pp.856-883)

### Optional readings

- CICA Handbook:
  - . Standard 3260 Reserves

### Problems

Ownership equity	Recommended	Optional
Beechy/Conrod – Chapter 3 - questions	3, 4, 18	
Chapter 13 - questions	1, 2, 8, 10, 11, 13, 18	3, 9, 14, 15, 17, 19
- assignments	1, 2, 4, 5, 7, 9, 10, 13, 14, 19, 28, 35	6, 8, 11, 12, 15, 16, 20, 29, 31
Chapter 14 - questions	3, 5-7, 9	1, 4, 8, 10
- assignments		3-5

## - - - Bonds and interest-bearing securities (asset, liability) - - -

### Specific objectives

- Demonstrate the ability to account for long-term investments in bonds and their associated premium or discount (3.2 - A)
- Account for mortgages and interest-bearing notes as well as bonds payable and their associated premium or discount (3.4 - A)
- Understand the difference between the straight-line method and the effective interest method of amortization of premium or discount (A)
- Calculate interest to recognize in income (A)
- Account for gains and losses on bonds according to financial instrument standards (A)

Remarks: . Issues and disposal/retirement of bonds between interest payments is considered level "B" (comprehension).  
 . Annuity calculations won't be required at the exam. Calculations required, if any, will be feasible without using annuities, or otherwise provided.

### Recommended readings

- Blanchette (June/July 2006), *New Standards on Accounting for Financial Instruments : A Primer, CMA Management*
- CICA Handbook:
  - . Standard 3210 Long-term Debt
  - . Standard 3855 Financial Instruments - Recognition and Measurement, parag. 01-02, 19-35, 45-47, 52-59, 65-66, 70-77. A23-A27, A41-A63, A67-A68, A70, A73-A75, B3, B13-B18
- Beechy/Conrod:
  - . Chapter 11 Investments in Debt and Equity Securities (debt securities)<sup>7</sup>
  - . Chapter 12 Liabilities (accounting for long-term debt)
  - . Chapter 14 Complex Debt and Equity Instruments (convertible debt, see the previous section on ownership equity)

### Optional readings

- CICA Handbook:
  - . Standard 1510 Current Assets and Current Liabilities

### Problems

Bonds	Recommended	Optional
Beechy/Conrod - Chapter 11 - questions - assignments	2-4, 6, 19, 20 4	5, 27, 28 5-8
Chapter 12 - questions - assignments	1, 5, 11, 12, 14-16, 18 11, 19	8, 9, 15, 16, 22, 27

<sup>7</sup> Investments in shares are going to be covered in courses #6-7.

Chapter 14		
- questions	3, 4, 6, 7	1, 8, 10
- assignments	15, 32	8, 9, 16, 18

## - - - Earnings per share - - -

### Specific objectives

- Compute the basic and diluted earnings per share in simple situations (3.5 - A)
- Understand the general logic of calculations of the basic and diluted earnings per share in complex situations (B)
- Interpret and criticize accounting results and standards regarding earnings per share (A)

### Clarification of objectives and readings

- Simple situations in which students *must be able to calculate* basic and diluted EPS are as follows:
  - . Issuance and repurchase of shares
  - . Cumulative and non-cumulative preferred shares
  - . Convertible instruments
  - . Call options
  - . Stock splits
  - . Stock dividends
  - . Refer to the recommended readings below
- Students need to *know that more complex situations exist* (without having to be able to apply detailed calculations) such as:
  - . Contracts that may force the company to repurchase common shares (reverse treasury stock method, 3500.44)
  - . Options held by the enterprise to buy on its own shares (3500.45)
  - . Contracts that may be settled in shares or cash (3500.46-48, A2-A3, B5)
  - . Contingently issuable shares and partially paid shares (3500.20-21, 49-55, A15, B6)
  - . Business combinations and securities of subsidiaries (3500.22, A13-A14, B9)
  - . Accelerated share repurchase program (3500.A1)
  - . Participating securities and two-class common shares (3500.A9-A10, B8)
  - . Rights issue (3500.A11-A12, B7)
  - . Stock-based compensation and other stock-based payments (3500.A16-A24)
  - . Interim results (included in appendix B of 3500)

### Recommended readings

- CICA Handbook:
  - . Standard 3500 Earnings per Share, parag. 01-19, 23-43, 56-69, A4-A8, B1-B3 (excluding interim results)
- Beechy/Conrod:
  - . Chapter 19 Earnings per Share (earnings per share calculations)

### Problems

EPS	Recommended	Optional
Beechy/Conrod - Chapter 19 - questions - assignments	3, 4, 6, 10, 11, 14, 25 1, 7, 13, 14, 25, 28, 31	1, 2, 5, 7-9, 12, 13, 15-20, 24, 26-28 2-6, 10, 11, 15-21, 23, 26, 27, 29, 34

## - - - Accounting changes - - -

### Specific objectives

- Understand and demonstrate the ability to appropriately account for changes in accounting policies, errors and estimates (4.4 - A)
- Differentiate between situations requiring retroactive vs prospective application (A)

### Recommended readings

- CICA Handbook:
  - . Standard 1506 Accounting Changes
- Beechy/Conrod:
  - . Chapter 20 Restatements
  - . Chapter 4 The Balance Sheet and Disclosure Notes (measurement uncertainty; subsequent events)

### Optional readings

- CICA Handbook:
  - . Standard 1508 Measurement Uncertainty
  - . Standard 3290 Contingencies
  - . Standard 3820 Subsequent Events

### Problems

Accounting changes	Recommended	Optional
Beechy/Conrod - Chapter 20 - questions - assignments	1, 2, 4, 11-14, 18, 25 8, 10, 13, 21, 24, 25	3, 5-10, 15, 16, 19-24, 26, 27 1-7, 9, 11, 12, 14, 19, 22, 23, 26-31
Chapter 4 - questions - assignments	25, 28 20	21, 24

## - - - Foreign currency translation - - -

### *Temporal method and Current rate method*

#### Specific objectives

- Understand the motivations for foreign currency operations (A)
- Explain with GAAPs, in particular substance over form, the logic of accounting methods for foreign currency translation (A)
- Apply the temporal method and the current rate method, including: apply the appropriate accounting treatment of foreign currency transactions and current balances; apply the appropriate accounting treatment of foreign exchange gains and losses; translate financial statements from one currency to another (6.2 – A)
- Select an appropriate translation method - temporal or current rate (6.2 - A)
- Discuss the key issues regarding foreign currency translation (International business 4.5 - B)<sup>8</sup>
- Interpret and criticize accounting results and standards regarding foreign currency translation (B)

#### Recommended readings

- CICA Handbook:
  - . Standard 1651 Foreign Currency Translation, parag. 01-37, 39-40, 44-45, 47-53, appendix
  - . Standard 1520 Income Statement, parag. 03 l)
- Hilton/Herauf:
  - . Chapter 11 Foreign Currency Transactions (excluding hedging)
  - . Chapter 12 Translation and Consolidation of the Financial Statements of Foreign Operations (excluding consolidation and equity method of accounting)

Take note that the recommended readings on foreign currency translation need to be studied in relation to the conceptual framework and the basic technical application of accounting methods.

*Students who can get a solid understanding of the basic techniques of foreign currency translation will benefit from it not only in the present section, but also in the following subjects on foreign currency hedging, derivatives, and consolidation.*

#### Optional readings

- CICA Handbook:
  - . Emerging issue committee EIC-130 Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency

#### Problems

Foreign currency translation	Recommended	Optional
Hilton/Herauf - Chapter 11		
- review questions	6, 7	1, 14
- multiple choice	1, 2	
- problems	3, 4, 15	

<sup>8</sup> This objective comes from section 1.4.2 entitled "International Business" of the CMA Entrance Examination Syllabus.

Chapter 12		
- review questions	5-7, 13, 14	8, 12
- multiple choice	2	1, 3, 4, 6, 12-15, 17, 18
- problems	7, 11	1-3, 5, 6, 8, 12

## - - - Hedge accounting and derivatives - - -

### Specific objectives

- Discuss economic exposure to foreign currency risk, to price risk on assets such as investments in shares, to risks associated to interest rates (interest rate risk and cash flow risk) (B)
- Understand the motivations of hedging strategies against these risks (B)
- Identify methods used to hedge against foreign currency losses (6.2 – A) and against other risks (A)
- Explain with GAAPs, in particular substance over form, the logic of hedge accounting methods (B)
- Apply hedge accounting in the context of foreign currency risk (6.2 – A) and in simple situations of price risk (A), of anticipated transactions (B), and of risks associated to interest rates (B)<sup>9</sup>
- Explain the concept and give examples of off-balance sheet financing (4.5 - B)
- Interpret and criticize accounting results and standards regarding derivatives and hedging (B)<sup>10</sup>

### Recommended readings

- Blanchette (October 2006), Hedging Strategies and GAAP: a marriage made in heaven ?, *CMA Management*
- Blanchette, Five examples of hedge accounting applications (upcoming)
- CICA Handbook:
  - . Standard 3855 Financial instruments - Recognition and Measurement
  - . Standard 3861 Financial Instruments - Disclosure and Presentation
  - . Standard 3865 Hedges
- Blanchette/Hague (2000), Accounting for Derivatives : Key Issues

### Optional readings

- Blanchette (1997), Accounting for Financial Instruments
- Blanchette/Livermore (2001), The Derivative Debate
- Hilton/Herauf, chapter 11 Foreign Currency Transactions (accounting for hedges)
- Beechy/Conrod:
  - . Chapter 14 Complex Debt and Equity Instruments (derivatives)

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<sup>9</sup> Take note that transaction costs are considered level B, and hedges of a net investment in a self-sustained foreign operation is level C.

<sup>10</sup> Here are some examples of derivatives and hedge accounting situations that you may be asked to interpret or criticize:

- Journal entries are provided in various contexts (such as in the five practical examples adapted to Canadian GAAP, Blanchette, 2006) and you are asked to evaluate if they respect Canadian accounting standards
- Excerpts of financial statements containing derivatives are provided and you are asked to identify and explain GAAPs (cost principle, matching, etc.) underlying their accounting treatment
- You are asked to discuss the reason and accounting treatment of transaction costs on derivatives
- You are asked to discuss hedge accounting when a debt is hedging anticipated foreign sales

## Problems

Hedging and derivatives	Recommended	Optional
Blanchette (2006) : - Five examples...	all	
CICA, 3865 : - examples (at the end of the standard)	all	
Hilton (2007), chapter 11 : - review questions - multiple choice - problems (forward + a/r) - problems (forward + liability) - problems (anticipated sales) - problems (anticipated purchase) - problems (other)	4, 9, 10, 15, 17-18 3-4 1 10 14 12	11-12, 19-20  8, 11 7 5 6, 13

## - - - Corporate investments - - -

### Specific objectives

- Understand the economic motivations and ethical issues of corporate investments (B)
- Explain with GAAPs, in particular substance over form, the logic of accounting methods for corporate investments (cost method, fair value, equity method, proportionate consolidation, full consolidation), considering all financial statements including cash flow statement and footnotes (3.2 – B)
- Explain the cost and equity methods for long-term investments in shares (3.2 – B)
- Explain the concept and impact of minority interest (3.2 – B)
- Discuss how joint ventures and partnerships are accounted for (3.2 – B)
- Understand and demonstrate the ability to appropriately account for goodwill (4.4 - A)
- Apply the consolidation techniques (full and proportionate) on date of acquisition (A)
- Explain the major accounting implications of intercompany transactions (C)
- Discuss the key issues regarding multinational consolidation (International business 4.5 - B)
- Interpret and criticize accounting results and standards regarding corporate investments (B)

### Recommended readings

The recommended readings of this section are mainly in the required level "B" (comprehension), except goodwill which is level "A" (application). It means that students must understand the concepts underlying the accounting treatments, without necessarily being able to apply all details in complex problems. However, the level "B" implies here that students be able to *apply* the accounting techniques studied under *simple situations*. For this reason, recommended readings are divided into two categories:

- Readings requiring to *understand basic concepts and be able to apply them* (ex: prepare a consolidated balance-sheet on date of acquisition)
- Readings requiring only to *understand basic concepts* without having to be able to fully apply them

#### Remarks:

- . Take note that many readings provide numerous details that are simply applications or deductions arising from basic rules. For example, chapters 5 and 6 of Hilton/Herauf relate to the same consolidation process, but using two different ways leading to the same final result.
- . The calculations of the purchase discrepancy and its application in the balance sheet are required in the objectives of the course on date of acquisition only. Subsequent calculations to amortize its components are not required - an understanding of the underlying concepts is sufficient.

#### Readings requiring to understand basic concepts + be able to apply them

##### CICA Handbook:

- . Standard 1581 Business Combinations, parag. 01-28, 39-53, 55-56
- . Standard 1590 Subsidiaries, parag. 01-25
- . Standard 1600 Consolidated Financial Statements, parag. 1-10, 14-19, 21-26, 65, 68-69, example 1
- . Standard 3051 Investments, parag. 01-07, 13, 17-22, 25-27, 30-31
- . Standard 3055 Interests in Joint Ventures, parag. 01-21, 41-46
- . Standard 3062 Goodwill and Other Intangible Assets, parag. 01-27, 39, 48-54, appendix on examples of acquired intangible assets, example 1
- . Standard 3063 Impairment of Long-lived Assets, parag. 01-06, 09-10, 12, 18, 24, A1-A3, A5, A25
- Hilton/Herauf:
  - . Chapter 2 Investments in Equity Securities, pp. 35-44
  - . Chapter 3 Business Combinations, pp. 72-73, 76, 79-90, appendix A
  - . Chapter 4 Consolidated Statements on Date of Acquisition, pp. 113-119, 127-131, 138-139
  - . Chapter 5 Consolidated Financial Statements Subsequent to Acquisition Date - Equity Method, pp.

161-165

. Chapter 9 Consolidated Cash Flows and Ownership Issues, pp. 391-395, 415-416

### Readings requiring to understand basic concepts only

CICA Handbook:

. Standard 1581 Business Combinations, parag. 29, 57-60, appendix and examples

. Standard 1600 Consolidated Financial Statements, parag. 11-13, 20, 27-64, 66-67, 70-72

. Standard 1625 Comprehensive Revaluation of Assets and Liabilities, parag. 01-16, 23-29, 34-43, 46-47, 50-56

. Standard 1651 Foreign Currency Translation, parag. 38

. Standard 3051 Investments, parag. 08-12, 14-16, 23-24, 28-29

. Standard 3055 Interests in Joint Ventures, parag. 22-28, 31-33, 36-40

. Standard 3062 Goodwill and Other Intangible Assets, parag. 28-38, 40-47

. Standard 3063 Impairment of Long-lived Assets, parag. 07-08, 11, 13-17, 19-23, A4, A6-A24, B1-B19

- Hilton/Herauf:

. Chapter 2 Investments in Equity Securities, pp. 44-54

. Chapter 3 Business Combinations, pp. 73-79

. Chapter 4 Consolidated Statements on Date of Acquisition, pp. 131-135

. Chapter 5 Consolidated Financial Statements Subsequent to Acquisition Date - Equity Method, pp. 166-168

. Chapter 6 Consolidated Financial Statements Subsequent to Acquisition Date - Cost Method

. Chapter 7 Intercompany Inventory and Land Profits, pp. 263-267

### **Optional readings**

- CICA Handbook:

. Standard 1581 Business Combinations, parag. 30-38, 54

. Standard 1600 Consolidated Financial Statements, examples 2 to 5

. Standard 1625 Comprehensive Revaluation of Assets and Liabilities, parag. 17-22, 30-33, 44-45, 48-49, appendix

. Standard 1651 Foreign Currency Translation, parag. 41-43

. Standard 3055 Interests in Joint Ventures, parag. 29-30, 34-35, appendices

. Standard 3465 Income Taxes, parag. 16-17, 22-23, 33-42, 46-52, 88-89, 101, example 3

- Hilton/Herauf:

. Chapter 3 Business Combinations, appendix B

. Chapter 4 Consolidated Statements on Date of Acquisition, pp. 119-127

. Chapter 5 Consolidated Financial Statements Subsequent to Acquisition Date - Equity Method, pp. 168-193

. Chapter 7 Intercompany Inventory and Land Profits, pp. 267-287

. Chapter 8 Intercompany Profits in Depreciable Assets; Intercompany Bondholdings

. Chapter 9 Consolidated Cash Flows and Ownership Issues, pp. 395-419

. Chapter 10 Other Consolidation Reporting Issues

. Chapter 12 Translation and Consolidation of the Financial Statements of Foreign Operations, pp. 546-566

## Problems

Corporate investments	Recommended	Optional
CICA, 1600, Examples - example 1	situations I, II	
Hilton/Herauf - Chapter 2 - review questions - multiple choice	1, 5, 9, 10, 13, 16 1, 2, 4, 7-10, 18-20	2, 4, 11, 12, 14, 17
Chapter 3 - review questions - multiple choice - cases - problems	3, 11 2, 5-8  6a, 7	1, 2, 6, 10  2, 4 1-5, 6b, 8-10
Chapter 4 - review questions - multiple choice - cases - problems	1-3, 10 1, 2, 4-7, 9, 10, 13, 14, 16  1, 3, 5, 9	5, 7 12 1, 3, 4 2, 4a, 6, 11
Chapter 5 - review questions - multiple choice	1, 3, 4, 11-13 2, 7, 10, 11	2, 5-8, 14 3, 5, 9, 12, 14
Chapter 6 - review questions - multiple choice		2, 4-6 2
Chapter 7 - review questions - multiple choice	1, 2, 4, 5, 7, 9 1, 7	
Chapter 8 - review questions	3	
Chapter 9 - review questions - multiple choice - problems	1-3 1, 3, 6-8 5, 6	10, 15
Chapter 10 - review questions - multiple choice	4 6	5
Chapter 12 - review questions - multiple choice	4 5	

Beechy/Conrod – Chapter 9 - assignments		37-39
Chapter 10 - assignments		12, 30

## - - - International accounting standards (IFRS) - - -

### Specific objectives

- Discuss the key issues regarding national and international standards (International business 4.5 - B)
- Describe the importance of harmonizing standards globally and the international regulatory framework (6.1 – C)
- Be aware of some important differences between Canadian, US and international accounting practices, and identify consequences on financial statements (B)

### Recommended readings

- Hilton/Herauf:  
. Chapter 1 A Survey of International Accounting
- Blanchette (May 2007), IFRS in Canada : evolution or revolution ?, *CMA Management*
- Blanchette (1998), International Comparison of Accounting Practices: pp. 1-2

### Optional readings

- Beechy/Conrod:  
. Chapter 1 The Environment of Accounting (international standards)
- Blanchette (1998), International Comparison of Accounting Practices: pp. 3-17
- Hilton/Herauf:  
. Chapters 2, 3, 4, 7, 10, 12 (sub-sections entitled "An International Perspective")
- PricewaterhouseCoopers, *International Financial Reporting Standards – A Pocket Guide*, 2006 ([www.pwc.com](http://www.pwc.com))

### Problems

International standards	Recommended	Optional
Hilton/Herauf - Chapter 1 - review questions - multiple choice - problems	1 1, 2, 4	3, 5, 6, 10, 12-14 3, 6, 8 1d

**- - - Other - - -**

***Related party transactions***

**Specific objectives**

- Recognize general criteria to identify related parties (C)
- Identify key accounting issues of related party transactions (C)

**Recommended readings**

- CICA Handbook:
  - . Standard 3840 Related Party Transactions
  - . Standard 3841 Economic Dependence
- Beechy/Conrod:
  - . Chapter 4 The Balance Sheet and Disclosure Notes, p. 155

**Problems**

Related party transactions	Recommended	Optional
Beechy/Conrod – Chapter 4 - questions	27	

## *Segment disclosures*

### **Specific objectives**

- Describe the disclosure requirements for major segments of a business (5.5 - C)
- Identify key accounting issues of segment disclosures (C)

### **Recommended readings**

- CICA Handbook:
  - . Standard 1701 Segment Disclosures
- Beechy/Conrod:
  - . Chapter 4 The Balance Sheet and Disclosure Notes, p. 155

### **Optional readings**

- Hilton/Herauf:
  - . Chapter 10 Other Consolidation Reporting Issues (segment disclosures)

### **Problems**

Segment disclosures	Recommended	Optional
Beechy/Conrod – Chapter 4 - questions	26	
Hilton/Herauf - Chapter 10 - problem		5

## *Differential Reporting*

### **Specific objectives**

- Understand the foundation of differential reporting (C)
- Identify the accounting practices eligible to differential reporting (C)

### **Recommended readings**

- Beechy/conrod:
  - . Chapter 1 The Environment of Accounting (differential reporting)
- CICA Handbook:
  - . Standard 1300 Differential Reporting
  - . Standard 1590 Subsidiaries, parag. 26-31
  - . Standard 3051 Investments, parag. 32-34
  - . Standard 3055 Interests in Joint Ventures, parag. 47-51
  - . Standard 3062 Goodwill and Other Intangible Assets, parag. 55-56, 59-60
  - . Standard 3855 Financial instruments - Recognition and Measurement, parag. 86
  - . Standard 3861 Financial Instruments - Disclosure and Presentation, parag. 87-91

### **Optional readings**

- Beechy/conrod:
  - . Chapters 2, 11, 12, 13, 14, 15, 15 (pp. 52, 62, 617, 770, 797, 858, 862, 953, 1003)
- CICA Handbook:
  - . Standard 3062 Goodwill and Other Intangible Assets, parag. 57-58, 61-62
- Hilton/Herauf:
  - . Chapters 2, 4, 5 (sub-sections entitled "Differential Reporting")

### **Problems**

Segment disclosures	Recommended	Optional
Beechy/Conrod - Chapter 1 - question - assignment	7	8
Hilton/Herauf – Chapter 2 - review questions - multiple choice	8	21

*Hope this document was useful to you.  
Comments and suggestions are welcome.  
Thanks and good luck!*

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