

Université du Québec en Outaouais

Advanced Financial Accounting CTB 6053A

Course Outline – Fall 2008

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Subject matters

Courses	Subjects	Duration
#1-2	<u>Selected accounting practices</u> <ul style="list-style-type: none"> - Intangible assets and R&D - Ownership equity and comprehensive income - Bonds and interest-bearing securities - Earnings per share - Accounting changes 	12h
#3	<u>Foreign currency translation</u> <ul style="list-style-type: none"> - Temporal method - Current rate method 	6h
#4	<u>Mid-term exam</u> <ul style="list-style-type: none"> - Covering subjects of courses #1 to #3 	3h + 1h
#5-6	<u>Hedge accounting and derivatives</u> <ul style="list-style-type: none"> - Economic aspect - Accounting methods (speculating, hedging) 	8 h
#6-7	<u>Corporate investments and international standards</u> <ul style="list-style-type: none"> - Conceptual framework (theory, business combinations) - Accounting methods (cost, fair value, equity method, proportionate and full consolidation) - Particular issues (such as minority interest, inter-company transactions, foreign subsidiaries) - International accounting standards - Other (related party transactions, segment disclosures, differential reporting) - Application in the business world 	10 h
#8	<u>Final exam</u> <ul style="list-style-type: none"> - Covering primarily subjects of courses #5 to #7 	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* and the *International Financial Reporting Standards* (IFRS), 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 Requirements 2008* 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 are used in class (by the teacher)
- E-mail is used 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 questions are welcome. This should help them to better understand 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, a topic covered before mid-term exam, is required to apply foreign currency hedge accounting, a topic tested at final exam; consolidation, which is one of the last topics covered before final exam, implies the recognition of intangible assets, another topic covered before mid-term exam).

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

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:

- 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 objective of the practical assignment 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.¹
- 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), 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 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.²

¹ Each student should suggest several subjects in case his/her first choice would not be available.

² 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

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 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 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.³ 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 professionalism⁴

Table : Subjects for the practical assignment⁵

<i>Subject</i>	<i>Tips</i>	<i>When</i>
Intangible assets (including R&D)	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	Course #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	#1
Comprehensive income	Show an example of comprehensive income calculation + presentation of "Other comprehensive income" in the balance sheet	#1
Investments in bonds	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	#2
Bonds 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 estimate + an example of note about an accounting change with prior period adjustment + the statement of retained earnings showing this adjustment	#2

situation, the student could decide to refer to financial statements of several companies to give more depth to his/her assignment.

³ Take note that early presentations will be evaluated considering the fact that students could not benefit from the experience of previous presentations beforehand.

⁴ Take note that the choice of *photocopies* to distribute is evaluated. Photocopies must be related to the subject chosen, without overloading with irrelevant informations. Also, the presentation should consist of *observations* and *comments*, not of theoretical explanations.

⁵ Presentations scheduled at course #1 are prepared before the beginning of the session, unless a different date is authorized by the teacher. Some dates may change depending on the progress of the course.

Subject	Tips	When
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 + presentation in the statement of comprehensive income if any	#3
Financial instruments (excluding hedge accounting)	Show an example of note + identify related amounts in financial statements, if any	#5
Hedge accounting	Show an example of accounting policy + identify related amounts in financial statements, if any	#5
Investments at cost	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	#6
Investments at fair value	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement + presentation in the statement of comprehensive income if any	#6
Investments subject to significant influence (equity method)	Show an example of accounting policy + presentation in the balance sheet + presentation in the income statement	#6
Full consolidation	Show an example of accounting policy + notes to financial statements, if any + acquisition or sale of subsidiaries in the cash flow statement	#6
Minority interest (noncontrolling shareholders)	Show examples of presentation in the balance sheet + in the income statement	#6
Proportionate consolidation	Show an example of accounting policy + notes to financial statements, if any + acquisition or sale of joint ventures in the cash flow statement	#6
International accounting standards (IFRS)	Show an example of financial statements prepared in accordance with 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 And/or discuss the CICA project on private enterprises	#7

Final grade

Final results are established using the following scale:

Final result	Scale
A+	92-100 %
A	88-92 %
A-	84-88 %
B+	80-84 %
B	76-80 %
B-	72-76 %
C+	68-72 %
C	64-68 %
E	0-64 %

References

References are indicated in the website : w3.uqo.ca/michel.blanchette/6053menu.htm

Obligatory textbooks

Obligatory textbooks are supplied by the program. Normally, textbook #2 and #3 below should have been provided to students in the previous course CTB6043A Issues in Financial Accounting (Beechy/Conrod and Byrd/Chen). If not, please contact Ms. Carolle Moyneur to get them (carolle.moyneur@uqo.ca, 819-595-3900 ext 1905).

- 1) Canadian Institute of Chartered Accountants, *CICA Handbook* (including at least update no 48, February 2008)
- 2) Beechy, T.H. and J.E.D. Conrod, *Intermediate Accounting*, McGraw-Hill Ryerson, 4th edition, 2008
 - 2.1) Volume One (ISBN 978-0-07-097885-0)
 - 2.2) Volume Two (ISBN 978-0-07-097886-7)
- 3) Byrd, C.E. et I. Chen, *Canadian Advanced Accounting – International Convergence-Professional Edition*, Institut canadien des comptables agréés, 2007 (ISBN 978-1-55385-275-9)

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 (on both sides of the balance sheet, as assets or liabilities), 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 (strategic investments in joint ventures, subsidiaries or providing significant influence; and non-strategic ones). 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:

- Introduction to Accounting Standards
- 1100 Generally accepted accounting principles
- 1400 General Standards of Financial Statement Presentation
- 1505 Disclosure of Accounting Policies
- 1520 Income Statement

Finally, previous courses in finance, taxation and management accounting are connected with the subjects 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. In the present course, there are three levels of requirement. Level C is at a basic level, requiring to identify or describe notions. Level B incorporates level C plus the ability to go deeper into the subjects but without being able to perform precise calculations. Level A incorporates levels B and C plus the ability to apply knowledge to practical situations with calculations when needed. We can summarize the three levels as follows :

- Level C (lowest) = know that it exists and be able to do a general discussion on the topic, without entering into too many application details
- Level B = know that it exists + be able to do a qualitative discussion on the topic, without being able to perform precise calculations
- Level C (highest) = be able to discuss + apply + support with calculations

For example, here is how the requirements could apply to a subject like R&D :

- Level C (lowest) = define research in general and know that it must be expensed immediately in the income statement + define conceptually what development means and know that it can allow some amounts to be capitalized in the balance sheet
- Level B = be able to identify various R&D expenditures + discuss their impact on financial statements (without necessarily doing calculations)
- Level C (highest) = identify + discuss + calculate amounts of R&D items in financial statements

Caution: Understanding⁶ 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, Byrd/Chen 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 want to go deeper into the subjects or wish to see other approaches or alternative explanations.

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 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

⁶ Memorizing is not understanding...

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 Byrd/Chen. It is therefore essential 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.

Doing 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&D⁷ - - -

Specific objectives

- Recognize intangible assets developed internally (R&D) and those purchased separately (patents, etc.) (C)
- Discuss the uncertainty inherent in the measurement of intangible assets compared to tangible (B)
- Discuss the impact on financial statements of capitalizing intangible assets or not (B)
- Account for intangible assets by capitalizing a reasonable amount in simple situations (A)
- Account for expenses in the income statement relating to R&D and intangible assets (including amortization and impairment) (A)
- Interpret and criticize accounting results and standards regarding intangible assets (B)

Remarks about specific objectives

- In simple situations, expenditures subject to capitalization should be easy to identify, such as purchasing a patent or performing precise R&D activities.
- They imply that just a few calculations or assumptions are necessary in finding amounts to capitalize, for example by allocating expenditures between viable and non-viable projects and by adding other direct costs.

Recommended readings

- CICA Handbook:
 - . Standard 3063 Impairment of Long-lived Assets, parag. 01-06, 09-10, 12, 18, 24, A1-A5, A25
 - . Standard 3064 Goodwill and Intangible Assets, parag. 01-30, 34-66, 95, 96bc, 97, 99, appendix on examples of acquired intangible assets
- Beechy/Conrod:
 - . Chapter 9 Capital Assets, Intangibles and Goodwill (take care to keep in mind the specific objectives above when doing the readings : do not read “Exchanges of Non-Monetary Assets” and “Goodwill”; and do not extend your study beyond simple situations)
 - . Chapter 10 Amortization and Impairment

Optional readings

- CICA Handbook:
 - . Standard 3061 Property, Plant and Equipment
 - . Standard 3063 Impairment of Long-lived Assets, parag. 07-08, 11, 13-17, 19-23, A6-A24, B1-B19

Problems

- Refer to the Appendix (will be provided separately on the website)

⁷ Excluding goodwill which is covered later with corporate investments.

- - - Ownership equity and comprehensive income - - -

Specific objectives

- Identify components of ownership equity in balance sheet (B)
- Understand the difference between common shares and preferred shares (B)
- Recognize the importance of excluding capital transactions from the income statement (B)
- Account for variations of shareholders' equity in simple transactions involving shareholders (issuance of shares, repurchase of shares, stock split, cash dividend, share dividend) (A)
- Understand comprehensive income and account for some unrealized gains and losses in other comprehensive income (OCI) (B)
- Prepare a statement of retained earnings (A)
- Recognize that some financial instruments require the recognition of ownership equity items, such as convertible debts⁸ (B)
- Interpret and criticize accounting results and standards regarding ownership equity (B)

Recommended readings

- CICA Handbook:
 - . Standard 1530 Comprehensive income
 - . Standard 3240 Share Capital
 - . Standard 3251 Equity
 - . Standard 3610 Capital Transactions
 - . Standard 3863 Financial Instruments - Presentation, parag. 09-25
- Beechy/Conrod:
 - . Chapter 3 The Income Statement and the Retained Earnings Statement (comprehensive income and retained earnings)
 - . Chapter 13 Shareholders' Equity (do not linger over treasury stock – in the course, it is assumed that any shares repurchased are retired immediately)
 - . Chapter 14 Complex Debt and Equity Instruments (convertible debt and stock options)

Optional readings

- CICA Handbook:
 - . Standard 3260 Reserves

Problems

Refer to the Appendix (will be provided separately on the website)

⁸ Take note that accounting for bonds is covered in the next section, next page.

- - - Bonds and interest-bearing securities - - -
(on both sides of the balance sheet, as assets or liabilities)

Specific objectives

- Describe contractual characteristics of bonds (par value, contractual interest rate, interest coupons, maturity date) (B)
- Understand the economic variables affecting the fair value of bonds (effective interest rate or yield, discounting concept) (B)
- Account for bonds and their associated premium or discount at issuance date, in assets (as investor) and in liabilities (as issuer) (A)
- Understand the difference between the straight-line method and the effective interest method for amortization of premium or discount (B)
- Apply these methods in simple situations, by calculating interest revenues/expenses in the income statement and asset/liability items in the balance sheet (A)
- Account for gains and losses according to standards on financial instrument, including adjustments to OCI when applicable (A)
- Interpret and criticize accounting results and standards regarding bonds or other interest-bearing securities (B)

Remarks on specific objectives

- Issues and disposal/retirement of bonds between interest payments is considered level "B" (no calculation required).
- Annuity calculations won't be required at exams. Calculations required, if any, will be feasible without using annuities, otherwise amounts will be 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 (just read about debt securities as investments in shares are going to be covered later in courses #6-7)
 - . Chapter 12 Liabilities (accounting for long-term debt)

Optional readings

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

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Earnings per share - - -

Specific objectives

- Identify the basic components of earnings per share and the variables affecting calculations (B)
- Recognize some complex variables that may also affect earnings per share calculations (C)
- Compute the basic earnings per share in simple situations (A)
- Compute the diluted earnings per share in simple situations (A)
- Apply the rules for presenting earnings per share in financial statements, including footnotes, according to GAAP (A)
- Discuss the usefulness of earnings per share for users of financial statements (B)
- Interpret and criticize accounting results and standards regarding earnings per share (B)

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
- 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 issued by 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 (be careful not to linger over level C subjects)

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Accounting changes - - -

Specific objectives

- Differentiate between situations requiring retroactive Vs prospective adjustment to financial statements (B)
- Calculate adjustments and present them in financial statements for simple situations involving changes in estimates (A)
- Calculate adjustments and present them in financial statements for simple situations involving correction of errors (A)
- Calculate adjustments and present them in financial statements for simple situations involving changes of accounting policies (A)
- Interpret and criticize accounting results and standards regarding accounting changes (B)

Remarks about specific objectives

- The main thing with this subject is to understand the logic of retroactive Vs prospective adjustments.
- The simple situations imply that adjustments should be easy to find or estimate, after just a few calculations or assumptions, so that the key issue is their presentation to financial statements.

Recommended readings

- CICA Handbook:
 - . Standard 1506 Accounting Changes
- Beechy/Conrod:
 - . Chapter 20 Restatements

Optional readings

- Beechy/Conrod:
 - . Chapter 4 The Balance Sheet and Disclosure Notes (measurement uncertainty; subsequent events)
- CICA Handbook:
 - . Standard 1508 Measurement Uncertainty
 - . Standard 3820 Subsequent Events

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Foreign currency translation - - - *Temporal method and Current rate method*

Specific objectives

- Understand the motivations for foreign currency operations (C)
- Explain with GAAPs, in particular substance over form, the logic of accounting methods for foreign currency translation (B)
- Select and justify an appropriate translation method : temporal or current rate (B)
- Apply the temporal method and prepare financial statements accordingly (A)
- Apply the current rate method and prepare financial statements accordingly (A)
- Interpret and criticize accounting results and standards regarding foreign currency translation (B)

Remarks about specific objectives

- Recommended readings on foreign currency translation need to be studied in relation to the conceptual framework and the basic application of accounting methods.
- Take note that it is acceptable to find foreign exchange gains and losses by deduction (plugging) in the course.
- *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 and consolidation.*

Recommended readings

- CICA Handbook:
 - . Standard 1651 Foreign Currency Translation, parag. 01-37, 39-40, 44-45, 47-53, appendix, decision tree, illustrative examples
 - . Standard 1520 Income Statement, parag. 03 l)
- Byrd/Chen:
 - . Chapter 9 Translation of Foreign Currency Transactions (excluding hedging)
 - . Chapter 10 Translation of Foreign Currency Financial Statements (excluding consolidation and equity method of accounting)

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

Refer to the Appendix (will be provided separately on the website)

- - - 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 when the rate is fixed; cash flow risk when the rate is floating) (B)
- Understand the economic motivations of hedging against these risks and identify effective strategies (B)
- Explain with GAAPs, in particular substance over form, the logic of hedge accounting methods : fair value hedge and cash flow hedge (B)
- Account for derivatives according to Standard 3855 of *CICA Handbook* when hedge accounting is not applied and fair values available (fair values given in the exam) (A)
- Apply hedge accounting in the context of foreign currency risk for items recognized in balance sheet (assets, liabilities, derivatives) and when fair values are available or the spot rate equal to forward rate (A)
- Identify the possibility to do hedge accounting for foreign currency risk associated to a self-sustaining operation (C)
- Apply hedge accounting in simple situations of price risk. These situations imply that fair values are available or that ineffectiveness is small (A)
- Discuss hedge accounting in situations involving anticipated transactions (B)
- Discuss hedge accounting in situations involving interest rates (interest rate risk when the rate is fixed; cash flow risk when the rate is floating) (B)
- Interpret and criticize accounting results and standards regarding derivatives and hedging (B)

Remarks about specific objectives and readings

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

Recommended readings

- Blanchette (October 2006), Hedging Strategies and GAAP: a marriage made in heaven ?, *CMA Management*
- Blanchette (2006), Hedging strategies and hedge accounting : five practical examples adapted to Canadian GAAP
- CICA Handbook:
 - . Standard 3855 Financial instruments - Recognition and Measurement
 - . Standard 3862 Financial Instruments – Disclosures
 - . Standard 3863 Financial Instruments – Presentation
 - . Standard 3865 Hedges
- Blanchette/Hague (2000), Accounting for Derivatives : Key Issues

Optional readings

- Beechy/Conrod:
 - . Chapter 14 Complex Debt and Equity Instruments (derivatives)
- Blanchette (1997), Accounting for Financial Instruments
- Blanchette/Livermore (2001), The Derivative Debate, *CAmagazine*
- Byrd/Chen:
 - . Chapter 9 Translation of Foreign Currency Transactions (hedging and hedges)
- CICA Handbook:
 - . Standard 3280 Contractual Obligations
 - . Standard 3290 Contingencies
 - . Standard 3861 Financial Instruments – Disclosure and presentation

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Corporate investments - - -

Specific objectives

- Understand the economic motivations and ethical issues of corporate investments (B)
- Explain with GAAPs (Canadian and IFRS), in particular substance over form, the logic of accounting methods for corporate investments and business combinations (cost method, fair value for instruments available-for-sale, fair value for instruments held-for-trading, equity method, proportionate consolidation, full consolidation), considering all financial statements including cash flow statement and footnotes (B)
- Account for non-strategic investments (investments not providing influence or control) according to Standard 3855 of the *CICA Handbook* (A)⁹
- Apply the consolidation techniques (full and proportionate) on the date of acquisition, including the calculation of minority interest and goodwill when applicable, according to Canadian GAAPs (A)
- Identify the main accounting implications of intercompany transactions (B)
- Discuss the key issues regarding consolidation of multinational companies (B)
- Interpret and criticize accounting results and standards regarding corporate investments (B)
- Be aware that some consolidation issues depend on particular situations (preferred shares issued by subsidiaries; common shares issued or repurchased by subsidiaries; push-down accounting; reverse takeover) (C)

Remarks about the readings

- The recommended readings of this section are mainly in the required level "B" (discussion without calculations), except non-strategic investments (level A), the consolidated balance sheet on the date of acquisition (level A) and some complex issues (level C).
- Regarding the level A consolidation subject, students need to calculate the purchase discrepancy (named "Differential" in Byrd & Chen) and prepare a consolidated balance sheet on the date of acquisition according to Canadian GAAPs. Calculations to reverse or amortize the purchase discrepancy in subsequent financial statements is level B. Consolidation under IFRS is also level B.
- To facilitate the self-study, recommended readings of this section are presented by level: A, B, C.

Recommended readings

Recommended readings – level A

- 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 3063 Impairment of Long-lived Assets, parag. 01-06, 09-10, 12, 18, 24, A1-A3, A5, A25
 - . Standard 3064 Goodwill and Intangible Assets, parag. 31-33, 67-72, 93-94, 96a
- Byrd/Chen:
 - . Chapter 1 Introduction
 - . Chapter 2 Investments in Equity Securities
 - . Chapter 4 Consolidated Balance Sheet at Acquisition
 - . Chapter 8 Interests in Joint Ventures

⁹ Take note that accounting methods for financial instruments (held-to-maturity, available-for-sale, held-for-trading) according to Standard 3855 of *CICA Handbook* were covered in the section on bonds before mid-term exam.

Recommended readings – level B

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 3064 Goodwill and Intangible Assets, parag. 73-92, 98
- . Standard 3063 Impairment of Long-lived Assets, parag. 07-08, 11, 13-17, 19-23, A4, A6-A24, B1-B19

- Byrd/Chen:
 - . Chapter 3 Business Combinations
 - . Chapter 5 Consolidation Subsequent To Acquisition (No Unrealized Intercompany Profits)
 - . Chapter 7 Advanced Topics In Consolidations (multiple investment situations; multi-level affiliations)
 - . Chapter 8 Interests In Joint Ventures (accounting logic subsequent to acquisition)

Recommended readings – level C

- Byrd/Chen:
 - . Chapter 6 Consolidation Subsequent To Acquisition (Including Unrealized Intercompany Profits)
 - . Chapter 7 Advanced Topics In Consolidations (subsidiary preferred stock; transactions involving subsidiary shares; consolidation with investment at equity)
 - . Chapter 8 Interests In Joint Ventures (non-cash capital contributions; transactions between a venturer and a joint venture)

Optional readings

- Beechy/Conrod:
 - . Chapter 9 Capital Assets, Intangibles, and Goodwill (goodwill)
 - . Chapter 11 Investments in Debt and Equity Securities (equity securities)
- Byrd/Chen:
 - . Chapter 4 Consolidated Statements on Date of Acquisition (appendices A and B)
- 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

Problems

Refer to the Appendix (will be provided separately on the website)

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

Specific objectives

- Describe the importance of harmonizing standards globally (C)
- Describe the Canadian position in regards to international convergence (C)
- Be aware of some important differences between Canadian, US and international accounting practices, and identify consequences on financial statements (B)

Recommended readings

- 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 Financial Reporting
- Blanchette (1998), International Comparison of Accounting Practices: pp. 3-17
- Byrd/Chen: sub-section entitled "International Convergence" of chapters 1, 2, 3, 4, 5, 6, 8, 9, 10, 11
- International Accounting Standards Board, *International Financial Reporting Standards (IFRSs)*, 2008 (www.iasb.org)
- PricewaterhouseCoopers, *International Financial Reporting Standards – A Pocket Guide*, 2008 (www.pwc.com)

Problems

Refer to the Appendix (will be provided separately on the website)

- - - 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

Optional readings

- Beechy/Conrod:
 - . Chapter 4 The Balance Sheet and Disclosure Notes, p. 161-162

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Other (cont'd) - - -
Segment disclosures

Specific objectives

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

Recommended readings

- CICA Handbook:
 - . Standard 1701 Segment Disclosures

Optional readings

- Beechy/Conrod:
 - . Chapter 4 The Balance Sheet and Disclosure Notes, p. 161

Problems

Refer to the Appendix (will be provided separately on the website)

- - - Other (cont'd) - - -
Differential Reporting

Specific objectives

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

Recommended readings

- 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 3064 Goodwill and Intangible Assets, parag. 100-107
 - . Standard 3240 Share capital, parag. 24
 - . Standard 3465 Income Taxes, parag. 105
 - . Standard 3855 Financial Instruments - Recognition and Measurement, parag. 86
 - . Standard 3862 Financial Instruments - Disclosures, parag. 42A-42C
 - . Standard 3863 Financial Instruments - Presentation, parag. 36-37

Optional readings

- Accounting Standards Board, Financial Reporting by Private Enterprises:
http://www.acsbcanda.org/index.cfm/ci_id/29407/la_id/1.htm
- Beechy/conrod:
 - . Chapter 1 The Environment of Financial Reporting (private corporations and differential reporting)
- Byrd/Chen:
 - . Chapter 1 Introduction (strategy for non-publicly accountable enterprises)
 - . Chapters 2, 3 and 8: sub-sections dealing with differential reporting
- CICA Handbook: parag. 1530.10A, 1535.02, 1651.55, 3025.58, 3251.14A, 3465.106, 3861.87-91, 3865.70A

Problems

Refer to the Appendix (will be provided separately on the website)

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

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