

# A86045 Accounting and Financial Reporting (2017/2018)

Session 16  
Review Session

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# SESSION 16 OVERVIEW AND OBJECTIVES

# Course Objectives

*At the end of this course students will be able to:*

- ***Read and perform a high level interpretation*** of the financial statements of companies applying international accounting standards
- ***Identify and evaluate*** the impact on a companies accounts of alternative accounting methods
- ***Carry out a high level assessment*** of the the economic- financial position of a company reporting under IAS/IFRS.

# Course Overview

1. Financial reporting under IFRS	14. Construction contracts	
2. Financial analysis: Ratio analysis	15. Other Non-financial liabilities	
3. Financial analysis: Segments and EPS	16. Review session	
4. Review session	17. Mid term test (Mon April 16)	PGS
5. Revenues	18. Financial Instruments 1	
6. Costs and expenses	19. Financial Instruments 2	
7. Taxation - Direct and Indirect	20. Review session	
8. Non-current assets - Intangible assets	21. Cash Flow Statement	
9. Non-current assets - Tangible assets	22. Group accounts/Business comb	PT
10. Financial leases	23. Review session	
11. Impairment of assets	24. Review session	
12. Review session	25. Final test	PGS
13. Inventories		PT

# Session Objectives

*At the end of this session students will have an understanding of:*

- *the form of the mid-term test*
- *the ground rules in the examination room*
- *areas of emphasis for revision*
- *some tips for the exam*

# Session 16 Overview

	Mins
Session overview and objectives	5
Review of pre-work and session 15 recap	5
Recap sessions 1-3	
<ul style="list-style-type: none"> <li>Financial statements and options</li> <li>Financial analysis, segments and EPS</li> </ul>	15
Recap sessions 5-11	
<ul style="list-style-type: none"> <li>Revenues</li> <li>Costs and expenses</li> <li>Taxation</li> <li>Intangible assets</li> <li>Tangible fixed assets</li> <li>Leases</li> <li>Impairment of assets</li> </ul>	25
Recap sessions 13-16	
<ul style="list-style-type: none"> <li>Inventories</li> <li>Construction contracts</li> <li>Non-financial liabilities</li> </ul>	30
Overview of next session, required reading and assignment for next session	5
Summary and validation	<u>5</u>
	90
A 86045 Accounting and Financial Reporting	6

# **SESSION 15 RECAP AND PRE-WORK**

## **SESSION 16**

# Recap of Session 15

- Provisions, contingent liabilities and contingent assets
  - Liabilities
  - Provisions
  - Contingent liabilities
- Restructuring provisions
- Onerous contracts
- Contingent assets



# Session 16 Pre-work

- Reading
  - Melville International Financial Reporting. A practical guide:
    - Chapter 12 – Provisions and events after the reporting period
  - IASB Statements
    - IAS 37 Provisions, contingent liabilities and contingent assets
- Exercises
  - Melville Chapter 12.1 – 12.7
  - Melville on-line multiple choice questions for Chapter 12
  - EX 15 Non-Financial Liabilities

# RECAP SESSIONS 1 - 3

# Recap sessions 1 - 3

- Financial statements and options
- Financial analysis
- Segments
- Earnings per share

# Session 1 Summary

- Course objectives, overview, reference materials, teaching methods
- Evolution of accounting, stakeholders, IASs and IFRSs
- The 5 components of Financial statements and linkages between the statements
- Basic bookkeeping recap
- Reading, research and assignment for next session

# Session 1 Validation

- Name the 5 components of financial statements required by IAS 1
- How are assets and liabilities normally classified in the statement of financial position and how is this distinction made?
- What are the two components of comprehensive income?
- Financial statements should be prepared on a going concern basis. What does this mean?
- What are the alternative presentation formats allowed for each of the following: Statement of financial position, Statement of profit and loss; Statement of cash flows

# Session 2 Summary

- Recap Session 1 and the 4 basic financial statements
- Financial analysis
- Ratio analysis (profitability, liquidity, efficiency and investment)
- Ratio, trend and common size analysis
- Reading, research and assignment for next session

# Session 2 Validation

- Name the key ratio (s) used to assess liquidity
- What type of analysis do we perform to compare companies of different sizes and across different industries?
- What ratio would you use to assess a company's ability to continue to pay the interest on its loans as it becomes due?
- How many years data do we need to perform a meaningful trend analysis?

# Sessions 3 Summary

- Financial analysis, ratio analysis, trend analysis, common size analysis
- Earnings per share
- Segmental analysis
- Importance of industry context and understanding



# Session 3 Validation

- How is earnings per share calculated?
- When is it necessary to calculate the weighted average number of shares outstanding?
- What do we mean by “diluted” earnings per share?
- What is an Operating Segment?
- What is a Reportable Segment?
- What disclosures are required by IFRS 8?

# RECAP SESSIONS 5 - 11

# Recap sessions 5 - 11

- Revenues
- Costs and expenses
- Taxation
- Intangible assets
- Tangible assets
- Leases
- Impairment of assets

# Session 5 Summary

- Revenues – largest number in the income statement and the area most susceptible to manipulation
- Five step approach to revenue recognition
- Importance of industry context and understanding
- Framework for revenue recognition
- IFRS 15 now supercedes IAS 18 and IAS 11

# Session 5 Validation

- What is the 5 step approach to recognizing revenues under IFRS 15?
- What are the 5 conditions that need to be satisfied in order to account for a contract with a customer under IFRS 15?
- How do we account for revenues from construction contracts?
- What criteria must be satisfied to account for performance obligations in a multiple-element transaction? And how is revenue allocated among the different elements?

# Session 6 Summary

- Classification of costs/expenses by nature or by destination
- Cost of goods sold
- Other costs/expenses – accruals/deferrals
- Employee expenses
  - Short-term benefits – Wages and salaries
  - Post employment benefits - Pensions
  - Share-based payments - Stock options

# Session 6 Validation

- What is the difference between a defined benefit plan and a defined contribution plan?
- Which would you prefer to have?
- Over what period is the cost of the fair value of a stock option recognized?
- What is the difference between an accrual and a prepayment/deferral?
- How do you calculate COGS/COS?

# Session 7 Summary

- Types of taxation
- Value added taxes
- Current income taxes
- Deferred income taxes
- Reconciliation of tax charge
- Uncertain tax positions



# Session 7 Validation

- What are the three main types of taxation?
- How does a company account for VAT
- How are imports and exports treated for VAT?
- What is the basic equation for calculating current income tax?
- What are deferred income taxes?
- What is a valuation allowance and when is it needed?
- What types of things do we find in the reconciliation of tax charge?

# Session 8 Summary

- Intangibles definition/examples
- Criteria for recognition and measurement c.f. Apple
- Finite vs. Indefinite and useful life considerations
- Different Types
  - Acquired
  - Goodwill and business combinations
  - Internally generated
  - Government grant, exchanges (Fair Value)
- Industry comparison

# Session 8 Validation

- What is the difference in the way finite and indefinite intangible assets are subsequently measured?
- How is Goodwill initially determined?
- At what point in time is it possible to capitalize the costs of an internal project to develop an intangible asset?
- Why do Pharmaceutical companies have so little capitalized research and development when they incur significant expenditure on this?

# Session 9 Summary

- Tangible Fixed Assets
  - Acquired vs constructed
  - Capital vs. revenue expenditures
  - Interest
  - Government Grants
  - Depreciation
  - Revaluations
  - De-recognition
  - Leasing – briefly
- Investment properties

# Session 9 Validation

- Property, plant & equipment
  - How is this originally measured?
  - What are the subsequent measurement options?
  - What estimates are needed?
  - What is the significance of a component?
  - When should interest be capitalized?
  - How are revaluation gains and losses accounted for?
  - How should government grants be accounted for?
- Investment property
  - What options are available to companies and what are the accounting implications of these?

# Session 10 Summary

- Leasing (IAS 17)
  - Finance or operating
  - Lessee vs. lessor accounting
  - Sale and leaseback transactions
  - Disclosures
- Leasing (IFRS 16)
  - The need for change
  - Changes in Lessee vs. lessor accounting
  - Impact on Performance metrics
  - Effective date and transition

# Session 10 Validation

- What are the criteria for determining if a lease is a finance lease or an operating lease?
- How does a lessee account for a finance lease?
- How does a lessor account for an operating lease?
- What is a sale and leaseback arrangement and how is this accounted for?
- What changes in lease accounting will take place with the introduction of IFRS 16?

# Session 11 Summary

- Impairment of assets
  - Identification of potential impairments
  - Measuring the recoverable amount
    - Fair value less cost of disposal
    - Value in use
  - Recognition and measurement
  - Cash-generating units and goodwill
  - Reversal of impairment losses
  - Some group issues



# Session11 Validation

- How do we define impairment?
- What are the two ways of determining Recoverable Amount?
- What is a Cash-Generating-Unit (CGU)?
- Why do we need to allocate goodwill to CGUs?
- Can we reverse impairment losses?
- When do we need to test for impairment?

# RECAP SESSIONS 13 – 16 WITH EXERCISES

# Recap sessions 13 - 16

- Inventories
- Construction contracts
- Non-financial liabilities

# Summary of Session 13

- Inventories and Construction contracts
- Lower of cost and NRV
- Cost elements (materials, labour, overheads)
- Costing methods (FIFO, LIFO, WAC etc.)
- NRV
- Exercises (WAC/FIFO, NRV)

# Session 13 Validation

- What are inventories?
- Define Net Realizable Value (NRV)
- What is included in cost?
- Which costing method is not allowed for IFRS?
- What indicators might suggest that a NRV test might be required?
- How should inventory be valued?

# Summary of Session 14

## Construction contracts

- Types of contract
- Revenues and costs
- Percentage of completion method
- Completed contract method
- Disclosures
- IAS 11 vs IFRS 15

# Session 14 Validation

- What is a construction contract?
- What are the two main types of contract?
- When should construction contracts be aggregated?
- What is the percentage of completion method?
- What should a company do if it anticipates an overall loss on the contract?
- If no reliable estimates are available for costs or revenues how should a contract be accounted for?
- What will change with IFRS 15?

# Summary of Session 15

- Liabilities, provisions and contingent liabilities
- Obligating events
- Probabilities
- Warranty provisions
- Restructuring provisions
- Onerous contracts
- Dismantling/Decommissioning provisions
- Industry comparisons



# Session 15 Validation

- What is a provision?
- What is a contingent liability?
- How do we account for a present obligation that is probable but not quantifiable?
- How would we treat a significant potential claim that has not yet been asserted?
- What are the two types of obligating event?
- When can I record a contingent asset?

Inventory valuation, Contract Work-in-progress, Provisions

# EXERCISES

# **OVERVIEW, REQUIRED READING AND ASSIGNMENT FOR NEXT SESSION**

# Session 17 Overview

## Mid-term Test

# Session 17 Pre-work

- Reading
  - Melville International Financial Reporting. A practical guide:
    - Chapters 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 21, 22, 23, 24
  - IASB Statements
    - IAS 1, 2, 12, 16, 17, 33, 36, 38
    - IFRS 3, 8, 15, 16,
- Exercises
  - Melville Chapters  
1,2,3,4,5,6,7,8,9,10,12,13,14,15,21,22,23,24
  - Melville on-line multiple choice questions for the above Chapters
  - EX 1 – EX 15

# Session 19 Pre-work

- RA 13 Research Assignment – Financial Instruments

# RA 13 Financial Instruments Template

Nature of and Accounting Policies - Financial Instruments (Financial Assets & Financial Liabilities)

Capital Management and Financial Risk Management Policies and Risk Management  
Financial Instruments

# SUMMARY AND VALIDATION



# Revision emphasis areas

- Financial statements (general features, options)
- Financial analysis (ratio, trend, common size analysis)
- Revenue recognition,
- Employee benefits, pensions, stock options
- Income taxes: direct, indirect, deferred taxes
- Property, plant and equipment, revaluation model
- Leases, accounting for finance leases
- Intangibles including goodwill, acquired vs internal
- Impairment of assets
- Inventory valuation and NRV
- Construction contracts
- Provisions and contingencies

**NO**

# Mid-term test

A mixture of:

- Exercises and computations
- Multiple choice questions
- Short essay questions
- Fill in the blanks

Duration 120 mins

32 Marks. Pass > 18 i.e. 56%

# Exam Tips

- Allocate time based on number of marks for each question
- If you get stuck move on
- Show your workings – it may help you get some of the marks
- Financial analysis - don't forget to comment in addition to calculating the ratios – its what they signify that matters

# Exam Ground Rules

- Cell phones **X**
- iPads or tablets **X**
- Computers **X**
- Calculators **✓**
- Talking **X**
- Leaving the examination room **X**
- Paper **X** (Scrap paper will be provided)

# Good Luck !

Results will be published by April 27 at the latest