

A86045 Accounting and Financial Reporting (2017/2018)

Session 12
Review Session

Paul G. Smith B.A., F.C.A.

SESSION 12 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 company's accounts of alternative accounting methods/options*
- ***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	
PGS	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
PT	13. Inventories		

Objectives of This Review Session

At the end of this session students will have consolidated their knowledge of:

- *Financial statement requirements under IFRS*
- *Financial analysis including segments and EPS*
- *Rules for revenue recognition*
- *Accounting for employee costs including pensions and share based payment*
- *Current and deferred income tax accounting*
- *Accounting for intangible assets – acquired or internally constructed and goodwill*
- *Accounting for PP&E, valuation options, depreciation methods, government grants, borrowing costs, capital vs revenue expenses*
- *Accounting for leases: Finance and operating*
- *Impairment testing requirements and accounting.*

Session 11 Overview

	Mins
Session overview and objectives	5
Review of pre-work and session 11 recap	5
Recap of Sessions 1 – 3	
• Financial statements and options	10
• Financial analysis, segments and EPS	30
Recap Sessions 4 - 11	
• Revenues	75
• Costs and expenses	
• Taxation	
• Intangible assets	
• Tangible fixed assets	
• Leases	
• Impairment of assets	
Overview of session 13, required reading and assignment	5
Summary and validation	<u>5</u>
	135



SESSIONS 11 RECAP AND PRE- WORK SESSION 12

Recap of Session 11

- 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

Session 12 Pre-work

- Reading
 - Melville International Financial Reporting
 - Chapter 7 – Impairment of assets
 - IASB Statements
 - IAS 36 Impairment of Assets
 - IFRS 8 Operating Segments
- Exercises
 - Melville On-line multiple choice questions for Chapter 7
 - Melville Exercises 7.1 – 7.8
 - EX 11 Impairment of Assets- Exercises
- Research assignment
 - None

Session 12 Review Session Pre-work

- **Required reading/review**

- **Melville International Financial Reporting A Practical Guide:**

- Chapter 13 – Revenues
 - Chapter 14 – Employee benefits
 - Chapter 15 – Taxation
 - Chapter 6 – Intangible assets
 - Chapter 5 Property, plant and equipment
 - Chapter 9 Leases
 - Chapter 7 Impairment of assets

- **IASB Statements**

- IFRS 15 Revenues from contracts with customers
 - IFRS 2 Share-based payments
 - IAS 19 Employee benefits
 - IAS 12 Income taxes
 - IAS 38 Impairment of assets
 - IFRS 3 Business combinations

- **IASB Statements cont'd**

- IAS 16 Property, plant and equipment
 - IAS 23 Borrowing costs
 - IAS 40 Investment properties
 - IAS 17 Leases
 - IFRS 16 Leases
 - IAS 36 Impairment of assets

- **Exercises**

- Melville Exercises for these chapters
 - Melville on-line multiple choice questions
 - EX 5 – 11 Exercises

RECAP SESSIONS 1 -3

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

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?

Overview of Session 13

Inventories

- Permissible valuation methods
 - Raw materials
 - Work-in-progress
 - Finished goods
- Lower of cost and market
- Disclosures

Session 13 Pre-work

- Reading
 - Melville International Financial Reporting
 - Chapter 10 – Inventories
 - IASB Statements
 - IAS 2 Inventories
- Exercises
 - Melville On-line multiple choice questions for Chapter 10
 - Melville Exercises 10.1 – 10.6
- Research assignment
 - RA 10 Identify the nature of inventories in your chosen company and how these are valued and disclosed in the notes to the financial statements.

Research assignment RA 10

Inventories

Company_____

Nature of inventories held

Accounting policies for inventories

Disclosures related to inventories

SUMMARY AND VALIDATION

Session12 Validation

Any
Questions?