COURSE MAP

International Financial Reporting Standards

There is an assignment for the first class!

See the Session 1 assignment.

Students who wish to be in the same group can inform us by email prior to the first class. See Group Work on page 5.
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## Course Schedule

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| 1       | — Course policies and other administrative Issues  
          — Course overview  
          — Introduction to IFRS and IASB Conceptual Framework |
| 2       | — Revenue recognition |
| 3       | — Leases: Part 1 |
| 4       | — Leases: Part 2 |
| 5       | — Consolidation: Part 1 |
| 6       | — Consolidation: Part 2 |
| 7       | — Financial instruments: Part 1 |
| 8       | — Financial instruments: Part 2 |
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| 10      | — Employee benefits: Part 2 |
| 11      | — Employee benefits: Part 3 |
| 12      | — Project presentations |
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| 14      | — Project presentations |
This Course Map is a detailed syllabus that describes the course goals, policies, and assignments. We hope it will give you a sense for our commitment to our collective effort to make the course a rewarding experience.

You will probably find this course challenging, but we will do our very best to ensure that you are more than compensated for taking on this challenge: you will have the opportunity to gain highly valued knowledge and skills that will help you jump start your career.

**Goals**

- To help you learn differences between US GAAP and IASB GAAP for events and circumstances where these differences and their financial-statement consequences are particularly pronounced.

- To help you make informed judgments while preparing, auditing, or using IFRS financial statements.

- To help you learn to think critically about issues that are of paramount importance to accounting thought leaders. Hopefully, you will increasingly influence them as you continue to hone your skills and perhaps ultimately join their ranks. Regardless, our primary goal is to ensure you are prepared to have an informed conversation with them on any accounting issue.

Your rate of career advancement will likely be greatly influenced by the extent to which you master all three goals. Applying IFRS generally requires considerably more judgment than applying US GAAP, meaning there is much more room for objective experts to reasonably disagree on the appropriate accounting under IFRS. This is a consequence of IFRS providing less implementation guidance than US GAAP.

If you become a preparer of accounting reports under IFRS, your role will be to make these judgments and to convince those who audit and use the related numbers that they comply with GAAP and faithfully represent the underlying business events and circumstances. This will require a much more sophisticated understanding of the business context and relevant IFRS authoritative guidance than is needed under US GAAP. In particular, as you transition from US GAAP to IFRS, you will encounter many situations where there is not a clear answer and where you will need to do much more than simply apply a rule to determine whether the accounting complies with GAAP.

You will also make more judgments if you plan to audit or use IFRS financial statements; in these roles, you will need to assess the level of confidence you have that preparers appropriately exercised
judgment permitted under IFRS and more generally, that the related numbers faithfully represent the underlying events and circumstances.

**Assessment**

Your course grade will be based on: (a) your total course score (out of 100 points) and (b) the way grades are assigned to course scores to form the grade distribution.

Four factors will determine your course score:

- Ten group assignments, including class participation: 70 points
- Course project and course reflections:
  - Project slides: 10 points
  - Project presentation: 10 points
  - Written report on course reflections (discussed during final session): 5 points
  - Participation during final session and other groups’ project presentations: 5 points

We have not yet determined the cut-offs for the various grades – how grades will be assigned to scores. However, they will likely fall within the ranges you encountered in other accounting courses.

**Group Work**

As discussed below, your course score will be based entirely on group work, including class participation. The weekly assignments and course project are generally far too demanding for one individual and typically for groups smaller than 4 members.

**Group Membership**

Considering the way group work will be graded (discussed later), differences in students’ learning styles, course and work experiences, aptitudes, and ambitions, and the coordination and free-rider problems that can occur within large groups, we decided that once you get to know each other, you will be in the best position to determine the group size and membership most effective for your learning. The following guidance is consistent with this objective.

Generally, groups must have 4-6 members and we recommend 5. This said, we will consider requests to form smaller or larger groups after Session 2. Special consideration will be given to groups that split up, as discussed later.
Groups for Sessions 2-4

Groups are the same for Sessions 2-4. Students who wish to be in the same initial group can do so by informing us of the names of the members in their preferred group prior to the start of the first session. If your preferred group has fewer than 4 members, we will randomly select additional members or merge your group with another small group. Students who do not specify group preferences prior to the start of class will be randomly selected to groups.

Groups for Sessions 5-11 and the course project

Students stay in the same group for Sessions 5-11 and the course project. You can stay in your original group, form a new one on your own, or get assigned to one. This decision should be guided by feedback your original group gets back in Session 4 related to a 360-peer assessment members of the group will submit at the start of Session 3. These peer assessments are discussed later in this document.

• Your group must notify us via email the day after session 4 whether the team plans to continue working together or instead disband. Considering the way group work will be graded (discussed later); differences in students’ learning styles, course and work experiences, aptitudes, and ambitions; and the coordination and free-rider problems that can occur within groups, we decided that once you get an opportunity to get to work with each other, you will be in the best position to determine the classmates you can work with most effectively.

• If your group disbands, you must notify us via email that you have either: (1) joined a new group and indicate its members or (2) wish to be assigned to a new group. We will assign unassigned students to newly formed groups of 4-6 members or to existing groups if there are not enough unassigned students to form a new group.

Deliverables

For Sessions 2-11, you are to submit written responses to assigned questions at the start of each class. These written reports should be concise notes you can reference during class when contributing to the discussions. We encourage you to cite your sources to better facilitate class discussions. See below for the submission process and deadlines.

Generally, you should organize your responses to assigned questions hierarchically in bullet form: The highest level of the hierarchy should list a few key points you wish to make, arranged from most important to least important. Where appropriate, succeeding bullet levels should elaborate on these key
points or substantiate them. You can also provide appendices that include illustrations, financial statements, excerpts from standards, or other supporting information. Be sure to cite sources.

For Sessions 12-14, you are to submit a PowerPoint presentation on the date your group’s assigned topic is discussed in class. See Sessions 12-14 for submission process and deadlines.

**Academic Integrity**

The entire group is responsible for complying with the highest academic integrity standard. Absent compelling evidence that a group member violated this standard on his or her own and that other group members couldn’t have been reasonably expected to detect the violation, the entire group will be held responsible for the violation, receive zero points for the assignment (written and participation points, as discussed later) and be reported to the appropriate dean (consistent with the procedures detailed at the above website).

In addition to the breaches of academic integrity, sharing information with other groups when preparing responses to the group assignments is not permitted and will be considered a breach of academic integrity.

**Submitting Reports: Noon**

Submit your group assignment via email before noon on the group assignment due date.

**Declining an Opportunity to Participate: Noon**

To allow for absences, tardiness, and unusual circumstances that would make it difficult for individuals to prepare adequately for the assigned questions or otherwise hinder their performance, each student has one free pass – an opportunity during the course to elect not to be included in the random selection procedure (discussed later) without any negative consequences on the participation scores he or she and others in his or her group receives.

However, students must inform us that they will be absent or otherwise not participating in the random selection via email no later than noon on the day the assignment is scheduled to be discussed in class. The participation scores of students who do not notify us by this time and the scores of others in their group will be reduced significantly if these students are subsequently selected to answer an assigned question and they are late for class, absent, or not prepared to give a respectable performance.

Students can elect not to participate in the random selection more than once but they must notify us no later than noon on the assignment due date. If they notify us in time, their participation scores (but not
those of others in their group) will be reduced but this penalty will be considerably smaller than the one they and others in their group will receive if they don’t notify us, are subsequently selected to open the discussion, and are late for class, absent, or not prepared to give a respectable performance.

**Preparation Tips**

*Develop and Continually Refine Your Process*

There is not a one-size-fits-all process for completing the group assignments and preparing to present and defend them during class. Some groups have found it beneficial to meet at least twice for each assignment (or otherwise communicate as a group via email, phone or other electronic means):

- During the first meeting, divide the assignment into parts and assign these to various group members or subgroups. In this way, everyone doesn’t need to complete all of the assignment on their own. If some parts are prerequisites for others, be sure to schedule delivery dates for the prerequisite parts that are early enough to ensure the assignment can be completed on time.

- During the second meeting, check the quality of each other’s work and combine and integrate your answers into a cohesive analysis.

Other groups have successfully followed a different process: Rather than splitting the work up and working separately before getting back together to combine their work, these groups have preferred to work through the entire assignment together.

*Learn from Each Other*

Regardless of the process you follow, be sure to incorporate a strategy for ensuring everyone in the group is prepared to explain the group’s analyses and thoroughly understands related concepts, procedures, and processes. The primary reason we randomly draw a student to represent the group is to give groups an incentive to participate in this sharing of knowledge.

Explaining something to other group members doesn’t mean they grasp it well enough to explain it during class. After someone in the group explains something, we recommend a couple of other group members share their interpretations of what they heard or suggest alternative explanations. Viewing the same thing from different perspectives generally provides a deeper understanding.

*Capitalize on Your Strengths and Mitigate Your Weaknesses*

Understanding group members’ strengths and weaknesses, coordinating work effectively to ensure the group capitalizes on members’ strengths and helping each other mitigate weaknesses is essential for
success. This requires clear and honest communication of strengths and weaknesses and a strong commitment to meeting deadlines and building a highly effective group. Here are some critical areas where group members can contribute: writing skills, analytical skills, computer skills, organizational skills, research skills, and, of course, accounting skills and general business knowledge.

**Bring Appropriate Supporting Documents to Class**

Generally, students find they need electronic or hard copies of the following to participate effectively in the class discussions, with most students preferring hard copies:

- The assigned questions and your written report.
- Source documents that are not in your report but might be referenced during class. For example, related authoritative guidance, financial statements, or footnotes.
- Use of laptops during class is encouraged, especially for access to authoritative guidance. We trust you will not abuse this privilege and access non-class related content during class.

**Group Assignment Grading**

Your group score for the ten graded assignments, out of 70 course points, is the sum of your scores for two assessment periods. The first assessment period covers Sessions 2-4, which includes three of the ten graded assignments. You can earn a maximum of 21 course points during this period (= 70 *(3/10)). The second assessment period covers Sessions 5-11, which includes seven of the ten graded assignments. You can earn a maximum of 49 course points during this period (= 70 *(7/10)).

The period assessment scores are each determined following a three step process:

**Step 1— Determine the group’s raw score out of 100 for each assignment in the assessment period**

A group can earn a maximum of 100 raw (un-scaled) points per assignment for Sessions 2-11, determined in three steps:

1. Each group receives a **class participation score** out of a maximum of 100 points each session, which reflects its members’ combined contributions to the class discussion. To learn more about these discussions, see the group class participation section, page 12.

2. The average points awarded in step 1.1 (across all groups) is determined.

3. Groups with below average points may have their scores adjusted upward to the extent their written report compares favorably to the report of the group with the top score. The adjusted
score can’t exceed the average. The intent of this step is to partly compensate for class time
constraints that create differences in participation opportunities or for participation
contributions that don’t reflect the overall quality of a group’s written report. Thus, the quality
of your written report can’t lower your analysis score; but it may improve it if your group’s class
participation score is below average and your report is comparable to the top group’s report.

**Step 2— Determine the group’s baseline score for the assessment period**
The group’s baseline score out of 21 points for the first assessment period is the sum of the raw scores
for the graded assignments for Sessions 2-4 (each out of 100) multiplied by 70/1000. Similarly, the
group’s baseline score out of 49 points for the second assessment period is the sum of the raw scores
for the graded assignments for Sessions 5-11 (each out of 100) multiplied by 70/1000.

**Step 3— Determine each group member’s assignment score for each assessment period**
For each assessment period, members of the same group can have group assignment scores that are
less than, equal to, or greater than the group’s baseline score determined in step 2, depending on their
contributions to the group’s performance.

Each member’s score for the period is the lesser of the maximum score for the period (21 or 49) and the
group’s baseline score multiplied by the member’s 360-peer assessment factor for the period. These
peer-assessment factors are determined in 4 steps:

3.1 Each student is required to submit completed confidential 360-peer assessment forms for each
assessment period (details later). The first period 360-peer assessment form is to be submitted
at the start of Session 3 and the second at the start of Session 14. For each assessment, each
student is to evaluate each of their group member’s overall contribution during the assessment
period. This includes assessing their own contributions. The score for each member should
reflect an assessment of the combined contributions to all group work during the assessment
period: research, written reports and class discussions.

3.2 For each assessment period, each member’s total assessment score is determined by adding the
assessments of this member by all members of the group. For example, six scores will be
totalled for each member in a six-member group.

3.3 For each assessment period and each group, the average of the total assessment scores in step
3.2 is determined. For example, for a six-member group, six totals (one per member) will be
averaged.
3.4 A member’s 360-peer assessment factor for each assessment period is determined by dividing the individual member’s total assessment score by the average assessment score for the group. Thus, if the member’s contribution is assessed by the group to be above (below) the group average, the member’s assessment factor will be greater than (less than) 1.

Thus, the 360-peer assessments can significantly affect members’ assignment scores and reflect members’ level of contributions to the group’s overall performance.

**Making the Most of the 360-Peer Assessments**

The 360-peer assessments can help groups identify potential problems and otherwise improve performance during the course. To be effective, both assessments must be based on thoughtful, honest reflection. This is more likely to occur when members expect the 360-peer assessments will remain strictly confidential. To this end, we will confidentially distribute only the following information to each group member: (1) his or her 360-peer assessment factor for the assessment period and (2) the distribution of the groups’ assessment factors (without identifying individual group members). We expect group members to respect this confidentiality by not sharing their 360-peer assessment factors with others.

Groups should discuss the distribution of their group’s first assessment factors (without connecting them to individual group members) with the goal to improve performance. For example, a wide dispersion of factors may signal real or perceived imbalances in members’: (1) share of the workload, (2) ability to comprehend accounting concepts, search for or analyze information, write reports, or present findings, (3) availability for meetings, (4) respect for one another, or (5) other issues that affect communication or collaboration. Regardless, groups with or without a wide dispersion of assessment factors may also want to discuss ways to improve performance based on more effective or efficient processes.

Past experience tells us that when issues are not addressed and resolved, group performance gradually deteriorates. By contrast, when groups have honest and respectful conversations that address issues in a timely manner, their performance improves significantly and group work becomes more enjoyable. If your group would like us to help you identify problems and develop solutions, we will gladly meet with you.
Group Class Participation

Everyone in the group receives the same raw participation scores. These are out of raw 100 points. Here is the process we will follow for these classes:

- Numbers on Bingo balls will be assigned to groups prior to class, with more numbers assigned to groups that have been selected fewer times in the past. This procedure guarantees that every group has the same probability of being selected starting in Session 2. Thereafter, the probability of being selected decreases the more a group has been selected previously.

- For each part of a question to be discussed during the class, a group may be randomly selected by drawing a Bingo ball from a cage. No group can be selected twice during the same class unless all groups have been selected at least once.

- Within the selected group, a student will then be randomly selected to represent the group by the toss of a die. Everyone in the group gets this student’s participation score. No one else in this group can address this question thereafter.

- By contrast, when there is enough time, other groups can volunteer to correct or elaborate on answers provided by the selected group representative. By doing so, they can earn group participation points without foregoing the opportunity to be selected randomly for another part of the assigned question. However, groups must rotate their representatives such that a specific student can not represent the group again until all group members have had a turn.

- The individual who will represent his or her group for the first part of the first question will be selected 5-10 minutes before class. This will give this person an opportunity to discuss the group’s answer to this part of the question.

Doesn’t the selected group member feel extremely pressured?

Actually, the selected students generally feel considerably less pressure than they would in courses where students are cold called: they have advance notice of most of the questions they will address and they have opportunities to discuss the answers with their groups prior to presenting them to the class. Additionally, because most groups will get opportunities to participate every week, the participation score for one question has a relatively small effect on the course participation score.

How are participation scores out of 100 points determined?
For each session, your group’s class participation score out of a maximum of 100 points will mostly be based on the extent to which your group members:

- Provide new perspectives on important issues.
- Offer compelling substantiated arguments, hypotheses, analyses, or perspectives.
- Identify and further develop connections among others’ contributions.
- Offer clear and correct answers to challenging assigned questions.

To a lesser extent, your group will be rewarded for correctly answering relatively straightforward questions, asking good questions, or otherwise providing the essential mortar for excellent discussions.

**Course Projects**

The course projects are similar to the weekly assignments. Here are a few differences:

- Groups will be randomly assigned to a topic. At the same time, you will also be notified of the dates the assigned topics will be discussed in class.
- Groups must submit PowerPoint presentations rather than reports via email no later than noon on the date their assigned topic is discussed in class. See Sessions 12-14 for more details.

**Gauging Reading Intensity**

We have included more readings, webcasts, and other resources in this syllabus than we expect you and your classmates to use to satisfy the course requirements. Still, considering the importance of International Financial Reporting Standards to your careers, we expect some of you will want to go beyond the course requirements either this spring or at a later date. The reading passages designated as optional aim to facilitate such further inquiry. More generally, the syllabus classifies the recommended level of intensity of assigned reading passages and exercises as follows:

- **Skim**: indicating you should try to see the big picture - pick up the essential vocabulary and understand the basic issues,
- **Grasp**: indicating you should try to understand the computations and concepts underlying the issues,
- **Master**: indicating this material is extremely important so you should try to comprehend it as fully as possible before moving on to the next task,
• **Optional:** indicating you should only read this material if you want to go beyond the course requirements.

**Additional Optional Content**

In addition to designating some passages in the assigned readings optional, we have also designated some entire readings and videos (at the end of sessions) as additional optional content. These discuss important issues. The only reason they are not assigned is we wish to keep your workload manageable. If we have time after discussing the assigned readings and exercises, we may give brief overviews of these issues. Regardless, we will gladly discuss them with you after class or during office visits.
Session 1

Rapidly Changing Landscape and Enhancing Judgments

Rapidly Changing Landscape

Read

I. E&Y Foundation Academic Resource Center: Introduction to IFRS

II. E&Y Foundation Academic Resource Center: IFRS in Global Practice

These documents and others assigned throughout the course are provided by the E&Y Foundation Academic Resource Center.

These slides provide an excellent overview of IFRS, the various approaches countries have taken when adopting IFRS, and the challenges and alternatives the SEC confronts as it considers whether and how the US should adopt IFRS. Your goal in studying these slides is to gain a big-picture perspective. This will help you frame the issues in the readings below and, more generally, those throughout the course.

III. PWC: IFRS and US GAAP: Similarities and Differences, October 2012:


- Grasp pages 2-3
- Skim pages 4-7


Skim this reading before addressing the questions and come back to specific passages as needed when responding to them.

V. Report to the Trustees of the IFRS Foundation: IFRS Foundation staff analysis of the SEC Final Staff Report—Work Plan for the consideration of incorporating IFRS into the financial reporting system for US issuers, October 22, 2012:
Similar to above, skim this reading before addressing the questions and come back to specific passages as needed when responding to them.

VI. CFA Institute: Issue Brief: Final SEC Report on the 2010 IFRS incorporation Work Plan: Does the SEC have the Will to Find a Way Towards IFRS?


Do

1. The SEC’s Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers identifies several challenges issuers, users, and regulators will face if the US adopts a mechanism to endorse IFRS. Based solely on the evidence and arguments in the report, identify 3-4 challenges that from the SEC’s perspective seem to be most problematic.

2. The responses to the SEC Work Plan by the IFRS staff and CFA Institute provide counterarguments to some of the concerns raised by the SEC. Which of these counterarguments did you find particularly compelling?

3. As indicated below, the missions of the SEC and CFA Institute are closely aligned, especially with regards to promoting capital markets that benefit society. Yet the CFA institute seems much less concerned than the SEC about endorsing IFRS. What are possible reasons for this difference?

“The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. ... And the common interest of all Americans in a growing economy that produces jobs, improves our standard of living, and protects the value of our savings means that all of the SEC’s actions must be taken with an eye toward promoting the capital formation that is necessary to sustain economic growth.”

http://www.sec.gov/about/whatwedo.shtml

CFA Mission: “To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.”

http://www.cfainstitute.org/about/governance/Pages/bog_missionVision.aspx
4. Do you favor an endorsement approach for incorporating IFRS into US GAAP, with the FASB responsible for endorsement decisions? If so, do you favor a big bang approach or a phased approach?

Accounting Judgments – Part 1

View

VII. Accounting Judgments: Basics  Express Route (14 minutes video)


Read

VIII. Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission (CIFR Committee),

http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf

Optional: pages 1-87

Grasp: pages 88-94

Master: pages 95-96

Optional: pages 97-119

Do

5. Judgment is a two-edged sword: Generally, the more latitude preparers have to exercise judgment when preparing accounting reports, the more opportunities honest and competent managers have to faithfully reflect their financial performance and the more opportunities others have to make honest mistakes or report opportunistically. Identify ways the CIFR Committee’s suggestions regarding judgments can help users of financial reports identify managers who exercise judgment appropriately and thus improve the overall quality of accounting information.

Written Assignment

You will NOT be submitting a written assignment for Session 1. However, you are encouraged to sketch out answers to the assigned questions so you can reference them during the class discussion.
Additional Optional Video and Reading

I. Institute of Chartered Accountants in England and Wales (ICAEW) interview with Bob Hertz, former FASB Chairman: There are More Questions than Answers (May, 2012).


II. CFA Institute Backs Endorsement Approach to IFRS. John Rogers, President & CEO of CFA Institute continues to fight for a worldwide single accounting standard.

   http://video.cnbc.com/gallery/?video=3000044671#


V. Remarks by Leslie F. Seidman, Chairman of the Financial Accounting Standards Board, To the National Association of State Boards of Accountancy, Monday, October 24, 2011

Session 2

Revenue Recognition

Introduction

The amount of current and proposed authoritative guidance associated with revenue recognition is staggering: Currently, over 175 US GAAP standards and 2 IFRS standards contain revenue recognition guidance and the IASB and FASB are planning to release a new standard during the first half of 2013 that (based on a related exposure draft) is expected to depart significantly from current practice.

Your immediate challenge is to learn enough current GAAP to perform well on the job during the next few years (as companies transition to the new standard) and on the CPA exam if you choose to take it during this time period. This assignment will help you begin to meet this challenge. However, to keep the workload manageable, you will not be asked to analyze existing standards. Instead, you will be working with E&Y Foundation slides that summarize key differences in US GAAP and IFRS.

You will also complete two assigned problems from an E&Y problem set that are associated with issues that have been particularly prominent in deliberating the new standard: accounting for long-term contracts and accounting for multiple element arrangements. You can use these during the course as a reference or later to study for the CPA exam.

Our highest priority is to prepare you for proposed changes in revenue recognition (for both IFRS and US GAAP) you will likely encounter in the near future. To this end, most of our class time and your preparation time will be devoted to related postings at the FASB website.

Current Authoritative Guidance

READ

I. E&Y Foundation ARC: Revenue Recognition Including Construction Contracts slides
   - Skim: slides 1-2
   - Grasp: slides 3-5
   - Skim: slides 6-35
   - Grasp: slides 36-62
   - Optional: slides 63-64
   - Skim: slides 65-72
• Grasp: slides 73-80
• Optional: slides 81-87
• Skim: slides 88-90

Consider having 1-2 group members prepare solutions for the two assigned problems for this section. If you do so, we suggest these members follow the above reading intensity recommendations and the rest of the group skim the “grasp” and “skim” sections. This should allow group members not preparing the solutions to follow the explanations of those preparing them, which will ensure whoever is selected to present the group’s solution is ready to do so.

DO

1. E&Y Foundation ARC: Revenue Recognition Including Construction Contracts: Homework Problems
   a) Problem 17 on page 6: Otis Construction Company: **Scenarios 1 and 2 only**
      
      **Solution format:** When writing up your solution, use formats similar to those on pages 45-54 of the assigned E&Y slides.

   b) Problem 18 on page 6: Traditions Home Furnishings

**Proposed Authoritative Guidance**

READ

II. PWC: IFRS and US GAAP: Similarities and Differences, October 2012:


   • Skim pages 29-32

   This reading explains the essential elements of the proposed revenue recognition standard, which was still evolving as we prepared this course map, and a brief description of the FASB-IASB deliberations as of October, 2012. It will give you a big-picture perspective that will help you frame the details in the readings below.

III. You will find links to numerous FASB documents related to the joint revenue recognition project with the IASB at the following URL:

To keep your work load manageable, we suggest you focus on the following subset of these documents in the order they are presented:

- **FASB Staff Document: Revenue Recognition – Potential Changes to US GAAP (March 2012)**
  

  This slide show will help you connect current FASB revenue recognition guidance (including the guidance in the E&Y slides in part I) to guidance in the revised exposure draft issued jointly by the FASB and IASB on November 14th, 2011 (next item).

- The Boards issued nearly identical exposure drafts for feedback on June 24, 2010 and the FASB received nearly 1,000 related comment letters. On November 14, 2011, the Boards released a revised exposure draft for comment:


- The Boards received 359 comment letters to the revised exposure draft:


  To gain an appreciation for the diverse positions of constituents, we recommend the following comment letters:

  - **FEI (Letter #5A)**
    

  - **PWC (Letter #33)**
    

  - **Intel (Letter #145)**
    

  - **Swedish Construction Companies (Letter #292)**
    
The Boards also posted a summary of these comment letters:


In response to the comment letters and other feedback, the Boards have revised or affirmed some of the conclusions in the 2011 exposure draft. You will find a summary of the tentative conclusions reached during these deliberations at the following URL.

http://www.fasb.org/cs/ContentServer?site=FASB&c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1175801890084#summary

DO

2. Base your responses to the questions below on the Boards’ most recent tentative conclusions (or on the final standard if it is released prior to this session). We encourage you to cite arguments in comment letters, the Boards’ summary of these letters, the other recommended readings or other sources.

a) Identify (no more than 3) features of the proposed standard you most favor and your reasons for doing so.

b) Identify (no more than 3) features of the proposed standard you most oppose and your reasons for doing so.

c) If you have recommendations not included in the proposed standard, include them along with supporting arguments.

Written Assignment

There are two parts to the written assignment:

- Your solutions to the two assigned problems from the E&Y homework problems set – parts (a) and (b) of question 1.
- Your comment letter to the FASB – parts (a)-(c) of question 2.

The reports should not exceed 5 pages. They should be clear, concise, organized, and focused on the most significant issues; you should cite authoritative guidance (standard and paragraph) and other sources where appropriate and connect these sources to your analyses; you can occasionally use
quotes to bolster your analyses but you will be significantly penalized for “cutting and pasting” sans
analyses.

As stated earlier, submit all group assignments via email before noon on the group assignment due
date.

Additional Optional Videos and Readings

Conceptual Primacy of Assets and Liabilities: Income Statements derive from Balance Sheets

The tentative conclusions for the new revenue recognition standard highlight the conceptual primacy of
assets and liabilities in both the FASB’s and IASB’s conceptual frameworks. In particular, the new
standard underscores that: (1) the definitions of revenues and other income-statement elements are
based on the definitions of assets and liabilities and (2) the measurement and recognition of income-
statement elements depends entirely on the measurement and recognition of assets and liabilities.

While the Boards’ frameworks have reflected the conceptual primacy of assets and liabilities and thus
balance sheets since the 1970s, most of us were not taught to think this way. Rather, we were taught
that while income was ultimately closed into balance sheets (through retained earnings), revenue was
recognized when it was earned and realized or realizable and expense recognition was based mostly on
matching or conservatism. There were balance-sheet implications to this approach, but they were the
consequences of applying income-statement concepts (e.g., earned, collectible, matching or
conservatism) rather than the other way around.

Notwithstanding the Boards’ commitment to this approach, there is a long-standing controversy about
the relative primacy of balance sheets and income statements. In fact, there is a school of thought that
supports the income statement having conceptual primacy over the balance sheet.

When accounting measures were largely based on adjusted historical costs rather than fair values, the
relative primacy of the two statements was far less pertinent to standard setting than it is today: there
were few places where the approaches suggested different accounting treatments. This gets us to the
reason you should consider watching the videos below to get this balance-sheet-primacy mind set: This
is the way standard setters tend to debate issues and write standards, especially those you will be
studying throughout the course.

I. How do companies perform for owners? (11 minute video)

II. Revenues (select menu items indicated below)


Suggested menu items from the list on the left side of the video:

- Introduction (7 minutes)
- Basic revenue recognition
  - Ex 1 – cash sale (8 minutes)
- Challenging revenue recognition
  - Challenges (8 minutes)
  - Authoritative guidance (9 minutes)

Other Videos and Readings

III. E&Y Webcast: Double Exposure: The Revised Revenue Recognition Proposal (October 2011)

http://webcast.ev.com/thoughtcenter/default.aspx?prog=%7Bbcd40d68-d493-4547-afe4-a354cf509b6c%7D
Session 3

Leases: Part 1

DO

The first period 360-peer assessment form is to be submitted at the start of Session 3. Forms will be distributed during Session 2.

Introduction

Similar to revenue recognition, the FASB and IFRS have been working on a joint leasing project that will have profound consequences for many lessors and lessees financial statements. The Boards were considering re-exposing proposed guidance as we were creating this assignment (December, 2012).

Given these similarities, this assignment resembles the one for revenue recognition. In particular, to keep the workload manageable, you will not be asked to analyze existing leasing standards. Instead, you will be working with E&Y Foundation slides that summarize key differences in US GAAP and IFRS and related problems and solutions.

Our highest priority is to prepare you for proposed changes in lease accounting (for both IFRS and US GAAP) you will likely encounter in the near future. To this end, most of our class time and your preparation time will be devoted to related postings at the FASB website. Still, the E&Y materials will help you prepare for the CPA exam.

Current Authoritative Guidance

READ

I. E&Y Foundation ARC: Leases slides
   • Grasp: slides 2-18
   • Skim: slides 19-22
   • Grasp: slides 23-24
   • Skim: slides 25-32
   • Grasp: slides 33-35
   • Skim: slides 36-41
   • Grasp: slides 42-49
   • Skim: slides 50-61
   • Grasp: slides 62-69
   • Skim: slides 70-75
DO

1. E&Y Foundation ARC: Leases Homework Problems
   a) Problem 22 on page 5: Lessee accounting
      ▪ **Special directions:** The question asks you to determine how the lessee should classify the lease under US GAAP and IFRS. We are going to modify this part of the question: The E&Y solution states that the lease would most likely be classified as an operating lease under US GAAP and a finance lease under IFRS. Which criteria support these conclusions?
   b) Problem 23 on page 6: Lessor accounting
      ▪ **Special directions:** The question asks you to determine how the lessor should classify the lease under US GAAP and IFRS. Again, we are going to modify this part of the question: The E&Y solution states that the lease would most likely be classified as a direct finance lease under US GAAP and a finance lease under IFRS. Which criteria support these conclusions?

We may not discuss the solutions to these assigned questions during class. They are straightforward and should not take much time to complete.

2. This question refers to information in GE’s 2011 annual report.
   a) **GECS**’s balance sheet reports $289,307 of financing receivables – net (pages 72-73) at the end of 2011. How much of this is related to leases in which GE is the lessor? Are these operating leases, capital leases, or both?
   b) What is the book value of the PP&E GE leases to others through operating leases at the end of 2011?
   c) What is the residual value of GE’s finance leases at the end of fiscal 2011?

**Proposed Authoritative Guidance**

READ

II. You will find the most recent FASB documents related to the joint leasing project with the IFRS to at the following URL:

http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FPprojectUpdatePage&cld=90000011123

This project is expected to be completed during the first half of 2013. The Boards issued nearly identical exposure drafts for feedback on August 17, 2010 and the FASB received nearly 800 related comment letters. In response, the Boards proposed several tentative modifications to the exposure
draft, which you will find at the above URL under “Summary of Decisions to Date.” On July 21, 2011, the FASB and IASB announced that they would re-expose their revised standard proposals. The re-exposed document was not yet released as of 01/09/13 (when we were preparing this assignment) but should be posted at the FASB website by the time you prepare the assignment. If not, you should base your responses to the assigned questions on the 2010 exposure draft and the Summary of Decisions to Date.

- Skim the most recent documents (either the revised exposure draft or the original exposure draft and the Summary of Decisions to Date) prior to addressing the assigned questions and then return to them as needed.

DO

3. Write a comment letter to the FASB in response to the Board’s revision of the leasing exposure draft (or to the modifications posted under Summary of Decisions to Date if the Board has not yet posted a revision to the original exposure draft).
   a) Identify (no more than 3) features of the proposed standard you most favor and your reasons for doing so.
   b) Identify (no more than 3) features of the proposed standard you most oppose and your reasons for doing so.
   c) If you have recommendations not included in the proposed standard, include them along with supporting arguments.

4. Do you predict the IASB/FASB will ultimately enact their proposal? If not, how will the final standard differ from the proposals and why?

Written Assignment

Your written report should include your responses to all parts of questions 1-4.

Additional Optional Videos: Accounting Judgments: Part 2

View

I. Accounting Judgments: Basics: Recognition Decisions Scenic Route (Select menu item)

http://www.navigatingaccounting.com/video/scenic-recognition-decisions

- Examples: Faithful representation

II. Accounting Judgments: Basics: Measurement Decisions Scenic Route (Select menu items)

http://www.navigatingaccounting.com/video/scenic-measurement-decisions
Suggested menu items:

- Introduction
- Measurement decisions
- Fair value
- Value in use
- Net realizable value
- Adjusted historical cost (introduction: through start of Useful Life submenu item)
  - Measurement uncertainty
  - Relevance to investors
- Take-aways
Session 4

Leases: Part 2

Introduction

This session examines the consequences of the proposed leasing standard for financial statement statements, ratios, and valuation models.

User Consequences of Proposed Standard

Read

I. Morgan Stanley: Possible New Lease Accounting for Retailers: Mixed Signals for Investors
   - Grasp: pages 1-10
   - Skim: pages 11-20

Do

1. The assigned Morgan Stanley report was published on July 19, 2011. As you learned in Session 3, the Boards have made several changes to the proposed standard since that time. Identify the analyses and conclusions in the Morgan Stanley report you would expect to alter significantly if you were asked to update the report to reflect changes in the proposed standard since July 19, 2011. Briefly explain each of these expected alterations.

Read

Whole Foods Market’s 2010 and 2011 Annual Reports. Reference them as needed to complete the assignment.

Do

2. This question examines how Whole Foods’ financial statements and ratios would have changed if the company had applied the proposed leasing standard on September 26, 2010 (the end of fiscal 2010). You may assume:
   - The appropriate discount rate is 5%.
   - The present value of the future minimum rental commitments discounted at 5% on September 26, 2010 was 65% of their total future value.
   - Under the proposed standard, all of Whole Foods leases would be accounted for using the straight-line expense (SLE) method. (See Summary of Tentative Decisions Reached to Date at the FASB website.)
a) How would Whole Foods’ financial leverage (measured as liabilities/assets) on September 26, 2010 (the end of fiscal 2010) have changed if the company had applied the proposed leasing standard at that date? Compute the ratio using the reported numbers and the numbers that would have been reported if Whole Foods had applied the proposed leasing standard at the end of fiscal 2010.

b) Which line items would have changed on the year-end balance sheet, income statement, and cash flow statement for fiscal 2011 if Whole Foods had applied the proposed standard at the end of fiscal 2010? For each, indicate whether the amounts reported would have increased or decreased? Caveat: When a reported number changes from -1 to -2, it decreases and when it changes from -2 to -1 it increases.

c) How would your answer to part (b) change if all of Whole Foods’ leases would have been accounted for using the interest and amortization (I&A) method rather than the SLE method?

d) Does the proposed accounting fall short of ideal reporting for leases? If so, how?

e) Regarding expected changes in stock prices associated with adopting the proposed standard, the Morgan Stanley report states:

“In response to the complexity, most investors are likely to recalibrate their metrics for a retailer and its competitors to reflect the new accounting. Although we don’t expect major changes in stock prices, we do expect that relative prices will adjust modestly as distinctions between companies become more apparent.” (page 8)

i. Why might stock prices not change in response to adopting the new standard? Be specific, explaining your assumptions about the underlying economic activity, available information and/or the ways investors process this information.

ii. Why might stock prices change in response to adopting the new standard? Be specific, explaining your assumptions about the underlying economic activity, available information and/or the ways investors process this information.
Read

The following reports. Reference them as needed to complete the assignment.

I. Jefferies November 8, 2012 Whole Foods Market report

II. Piper Jaffray November 15 Whole Foods Market report

Do

3. This question examines how the methodologies used to determine target prices in sell side analysts’ Whole Foods’ reports will change if the proposed leasing standard becomes GAAP. The quotes below explain Jefferies’ and Piper Jaffray’s methodologies for determining target prices:

“The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.”

Jefferies’ November 8, 2012 Whole Foods Market report, page 6

“WFM is currently trading at 12.3x our FY13 EBITDA estimate compared to its 14.0x median over the last 10 years. We are applying a modest premium to the historical EV/EBITDA multiple as we believe faster organic square footage growth and improving ROIC justifies a premium to the historical valuation.”

Piper Jaffray’s November 15, 2012 Whole Foods Market report, page 1

Finance courses emphasize valuing companies using discounted cash flows (or discounted residual incomes) models. In these models, target prices are the present value of the forecasted future cash flows (or residual incomes), discounted at risk-adjusted rates of return. We are going to assume you have a general understanding of these models. As indicated in the above Jefferies’ quote, some sell side analysts also use DCF models. However, the multiples approaches referenced in both of the above quotes are emphasized much more in sell-side reports than DCF models. If you are not familiar with valuation models based on P/E and EV/EBITDA multiples, the Khan Academy has a few short videos with excellent big-picture explanations:


a) For which of the Whole Foods valuation methodologies in the earlier quotes will the inputs likely be affected if the proposed standard becomes GAAP? Explain briefly.
b) Piper Jaffray’s used a 15x multiple of estimated fiscal 2013 EV/EBITDA to determine the $105 target price reported on page 1 of its report. This is a “modest premium to the historical EV/EBITDA multiple” (of 14x) reported on page 3.

i. Which inputs to this methodology would have changed (if at all) if Whole Foods had first applied the proposed standard using the SLE approach for all leases on September 26, 2010 (rather than the I&A approach)?

ii. Which inputs to this methodology would have changed (if at all) if Whole Foods had first applied the proposed standard using the I&A approach for all leases on September 26, 2010 (rather than the SLE approach)?

iii. What inputs would Piper Jaffray need to have estimated from historical footnote information to ensure the EV/EBITDA metrics were comparable for the ten years used to determine the historical medians (if Whole Foods had first applied the proposed standard using the I&A approach for all leases on September 26, 2010)? Briefly describe this footnote information and how Piper Jaffray would use it to derive the historical inputs to the valuation. What assumptions would be needed?

Written Assignment

Your written report should include your responses to all parts of questions 1-3.

Additional Optional Videos: Accounting Judgments: Part 3

View

III. Accounting Judgments: Basics: Measurement Decisions Scenic Route (Select menu items)

http://www.navigatingaccounting.com/video/scenic-measurement-decisions

Suggested menu items:

- Adjusted historical cost: Impairment losses
- US GAAP

IV. Connecting Users’ and Preparers’ Decisions: Express Route (12 minutes)

Session 5

Consolidations: Part 1

Introduction

We have seen that the challenges associated with accounting for leases and revenue recognition center on judgments regarding asset and liability recognition and derecognition. In Sessions 5 and 6 our focus shifts from examining whether individual assets or liabilities should be recognized on balance sheets to whether the assets and liabilities of entire entities should be recognized through consolidation.

Current Authoritative Guidance

READ

I. E&Y Foundation ARC: Consolidation slides
   - Skim: slides 2-18
   - Grasp: slides 19-24
   - Optional: slides 25-33
   - Skim: slides 34-37
   - Grasp: slides 38-52
   - Optional: slides 53-66

DO

1. E&Y Foundation ARC: Consolidation Homework Problems

   Problems 1-6, 9-10, and 22-23

   We have assigned more E&Y problems than in past assignments to help you build a foundation of basic terms and concepts needed for subsequent readings and analyses. We will likely go over these exercises quickly during class.

READ

II. PWC: Guide to Accounting for Variable Interest Entities

   You may find some of the terms and concepts related to variable interest entities (VIEs) difficult to comprehend when you first encounter them, especially if you are not familiar with special purpose entities. You will need a solid understanding of these terms and concepts for the Session 6 assignment (next class). Our goal for Session 5 is to help you begin to gain this understanding.

   • Clients and Friends (Third page in the document – not numbered)
     - Master: First paragraph
• Executive summary
  ▪ Master: pages 2-4
• Chapter 1: Definitions of Key Terms
  ▪ Grasp: pages 3-6.
  ▪ Skim: page 15: Kick-out rights and participation rights
• Chapter 2: Scope and Scope Exceptions
  ▪ Grasp: pages 1-4
• Chapter 3: Variable Interests
  ▪ Grasp: pages 1-3
  ▪ Master: Example 3.1 on page 3
  ▪ Skim: pages 4-7
  ▪ Master: Examples 3-2 and 3-3 on pages 7 and 8
  ▪ Skim: pages 8-11
  ▪ Grasp: Examples of Potential Variable Interests on page 11
  ▪ Skim: pages 12-24. Don’t get tied up in the details. Your goal is to gain an appreciation for the broad range of potential variable interests and the challenges companies confront when they are trying to determine whether they have a variable interests in entities.
• Chapter 4: Determining whether an entity is a VIE
  ▪ Master: page 1
  ▪ Grasp: page 3
  ▪ Optional: pages 4-8
  ▪ Grasp: page 9 (starting with “Next Steps”)
  ▪ Optional: pages 10-47
• Chapter 5: Identifying the Primary Beneficiary of a VIE
  ▪ Master: page 1
  ▪ Grasp: pages 2- end of Example 5-5 on page 10
  ▪ Optional: pages 11-30

III. FASB Accounting Standards Codification

The assigned PWC reading above has several excerpts from topic 810 of the FASB’s Accounting Standard Codification (ASC), which BC students can access using the username and password distributed to you via email. If you wish to go beyond the PWC reading or would otherwise like to access ASC:

• Go to the AAA access point:
  http://aaahq.org/FASB/Access.cfm
• Click “Registered Users Login” at the bottom of the page
• Login using the information sent to you via email
• Click “FASB Accounting Standards Codification”
• You can use one of the tutorials or start accessing topics using the menu on the left

IV. Refer to Harley Davidson’s annual reports as needed to complete the assignment.

• Harley Davidson’s 2008 Annual Report
  ▪ Page 43: Finance Receivable Securitizations
  ▪ Page 46: Off-Balance Sheet Arrangements
  ▪ Pages 65-66: Finance Receivable Securitizations

• Harley Davidson’s 2009 Annual Report
  ▪ Page 16: section dealing with credit risk on finance receivables
  ▪ Pages 41-42: New Accounting Standards Not Yet Adopted

• Harley Davidson’s 2010 Annual Report
  ▪ Page 63: Balance sheet
  ▪ Pages 68-71: sections dealing with finance receivables
  ▪ Page 74-75: sections dealing with finance receivables

DO

2. This question centers on the evolution of Harley Davidson’s accounting for securitized finance receivables from 2009 through 2011.
   a) Compare and contrast the GAAP guidance Harley Davidson complied with when accounting for securitized finance receivables in 2008 and 2010, emphasizing differences in the balance sheet effects.

   b) Under US GAAP, “Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” (FASB Con 6 paragraph 25). Do you believe “Restricted finance receivables held by variable interest entities, net” reported on Harley Davidson’s 2010 balance sheet meets this definition? Defend your response by explaining why Harley Davidson: (i) is or is not entitled to the future benefits associated with the receivables and (ii) does or does not control these benefits.

   c) Under US GAAP, “Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.” (FASB Con 6 paragraph 35). Do you believe “Long-term debt held by variable interest entities” reported on Harley Davidson’s 2010 balance sheet meets this definition? Defend your response by explaining why Harley Davidson is or is not obligated to pay the amount reported to the debt holders.

   d) Measurement aside, which accounting do you believe better captures the underlying economics: the GAAP Harley Davidson followed in 2008 or the GAAP it followed in 2010? Why?
e) Taking into account differences in measurement judgments, users’ capacity to interpret the reported numbers and footnote disclosures, and other factors you consider important, which accounting do you prefer? (The GAAP Harley Davidson followed in 2008 or the GAAP it followed in 2010?)

**Written Assignment**

Your written report should include your responses to all parts of questions 1-2.

**Optional Accounting Judgments: Part 4**

**View**

I. Asset Risks and Expected Returns Scenic Route (Select menu items)


   Suggested menu items with time stamps:
   
   - Introduction (0:00 – 0:44)
   - Intel analysis (0:00 -10:30 only)
   - Take-aways (0:00 – 5:05)

II. Factors Affecting Dispersion of Measures Express Route (13 minutes)

Session 6

Consolidation: Part 2

Introduction

This session examines judgments associated with VIEs on the parts of preparers and regulators. In the process, you will also learn about correspondences between the SEC and registrants regarding SEC concerns about accounting issues in 10Qs, 10Ks, or other filings. Specifically, the question you will be examining is whether ITT Educational Services (ESI) should consolidate the PEAKs facility for student loans?

VIE Application

Read

Refer to the following documents as needed to complete the assignment.

I. Select ESI filings submitted to SEC

- 10Q for the first quarter 2010
- 10Ks for 2010 and 2011

If you need additional filings, you can locate them at the investor relations section of the company website or at SEC.org:

http://www.sec.gov/edgar/searchedgar/companysearch.html

II. Correspondence between the SEC and ESI

- Correspondence 01: SEC May 7, 2010 comment letter to ESI
- Correspondence 02: ESI June 4, 2010 response to SEC
- Correspondence 03: ESI July 19, 2010 response to SEC
- Correspondence 04: SEC August 18, 2010 comment letter to ESI
- Correspondence 05: ESI August 18, 2010 response to SEC
- Correspondence 06: SEC September 14, 2010 comment letter to ESI
- Correspondence 07: ESI September 28, 2010 response to SEC
- Correspondence 08: SEC October 14, 2010 comment letter to ESI

For future reference, here is how you can locate these correspondences

a) Go to the SEC’s “Company Search” Website:

http://www.sec.gov/edgar/searchedgar/companysearch.html

b) Enter the company name or ticker symbol (e.g., ESI) into the appropriate box and click “Find Companies”. You may have to select the parent company from a provided list.
c) In the “Filing type” box “upload” followed by “Search” to get comment letters from the SEC to the company or enter “corresp” followed “Search” to get correspondences from the company to the SEC.

III. Morgan Stanley: IIT Educational Services: A Peek at PEAKS, April 7, 2011

Do

1. What are ESI’s sources of revenue?
2. Where do ESI’s students get money to pay their tuition?
3. Why does ESI need a private source of financing for its students?
4. How does the PEAKs loan program work? What are the economics from the perspective of the bank, the servicer, and ESI?
5. Which entity controls the PEAKs facility? Which entity enjoys the benefits of PEAKs loans performing better than expected? Which entity bears the risks if the loans under-perform?
6. Should ESI consolidate the PEAKs trust? Why or why not?
7. How would consolidation of PEAKs affect ESI’s financial statements? How would it affect ESI’s key financial metrics the market uses to evaluate ESI?
8. What disclosures should ESI include about PEAKs in its financial statements?
9. How does the market view the PEAKs program? How does the government view PEAKs?

Written Assignment

Include your responses to questions 1-9.
Session 7

Financial Instruments: Part 1

Introduction

This session focuses on current IFRS and US GAAP guidance regarding accounting for financial instruments and proposed changes by both Boards.

Current Authoritative Guidance

READ

I. E&Y Foundation ARC: Financial Assets slides

- Skim: slides 1-2
- Grasp: slides 3-40
- Optional: slides 41-46
- Grasp 47-56
- Optional: slides 57-58
- Grasp: slides 59 – 62
- Master: slide 63
- Skim: slide 64

II. ASC 320 and ASC 820

(To learn how to access the FASB Accounting Standards Codification, see Session 05.)

- Optional

DO

1. E&Y Foundation ARC: Financial Assets Homework Problems

   Problems 13, 14, 16 and 18

   **Problem 14 clarification:** The problem states “Burton plans to classify the loan as AFS.” More precisely, it should state “Burton plans to classify the loan as AFS if permissible.”
Proposed Authoritative Guidance

INTRODUCTION

The FASB ASC Master Glossary defines financial instruments broadly to include:

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
   1. To deliver cash or another financial instrument to a second entity
   2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favorable terms with the first entity.

The FASB and IASB have been working on three aspects of accounting for financial instruments for several years: classification and measurement, impairment, and hedging. To keep the workload as manageable as possible, we will not study accounting for hedges.

Classification and Measurement

READ or VIEW


Use as needed to respond to the related assigned question.


This is an excellent summary of the results of the FASB’s and IASB’s deliberations prior to 2013 and thus before the February 14, 2013 proposed ASU for ASC 825-10 (above) was released. Thus, while it may be easier reading than the proposed update, parts of it may be outdated (we haven’t had time to determine whether there are outdated parts).

- Optional

V. Intel’s 10K for the year ended December 31, 2011
2. This question focuses on classification and measurement issues associated with financial instruments that Intel will likely have to deal with if the proposed guidance (for ASC 825-10) is enacted and also on related changes in Intel’s footnotes and financial statements.

   a) A table in the Available-for-sale investments footnote (page 59, Intel's 2011 10K) reports Marketable equity securities with a fair value of $562 on December 31, 2011.

      I. How would these securities have been classified if Intel had always complied with the proposed standards rather than with current US GAAP?

      II. Focusing solely on these equity securities, how would Intel’s Consolidated balance sheet have differed, if at all, if Intel had always complied with the proposed standards rather than with current US GAAP?

      III. Focusing solely on these equity securities, how would the $17,781 of Income before taxes reported in Intel's Consolidated statements have differed for 2011, if at all, if Intel had always complied with the proposed standards rather than with current US GAAP?

      IV. Focusing solely on these equity securities, how would the $11,828 of Total comprehensive income reported in Intel’s Consolidated statements of stockholders’ equity have differed for 2011, if at all, if Intel had always complied with the proposed standards rather than with current US GAAP?

   b) The same table referenced in part (a) reports Asset-backed securities with a fair value of $36 on December 31, 2011. What would have to be true for some of these securities to be classified as Fair value through net income under the proposed standards?

3. This question asks you to evaluate the proposed accounting standard update associated with classification and measurement (ASC 825-10).

   a) Identify (no more than 3) features of the proposed standard you most support (if any) and your reasons for doing so.

   b) Identify (no more than 3) features of the proposed standard you most oppose (if any) and your reasons for doing so.

   c) If you have recommendations not included in the proposed standard, include them along with supporting arguments.
Impairments

READ or VIEW

VI. FASB podcast: Board Member Tom Linsmeier discusses the FASB’s proposed Standard to improve accounting for credit losses on financial assets and compares the FASB’s and IASB’s proposals:

http://www.fasb.org/cs/ContentServer?site=FASB&c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176156828276

Most of the content in this podcast is covered in the first five pages of the exposure draft assigned below. You should use the source that best fits your learning style (reading or listening and watching). Both sources will help you understand how concerns raised during the global financial crisis about deficiencies in financial reporting for credit losses motivated the Boards to seek significant improvements. They will also introduce you to proposals in the FASB’s recent exposure draft and help you understand how they differ from the IASB’s proposals.

VII. Proposed Accounting Standards Update: Financial Instruments – Credit Losses (825-15), Dec. 2013

Use as needed to respond to the related assigned question.

DO

4. Outline a comment letter to the FASB regarding the exposure draft for Subtopic 825-15. Briefly explain the most important points you would include in your responses to the following questions in the exposure draft:

   a) Question 2 on page 5
   b) Question 3 on page 6
   c) Question 4 on page 6
   d) Question 5 on page 6
   e) Question 6 on page 6
   f) Question 17 on page 9

Written Assignment

Include your responses to all parts of questions 1-4.
Session 8

Financial Instruments: Part 2

Introduction

This session will center on a discussion lead by representatives from the New York office of PWCs’ Financial Instruments, Structured Products, and Real Estate Group (FSR). They will be sharing insights regarding measuring the fair values of securities associated with securitizations and related classification and disclosure issues. These securities have been center stage during the recent financial crisis. They are often referred to as toxic assets by the media.

One of the primary goals of this session is to raise your awareness to the measurement challenges that can arise in practice and the expertise that is needed to meet them. To this end, we want you to get your hands dirty in the finance, accounting, and regulatory complexities associated with one of these securitizations: Mortgage Pass-Through Certificates, Series 2006-NC5, which was sponsored by Morgan Stanley Capital Inc. in 2006. We are hoping this will be a tremendously valuable learning experience for all of us.

The primary goal of the written assignment is to ensure that you are prepared as best as possible to participate in the class discussion. Our guests have prepared a PowerPoint presentation but they are planning to pose questions to you throughout the class and entertain your questions. The assigned readings and questions for this assignment and the previous one should prepare you for this role.

PWC Presentation on Securitizations

READ

I. A Securitization Primer for First Time Issuers, by Joel Telpner, Greenberg Traurig
   - Skim pages 1-4 through the “Trustee” section on page 4
   - Skip the accounting discussion that starts on page 4 with “How does a company remove assets from its balance sheet for securitization purposes?” through to the start of “What are the factors that go into rating a securitization?” For the most part, the accounting discussed in this section is no longer allowed under US GAAP.
   - Skim the remainder of the document
   Return to this document as needed when addressing the assigned questions.

II. Prospectus Supplement
   - Master pages S-1 through S-47
• Grasp pages S-48 through S-83

Return to this document as needed when addressing the assigned questions.

DO

1. The purpose of this question is to ensure you understand the key concepts discussed in “A Securitization Primer for First Time Issuers” prior to the class discussion with our PWC guests.

   a) For the purpose of this question assume you are a junior member of the corporate finance department at Bryan Health and Fitness (BHF) who has been asked to prepare a brief executive summary for BHF’s executives of “A Securitization Primer for First Time Issuers” (not to exceed two pages, 1.5 spacing, 11 point font).

      • You should assume BHF is considering investing in collateralized debt obligations issued by a special purpose entity (SPE) and that you are to briefly explain the parties associated with the SPE, the asset risks associated with the SPE, and the way these risks are shared by the investors in the SPE.

      • You may reference Figure 1 in “A Securitization Primer for First Time Issuers” in your memo as if it was included, but you should not include it in your executive summary.

2. The purpose of this question is to ensure you are prepared to participate in the discussion lead by the PWC guests regarding the “Prospectus Supplement” in the assigned reading. Most of the class will center on this supplement.

   Assume you are a junior member of the corporate finance department at Eagle Company who is responsible for writing executive summaries at various dates related to the A-1 tranche of the securitization discussed in the supplement.

   a) For this question, you are to write an executive summary dated December 1, 2006, when Eagle Company is considering investing in the A-1 tranche of the securitization. Your memo should not exceed four pages. You are to address the following issues in language an intelligent executive whose understanding of securitizations is limited to the memo you wrote in 2(a):

      I. Describe the deal type, structure, and risks by answering the following questions:

         • Who are the parties in the transaction?

         • Which parties have an economic interest in the transaction and describe their interest?

         • Describe the nature of the collateral in this transaction. What may be some of the key characteristics of the collateral?
• What are the risk factors in the structure?
• What are the key differences in terms of risk between holding the A-1 and A-2 tranches?
• Assume you are a holder of the A-1 tranche, what are the some of the risk mitigating factors in this deal?

II. What are some of the accounting considerations as an investor in the A-1 tranche of this transaction?

• ASC 320 - Classification of Securities
• ASC 820 - Fair Value Measurements and Disclosure
• As an investor in the A-1 tranche, at which level in the fair value hierarchy would you disclose the position?

b) For this question, you are to write an executive summary dated December 20, 2006, when Eagle’s executives are preparing for a meeting with PWCs’ Financial Instruments, Structured Products, and Real Estate (FSR) Group to discuss fair-value measurement and disclosure issues related to Eagle’s investment in the A-1 tranche. These issues must be addressed to prepare the financial statements and footnotes for the year ended December 31, 2006. Eagle has hired the FSR Group to help Eagle determine the fair value that will be reported at this date and related disclosures. Your memo should:

I. Briefly explain the valuation techniques permissible under US GAAP (ASC 820-10-35:24-35). Identify the technique you expect the FSR Group will recommend. Identify related issues that you don’t fully understand and suggest questions the Eagle executives might pose to the FSR Group to explain these issues.

II. Briefly explain the valuation inputs you expect the FSR Group to recommend and the level in the fair value hierarchy where Eagle will likely disclose its investment in the A-1 tranche (ASC 820-10-36:55). Identify related issues that you don’t fully understand and suggest questions the Eagle executives might pose to the FSR Group to explain these issues.

Written Assignment

Include your responses to all parts of questions 1-2.
Session 9

Employee Benefits: Part 1

Introduction

Sessions 9-11 examine current IFRS and US GAAP guidance regarding accounting for employee benefits, with a focus in Session 9 on defined benefit pension plans. For IFRS, you will only be responsible for IAS 19, as amended June 2010, which is effective for years starting after January 1, 2013.

This is a very relevant topic:

Ford Motor Co. expects to spend $5 billion this year shoring up its pension funds, almost as much as the auto maker spent last year building plants, buying equipment and developing new cars.

The nation's second-largest auto maker is one of a who's who of U.S. companies pouring cash into pension plans now being battered by record low interest rates. Verizon Communications Inc. contributed $1.7 billion to its pension plan in the fourth quarter and—highlighting companies' sensitivity to this issue—Boeing Co. now reports "core earnings" to separate out pension expenses.

"It is one of the top issues that companies are dealing with now," said Michael Moran, pension strategist at investment adviser Goldman Sachs Asset Management.

Low Rates Force Companies to Pour Cash into Pensions, Wall Street Journal, February 4, 2013

It's also a very challenging topic:

For many years, the accounting for pensions and OPEB has been criticized by preparers, auditors, and financial statement users. Preparers and auditors have found the strict rules-based guidance on this subject difficult to understand and apply. Investors and other financial statement users have found the information disclosed about retirement benefits difficult to interpret and correlate to the economics of the benefit arrangements.

PWC Dateline, February, 2011, page 1

In this session, our first goal is to help you learn terminology, concepts, computations, and entries associated with authoritative guidance related to defined benefit pension plans. To this end, you may find it more difficult to split the work amongst group members than in the past: You can’t record entries until you have computed the numbers therein, which requires an understanding of the related terminology and concepts. Similarly, you may need to work your way through the exercises in the Pension Example Exercise Excel model (question 1) before tackling the questions in the AT&T Pensions Exercise Excel model (question 2). Our second goal for the session is to study the discount rates used to determine the present values of pension obligations to help you understand the distinction between a measurement objective and a measurement method that produces measures that seek to meet that objective.
Current Authoritative Guidance

READ

I. Morgan Stanley: Accounting & Valuation Correction: IASB Overhauls Pension Accounting: What does it Mean for Europe?
   - Skim page 1
   - Master pages 2-3
   - Grasp pages 4-5
   - Skim pages 6-7
   - Master pages 8-9
   - Optional pages 10-11

   If you discover terms in the Morgan Stanley reading you aren’t familiar with, you will likely find their definitions in one of the following sources:
   - FASB: ASC 715-30-20 (Glossary)
   - IASB: IAS 19, as amended in June 2010, paragraph 8 (Definitions)

II. PWC: IFRS and US GAAP: Similarities and Differences, October 2012:


   - Optional

III. ASC 715-30 (Compensation: retirement benefits: defined benefit plans: pensions)
    (To learn how to access the FASB Accounting Standards Codification, see Session 05.)
    - Refer to as needed to complete the assigned questions

IV. IAS 19, as amended June 2010
    - Refer to as needed to complete the assigned questions

DO

1. Answer the two questions in the Assignments worksheet of the Pension Example Exercise Excel model and submit the completed model via email.
   - Read the guidance in the Assignment worksheet carefully, especially if you aren’t familiar with Excel models or present value computations.
READ

V. Morgan Stanley: Accounting & Valuation: Voluntary Changes in Pension and OPEB Accounting Boosts Non-GAAP Earnings
  - Grasp pages 1-5
  - Skim pages 6-8
  - Optional pages 9-13

DO

2. Answer the two questions in the Assignments worksheet of the AT&T Pension Exercise Excel model and submit the completed model via email.
   - The AT&T Pension Exercise Excel model.
   - Read the guidance in the Assignment worksheet carefully.

Session 10

Employee Benefits: Part 2

Introduction

This session continues our study of accounting for employee benefits, by examining differences in business, accounting, and valuation issues for pensions and other post-retirement benefits (OPEB).

Current Guidance and Valuation Implications

READ

I. Towers Watson: Comparison of Accounting for OPEB Versus Pensions
   - Master slide 2
   - Skim slides 3-5
   - Grasp slides 6-7
   - Master slide 8
   - Grasp slides 9-14
   - Skim slides 15-18
   - Master slide 19
   - Grasp slides 20-22

II. Moody’s Ratings Implementation Guidance: Other Postretirement Benefits – Moody’s Analytical Approach
   - Master page 1
   - Grasp pages 2-4
   - Optional pages 5-8

III. Morgan Stanley Accounting & Valuation: Who Benefits Most from Reducing Retirement Costs?
   - Skim pages 1-2
   - Master pages 3-4
   - Grasp pages 5-9
   - Skim pages 10-14
   - Optional pages 15-16

IV. Seider and Williamson: Pension and OPEB Obligations in US Bankruptcies
   - Refer to as needed to complete the assigned questions
V. TMA: The Impact of Underfunded OPEB Obligations on Business Valuation
   • Refer to as needed to complete the assigned questions

VI. ASC 715-60 (Compensation: retirement benefits: defined benefit plans: other postretirement)
   (To learn how to access the FASB Accounting Standards Codification, see Session 05.)
   • Refer to as needed to complete the assigned questions

VII. Verizon 2011 10K

DO

Provide bullet point responses to the following questions:

1. Some companies have voluntarily changed their pension accounting to immediately recognize actuarial gains and losses, while presenting a non-GAAP measure that excludes those gains and losses. Are companies motivated to similarly change their OPEB accounting? Why or why not?

2. Why is Verizon’s OPEB liability so much larger than its pension liability? Is its OPEB liability more volatile than its pension liability? Why or why not?

3. What are the actuarial assumptions needed for OPEB accounting that are unique to OPEB compared to assumptions needed for pension accounting?

4. What are the top few ways management could engage in aggressive accounting related to OPEB? For each way, how would you evaluate the reasonableness of the related estimates or judgments?

5. Assume that an OPEB plan’s benefit formula said the company would pay an OPEB retirement benefit if the employee retired from the company over age 55 with at least 10 years of service at the point of retirement. So, an employee who retired at age 55 or later with less than 10 years of service would get nothing. Over what period would you attribute OPEB expense related to employees? Would you expense OPEB costs from the date of hire to the date of retirement? Or, from the age of hire to age 55? Or, from age 45 to 55? Or, starting at age 55 to date of retirement? Or, something else? Please justify your view relative the requirements of US GAAP.

6. A company wishes to reduce their OPEB costs and liabilities, without changing their assumptions or estimates. How might the company accomplish those objectives? What are the practical barriers to doing so?

7. OPEB retirement costs and liabilities are generally not material in many countries. Why? Will recent health care reform in the US raise or lower a company’s OPEB costs and liabilities?

8. Companies can cancel some OPEB benefits at will. Should cancelable OPEB benefits result in liabilities? What are the arguments pro and con?
Session 11

Employee Benefits: Part 3

Introduction

This session features a guest speaker – Diana Scott from Towers Watson, a leading expert in employee benefit accounting. Diana will cover four topics, each of which requires your preparation, and in three cases, written responses to questions in advance of class. The topics are:

- Career issues for technical accountants
- Actions companies are taking to lower the risk of defined-benefit pension plans
- Accounting for curtailments and settlements of pension plans
- Accountants working with specialists

Topic 1 – Career issues for technical accountants

READ

I. Diana Scott’s bio.

DO

1. In her introductory comments, Diana will briefly comment on the following:
   - Building your professional brand
   - Enhancing technical skills
   - Importance of reinventing yourself as change occurs

   Be ready to ask questions about these areas or anything else about career planning you would like to discuss with Diana. (No write-up is required.)

Topic 2 – Accounting for curtailments and settlements of pension plans

READ

II. Corporate Controller’s Manual: Employers’ Accounting for Pensions, Pension Settlements and Curtailments and Termination Benefits
   - Refer to pages 20 – 27 on Settlements and Curtailments as needed to complete the assignment
III. Towers Watson: Key Similarities and Differences in Accounting for Curtailments and Settlements, US GAAP vs. IAS 19
   • Grasp slide 2
   • Refer to slides 3-4 as needed to complete the assignment

DO

2. Session 11’s materials include an exercise in an Excel worksheet titled “Curtailments and Settlements Example.” The worksheet provides factual information about a company’s pension plan, before and after a curtailment and settlement.
   a. Fill in the missing data on the worksheet for US GAAP
   b. Answer the questions on the US GAAP worksheet
   c. Fill in the missing data on the worksheet for IFRS
   d. Answer the questions on the IFRS worksheet

Topic 3 – Actions companies are taking to lower the risk of defined-benefit pension plans

READ

IV. Towers Watson: Recent Pension De-Risking Actions Taken by Large Employers
   • Grasp slides 1-2

V. Deloitte: Pension Plan Risk: How Certain Employers are Moving Ahead of the Curve
   • Grasp slides 1-19

VI. Towers Watson: Eight Common Concerns About Pension De-Risking Strategies
   • Grasp pages 1-3

DO

3. Assume you manage a company with a large defined-benefit pension plan. The plan, which is 75% funded, has invested its assets in 60% equities and 40% bonds. New employees remain eligible to participate in the plan. The company is prosperous, growing, and carries relatively little debt. However, the market is concerned with the size of the pension underfunding and volatility in plan liabilities and funding requirements. You have decided to take actions to de-risk the pension plan in response to the market’s concern.

Outline the actions you suggest the company take to de-risk the plan. For each action:
   a. Explain the rationale supporting the action and the risks it reduces
   b. Flag the accounting issues the company will need to address if it takes the action you suggest (you need not specify the accounting, only identify issues)
**Topic 4- Accountants working with specialists**

In preparing or auditing financial statements, accountants often work with specialists in other disciplines. Examples include experts in asset valuation, lawyers, engineers, and actuaries. Even though accountants are primarily responsible for financial reporting, they must rely, to some extent, on the work of the specialist. At a minimum, the accountant should ensure the accuracy of the data provided to the specialist and that the specialist understands their assignment related to financial reporting. Further reliance, however, could fall in three categories:

- **Complete reliance**: The accountant views the specialist’s work as a “black box,” accepting the specialist’s work.
- **Partial reliance**: The accountant performs enough work to understand, at a high level, the work of the specialist, and reviews the output of the specialist’s work to ensure it is consistent with that general understanding.
- **Minimal reliance**: The accountant oversees the work of the specialist, as if the specialist were an extension of the accountant’s own staff. That is, the accountant understands the specialist’s approach, and reviews and questions the specialist’s assumptions, estimates and perhaps calculations too.

**READ**

VII. AICPA: AU Section 336, Using the Work of a Specialist

- Grasp pages 545 - 548

**DO**

4. Answer the following questions:

   a. Do you characterize the AICPA’s model as complete reliance, partial reliance, or minimal reliance? Why?

   b. If you were in charge of preparing a company’s financial statements, which level of reliance would you support and why? Would your answer change assuming you were an auditor rather than a preparer of financial statements? Why?
**Session 12**

*Project Presentations: Long-Term Assets and Share-Based Compensation*

**Introduction**

The groups that are presenting their projects during this session have a different assignment than the groups not presenting projects. The assignment for the groups NOT presenting projects should prepare them to comprehend the presentations, ask follow-up questions during Q&A, and prepare “key lessons learned” to share at the end of the session. They will also help you prepare for the CPA exam. Groups that are presenting projects only need to prepare their presentations.

Here is the agenda:

- Long-term assets
  - 4:30 – 5:10: presentation
  - 5:10 – 5:25: Q&A
- Share-based compensation
  - 5:30 – 6:10: presentation
  - 6:10 – 6:25: Q&A
- Sharing key lessons learned
  - 6:30 – 6:45

**Assignment for groups NOT presenting project during Session 12**

(The assignment for presenting groups is discussed later.)

**Written Assignment**

You are to submit solutions via email for questions 1-3 below by noon.

**READ**

1. E&Y Foundation ARC: PP&E slides
   - Skim 1-70 (return as needed to complete assignment)

**DO**

1. E&Y Foundation ARC: PP&E Homework Problems
   a) Problem 6
   b) Problem 11
READ

II. E&Y Foundation ARC: Intangibles slides
   • Skim 1-60 (return as needed to complete assignment)

DO

2. E&Y Foundation ARC: intangibles Homework Problems
   a) Problem 8
   b) Problem 12

READ

III. E&Y Foundation ARC: Share-based payments and earnings-per-share slides
   • Skim 1-23 and 47-49 (return as needed to complete assignment)

DO

3. E&Y Foundation ARC: Share-based payments and earnings-per-share Homework Problems
   a) Problem 15
   b) Problem 16

Assignment for groups presenting project during Session 12

READ

You are responsible for locating authoritative guidance and company disclosures related to your project’s topic (as indicated below). This said, to lay a foundation for more in depth study, we suggest you start with either the E&Y slides related to your topic or relevant sections of the PWC document on IFRS-US GAAP comparisons referenced throughout the course:


DO

• Groups must submit PowerPoint presentations via email by noon.
• For your assigned topic, your group should prepare a PowerPoint presentation with the following four parts:
  1. A big picture overview of current (and possibly proposed) accounting for your topic under IFRS and US GAAP.
• Your goal in parts 1 and 2 is to prepare the audience for the accounting issues that are associated with the company disclosures you will discuss in part 3.

• The notes section of your slides should cite the related authoritative literature at the paragraph level for IFRS (e.g., IAS 19, paragraph 27) or at the lowest level of the Accounting Standards Codification for US GAAP (e.g., ASC 715-30-35-43).

2. An example of the accounting that would enable someone versed in basic accounting to appreciate the implications of the accounting on the major financial statements (under both IFRS and US GAAP, if they differ).

• The notes section of your slides should cite the related authoritative literature at the paragraph level for IFRS (e.g., IAS 19, paragraph 27) or at the lowest level of the Accounting Standards Codification for US GAAP (e.g., ASC 715-30-35-43).

3. An illustration of all significant disclosures related to your topic for at least one company following US GAAP and one company following IFRS.

• The group responsible for long-term assets should consider all of the significant disclosures dealing with property, plant, and equipment and intangible assets in the financial statements, footnotes, and Management Discussion and Analysis section of the annual report (or a comparable section for IFRS companies).

• The group responsible for share-based compensation should consider all of the significant disclosures dealing with stock options and other share-based compensation in the financial statements, footnotes, and Management Discussion and Analysis section of the annual report (or a comparable section for IFRS companies).

4. In situations where there are significant differences under IFRS and US GAAP, identify the alternative that would likely be preferred by each of the following parties and the reasons for their preferences: chief financial officer of reporting company, auditor of reporting company, and equity analysts following the company.
Session 13

Project Presentations: Liabilities and Foreign Currency

Introduction

Similar to Session 11, the groups that are presenting their projects during this session have a different assignment than the groups not presenting projects. The assignment for the groups NOT presenting projects should prepare them to comprehend the presentations, ask follow-up questions during Q&A, and prepare “key lessons learned” to share at the end of the session. They will also help you prepare for the CPA exam. Groups that are presenting projects only need to prepare their presentations.

Here is the agenda:

- **Liabilities**
  - 4:30 – 5:10: presentation
  - 5:10 – 5:25: Q&A
- **Foreign currencies**
  - 5:30 – 6:10: presentation
  - 6:10 – 6:25: Q&A
- **Sharing key lessons learned**
  - 6:30 – 6:45

Assignment for groups NOT presenting project during Session 13
(The assignment for presenting groups is discussed later.)

Written Assignment

You are to submit solutions via email for questions 1-3 below by noon.

READ

1. E&Y Foundation ARC: Current liabilities and contingencies
   - Skim 1-60 (return as needed to complete assignment)

DO

1. E&Y Foundation ARC: Current liabilities and contingencies Homework Problems
   a. Problem 9
   b. Problem 10
   c. Problem 11
   d. Problem 12
II. E&Y Foundation ARC: Long-term liabilities
   • Skim 1-46 and 53-58 (return as needed to complete assignment)

DO

2. E&Y Foundation ARC: Long-term liabilities Homework Problems
   a. Problem 1
   b. Problem 2
   c. Problem 3
   d. Problem 14

READ

III. E&Y Foundation ARC: Foreign currency
   • Skim Foreign currency (return as needed to complete assignment)

DO

3. E&Y Foundation ARC: Foreign currency Homework Problems
   Problems 1-12 below, which require very short answers, will help you understand subtle aspects of foreign currency accounting that can be quite confusing when first encountered.
   a. Problem 1
   b. Problem 2
   c. Problem 3
   d. Problem 4
   e. Problem 5
   f. Problem 6
   g. Problem 7
   h. Problem 8
   i. Problem 9
   j. Problem 10
   k. Problem 11
   l. Problem 12
   m. Problem 15
**Assignment for groups presenting project during Session 13**

**READ**

You are responsible for locating authoritative guidance and company disclosures related to your project’s topic (as indicated below). This said, to lay a foundation for more in depth study, we suggest you start with either the E&Y slides related to your topic or relevant sections of the PWC document on IFRS-US GAAP comparisons referenced throughout the course:


**DO**

- Groups must submit PowerPoint presentations via email by noon.
- For your assigned topic, your group should prepare a PowerPoint presentation with the following four parts:

  1. A big picture overview of current (and possibly proposed) accounting for your topic under IFRS and US GAAP.
     - Your goal in parts 1 and 2 is to prepare the audience for the accounting issues that are associated with the company disclosures you will discuss in part 3.
     - The notes section of your slides should cite the related authoritative literature at the paragraph level for IFRS (e.g., IAS 19, paragraph 27) or at the lowest level of the Accounting Standards Codification for US GAAP (e.g., ASC 715-30-35-43).

  2. An example of the accounting that would enable someone versed in basic accounting to appreciate the implications of the accounting on the major financial statements (under both IFRS and US GAAP, if they differ).
     - The notes section of your slides should cite the related authoritative literature at the paragraph level for IFRS (e.g., IAS 19, paragraph 27) or at the lowest level of the Accounting Standards Codification for US GAAP (e.g., ASC 715-30-35-43).

  3. An illustration of all significant disclosures related to your topic for at least one company following US GAAP and one company following IFRS.
     - The group responsible for liabilities should consider all of the **significant** disclosures dealing with current and non-current liabilities in the financial statements, footnotes,
and Management Discussion and Analysis section of the annual report (or a comparable section for IFRS companies).

- The group responsible for foreign currency should consider all of the significant disclosures dealing with foreign currency in the financial statements, footnotes, and Management Discussion and Analysis section of the annual report (or a comparable section for IFRS companies).

4. In situations where there are significant differences under IFRS and US GAAP, identify the alternative that would likely be preferred by each of the following parties and the reasons for their preferences: chief financial officer of reporting company, auditor of reporting company, and equity analysts following the company.
Session 14

Course Reflections

DO

- Your group is to submit a written report that identifies the top-5 things you learned in the course that you expect will help you make the transition from US GAAP to IFRS or, more generally, help you in your careers. You should briefly explain the reasons you selected your top 5 and be prepared to share them with the class.

- This written report is due via email by noon.

- In addition, the second period 360-peer assessment form is to be submitted at the start of Session 14. Forms will be distributed during Session 13.