



A POLYTECHNIC INSTITUTION

School of Business

Program: Financial Management

Option: Daytime Studies

## Course Outline

**FMGT 4110**

**Financial Accounting 2**

**Start Date:** January, 2008

**End Date:** May, 2008

**Course Credits:** 7

**Term/Level:** 4

**Total Hours:** 100

**Total Weeks:** 20

**Hours/Week:** 5      **Lecture:** 2      **Lab:**      **Shop:**      **Seminar:** 3      **Other:**

### Prerequisites

### Prerequisite for:

**Course No.**      **Course Name**  
FMGT 3110      Financial Accounting 1

**Course No.**      **Course Name**  
FMGT 7121      Advanced Accounting

### Course Description

A variety of topics are included in the course. These topics include accounting for investments, liabilities, equity, complex financial instruments, income taxes, leases, pensions, earnings per share, and accounting changes.

### Evaluation

Quizzes and assignments	15%
Midterm Exam-3 hours	35%
Final Exam-3 hours	50%
<b>TOTAL</b>	<b>100%</b>

### Course Goals

Upon successful completion of this course, the student will be able to:

1. Develop a better understanding of the accounting process and the concepts, principles and procedures essential to the attainment of accounting objectives.
2. Upon completion of this course, students should expect to have:
  - a) Acquired skills that will enable them to compete for more challenging and responsible accounting positions at an intermediate level.
  - b) Determined their aptitude and desire for professional accounting while gaining (with a specified grade) exemption from study of the comparable course offered by professional associations (CA, CGA, CMA).

## Course Learning Outcomes/Competencies

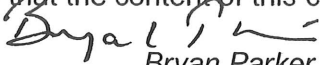
To assist students in acquiring a more thorough understanding of accounting and the concepts and principles involved in attaining accounting objectives. Development of reasoning and analytical skills will be emphasized.

Upon successful completion of this course, the student will be able to:

1. Identify and account for most investments in debt and equity securities.
2. Examine specific treatments of current monetary assets and liabilities; notably transferred receivables and implicit financing in notes receivable and notes payable. Present Value Application is introduced and will be applied in several chapters.
3. Record liabilities, particularly in such specific areas as refinanced short-term liabilities, contingencies, and subsequent events.
4. Record the issue, maintenance and retirement of long-term debt (bonds, including the appropriate accrual of interest and expenses). A thorough knowledge of present value concepts will be expected.
5. Fully understand disclosure requirements for shareholders' equity and the accounting for share capital transactions, including those affecting contributed surplus and retained earnings accounts. The latter will include accounting for stock rights, stock splits and dividends.
6. Identify complex debt and equity instruments and account for stock warrants/options.
7. Gain a basic understanding of how to record income tax expense using the asset/liability method.
8. Account for leases for lessees and obtain a basic understanding of accounting for lessors; sale-leaseback transactions and other technical aspects that determine the value of lease arrangements.
9. Determine earnings-per-share under simple and complex capital structures.
10. Develop the analytical and technical ability to handle accounting changes and related external reporting, particularly the presentation of comparative financial results.
11. Understand the nature of pensions and the complexities of accounting for them. To be able to prepare the worksheets and journal entries for more than one year for basic pension arrangements.
12. Maintain an ongoing understanding of financial statement relationships. The Statement of Cash Flow implications will be discussed and reinforced on a topic-by-topic basis.

## Course Content Verification

I verify that the content of this course outline is current.



Bryan Parker, CA

Authoring Instructor

December 2007

Date

I verify that this course outline has been reviewed.



Mathew Haussmann, CMA

Program Head

December 2007

Date

I verify that this course outline complies with BCIT policy.



Tim Edwards, Dipl. T., MBA, CMA

Dean/Associate Dean

December 2007

Date

**Note:** Should changes be required to the content of this course outline, students will be given reasonable notice.

## Instructor(s):

Bryan Parker

Nadine Lancaster

David Chan

## Learning Resources

### Required:

Text: *Intermediate Accounting*, Beechy, Conrod, **Third Edition**, McGraw-Hill

Financial calculator; example: **Texas Instruments BA II Plus**. It is assumed students have and can apply financial calculators.

Solutions to selected additional questions will be posted on WebCT

## STUDENT INFORMATION ON POLICIES AND PROCEDURES

**COURSE OUTLINES:** This course outline may assist you in the future to receive credit for all or part of a course from another post-secondary institution or from a professional program. It is strongly recommended that this course outline be safely filed for future reference.

**EXAMINATIONS:** Recently there has been a greater tendency for students to miss scheduled examinations. Students who miss examinations often request that they be allowed to write make-up examinations. This is often unfair to those who wrote the scheduled examination and time-consuming for the instructor who is asked to prepare alternative examinations.

In an effort to be consistent within Financial Management, the Department has adopted the following policy to deal with midterm and final examinations.

It is imperative that students write examinations on either the scheduled day per the course outline or the date and time as determined by the Registrar during the formal examination periods. Please make a note of the following Departmental policy:

Subject to circumstances outlined below, a student who fails to write an examination on the scheduled date and time will receive a zero on that examination.

Other than in emergency situations, a student must provide his/her instructor with a reason acceptable to the instructor for missing an examination at least 24 hours prior to the scheduled time of the examination. Should such notice be given and should the reason be acceptable to the instructor, the student may, subject to the discretion of the instructor, be permitted to either write an alternative examination or have an aegrotat mark established. It is the student's responsibility to contact the instructor by phone, fax, e-mail, etc.

It is impossible to list every acceptable reason. However, for greater certainty, reasons such as being unprepared or having too many other examinations in the same week will not be accepted. Written documentation, i.e., doctor's notes, will be required in all cases of missed examinations.

**Instructors are asked to promptly notify the program head or the academic coordinator of any student who misses an examination together with any supporting documentation.**

**PHOTO IDENTIFICATION:** To write exams, students are required to produce photo-identification at examination centres. Photo identification must be placed on the desk before an exam will be issued to the student and must remain in view on the desk while writing the exam for inspection by invigilators. Students should bring a BCIT OneCard or alternatively two pieces of identification, one of which must be government photo I.D. such as a driver's license.

**CHEATING, PLAGIARISM AND DISHONESTY:** Acts of cheating, plagiarism and dishonesty are not tolerated; the degree of punitive action may range from a written warning to withdrawal from the program. These penalties may also be applied to a student who knowingly contributes to the act of dishonesty, cheating and plagiarism. (Refer to the current BCIT Calendar.).

Programmable calculators and calculators with alphabetic capability **will not be allowed** in exams.



- Assignments will be issued weekly.
- Available assignment work papers will be posted on WebCT
- Assignments must be completed *on a timely basis* and will be reviewed for course credit.

*Schedule:*

Week of	Number	Outcome/Material Covered	Chapter	Note
Jan. 2	Week 1	Investments in Debt and Equity Securities	Chapter 11	Volume I
Jan. 7	Week 2	Investments in Debt and Equity Securities	Chapter 11	Volume I
Jan. 14	Week 3	Investments in Debt and Equity Securities	Chapter 11	Volume I
Jan. 21	Week 4	Current Monetary Balances*	Chapter 7	Volume I
Jan. 28	Week 5	Liabilities – Current and Long Term*	Chapter 12	Volume II
Feb. 4	Week 6	Shareholders' Equity	Chapter 13	
Feb. 11	Week 7	Complex Debt and Equity Instruments*	Chapter 14	
Feb. 18	Week 8	Earnings per Share	Chapter 19	
Feb. 25	Week 9	Review Sessions <b>Wed. Feb. 27<sup>th</sup> Faculty &amp; Staff Professional Development Day – No classes</b>		
Mar. 3	Week 10	<b>Mid-term Exam Week</b>		
Mar. 10		<b>Spring Break</b>		
Mar. 17	Week 11	Accounting for Corporate Income Taxes <b>March 21<sup>st</sup> Good Friday – No classes</b>	Chapter 15	
Mar. 24	Week 12	Accounting for Corporate Income Taxes <b>March 24<sup>th</sup> Easter Monday – No classes</b>	Chapter 15	
Mar. 31	Week 13	Accounting for Tax Losses	Chapter 16	
Apr. 7	Week 14	Accounting for Leases* <b>Fri. April 11, Open House – No classes</b>	Chapter 17	
Apr. 14	Week 15	Accounting for Leases*	Chapter 17	
Apr. 21	Week 16	Restatements	Chapter 20	
Apr. 28	Week 17	Restatements	Chapter 20	
May 5	Week 18	Pension & Post Retirement Benefits	Chapter 18	
May 12	Week 19	Review Session		
May 19	Week 20	<b>Final Exams</b> <b>May 19<sup>th</sup> Victoria Day – No classes</b>		

\* - Time value applications. Students must already be proficient in applying these techniques.

## **Detailed Course Content and Examinable Bases**

### **Chapter 7 -- Current Monetary Balances (Text #1)**

Note: The scope of this chapter concentrates on accelerating cash receipts through transfer to third parties, the handling of non-interest or below market interest notes receivable and payable and the re-financing of short-term obligations under conditions, which would result in their being presented as non-current liabilities on the balance sheet. This is an opportunity for students to brush up on present value applications as it is assumed students already have a good grasp of the concepts and application of present value.

- ☐ Know the definition of Cash Equivalents
- ☐ Know the two bases of providing for doubtful accounts and all related accounting.
- ☐ Know situations and related accounting of accelerating cash by transfer; either sale or loan transaction. Distinguish transfer from pledge of receivables as collateral.
- ☐ Notes Receivable and Notes Payable; either non-interest bearing or at below market interest rates. Be able to apply present value to isolate the true transaction value and be able to handle the subsequent disposition of any discount under the effective interest rate method (interest revenue to the note receivable; interest expense to the note payable). Apply the related implications on the Cash Flow Statement.
- ☐ Know and apply loan impairment accounting.
- ☐ Loans as Current Liabilities. Conditions and resultant presentation of short-term obligations being presented as non-current.
- ☐ Accounting for and presentation of balances held in a foreign currency.

### **Chapter 11– Investments in Debt and Equity Securities (Text #1)**

- ☐ Classifications of Investments – Exhibit 11-1 and related pages.
- ☐ Accounting for investments (6 ways) – Exhibits 11-2 and 11-3.
  1. Cost Method – Know and apply.
  2. Fair Value; Gains & Losses in Other Comprehensive Income until Sold – Know and apply.
  3. Fair Value Method; Gains & Losses in Net Income – Know and apply.
  4. Equity Method – Know and apply. See additional comments below.
  5. Consolidation – Concept only. Exclude Appendix.
  6. Proportionate Consolidation – Concept only.
- ☐ Equity Method of Accounting for significant influence investments: Ability to allocate purchase price into the components (book value acquired, fair value adjustment acquired, goodwill acquired).
- ☐ Ability to record equity investment income and adjust for implicit fair value asset amortization or other asset adjustments (inventories). Apply impairment accounting for implicit Goodwill.
- ☐ Apply unrealized profit eliminations (upstream and downstream) between acquiring company and investment accounted for under the equity method.
- ☐ Know classification and disclosure requirements.
- ☐ Know the Cash Flow Statement implications of this topic.
- ☐ Exclusions: Appendix (Consolidations).

### **Chapter 12 – Liabilities (Text #2)**

- ☐ Conditions that define the types of liabilities to recognize.
- ☐ Criteria for classification of current versus long-term debt.

- ☐ Condition for and reporting and or disclosure of contingent liabilities.
- ☐ Causes of estimated liabilities and their ongoing valuation.
- ☐ Long-term liabilities; notably bond accounting.
- ☐ Concentration on the accounting for the entire life cycle of a bond; issue, maintenance and redemption prior to maturity.
- ☐ Bonds: Issuance between interest dates, issuance at discount or premium, recording the annual interest expense, including bond discounts and premiums (straight-line method and effective interest rate method), related year-end entries, selling or retirement of bonds and related accounting; determination and recording of gain/loss on early extinguishment. Related Cash Flow Statement implications.
- ☐ Defeasance of long-term debt; legal and in-substance. Know conditions required and related accounting.
- ☐ Debt denominated in a foreign currency – application (know all related accounting and presentation).
- ☐ Interest rate swaps – no application – know conditions giving rise and extensive disclosure requirements.
- ☐ Disclosure/Presentation of Long Term Liabilities/Financial Instruments
- ☐ Summarize Cash Flow Statement implications of this chapter.

### **Chapter 13 – Shareholders' Equity**

- ☐ Features of share capital classes.
- ☐ Share subscriptions and accounting.
- ☐ Apply the two methods (proportional and incremental) of allocating lump sum or basket sales of various equity and/or debt instruments; record the related entries.
- ☐ Know the methods of accounting for share issue costs. The related accounting is straightforward.
- ☐ Share retirements; removal from share capital accounts and effect on (creation or reduction) of contributed capital accounts and possibly retained earnings.
- ☐ Retirement requirements under the CBCA; accounting for treasury shares--permitted under certain provincial and US corporate legislation.
- ☐ Retained earnings presentation; appropriated verses un-appropriated retained earnings; relatively straightforward discussion.
- ☐ Dividends: dates and know implications.
- ☐ Know how to handle cumulative, fully and partially participating dividend features.
- ☐ Types of dividends and unique accounting related to each: Property, Spin-off, and Stock Dividends.
- ☐ Know the topics covered in:
  - ☐ Stock Dividends
  - ☐ Fractional share rights: causes of and accounting for
  - ☐ Stock splits
- ☐ Continuity format and disclosure components making up the equity accounts.
- ☐ Other components of shareholders' equity – other comprehensive income.

## Chapter 14 – Complex Debt and Equity Instruments

Students find this one of the most challenging topics.

- ☐ The recognition of 'hybrid' instrument that contains both debt and equity elements.
- ☐ Understand Convertible Debt and the equity element inherent in its value.
- ☐ Critical to identify convertible debt where the conversion privilege is either 1) the holder's or 2) the issuer's.
- ☐ For the holder's right to convert: know the two methods of segregating this convertible-privilege-equity-element and the related accounting: Incremental and Proportional (a technique previously introduced).
- ☐ Be able to record the issue of convertible debt and identify the new account created – common stock conversion rights – and its position on the balance sheet.
- ☐ For convertible debt that can be converted at the issuer's option, know the various accounting treatments (debt, equity, dual classification).
- ☐ Be able to record the issue of such instruments, and all subsequent accounting entries that affect the original balance, to maturity and under final disposition of 1) not converted at maturity (paid in cash), and 2) converted to share settlement at maturity.
- ☐ Be able to handle the accounting for convertible debt at the issuer's option where the market and coupon rates differ.
- ☐ Options, Rights & Warrants (ORW); know common use and definitions.
- ☐ ORW: know basis where these are recorded or not recorded in the accounts when originally issued.
- ☐ ORW: If recorded in the accounts, know which accounts are used and the disposition of these as they expire or are exercised.
- ☐ Know the seven cases where options can be applied and the related accounting/disclosure.
- ☐ Fair Value Based method. Intrinsic value method is no longer GAAP.
- ☐ Derivatives: Discussion only and the current state of accounting for these instruments.
- ☐ Know the Cash Flow Statement implications of this area.

## Chapters 15 & 16 -- Accounting for Corporate Income Taxes and Tax Losses

This is, conceptually, the most difficult topic for students at this level. It is fundamental to recognize that the overall income tax expense is derived from two separate but related calculations. Chapter 16 -tax losses- is appended to the main discussion, as the treatment of losses is only a variation to the application of the liability method.

- ☐ Liability method of determining future income taxes as promulgated by the CICA Handbook.
- ☐ Recognize the purpose of this entire GAAP is to respect the matching principle.
- ☐ Obtain a good understanding that the GAAP values of assets and liabilities will differ from the Tax values of the same assets and liabilities.
- ☐ Know the definition of temporary differences: those which will result in future taxable amounts, and those which will result in future deductible amounts and how they behave over time.
- ☐ Know how tax rates are applied to convert temporary differences into future tax assets or liabilities for financial reporting on the balance sheet.
- ☐ Recognize the basis of classification of future tax assets and future tax liabilities on the balance sheet as being current or non-current.

- ☐ Separately, be able to apply a basic reconciliation of GAAP accounting income to taxable income and the determination of the income tax liability, identifying temporary differences and other than temporary differences (i.e. permanent differences) in the reconciliation procedure.
- ☐ Be able to record the overall income tax expense – comprised of the current expense component (determined from the reconciliation of accounting to taxable income) and the future expense component (determined from the adjustment of calculated-opening and calculated-closing future tax balances).
- ☐ Know the definition, circumstances, and application of Investment Tax Credits (Appendix).
- ☐ Be able to determine losses for tax purposes and know the carry-back, carry-forward rules.
- ☐ Recognize and apply the “more-likely-than-not” criteria in determining the extent to which carry-forward tax losses can be recognized. Determine the related tax asset to record in the current year for this future benefit.
- ☐ Be able to apply the Valuation Allowance alternative to valuing the future tax asset generated by recognition of future tax losses.

### Chapter 17 – Accounting for Leases

- ☐ Know and apply criteria for lease capitalization.
- ☐ Know unique definitions and terminology: Bargain Purchase Option, Bargain Renewal Terms, Guaranteed Residual Value, Minimum Lease Payments, Executory Costs, Incremental Borrowing Rate.
- ☐ Accounting for capital leases (and related amortization); accounting for Lease obligation and reduction of the obligation by future payments and applying the effective interest method. Know specific accounting entries to effect these.
- ☐ Re: Lease obligation: Know the required entries at year-end where the lease term does not coincide with the financial year-end.
- ☐ Be able to calculate the internal rate of return of a lease.
- ☐ Be able to identify the future tax implications and account for the future tax effect associated with capital leases.
- ☐ Identify a sale-leaseback transaction, record the relevant entries including subsequent “recognition” of any gain on the sale-leaseback transaction.
- ☐ Be able to determine the current portion of the lease liability at the financial year-end.
- ☐ Lessor accounting – concepts only. How does capital lease criteria differ? What types of companies act as lessors? No application required.

### Chapter 19 – Earnings Per Share

Note: Conceptually straightforward but do not underestimate the technical application.

- ☐ Know disclosure requirements.
- ☐ Be able to calculate weighted average # of shares outstanding for share transactions throughout the period; including stock dividends and stock splits during and post-year-end.
- ☐ Calculate basic EPS.
- ☐ Know EPS reporting for irregular items comprising the income statement.
- ☐ Be able to identify a complex capital structure and the calculation of fully diluted EPS; convertible bonds, convertible preferred shares; Treasury Stock Method application for stock options.
- ☐ Be able to perform the fully diluted EPS calculation to identify any anti-dilutive items.

- ☐ Know the impact of relevant subsequent events on EPS calculations.
- ☐ Know all disclosure requirements.
- ☐ Exclusions: EPS for multiple classes of like shares: Class A common, Class B common.

## Chapter 20 – Restatements

Students find this topic challenging, not because of any new GAAP (all technical topics have been covered in previous accounting courses) but rather the presentation of comparative information and the need to determine and present the cumulative, after-tax results at discrete points in time.

- ☐ Distinguish accounting changes that require retroactive application and those which require prospective application.
- ☐ Understand situations that might appear as a change in principle but may be the adoption of a policy to reflect a change in underlying economic conditions – thus not requiring retroactive restatement. The CICA has provided an “out” from onerous retroactive restatement here.
- ☐ For retroactive application – changes in principle and error corrections - be able to recalculate net income for all relevant periods.
- ☐ For retroactive application: be able to calculate the cumulative, after tax effect to opening retained earnings for all years presented giving effect to the new GAAP or error correction; and other disclosure requirements.
- ☐ For retroactive application: know how to handle situations where it is not practicable or possible to ascertain the cumulative effect of the change in principle for purposes of comparative financial statement presentation.
- ☐ For changes in accounting estimates: understand prospective treatment only and related disclosure requirements.

## Chapter 18 – Pensions and Other Post-Retirement Benefits

Caution: this is a very specialized area with a unique set of terminology and application but not particularly difficult accounting once the definitions and relationships are mastered. You must invest the time to understand the new accounts and their interrelationships.

- ☐ Understanding the underlying purpose of pension plans.
- ☐ Understand the structure and relationship between the Pension Plan and Company (and company's accounts) that owns it.
- ☐ Know the two primary types of plans and the risks and obligations associated with each.
- ☐ Know the principal operating features of a pension plan; contributory/non-contributory, vested benefits, role of actuary, funding a pension plan and funding schemes.
- ☐ Develop and become conversant with the model and unique accounts that constitute a Pension Plan; the relationship between these accounts and how they are used in the development of the annual pension expense calculation.
- ☐ Apply the Corridor Rule, if required, in determining the annual pension expense.
- ☐ Be able to record the pension expense; emphasis on the principal five components; exclude the special components that could comprise the pension expense.
- ☐ Be able to prove the accrued pension liability or the deferred pension asset reported on the balance sheet by reference to the component balances of the pension plan.
- ☐ Be able to analyze the Pension Plan, identify the Funded Status (a managerial indicator), and reconcile to the accrued pension liability or deferred pension asset on the balance sheet.
- ☐ Exclusions: Special expense components, Appendix: Actuarial Methods