



A POLYTECHNIC INSTITUTION

School of Business

Program: Financial Management

Option: Daytime Studies

Course Outline

DEC 01 2004

FMGT 4110
Financial Accounting 2

18 x 3 hour sessions

Start Date: January, 2004 (commences January 8,14) **End Date:** May, 2004

Course Credits: 7 **Term/Level:**

Total Hours: 54

Total Weeks: 18

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

Prerequisites

Prerequisite for:

Course No.	Course Name	Course No.	Course Name
FMGT 3110	Financial Accounting 1	FMGT 7121	Advanced Accounting

Course Description

Course presentation involves one weekly four hour lecture, discussion and problem-solving period and assignments. A variety of topics (some quite challenging) are included in the course. These topics include accounting for changes in accounting methods, estimates and correction of errors; leases; statements of cash flow; income taxes; financial instruments; pensions; and earnings per share.

Comment: Sentence mentions corrections of errors already. Also, do you want to mention financial instruments, pensions and long-term investments?

Evaluation

Quizzes, assignments, participation	15%
Midterm Exam-3 hours	40%
Final Exam-3 hours	45%
TOTAL	100%

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 as exemplified in annual reports prepared for external use.
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 a professional accounting career while gaining (with a specified grade) exemption from study of the comparable course offered by professional associations (C.A., C.G.A., C.M.A.)

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.

Course Content Verification

I verify that the content of this course outline is current, accurate, and complies with BCIT Policy.

Developed by: <u>Douglas Yee, B.CommCA</u> <i>Instructor, Financial Management</i>	Date: <u>November, 2003</u>
Revised by: _____ <i>PTS Coordinator</i>	Date: _____
Approved by: <u>Tim Edwards, Dipl.T, MBA, CMA</u> Associate Dean	Date: <u>November, 2003</u>

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

Instructor(s)

Office No.:
Office Hrs.:

Office Phone:
E-mail Address:

Learning Resources

Required:

Intermediate Accounting, Second Edition
Beechy, Conrod
McGraw Hill Ryerson

Selected text solutions can be accessed at www.finman.pageout.net

Financial calculator - for example Sharp EL-733 or CGA allowable calculator. It is expected that students at this level will have and be able to apply financial calculators in present value calculations.

Devices which contain calculators (or include calculation features) but have other functions such as, but not limited to, calendars, organizers, lists, electronic dictionaries, etc. are **NOT** allowed

The Detailed Course Content and Examinable Basis is attached to this outline. All items listed are examinable.

Recommended:

Students seriously considering accounting as a professional career have access to a wide selection of books and periodicals on accounting subjects in the BCIT Library or through their instructor.

The following is a small selection only of interesting and useful supplementary reading and reference material:

1. *Financial Reporting in Canada* - CICA
2. *CICA Handbook*
3. *Canada Business Corporations Act*
4. *BC Companies Act*
5. Monthly magazines for CA, CGA and CMA Associations
6. Published financial reports of leading Canadian companies

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 mid-term 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. English language dictionaries **will not be allowed** in exams.

Schedule:

Week of/ Number	Outcome/Material Covered	Reference/ Reading	Assignment	Due Date
Jan. 5, 2004/ Week 1	Investments in Debt and Equity Securities	Chapter 12 Volume I	A12- 8,11,20,25,31	Debrief following week
Jan. 12/ Week 2	Investments in Debt and Equity Securities	Chapter 12 Volume I	A12- 8,11,20,25,31	Debrief following week
Jan. 19/ Week 3	Current Monetary Balances*	Chapter 8 Volume I	A8- 17,20,23,25,27	Debrief following week
Jan. 26/ Week 4	Liabilities – Current and Long Term*	Chapter 13 Volume II	A13- 1,3,14,27,31,33	Debrief following week
Feb. 2/ Week 5	Shareholders' Equity	Chapter 14	A14-7,11,18,27	Debrief following week
Feb. 9/ Week 6	Accounting for Corporate Income Taxes	Chapter 16	A16-3,6,28,29	Debrief following week
Feb. 16/ Week 7	Accounting for Corporate Income Taxes: Tax Losses	Chapter 17	A17-9,10,17,30	Debrief following week
Feb. 23/ Week 8	Additional Sessions for Chapters 16 and 17			
Mar. 1/ Week 9	Review Session			
Mar. 8/ Week 10	Midterm Exam Week			
Mar. 15/ Week 11	Spring Break			
Mar. 22/ Week 12	Complex Debt and Equity Instruments	Chapter 15	A15- 13,15,17,22,24,28	Debrief following week
Mar. 29/ Week 13	Accounting for Leases: Lessees*	Chapter 18	A18-10,21,23,26	Debrief following week
Apr. 5/ Week 14	Accounting for Leases: Lessors*	Chapter 19	A19-9,11,13,19	Debrief following week

Week of/ Number	Outcome/Material Covered	Reference/ Reading	Assignment	Due Date
Apr. 12/ Week 15 * Good Friday	Pension Accounting	Chapter 20	A20-1,11,18	Debrief following week
Apr. 19/ Week 16 * Easter Mon.	Earnings per Share	Chapter 21	A21-23,27	Debrief following week
Apr. 26/ Week 17	Catch-up due to holidays			
May 3/ Week 18	Accounting Changes	Chapter 22	A22-20,24,27	Debrief following week
May 10/ Week 19	Review Session			
May 17/ Week 20	Final Exam			

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

Chapter 12– Investments in Debt and Equity Securities (Text #1)

- ☐ Classifications of Investments – Exhibit 12-1 & pp.606-609
- ☐ Note Differential Reporting on this topic
- ☐ Cost Method for Shares (acquisition, revenue recognition, disposal)
- ☐ Debt Investments: Accounting for when held as temporary verses long-term – intent to hold to maturity - recognition of implicit discount or premium as part of the periodic accounting determination of interest revenue and related accounting treatment; ongoing revision to the bond carrying value; disposal before maturity and updating of carrying value; treatment of gain/loss on disposition; interest revenue recognition
- ☐ Basket purchases of debt and equity and how to allocate
- ☐ Translation of investments held in a foreign currency
- ☐ Know Disclosure requirements of Passive Investments
- ☐ Know application of Lower of Cost or Market (LCM) to Temporary Investments; use of allowance account, subsequent recoveries (allowance reductions)
- ☐ Equity Method of Accounting for Equities: Ability to analyze investor purchase price into the maximum number of 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 new GAAP on impairment accounting for implicit Goodwill.
- ☐ Apply unrealized profit eliminations (upstream and downstream) between acquiring company and investment accounted for under the equity method.
- ☐ Know disclosure of Strategic Investments
- ☐ Know the Cash Flow Statement implications of this topic – especially Equity method accounting.
- ☐ Market-Value Method Accounting (Mark-to-Market) accounting: businesses where applicable and the related income determination.
- ☐ **Exclusions: Joint-Venture and Consolidation Accounting (p.625) and the Appendix.**

Chapter 8: 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. The Appendix to Chapter 8 provides an excellent review. Additionally, while the present value tables in the text may be applied for most calculations, it will be necessary to derive implicit interest rates from uneven future cash flows in future chapters, notably in lease accounting, and students are therefore encouraged to obtain and use a financial calculator. The BCIT recommended financial calculator is the Sharp EL-733A.

- ☐ Know the definition of Cash Equivalents
- ☐ Know the two bases of providing for doubtful accounts and all related accounting
- ☐ Know situations and related accounting, in detail, 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 Statement of Cash Flows.
- ☐ Because it is topical, know and apply impairment accounting, P.382
- ☐ Loans as Current Liabilities (p.389) Conditions and resultant presentation of short-term obligations being presented as non-current.
- ☐ Accounting for and presentation of balances held in a foreign currency
- ☐ **Exclusions: bank reconciliation (pp.358-364), cash discounts, sales returns and allowances, discounting notes receivable (p.382), sundry current liabilities (pp.383-388)**

Chapter 13 – Liabilities (Text #2)

- ☐ Conditions that define the types of liabilities to recognize
- ☐ Criteria for classification of current verses 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 – two components (amortization of discount/premium under 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 Statement of Cash Flow implications.
- ☐ Defeasance of long-term debt; legal and in-substance. Know conditions required and related accounting. In-substance is controversial in Canada; GAAP in US.
- ☐ Debt denominated in a foreign currency – application (know all related accounting and presentation); recent, and easier, GAAP
- ☐ Interest rate swaps – no application – know conditions giving rise and extensive disclosure requirements.
- ☐ Disclosure/Presentation of Long Term Liabilities/Financial Instruments (pp.756-757)
- ☐ Summarize Cash Flow Statement implications of this chapter (always tested!)
- ☐ **Exclusions: Fair Value Reporting**

Chapter 14 – 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 incorporation and US.
- ☐ Retained earnings presentation; appropriated verses un-appropriated retained earnings; relatively straightforward discussion.
- ☐ Dividends: review 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 and Spin-off Dividends, 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.
- ☐ **Exclusions: Other Components of Shareholders Equity**

Chapter 15 – 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 in the balance sheet.
- ☐ For convertible debt that can be converted at the issuer's option, know reason for and the accounting treatment for segregating the debt issue into principal (equity component) and interest stream (financial liability) applying present values;
- ☐ Be able to record the issue of such instruments (convertible debt callable at the issuer's option), 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. No recording of discount or premium accounts; effect is implicit in the valuation of the debt-equity and the interest liability accounts.
- ☐ Options, Rights & Warrants (ORW); know common use 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; including Intrinsic Value Method and Fair Value Based method where options are considered compensatory.
- ☐ Derivatives: Discussion only and the current state of accounting and disclosure of these instruments.
- ☐ Know the Statement of Cash Flow implications of this area (p.877). Cash Flow consequences of all subjects in this course are usually examined.
- ☐ **Exclusions: Commodity-linked Debt, JWG Draft Standard**

Chapters 16 & 17: 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 17-tax losses-is appended to the main discussion as the treatment of losses is a variation only to the application of the asset-liability approach.

- ☐ The material will teach the asset-liability approach to 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 permanent differences and temporary 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 and Circumstances of the Investment Tax Credit only (Appendix). Application not required.
- ☐ 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 used in future years. Determine the related tax asset to record in the current year for this future benefit; under conditions of differing future tax rates applied to future periods when the loss carry-forwards are expected to be applied to taxable incomes in future years.
- ☐ Be able to apply the Valuation Allowance alternative to valuing the future tax asset generated by recognition of future tax losses.

Chapter 18 – Lease Accounting - Lessee

Note: Lessee and Lessor accounting is usually combined in one exam question to underscore the "symmetry" of this GAAP.

- ☐ 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 capital gain on the sale-leaseback transaction.
- ☐ Be able to determine the current portion of the lease liability at the financial year end per page 1020 of the text.

Chapter 19 – Lease Accounting – Lessor

- ☐ Know additional criteria required by lessor in order to account for as either direct financing lease or sales-type lease.
- ☐ Text discusses net and gross methods of accounting for leases by lessors; the gross method is recommended here.
- ☐ Future tax implications: knowledge only; no detailed application required
- ☐ Know disclosure requirements; they are extensive

- ☐ Be able to “price” a lease under conditions of a Bargain Purchase Option, Guaranteed Residual Value and NO Bargain Purchase Option, Guaranteed Residual Value.
- ☐ Be able to derive the internal rate of return (IRR) on a lease a 1) single payment stream and 2) a “tiered” payment stream.
- ☐ STUDENTS WILL REQUIRE A FINANCIAL CALCULATOR AND SOME KNOWLEDGE OF DETERMINING IRR FROM OTHER KNOWN AMOUNTS IN THE LEASE AGREEMENT.
- ☐ Set up the initial accounting for a lease and subsequent handling of lease receivables and recognition of interest/finance revenue where the lease term may not coincide with the financial year end.
- ☐ Identify a sales-type lease and be able to handle the accounting in the first year – two revenue sources; gross profit on “sale” and finance revenue earned.

Chapter 20 – Pension Accounting and Reporting

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 (p. 1132).
- ☐ 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 identifying the Funded Status (a managerial indicator) and reconcile to the accrued pension liability or deferred pension asset in the balance sheet.
- ☐ **Exclusions: Special expense components, Appendix: Actuarial Methods**

Chapter 21 – 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 cumulative fully diluted EPS calculation to identify any anti-dilutive items.
- ☐ Know the impact of relevant subsequent events on EPS calculations
- ☐ Know all disclosure requirements
- ☐ **Exclude: EPS for multiple classes of like shares: Class A common, Class B common (p.1179), Cash Flow Per Share**

Chapter 22 – Accounting Changes

Students find this topic challenging, not because of any new GAAPs (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.

This topic is examined comprehensively.

- ☐ 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 incomes under the new GAAP or giving effect to corrections for all periods presented.
- ☐ 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: recognize prospective treatment only and related disclosure requirements.