THE UNIVERSITY OF NEW SOUTH WALES

SCHOOL OF ACCOUNTING

ACCT2542 CORPORATE FINANCIAL REPORTING AND ANALYSIS

Course Outline

Session 2, 2001

AIMS OF THE SUBJECT

This subject is concerned with external accounting and reporting practices and, in particular, the accounting and reporting practices of listed public companies. It is intended for students who will be involved in the preparation or use of company financial statements whether as accountants, financial executives, taxation officers, auditors, financial analysts, actuaries or legal advisors.

The subject builds on the foundations laid in ACCT1501 and ACCT1511 Accounting and Financial Management 1A and 1B. More complicated business transactions and events are considered, including accounting for complex groups of companies (consolidation accounting). Regulatory requirements for the preparation of financial statements for individual companies and groups will be covered. Also covered are accounting problems in certain specific areas, including primary and compound financial instruments; tax effect accounting; profit measurement; accounting for insurance companies and superannuation plans. In addition, the subject attempts to challenge the student to think critically about corporate financial reporting by fostering an appreciation of:

(a) alternative accounting practices and issues relating to their application;

(b) accounting standards and similar pronouncements pertaining to various accounting issues;

(c) the frequency of use of particular accounting techniques by Australian companies;

(d) the role of the Conceptual Framework in evaluating accounting issues

(e) the role of the harmonization programme in shaping accounting standards; and

(f) relevant research on the effects of alternatives on financial statements, capital markets and decision-making behaviour.

Technical accounting knowledge must be accompanied by skills in problem identification, analysis and solution as well as the ability to communicate clearly orally and in writing. Such skills are developed through training and practice. An important aim of the subject is to provide opportunities for practising the communication of accounting knowledge. The latter will be achieved by requiring students to make a case presentation in tutorials.

TEXTS AND ABBREVIATIONS USED:

Deegan Deegan, C. Australian Financial Accounting, 2nd ed. Irwin McGraw Hill, 1999. For some topics (see later) Deegan has provided an updated version of relevant chapters which students **must download** from the McGraw-Hill website (http://www.mcgraw-hill.com.au)

Eddey Eddey, P; N. Arthur and J. Knapp Accounting for Corporate Combinations and Associations 5th ed. (Prentice-Hall, 2001). Do **not** purchase the 4th edition.

Supplementary Materials Supplementary Materials for ACCT2542 Accounting and Financial Management 2B and ACCT 2552 Accounting and Financial Management 2B (Honours), School of Accounting, University of NSW, 2001.

Handbook Parker, C. (ed.) Accounting Handbook 2001 (Volume 1 of the Accounting and Auditing Handbook 2001) (Prentice-Hall) (Make sure that the copy of the Handbook you buy contains a floppy disk attached inside the back cover).

Note: The ***Deegan*** and ***Eddey*** textbooks and the ***Handbook*** will also be used as texts in ACCT 3563 in Session 1, 2002.

REFERENCE BOOKS: (Students should not purchase as all are held on Open Reserve, Main Library)

Accounting Handbook 2000, (Volume 1 of Accounting and Auditing Handbook 2000), Prentice-Hall.

Accounting Handbook 1999, (Volume 1 of Accounting and Auditing Handbook 1999), Prentice-Hall.

Ball, R., and C.W. Smith, Jr., The Economics of Accounting Policy Choice, McGraw-Hill, 1992.

Belkaoui, A.R. and S. Jones, Accounting Theory Australian Edition, Academic Press, 1996

Bromwich, M., Financial Reporting, Information and Capital Markets, Pitman, 1992.

Carnegie, G., J. Gavens, and R. Gibson, Cases in Financial Accounting, 3rd ed., Harcourt Brace Jovanovich, 1996.

Godfrey, J., A. Hodgson, S. Holmes, Accounting Theory, 4th ed., Wiley 2000 (also 3rd ed. 1997).

Gore, P. The FASB Conceptual Framework Project 1973-1985: An Analysis, Manchester University Press 1992.

Henderson, S., and G. Peirson, Issues in Financial Accounting, 9th ed., Longman, 1999.

Hendriksen, E.S., and M.F. Van Breda, Accounting Theory, 5th ed., Irwin, 1992.

Leo, K.J., and J.R. Hoggett, Company Accounting in Australia, 4th ed., Wiley, 1998, and 5th Wiley 2001

Leo, K.J., C.J. Lambert, and J.W. Sweeting (eds), Financial Accounting Issues, Wiley 1996

Leo, K.J. and J. Radford (eds) Financial Accounting Issues, 2nd ed. Wiley 1999.

Mathews, M.R., and Perera, M.H.B., Accounting Theory and Development, 2nd ed., Nelson, 1993.

Nobes, C., and R. Parker (eds) Comparative International Accounting, 5th ed., Prentice Hall, 1998.

Parker, C. and B. Porter CPA Summary Of Australian GAAP 2001 5th ed. (Accountnet: 2001)

Ryan, J.B. and C.T. Heazlewood (eds), Australian Company Financial Reporting 1995, AARF, Accounting Research Study No. 13, 1995.

Scott, W.R. Financial Accounting Theory Prentice Hall 1997

Shanahan, J.B., and M.A. Shanahan, Guide to Accounting Standards, 7th ed., John and Margaret Shanahan, 1997.

Whittred, G., I. Zimmer and S. Taylor, Financial Accounting: Incentive Effects and Economic Consequences, 4th ed, Harcourt Brace, 1996.

Whittred, G., I. Zimmer, and S. Taylor, Financial Accounting: Incentive Effects and Economic Consequences, 5th ed, Harcourt Brace, 1999.

ASSESSMENT

The weighting of the final (composite) mark will be as follows:-

Mid-session test in Week 8 on Friday, 14th September 2001 from 2.30 pm. to 4.00 p.m. (Unisearch House)	30
Case presentation in tutorials	10
Final examination (in end of session examination period)	60
Total	100

The scope of the mid-session test will be the first ten lectures (weeks 1-5), the first five tutorials (weeks 2-6). The midsession test will comprise multiple choice questions worth 20 marks and an essay-style question worth 10 marks (total 30 marks). The final examination will cover the whole course but with more emphasis on the work not examined in the mid-session test. More information on the structure of the midsession test and the final examination will be provided later. A selection of past mid-session and final examination paper questions will be posted on the Course website (see below). Students should note that the course content has changed substantially this semester - over half of the content is new - so that past papers do not provide a reliable guide to examinable material.

CASE PRESENTATIONS.

In the first tutorial, your instructor will assign students to syndicates of **three**. Syndicates will then be randomly assigned Presentation Cases from Deegan or other sources. Each syndicate will make a short (20 minutes maximum) presentation of their assigned case in tutorials, commencing week 3. Presentations should cover (a) the facts of the case, (b) appropriate theoretical background and/or empirical research findings, (c) your suggested solution to the case. **EACH SYNDICATE MEMBER MUST BE INVOLVED IN THE PREPARATION OF THE CASE AND MUST TAKE PART IN THE PRESENTATION**. Your tutor will award a mark (out of 10) for your syndicate's presentation as a whole and each member of your syndicate will receive that mark. Variations in difficulty and complexity of the cases will be allowed for in assigning marks. If you fail to attend your assigned presentation, you must provide your tutor with a medical certificate or other acceptable documentation to explain your absence; otherwise you will be given zero marks out of 10.

ACADEMIC MISCONDUCT (from University Calendar)

Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are usually excluded from the University for 2 years. Because of the circumstances in individual cases the period of exclusion can range from one session to permanent exclusion from the University.

The following are some of the actions that have resulted in students being found guilty of academic misconduct in recent years:

1. taking unauthorised materials into an examination;
2. submitting work for assessment knowing it to be the work of another person;
3. improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination
4. failing to acknowledge the source of material in an assignment.

SUPPLEMENTARY EXAMINATION AND SPECIAL CONSIDERATION

Students who believe that their performance in this subject, either during session or in an examination, has been adversely affected by sickness, misadventure or other circumstances beyond their control may apply for special consideration for affected assessments.

Such applications should be submitted to the Registrar and Deputy Principal (at the student centre) as soon as practicable after the occurrence and in any event not later than seven days after the final examination in this subject.

Dates of Supplementary Examinations. Students may be required to sit for an oral or written supplementary examination. The supplementary Final Examination will be held on Thursday, 20 December 2001 from 9.15 am to 12.30 p.m. The supplementary Mid-Session Test will be held on Thursday 20 December, 2001 from 2 pm to 3.30 pm. In general, these supplementary examinations will only be offered to a student who has been prevented from taking the Mid-session test or Final Examination (as the case may be) or who has been placed at a serious disadvantage during the examination, and whose circumstances have improved considerably in the period since the relevant examination was held. Failure to attend a supplementary examination, if you have been granted one, will result in forfeiture of any additional assessment granted to you.

CLASS ARRANGEMENTS

Students are expected to attend two one-hour lectures weekly. They are also expected to attend one $1^{1/2}$ hour tutorial weekly, beginning week 2. Attendance at lectures and tutorials is compulsory. An attendance record will be taken in each tutorial and used in considering marginal cases at the end of session. **IF STUDENTS ATTEND LESS THAN 80 PER CENT OF THEIR POSSIBLE CLASSES THEY MAY BE REFUSED FINAL ASSESSMENT.**

Tutorials will emphasize the application of problem-solving skills to specific questions, review assigned readings and cover the case presentations. The tutorials should assist students (a) to master technical aspects of the topics assigned, (b) to appreciate the patterning and directions of change within the discipline and (c) to understand some of the important disputes in the discipline, and the processes by which these are addressed and/or resolved.

ACCT 2552 CFRA HONOURS – Students enrolled in the honours stream, ACCT 2552, must enrol in one of the honours tutorials. Honours students must still attend all the lectures in ACCT 2542. Inquiries about CFRA Honours should be directed to Ms Janice Loftus.

STAFF CONSULTATION

Members of staff teaching the course will be available for consultation at specified hours or by appointment. Problems should be directed in the first instance to your tutorial instructor. Queries about the TAS system and changing tutorials during weeks 1-2 of session should be addressed to Dan Bowden (d.bowden@unsw.edu.au) or Mahreen Hasan (mahreenh@hotmail.com) both of whom are in Quad 3113 (phone 9385 5907). Ms Louise Luff will hold a limited quantity of subject handouts for a limited period and you should see her if you find you are missing handouts. Special difficulties may be referred to Dr. Richard Morris, the staff member in charge of the subject. Staff members assigned to the course are listed below:

Staff Member	Room	Extension
Dr Richard Morris (CFRA Course Coordinator)	Quad 3066	5818
Ms Maria Balatbat	Quad 3103	5808
Mr Robert Czernkowski	Quad 3081	5807
Mr Max Hewitt	Quad 3118	6081
Ms Louise Luff	Quad 3090	6443
Ms Janice Loftus (CFRA Honours)	Quad 3082	5837

Professor Bob Walker	Quad 3085	5836
Ms Christina Owyong	Andersens	
Mr John Wadley	Andersens	

RECOMMENDATIONS TO STUDENTS

How to study this subject. The subject covers many topics and there is a lot of reading, including technical material from accounting standards. To assist your studies, the following advice is offered. Do the following steps in the order shown:

(a) Attend all lectures and take notes. Lecture notes and handouts will be posted on the Course website at the end of each week, but they will not convey everything the lecturer says. In preparing for exams, note which aspects of each topic the lectures cover and/or the lecturer has emphasized.

(b) Attend all tutorial classes. Prepare tutorial questions in advance each week. The solutions will be distributed or posted on the Course website in advance of each tutorial. **You must bring** these solutions to the tutorials each week. Since classes are only 90 minutes, your tutor will not have time to cover all questions every week, but we expect you to know the answers to all the set questions, whether covered in class or not.

(c) The details you need to know from the accounting standards and similar documents will become apparent from lectures and tutorials. You must learn the skill of identifying and then learning the most important parts of accounting standards.

(d) The five weeks on consolidation accounting are sequential, that is each week builds on what has gone before. It is important that students stay up to date with this work and not leave studying it until the last minute

(e) Work through the selected past midsession test and final examination paper questions posted on the Course website. If you have access to past papers, eg from the library, remember that many topics on past papers are not covered this semester because the Course content has changed substantially.

Students will benefit if they obtain recent annual reports of several listed public companies and observe the manner in which the legal requirements and the various accounting standards discussed in the subject are complied with in practice. The preparation of financial statements will be covered in Weeks 7 and 14. Perusing articles in the financial press pertaining to company earnings and related announcements (which may refer to accounting techniques used by the firms) will also prove useful.

Since ACCT 1511 (Accounting and Financial Management IB) is a prerequisite for this subject, it is assumed that students know the basic accounting process. Those students who do not feel confident that they do should re-study the relevant parts of the first year text, Trotman and Gibbins Financial Accounting: An Integrated Approach.

This subject is only offered in second session each year. It can be very inconvenient in terms of prerequisites for other subjects if you fail this subject. Avoid the difficulties that can arise in completing your degree by passing the subject the first time round. Resolve to stay up-to-date and work in advance all assignments for tutorials. There are some difficult topics in the second half of the course; you will have trouble coping if you leave too much work to the end of the session. Create a strong foundation for the later material by starting work on the subject early this session and maintaining a consistent work schedule in each week of the course.

Course Website. A website devoted to this subject is being established. Its address will be given to you in lectures. Please consult this website very frequently. At first the website will contain the Course Outline and Tutorial Programme. During session, lecture notes, lecture handouts, tutorial solutions and various announcements will be posted progressively on this website, together with a selection of past examination papers. Lecture notes & handouts will be posted at the end of the week the relevant lecture was given. Tutorial solutions posted on the website should be download, worked through and brought to tutorials.

Other Useful Websites: The websites of the International Accounting standards Committee (IASC), the Institute of Chartered Accountants in Australia (ICAA) and the Australian Society of Certified Practicing Accountants (ASCPA) should be consulted for material useful to the course. The McGraw-Hill website has a site for the Deegan text which contains updates of certain chapters set for reading. The website addresses are:

IASC – http://www.iasc.org.uk

ICAA – http://icaa.org.au

ASCPA - http://www.cpaonline.com.au

McGraw-Hill – http://www.mcgraw-hill.com.au

SUMMARY OF TOPICS

WEEK 1 (23-27 July) Dr Richard Morris

A. Institutional arrangements for financial reporting in Australia

1. The standard setting framework
2. The objectives of external financial reporting (SAC 2)
3. The role of a conceptual framework
4. The harmonization programme
5. "Creative accounting" – what is it?

Reading:

Deegan: New Ch.1 on McGraw-Hill website; old Ch 1 in book pages 21-39
Supplementary Materials: Section A
Handbook - Policy Statement 5 "The Nature and Purpose of Statements of Accounting Concepts"

B. Accounting for revaluation of non-current assets

1. What is an asset in accounting? SAC 4's definition and recognition tests

2. Upward and downward revaluations of non-current assets, the recoverable amount test. Note: tax effect accounting and revaluations will be covered in weeks 4 and 5.

Reading:

Deegan: New Ch.5 on McGraw-Hill website; old Ch 5 in book, illustrations 5.1, 5.3, 5.4, 5.5; section 9 on economic consequences pages 173- 176 only
Supplementary Materials: Section A
Handbook: Standards AASB 1010 and 1041; SAC 4, paras 14, 38

WEEK 2 (30 July—3 August) Professor Bob Walker

Liabilities - Nature, recognition and measurement

1. What is a liability in accounting? Definition and recognition tests in SAC 4.

2. (i) Contingencies and (ii) executory contracts (also called agreements equally proportionately unperformed [AEPUs])

3. Liability measurement – net present value, face value or market value

4. Non-current liabilities - debentures and notes
   (a) Issue at a discount or premium;
   (b) Zero coupon debentures
   (c) Choice of discount rate for NPV – current market rate vs implicit rate (AAG 10)

5. Debt vs equity – preference shares and convertible notes.

Reading:

Deegan: Ch.9, Ch. 13 pp 396-398 on preference shares; Ch. 14 pp. 412-414, 435-440 (On pages 439-440 consider only disclosure requirements for financial liabilities)

Handbook: Standard AASB 1033, paras 4.1-4.4.2; 5.6-5.6.9; Appendix paras 18-30 (use residual valuation method only to value convertible notes); Also the following items, all on floppy disk at back of Handbook: Abstract 26 on cyclical maintenance, Abstract 35 on disclosure of contingent liabilities, ED 88 on provisions & contingencies, and AAG 10 "measurement of monetary assets and liabilities"

Supplementary Materials: Section B

Note: Derivative financial instruments such an interest rate swaps, options and futures contracts are covered in ACCT 3563 Issues in Financial Reporting and Analysis. Those parts of Deegan that deal with derivatives are outside the scope of ACCT2542.

WEEK 3 (6 – 10 August) Professor Bob Walker

Accounting for employee entitlements and superannuation plans

1. What are employee entitlements?

2. The controversy over the appropriate accounting by employer companies for their superannuation obligations and other employee entitlements, with an emphasis on liability recognition and measurement

3. Requirements of AASB 1028

4. Defined benefit and defined contribution superannuation plans (pension schemes)

5. Measurement of assets and accrued benefits by superannuation plans. Are accrued benefits liabilities?

6. Financial reporting options by superannuation plans to members and others (AAS 25)

Reading:

Deegan: Chs 12, 21

Handbook: Standards AASB 1028, AAS 25; Guidance Release AAG 13 on discount rates (on floppy disk at back of handbook)

WEEK 4 (13-17 August) Mr Robert Czernkowski

Tax Effect Accounting 1.

1. Differences between accounting profit and taxable income - permanent & temporary differences

2. Alternative methods of accounting for income tax – liability method vs balance sheet approach - impact on assets, liabilities and income tax expense

3. Requirements of new AASB 1020/AAS 3 – balance sheet method

4. Changes in the company tax rate

5. Tax losses

6. Economic consequences and business reaction to tax effect accounting

Reading:

Deegan: New Ch.17 on McGraw-Hill website (ignore old ch. 17 in book)
Eddey: Pages 98-104
Handbook: AASB 1020
Supplementary Materials: Section C. Note that the paper by Goodwin refers to the exposure drafts that preceded SAC 4. There are no significant differences between those EDs and SAC4 on the points raised by Goodwin.

WEEK 5 (20-24 August) Mr Robert Czernkowski

<u>Tax Effect Accounting 2</u> Reading as per week 4

Mid-session test cut-off (test covers lectures for weeks 1-5)

WEEK 6 (27 - 31 August) Mr Robert Czernkowski

<u>Profit measurement and reporting</u>

1. Economic income vs. accounting profit

2. Current operating, all inclusive, and comprehensive concepts of profit

3. SAC 4 vs the matching principle

4. Extraordinary items, errors and fundamental errors; demise of the abnormal item

5. AASB1018/AAS1 - Statement of Financial Performance

6. Earnings per share (AASB 1027)

7. Discontinued operations (AASB 1042)

8. Critique of reporting rules for profit

Reading:

Deegan: Ch 15 in book, **New** Ch 16 on McGraw-Hill website.
Handbook: Standards AASB 1004, AASB 1018, AASB 1027, AASB 1042; SAC 4, paras 109-142; A22-A48, and Dissenting View at end of SAC 4)
Supplementary Materials: Section D

WEEK 7 (3-7 September) Professor Bob Walker

Financial Statement Preparation – single companies

1. Statement Financial Position (AASB 1040) and Statement of Financial Performance (AASB 1018)

2. The concept of materiality

3. The reporting entity concept

4. Differential reporting

5. True and Fair View

Reading:

Deegan: New Chapters 3 and 15 on McGraw-Hill website; Old chapter 1, pages 8-10 on disclosing entities, pages 11-14 on True and Fair View, pages 24-26 on the reporting entity, pages 28-30 on materiality
Eddey: Pages 64-65
Handbook: SAC 1, Standards AASB 1018, AASB 1030, AASB 1031, AASB 1034, AASB 1040

WEEK 8 (4-8 September) Ms Maria Balatbat

Consolidation Accounting 1

1. Subsidiaries and the concept of "control" in AASB 1024

2. The economic entity

3. The basic elimination entry (BEE)

4. Revaluation of non-current assets

5. Goodwill and discount on acquisition

6. Consolidation worksheets – acquisition date and later years

Reading:

Eddey: Chapter 1, chapter 2 (except section 2.4)
Handbook: Standard AASB 1024
Supplementary Materials: section E, reading 2 (Miller) and reading 6 (SMH)

WEEK 9 (17-21 September) Ms Maria Balatbat

Consolidation Accounting 2

1. Post-acquisition profits (continued)

2. Outside equity interest

3. Dividends - pre-acquisition and post-acquisition

Reading:

Eddey: Chapter 3, chapter 4
Supplementary Materials: Section E, reading 7 (excerpts from IASC)

Mid-Semester Recess: 24 September - 1 October

WEEK 10 (2-5 October) Ms Maria Balatbat

Consolidation accounting 3

1. Outside equity interest (continued)

2. Intra-group transactions

3. Unrealised profits on opening and closing stocks

Reading:

Eddey: Chapter 5 (omit section 5.4)
Supplementary Materials: Section E, Paper E1 (Berns and Baron 1998)

WEEK 11 (8-12 October) Dr Richard Morris

Consolidation Accounting 4

Indirect Ownership Interest

Reading:

Eddey Chapter 6 (omitting section 6.4)
Supplementary Materials: section E, paper E2 (Miller 1995)
Handbook: Standard AASB 1013

WEEK 12 (15-19 October) Dr Richard Morris

Consolidation Accounting 5

1. Sale of interest in a subsidiary with loss of control

2. Sale of interest in a subsidiary with retention of control

3. Critique of goodwill accounting in consolidation

Reading:

Eddey Chapter 7, sections 7.3 and 7.3.1
Supplementary Materials: Section E papers E4 (FASB 2001), E5 (Johnson and Petrone 2001) and E6 ("Reassessing Goodwill…")

WEEK 13 (22-26 October) Professor Bob Walker

Accounting for General Insurance and Life Insurance Companies

1. Revenue recognition

2. Insurance claims – long-tail vs. short-tail business; discounting to NPV

3. Valuation of assets – investments versus other assets

4. Recognition of internally developed goodwill by life insurance companies

5. Disclosure requirements

6. Standards AASB 1023 and 1038 vs. Standards AASB 1010/1041 and 1021

7. Industry reaction to AASB 1023

Reading:
Deegan: Ch 20
Handbook: Standards AASB 1023 and AASB 1038
Supplementary Materials: Section F

WEEK 14 (29 October - 2 November) Dr Richard Morris

A. Published financial reporting by groups – wrap-up

1. Financial reporting requirements for economic entities (groups) vs. single companies – key differences

2. Segment reporting

Reading:
Deegan: New Chapter 16 on McGraw-Hill website (as per week 6)
Eddey: Chapter 12
Handbook: Standards AASB 1005, AASB 1024, AASB 1018, AASB 1026, AASB 1034, AASB 1040

B. Revision material