STUDY SESSION

5

Financial Reporting and Analysis

Intercorporate Investments, Post-Employment and Share-Based Compensation, and Multinational Operations

This study session covers investments in other companies, post-employment benefits, and foreign currency transactions. Intercorporate investments take the form of investments in 1) financial assets, 2) associates, 3) joint ventures, 4) business combinations, and 5) special purpose and variable interest entities. Current and new reporting standards for these investments are examined. The valuation and treatment of post-employment benefits follows, including share-based compensation (grants, options). Differences in valuation methods between defined-contribution and defined-benefit plans are described. The session concludes with the effect of foreign currency on a business's financials and methods to translate foreign currency from operations for consolidated financial statement reporting.

READING ASSIGNMENTS

Reading 16	Intercorporate Investments by Susan Perry Williams, CPA, CMA, PhD
Reading 17	Employee Compensation: Post-Employment and Share-Based by Elaine Henry, PhD, CFA, and Elizabeth A. Gordon, PhD, MBA, CPA
Reading 18	Multinational Operations by Timothy S. Doupnik, PhD, and Elaine Henry, PhD, CFA

Note: New rulings and/or pronouncements issued after the publication of the readings in financial reporting and analysis may cause some of the information in these readings to become dated. Candidates are expected to be familiar with the overall analytical framework contained in the study session readings, as well as the implications of alternative accounting methods for financial analysis and valuation, as provided in the assigned readings. Candidates are not responsible for changes that occur after the material was written.

LEARNING OUTCOMES

READING 16. INTERCORPORATE INVESTMENTS

The candidate should be able to:

a describe the classification, measurement, and disclosure under International Financial Reporting Standards (IFRS) for 1) investments in financial assets, 2) investments in associates, 3) joint ventures, 4) business combinations, and 5) special purpose and variable interest entities;

b distinguish between IFRS and US GAAP in the classification, measurement, and disclosure of investments in financial assets, investments in associates, joint ventures, business combinations, and special purpose and variable interest entities;

c analyze how different methods used to account for intercorporate investments affect financial statements and ratios.

READING 17. EMPLOYEE COMPENSATION: POST-EMPLOYMENT AND SHARE-BASED

The candidate should be able to:

a describe the types of post-employment benefit plans and implications for financial reports;

b explain and calculate measures of a defined benefit pension obligation (i.e., present value of the defined benefit obligation and projected benefit obligation) and net pension liability (or asset);

c describe the components of a company's defined benefit pension costs;

d explain and calculate the effect of a defined benefit plan's assumptions on the defined benefit obligation and periodic pension cost;

e explain and calculate how adjusting for items of pension and other post-employment benefits that are reported in the notes to the financial statements affects financial statements and ratios;

f interpret pension plan note disclosures including cash flow related information;

g explain issues associated with accounting for share-based compensation;

h explain how accounting for stock grants and stock options affects financial statements, and the importance of companies' assumptions in valuing these grants and options.

READING 18. MULTINATIONAL OPERATIONS

The candidate should be able to:

a distinguish among presentation (reporting) currency, functional currency, and local currency;

b describe foreign currency transaction exposure, including accounting for and disclosures about foreign currency transaction gains and losses;

c analyze how changes in exchange rates affect the translated sales of the subsidiary and parent company;

d compare the current rate method and the temporal method, evaluate how each affects the parent company's balance sheet and income statement, and determine which method is appropriate in various scenarios;

e calculate the translation effects and evaluate the translation of a subsidiary's balance sheet and income statement into the parent company's presentation currency;

f analyze how the current rate method and the temporal method affect financial statements and ratios;

g analyze how alternative translation methods for subsidiaries operating in hyperinflationary economies affect financial statements and ratios;

h describe how multinational operations affect a company's effective tax rate;

i explain how changes in the components of sales affect the sustainability of sales growth;

j analyze how currency fluctuations potentially affect financial results, given a company's countries of operation.