

Table of Contents

Consolidation & Minorities	7
WHAT IS A GROUP?	7
SO WHAT?	8
CONSOLIDATED OR GROUP ACCOUNTS	8
POOLING OR MERGER METHOD – WHEN TO USE IT:	8
POOLING OR MERGER METHOD – HOW TO DO IT:	8
PURCHASE OR ACQUISITION METHOD – WHEN TO USE IT:	10
PURCHASE OR ACQUISITION METHOD – THE ISSUES:	10
PURCHASE OR ACQUISITION METHOD – THE BALANCE SHEET:	11
IN SUMMARY:	14
PURCHASE OR ACQUISITION METHOD – THE INCOME STATEMENT/ PROFIT AND LOSS ACCOUNT:	14
PURCHASE OR ACQUISITION METHOD – THE CASH FLOW STATEMENT:	14
PURCHASE OR ACQUISITION METHOD – SOME OTHER DETAILS:	14
MINORITY SHAREHOLDERS	15
WHO ARE THEY?	15
SO HOW DO WE DEAL WITH THEM?	15
SOME MORE DETAILED ISSUES	19
FEES	19
TAX IMPACT OF DEALS	20
Equity Method Investments	21
WHAT IS AN EQUITY METHOD INVESTMENT OR ASSOCIATE?	21
SO WHAT?	22
EQUITY METHOD ACCOUNTING:	22
EQUITY METHOD ACCOUNTING AND THE BALANCE SHEET:	22
EQUITY METHOD ACCOUNTING AND THE INCOME STATEMENT/ PROFIT AND LOSS ACCOUNT:	24
EQUITY METHOD ACCOUNTING AND THE CASH FLOW STATEMENT:	25
Taxes	27
TAXES	27
GAAP NUMBERS VERSUS TAX NUMBERS?	27
TWO SETS OF ACCOUNTS	27
PERMANENT DIFFERENCES	28
TEMPORARY DIFFERENCES	28
MARGINAL TAX RATE (MTR)	29
EFFECTIVE TAX RATE (ETR)	29
DEFERRED TAXES ASSETS AND LIABILITIES	30
LIKE A PREPAID EXPENSE OR AN ACCRUED EXPENSE	30
THIN LIZZY'S DEPRECIATION:	31
STRONGMAN STEEL'S INCOME STATEMENT:	31
DEFERRED TAXES TO THE RESCUE!	32
IS THAT IT?!	32
WARNING! DON'T MIX UP YOUR ASSETS AND LIABILITIES	33
DEFERRED TAXES – WHAT CREATES THEM	34
TAX LOSSES	34
LOSS RELIEF	34
LOSS CARRY BACKS	34
LOSS CARRY FORWARDS	35
TAXES AND DEALS	36
GOODWILL AND TAXES	36
ASSET STEP UPS AND TAXES	38

Earnings Per Share	41
TWO TYPES OF EARNINGS PER SHARE	41
BASIC EARNINGS PER SHARE	41
DILUTED EARNINGS PER SHARE	41
BASIC EARNINGS PER SHARE	41
THE TOP PART	41
THE BOTTOM PART	41
DILUTED EARNINGS PER SHARE	42
POTENTIALLY DILUTIVE SECURITIES	42
DECIDING WHETHER TO CONVERT OR NOT	42
EXECUTIVE SHARE OPTIONS – IN THE MONEY?	43
THE TREASURY METHOD	43
TREASURY METHOD SHORTCUT	44
CONVERTIBLE BONDS	44
THE IMPACT ON THE EARNINGS TO COMMON/ORDINARY SHAREHOLDERS	44
WATCH OUT FOR ANTI-DILUTIVE SECURITIES	45
Complex Debt	47
DISCOUNTED BONDS AND PIK NOTES	47
NORMAL DEBT	47
THE ACCOUNTING ENGINEERING FOR NORMAL DEBT:	47
PIK NOTES	47
THE ACCOUNTING ENGINEERING FOR PIK NOTES:	47
DISCOUNTED BONDS	48
THE ACCOUNTING ENGINEERING FOR DISCOUNTED BONDS:	49
CONVERTIBLE DEBT	50
LEASES	51
SO THE KEY QUESTIONS	51
BUYING OR RENTING: THE RULES	51
OPERATING LEASES	51
CAPITALIZED LEASES	51
HOW DO YOU MEASURE THE LIABILITY	51
WHAT ABOUT THE ASSET SIDE?	52
AND THE ACCOUNTING ENGINEERING!	52
SUMMARY	53
MAKING APPLES INTO ORANGES	53
MULTIPLE METHOD	53
DCF METHOD	55
Pensions	57
INTRODUCTION	57
HOW PLANS ARE FUNDED!	57
DEFINED CONTRIBUTION (MONEY PURCHASE) PLANS	57
WHAT ARE THEY?	57
HOW THE ACCOUNTING WORKS!	58
DEFINED BENEFIT (FINAL SALARY) PLANS	58
WHAT ARE THEY?	58
WHAT THE ACTUARY DOES!	58
THE LEVEL OF FUNDING:	59
THE PBO CALCULATION!	60
THE PLAN ASSETS CALCULATION!	60
SO HOW DOES ACCOUNTING FOR ALL THIS WORK!	60
THE FUNDAMENTALS OF PENSION ACCOUNTING:	61
THE PROBLEM WITH RETURN ON ASSETS AND ACTUARIAL GAINS/LOSSES	62
PENSIONS IN THE BALANCE SHEET	63
PENSIONS IN THE INCOME STATEMENT/PROFIT AND LOSS	64
IFRS – FULL RECOGNITION IN THE BS AND IS	65
IFRS – PARTIAL RECOGNITION IN THE BS AND IS	65
US GAAP – FULL RECOGNITION IN BS, PARTIAL RECOGNITION IN IS	66

Stock Option Accounting	67
INTRODUCTION	67
THE FUNDAMENTAL LOGIC BEHIND THE ACCOUNTING	67
SOME JARGON TO START OFF	68
GRANT DATE	68
VESTING DATE	68
EXERCISE DATE.....	68
SERVICE OR VESTING PERIOD	68
SO HOW MUCH COMPENSATION ARE WE TALKING ABOUT?	68
HOW STOCK OPTION EXPENSING ACTUALLY WORKS!	69
MARKET BASED CONDITIONS:	69
NON MARKET BASED CONDITIONS:	70
DEALING WITH THE TAX IMPACT IN THE FINANCIALS:	71
US GAAP:	71
IFRS:	72
Financial Instruments	73
INTRODUCTION	73
FAIR VALUE THROUGH THE INCOME STATEMENT (FV).....	73
DESIGNATED ON INITIAL RECOGNITION:	73
HELD FOR TRADING.....	74
AVAILABLE-FOR-SALE (AFS).....	74
AMORTIZED COST ACCOUNTING	76
LOANS AND RECEIVABLES.....	76
HELD-TO-MATURITY INVESTMENTS	76
OTHER FINANCIAL LIABILITIES	76
Hedge Accounting	79
INTRODUCTION	79
THE PROBLEM	79
THE SOLUTION	79
HEDGING RULES.....	80
WHAT ITEMS CAN BE HEDGED?	80
WHAT CAN BE USED AS A HEDGING INSTRUMENT?	80
WHAT IS AN EFFECTIVE HEDGE?	80
TYPES OF HEDGE	80
FAIR VALUE HEDGE	81
HEDGE ACCOUNTING ENGINEERING	81
WAS THE HEDGE EFFECTIVE?	82
CASH FLOW HEDGE	82
HEDGE ACCOUNTING ENGINEERING	83
WAS THE HEDGE EFFECTIVE?	84
WAS THE HEDGE EFFECTIVE?	85
RECYCLING GAINS THROUGH THE INCOME STATEMENT	85
NET INVESTMENT HEDGE.....	86
HEDGE ACCOUNTING ENGINEERING	86