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| NEW YORK UNIVERSITY  Stern School of Business | | | | | |
| Advanced Accounting Concepts | | | Summer 2015 | | |
|  | | | | | |
| Prof. John Bildersee | | jbilders@stern.nyu.edu | | | |
| Tel. 212-998-0027 KMC 10-79 | Class web site: NYU Classes | | | | |
|  | | | |  |  |
| Text: Advanced Accounting (**Custom Text** from Hoyle, Schaefer & Doupnik) | | | | | |

***Course Content:***  This course concentrates on mergers and acquisitions and the development of consolidated financial statements. It also covers accounting for international operations and selected financial instruments. The primary focus is on detailed statement development. Some analysis is included. The course can be immediately helpful as past students have frequently volunteered that the course materials have helped them in job interviews. There may be in-class handouts designed to encourage discussion.

***Warning:*** The typical accounting course which goes from topic to topic and the materials frequently seem distinct and independent of each other. **This course is different from the typical accounting course as the topics in this course are detailed and build on materials presented earlier in the semester**. **Difficulties faced early in the semester should be dealt with promptly**. It is preferred, but not required, that you have taken Financial Reporting and Analysis (Disclosure) and/or Financial Statement Analysis before this course due to its detail.

***Attendance:*** You should **attend every class** to assure a good understanding of the course materials.

***Exams:***There are two exams. Exams are open book and open notes but no computers or cell phones. There are **no make-up exams**. If you cannot take an exam at the scheduled time you are expected to take it **early**. The exams will be given on the stated dates. The topics may change if the course falls behind schedule.

***Quizzes:***There will be one 30 minute quiz. It is open book and open notes but no computers or cell phones. The quiz cannot be rescheduled. There is **no make-up quiz.** The date of the quiz may change if our experience deviates from this schedule. The quiz may be used to reduce the impact of your poorest exam. If you cannot take the quiz when it is given you are expected to take it **early**

***Cases:*** Two written cases are required. See a summary of written requirements below.

***Suggested exercises:*** These exercises offer reviews of the primary topics in each chapter and may help you prepare for the quiz and exams. Do not spend too much time on any question. Instead, try to work the exercise in your own way and, if you are stuck, try to understand the answer that is on Blackboard and/or ask related questions in class. Homework suggestions are listed on the first date of the following chapter to assure some classroom discussion prior to doing the exercises.

***Classroom performance and Cases:*** **You are expected to be able to contribute to discussions about the exercises as well as other classroom discussions.** Read the text and review the classroom exercises before class. Positive contributions include questions and well-intended responses irrespective of their accuracy and are worth extra credit

***Support materials:***Visit NYU Classes early and often. It has announcements, class notes, slide shows, spreadsheets, sample exams and miscellaneous articles. Many of these materials will be distributed in class.

**You are expected to follow the undergraduate code of conduct and the graduate honor code throughout the semester.**

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| *Tentative Grading:* | |  |  |  |
| Best Exam |  |  | 38 points | |
| Poorest Exam |  |  | 36 points | |
| Quiz (1/2 hour) | | | 14 points | |
| Classroom attendance | | | 6 points | |
| Cases | | | 6 points | |
| Classroom participation | | | Extra Credit | |

\*The quiz will be worth 24 points instead of 14 points (total) and replace 10 points of your poorest exam if the quiz average exceeds the score on your poorest exam.

We follow Stern’s default policies for anything not covered here.

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| Readings | Readings | In Class Discussion | Extra Exercises |
| Introduction |  | GE-Financial Statements |  |
| Mergers and Acquisitions/ *Consolidations at acquisition\** | Ch 2 | Biovail-Valeant – Who acquired who? |  |
| Consolidations at acquisition | Ch 2 | (2-9,2-10), Wachovia-Golden West | (2-11,2-12,2-17,2-19)) |
| Consolidations at acquisition/ *Consolidations after acquisition (Cost & Equity methods)* | Ch 2 | (2-26,2-33) | (2-16,,2-23) |
| Consolidations after acquisition (Cost & Equity methods) | Ch 3 | (3-4,3-7) |  |
| Consolidations after acquisition*/ Partial acquisitions* | Ch 3 | (3-9 thru 3-11, 3-15) | (3-17,3-18,3-21) |
| Partial acquisitions | Ch 4 | (4-2,4-4,4-12 thru 4-14) |  |
| Partial acquisitions | Ch 4 | (4-15 thru 4-19) |  |
| Review |  | Case – Walmart; (4-26) | (4-22,4-27) |
| Consolidations – Intra-Entity Transactions – Land | Ch 5 (pp 199 – 200, 220- – 222) | (5-2, 5-5, 5-10 thru 15) | (5-7, 5-20ab) |
| **First Exam – through partial acquisitions** | |  |  |
| Consolidations – Intra-Entity Transactions – Sales | Ch 5 (pp 199 - 220) | (5-23, 5-24) | (5-20c) |
| Intra-Entity transactions |  | **Case – Henderson** |  |
| **Quiz – Intra-Entity transactions** | |  |  |
| Conversions (Current Method) | Ch 10 | (10-4,10-5,10-6 thru 10-9) |  |
| Conversions (Temporal Method) | Ch 10 | (10-10,10-11) | (10-15,10-28) |
| Transactions-Forwards, Hedges | Ch 9 (thru pg 418), Notes | (9-1, 9-4) |  |
| Transactions-Fair Value & Cash Flow Hedges | Ch 9, (thru pg 418) Notes | (9-9,9-11, 9-12) | (9-11 thru 9-13, 9-29) |
| Review |  |  |  |
| **Second Exam (Foreign operations)** | | |  |

You should be familiar with available for sale securities and trading securities accounting. The accounting is similar to accounting used for conversions of and transactions in foreign currencies.

\*Topics in *italics* refer to basic introductory remarks (no immediate assigned reading) to offer insight to the materials covered in the next class.

Homework related notes

Several problems and questions include parts about three different accounting methods associated with investments (**prior to consolidation**) – the equity method, the partial equity method and the cost method. The equity methods are typically identical for subsidiary income and dividend flows. The partial equity method and the cost method are typically identical when the focus is on intra-entity transactions.

**Additional comments:**

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| **Investment Accounting** | |  |  |
| Ownership | <20% | 20-50% | >50% |
| Available for Sale\* | X |  |  |
| Trading\* | X |  |  |
| Equity Method |  | X |  |
| Equity Method |  |  | X- prior to consolidation |
| Cost Method |  |  | X- prior to consolidation |
| \*Similar to accounting for foreign exchange | | |  |

There are three **consolidation** methods. Pooling has been disallowed for new acquisitions since 2001 (and will be discussed for only a few minutes). The purchase method has been disallowed for new acquisitions since December 2008. **The acquisition method is the only acceptable method for new acquisitions today.** However, consolidated statements today include elements of all three methods with the no longer allowed methods slowly disappearing from the financial statements as the associated assets and liabilities age.

We will focus on the acquisition method. Many details of the purchase and acquisition methods overlap.

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| **Summary of Consolidation Methods** | **Acquisition Method** | **Purchase Method** | **Pooling** |
| **Values of Acquired Assets and Liabilities** | **Fair Value** | Mix | Book Value |
| **Type of financial consideration** | **Any** | Any | Stock primarily |
| **Amount of financial consideration** | **Fair value** | Adjusted fair value | Book Value |
| **Valuation adjustments - 100% acquisition** | **100% adjustment** | 100% adjustment | None |
| **Valuation adjustments - partial acquisition** | **100% adjustment** | Acquired portion only | None |
| **Assets discovered** | **More new intangibles** | New intangibles | None |
| **Goodwill** | **Possible** | Possible | None |
| **Valuation** | **As of change in control** | As of agreement | No change |
| **Consolidation of the subsidiary** | **Include only events after the acquisition** | Include only events after the acquisition | Treated as having been together forever |

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| **Foreign Currency Activity** | Conversions to Dollars for Reporting | | | Transactions | |
|  | **Conversions before Consolidation** | |  |  | Hedging |
|  | **Current Method - Translation** | **Temporal Method-Remeasurement** | Consolidation | Spot Market | Forward Markets |
|  | Major Op | Minor Operations | In dollars | Risk | Neutralizes Risk |
|  | Net Assets | Net Monetary Assets |  |  | Commitments |
|  | Comp Inc | Income |  |  | Forecasted Events |

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| **Options and Primary Accounting Impacts** | | |  |
|  | Minority Investments | Currency Conversions | Hedged Transactions |
| Income (Gains & Losses) | Trading Securities | Temporal Method | Fair Value Hedges |
| Accumulated Other Comprehensive Income (AOCI) | Available for Sale Securities | Current Method | Cash Flow Hedges |

**Dollar Impacts for Changes in Foreign Currency Values**

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|  | Foreign Currency | |  |  | Foreign Currency Hedges | |
|  | Strengthened | Weakened |  |  | Strengthened | Weakened |
| Asset | $+ (Gain) | $- (Loss) |  | Asset | + - | - + |
| Liability | $- (Loss) | $+ (Gain) |  | Liability | - + | + - |
|  |  |  |  |  |  |  |
|  |  |  |  |  | Item  Hedge | |

Do you know the **differences** between and among the following?

Pooling, purchase and acquisition methods of acquisition and consolidation

Asset writeups and asset valuations at the time of acquisition

Complete and partial acquisitions

Equity, partial equity and cost methods of accounting for majority investments

Accounting for the unconsolidated parent and for the full consolidation

Assets acquired in the initial acquisition and assets acquired through intra-entity transactions thereafter

Upstream transactions and downstream transactions

Adjustments to equity in income of the subsidiary and eliminations

Intangibles and goodwill

Amortization and impairment

Gains and constructive gains

Translations and remeasurements

Conversions and transactions

Hedging and speculation

Fair value hedges and Cash Flow Hedges

Commitments and Forecasted Events