# CHAPTER 11: INVESTMENTS

## DEBT SECURITIES
- include government bonds – both US Treasury and municipal bonds
- corporate bonds, preferred stock, convertible bonds,
- also include collateralized securities – eg – collateralized debt obligations, commercial paper

## EQUITY SECURITIES
- instruments that signify ownership interests in company assets and profits
- eg – common stock, preferred stock, and other capital stock
- company may also hold derivatives such as warrants or call options

## TRADING SECURITIES
- entity is holding the securities but will sell the securities quickly
- usually recorded as a current asset
- recorded at fair value – eg – mark to market
- unrealized and realized gains and losses are recorded as income

## AVAILABLE-FOR-SALE-SECURITIES
- entity will hold the securities and will sell when cash is required
- recorded as current asset or non-current asset on balance sheet
- recorded at fair value – eg – mark to market
- changes in fair value are not recorded as income

## HELD-TO-MATURITY SECURITIES
- purchased with the intent to hold the securities to maturity
- recorded as current asset or non-current asset on balance sheet
- recorded at amortized cost
- unrealized gains and losses are not included in earnings
• realized gains and losses do not exist if securities held to maturity

CHAPTER 12: IFRS

• International Financial Reporting Standards (IFRS) are guidelines and rules set by the International Accounting Standards Board (IASB)
• Big difference between US GAAP and IFRS is that US GAAP employs a rules based approach, as the standards are usually explicit as to precise rules that must be followed for recognition, measurement, and financial statement presentation
• IFRS is considered a principle based approach, as it attempts to set general principles for recognition, measurement and reporting, and allows professional judgment in applying these principles.

IASB FRAMEWORK

The Framework sets forth 4 principal qualitative characteristics of financial statements:

Relevance
• Information must be useful to the user in making the decision (capable of influencing the users decision)
• Some of the attributes of relevance include:
  • Predictive value – historical info can be used to help predict the future
  • Confirmatory value – use the info to confirm to prior expectations and to assess managements performance

Reliability
• Information is reliable and free from material error and bias if it has the following characteristics:
  • Neutrality – free of bias
  • Faithful representation – info should faithfully represent the economic events and transactions in the statements
  • Substance over form – accounting should reflect the substance of a transaction and look beyond its legal form
- Prudence – use caution in exercising judgment when uncertainty
- Completeness – complete information regarding material items is critical for decision making

**Understandability**

- Information must be understandable to users

**Comparability**

- Need for users to be able to compare financial statements globally of different entities to evaluate their financial position and performance
- Comparability requires accounting policies to be disclosed
- Additionally, financial statements have corresponding information for preceding periods (consistency)

**ASSUMPTIONS USED IN IASB FRAMEWORK**

- Financial statements are prepared on the accrual basis of accounting
- Entity is a going concern

**CONSTRAINTS**

- The two constraints for relevant and reliable information are:
- Timeliness – if information is not timely, it can lose relevance
- Benefit > Cost – benefits derived from the information should exceed the cost of providing it
The table below highlights the major accounting differences between US GAAP and IFRS.

**IFRS Key Points:**

<table>
<thead>
<tr>
<th>Fixed Assets</th>
<th>Leases</th>
<th>Deferred Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• impairment losses may be reversed in future</td>
<td>• operating leases may be capitalized by lessee</td>
<td>• deferred tax assets are recognized only to extent it is probable they will be realized</td>
</tr>
<tr>
<td>• revaluation of assets is permitted but must be done for whole class of assets</td>
<td>• IFRS does not specify % economic life for capital leases</td>
<td>• all deferred tax liabilities reported</td>
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<tr>
<td></td>
<td></td>
<td>• reported as non-current assets and liabilities on Statement of Financial Position</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Financial Statements</th>
<th>Long Term Contracts</th>
<th>Inventory</th>
</tr>
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<tbody>
<tr>
<td>• comparative information required</td>
<td>• completed contract method not allowed</td>
<td>• LIFO not allowed</td>
</tr>
<tr>
<td>• reporting of extraordinary gains/losses not allowed</td>
<td></td>
<td>• market is net realizable value</td>
</tr>
<tr>
<td>• statement of comprehensive income is required</td>
<td></td>
<td>• assets written down to market value can be written back up if value rebounds</td>
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<tr>
<td>• statement of changes in equity required</td>
<td></td>
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<tr>
<td>Contingent Liabilities</td>
<td>R&amp;D Costs</td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>------------------------</td>
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<tr>
<td>• recognized when loss is probable and reasonably estimated</td>
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<tr>
<td>• present value is use for material contingent liabilities</td>
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<tr>
<td>• R&amp;D expensed as incurred</td>
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<tr>
<td>• may be capitalized if intangible asset is technologically feasible and most likely to be sold in future</td>
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<tr>
<td>• interest expense or finance costs can be reported as operating or financing costs</td>
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<tr>
<td>• you cannot switch to a new classification for future costs</td>
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</tr>
<tr>
<td>Intangible Assets</td>
<td>Pensions</td>
<td>Convertible Debts</td>
</tr>
<tr>
<td>• value using cost model or revaluation model</td>
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<tr>
<td>• project-unit-credit method calculates the PV of the defined benefit obligation</td>
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<tr>
<td>• prior service costs is expensed immediately for employees who have vested</td>
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<tr>
<td>• part of the proceeds are recorded as liability and part as stockholders' equity</td>
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