

## AFM 101 Article Notes – to be tested on midterm and final exams

### “For Good Measure”

- Canadian accountants are being challenged to view corporate activity through a wider lens than the typical financial report. Some CPAs are stepping up, using their analytical skills to drive sustainability.
- Reducing paper use by comparing to bears

### “Tech Firms Fret over Looming Revenue Accounting Changes”

- Changes in accounting regulations will affect tech companies, those who sell software
- Accounting rule changes that will affect how companies report their top-line sales numbers to investors.
- Not many tech firms are disclosing risk factors such as regulatory accounting, internal controls and compliance standards
- **Sustainability reporting** — also known as triple bottom line reporting (financial, environmental and social) — has been gaining momentum ever since
- The trend is being driven by consumer and investor demand, and the awareness of standards set out by the Global Reporting Initiative (GRI), the Carbon Disclosure Project, the United Nations Global Compact
- emissions reduction, employee well-being, diversity and community engagement
- making more efficient use of trucks for hauling waste and coal at steelmaking coal sites by improving traffic flow, reducing the time trucks wait to be loaded and using lighter-weight truck boxes

### “Multitasking Myth”

- Multitasking also releases the stress hormone cortisol, which can cause foggy thinking and anxiety and leads to the release of adrenaline — a.k.a. the fight or flight hormone
- Break up your day, don't jump around, take breaks, make technology work

### “How to make it easy: will a back-to-basics approach focusing on cash flow help make financial performance easier to understand?”

- If we say we are going back to basics, when did we lose our way and why? If the concept or principle is basic, does it not imply that it is easy to understand or grasp, and if so why don't more companies follow these principles?
- After the fall of Enron and other big companies we tried to go “back to basics” “back to fundamentals”
- According to the IFRS conceptual framework, the fundamental goal of financial reporting is to provide information that is useful to investors in making rational investment decisions.
- Cash flow from operations should *never include one-time items* and should have cash taxes separate from operating activities, or, at a minimum, as a subset of the operating activities. However, one of the many advantages of cash flow is that one cannot include one-time items

such as cash flow from the sale of available-for-sale investments or non-operating assets (both of which would appear in investing activities) to erroneously inflate cash flow from operations.

- In short, by the very nature of operating activities one-time, non-operating items would not meet the definition and should be shown separately.

### **Earnings Quality: Why Aren't All Earnings Equal?**

- each management team uses its own judgment when recording business transactions.
- they can do this by knowingly under- or overestimating accrual amounts in a variety of different areas at the start of the transaction.
- Management may maintain accrual accounts based on old assumptions, though they should adjust them to more accurately reflect new events and conditions.
- Inventory, accounts receivable have high flexibility
- Accounts payable and other current liabilities have low flexibility because financial obligations that can be measured reliably

### **“Good judgments: threats of inherent bias in making judgments can be overcome if processes include appropriate safeguards”**

- our brains quickly make unconscious judgments based on first impressions
- believe what we want to
- \* using formal decision-making frameworks that result in questioning management's judgments;
- \* engaging external experts where necessary; and
- \* becoming aware of and uncovering bias in auditor judgment at every level in the team hierarchy.
- Consider revisiting your judgment in next year's audit.
- Obtain evidence from other sources and evaluate its quality.
- Document why you believe your conclusion is true

### **“Want to steer clear of professional judgment traps? New resource sets auditors on the right path”**

- The U.S. Center for Audit Quality (CAQ) issued a resource designed to provide auditors with a decision-making process
- identify and define the issue
- gather the facts and relevant information
- perform the analysis and identify alternatives
- make the decision
- review and complete the documentation and rationale for the conclusion

### **“The 109,894-Word Annual Report; As regulators require more disclosures, 10-Ks reach epic lengths; how much is too much?”**

Week 11:

### Etsy Reports Wider Loss on Higher Costs—Update

- Reported more than expected loss when going public

### Netflix Plans 7-for-1 Stock Split; Streaming service has benefited from aggressive overseas expansion

- Plans to split stock 7 for 1 to make share more attractive to retail investors
- Dividend of 6 additional shares for each outstanding share to be paid
- While splits don't change a company's value, they tend to generate renewed interest in the stock as lower price makes it more attractive to a larger group of investors, driving up the value

## Week 10:

### Grow me the Money (<https://www.cpacanada.ca/en/connecting-and-news/cpa-magazine/articles/2015/june/grow-me-the-money>)

- This new financing "ecosystem" includes angel investor networks, mentoring programs and accelerators — all tremendously useful aids in taking a good idea from concept to commercialization
- Other startups have turned to crowdfunding — another recent innovation — for alternative financing.

## THE NEW TECH FINANCING ECOSYSTEM: A GLOSSARY

### ANGELS

Investors who offer early-stage financing, typically in the five- to six-figure range. In cities such as Toronto or Vancouver, there are numerous networks of angel investors who may band together to fund a young firm. The 12-year-old National Angel Capital Organization ([nacocanada.com](http://nacocanada.com)) is the umbrella group, with links to 2,000 angel investors.

### INCUBATORS

These centres, often owned by universities or sponsored by private companies, offer modest office space, coaching in basic business advice to graduate students and young entrepreneurs looking to commercialize a scientific or technical innovation. Examples include DMZ (Ryerson University) and Velocity (University of Waterloo) or programs such as The Next 36 (MaRS).

### ACCELERATORS

Programs aimed at start-ups that are emerging from incubators and that have honed their ideas. Accelerators often provide participants with opportunities to connect with potential investors and development funding. One of the best known, Y Combinator in San Francisco, has illustrious alumni, including AirBnB. Canadian examples: MaRS Innovation, Creative Destruction Lab and UTest, a U of T accelerator that provides mentoring and up to \$30,000 in development funding for applicants selected to participate.

### CROWDFUNDING/CROWDLENDING

Platforms such as Kickstarter or Indiegogo allow entrepreneurs to attract revenue to their businesses through social-media networks. Typically, these campaigns offer opportunities to preorder the product at a discount, but a growing number of international crowdfunding organizations also offer prospective investors an opportunity to provide equity or small loans. (See Mass appeal, September 2014)

#### FUNDS OF FUNDS

Capital pools that approach other investment funds or lump-sum contributors.

#### SIDECAR INVESTMENTS

Pooled funds whose backers are passive investors who prefer to leave investment decisions and management to angels who specialize in high-risk startup and early-stage firms. These vehicles provide more sophisticated investors with a way of placing bets on risky plays while maintaining a balanced portfolio.

Ex-Controller Testifies He Altered Dewey Accounting Records; Accounting department made law firm's income appear higher than it was, witness says

### Week 9:

#### **FedEx to Book \$2.2 Billion Pension Accounting Charge**

- FedEx joins dozens of companies, such as AT&T Inc., that have adopted **mark-to-market pension accounting** in the last few years. The method allows pension gains and losses to flow into earnings sooner than under old rules, which allow companies to smooth out the impact over several years.
- will now recognize actuarial gains and losses in the fourth quarter of its fiscal year rather than amortizing them over several years, making its operating performance easier to understand and more transparent.

### Week 8

#### **Microsoft Write-Down Stokes Valuation Concerns**

#### **Dollarama costs rising with higher wages, duties and lower Canadian dollar**

- trying to offset costs by improving efficiency
- tariffs from china
- 12% sales increase from higher prices as well as more stores