2023 CFA一级
知识点背诵手册

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你就成功了一半

Exam Express

Financial Statement Analysis

高顿教育CFA研究院

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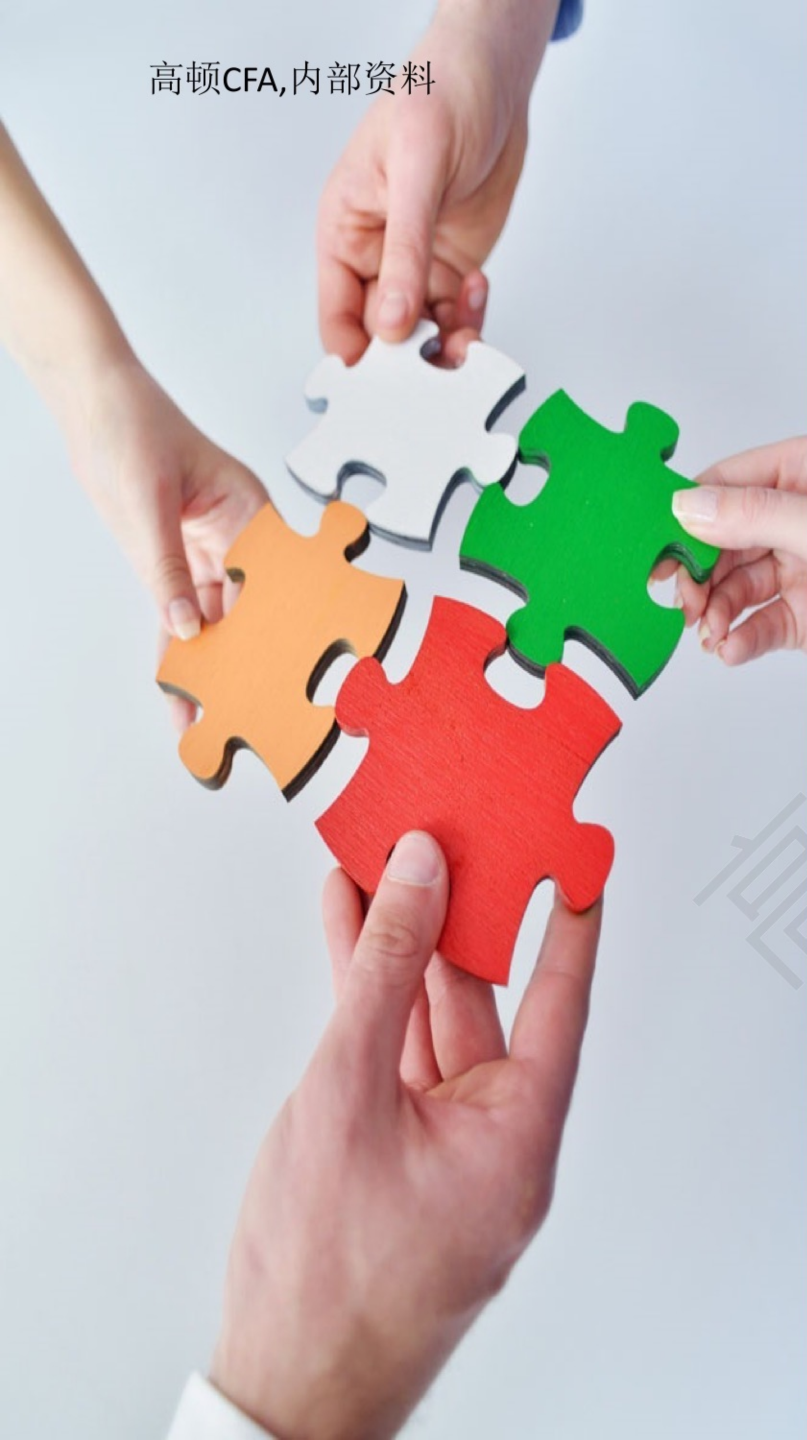

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SESSION 2

Income Statement - Format

Income Statement
Net Revenue - Cost of Good Sold (COGS)
Gross Profit - SG&A
Operating Income +Other income or gain (-Other expense or loss) +/- Unusual or Infrequent Items
Earning Before Interest & Tax - Interest Expense
Earning Before Tax

Income Statement (continued)
Earning Before Tax - Tax Expense
Net Income from Continuing Operations
+ Income from Discontinued Operation (Net of Tax)
Net Income

Income Statement - Component

Non-recurring items

	Unusual or infrequent items	Discontinued operations
Disclosure	Continuing operations	Discontinued operation
	Pretax basis (Above the line)	Net of tax basis (Below the line)
Component	✓ G/L from the sale of assets or part of a business ✓ Restructuring costs	✓ Dispose of or establish a plan to dispose a component operation with no further involvement

Income Statement

Change in accounting policies

Change in accounting policies	Change in accounting estimate	Correction of an error
✓ Change revenue recognition policy ✓ From LIFO to FIFO ✓ From amortized cost to fair value	✓ Change Dep. or Amort. method ✓ Change useful life or salvage value of depreciable assets	✓ Error in the prior period financial statements
Retrospective	Prospective	Restatement
All disclosed in footnotes		

Practice 1

A company, with a tax rate of 40%, sold a fixed asset with a net book value of $500,000 for $570,000 during the year. Which of the following amounts (in $) will most likely be reported on its income statement for the year related to the asset sale?

A. 42,000

B. 70,000

C. 570,000

Practice 1

Answer: B

Gains and losses reports on the income statement before tax.

Gain on disposal of an asset = cash proceeds – net book value of disposed assets = $570,000 – 500,000 = $70,000

Revenue Recognition – Accounting Standards

Five steps in recognizing revenue

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Complex Contracts

Example

- John's Construction (JC) Co. has a long-term contract to build a ship for $1 million and a reliable estimate of the contract's total cost is $700,000. Project costs incurred in the first year are $420,000. How much revenue should be recognized for the first year?
- Costs incurred = $420,000 / $700,000 = 60%
- Revenue recognized = 60% × $1 million - 0 = $600,000

Complex Contracts

Example(Cont.)

- The contract specifies consideration of $1 million plus a bonus of $200,000 if the ship is completed in 2 years. The company has only little experience and knows that many factors might cause delay. JC Co.'s expected total costs are $700,000. They incurs $420,000 in costs in the first year. How much revenue should JC Co. recognize for the first year?

Complex Contracts

Example(Cont.)

- In the beginning of year 2, JC Co. and customer agree to modify the contract. As a result the consideration will increase by $150,000, and allowable time for bonus is extended by 6 months. Expects costs will increase by $120,000. Also, given additional 6 months, JC Co. concludes that it now meets the criteria for including the $200,000 bonus in revenue. They incurs $250,000 in cost in second year. How much revenue should be recognized in second year?

Complex Contracts

Example

- JC's total revenue on the transaction (transaction price) is now $1.35 million. JC Co.'s progress toward completion is now 81.7%. Based on the changes in the contract, the amount of revenue in second year to be recognized is $502,950, calculated as (81.7% × $1.35 million) minus the $600,000 already recognized.

Complex Contracts

Agent's revenue amount

- If the company is an agent, it should report only the amount of commission as its revenue.

Complex Contracts

Cost of obtaining a contract

- Under the converged accounting standards, the costs of obtaining a contract must be capitalized.

Earning Per Share

Basic EPS

$$\text{Basic EPS} = \frac{\text{NI} - \text{Div}_{\text{preferred stock}}}{\text{Weighted average number of common shares outstanding}}$$

- **Weighted average number of common share outstanding**
  - ✓ New issue, repurchase is weighted by time
  - ✓ Stock dividend/split is not weighted by time, instead it should adjust the number of common share which exist before the stock dividend or split .

Earning Per Share

Example:

- Golden Investment Co. had 1,000,000 shares outstanding at the beginning of last year, during the year, Golden has following equity related activities:

Date	Common stock (in ‘000 shares)
Jan. 1st	1,000 outstanding
Mar. 1st	+ 600 (new issue)
May. 1st	2-for-1 split
Jul. 1st	– 400 (repurchase)
Oct. 1st	10% stock dividend

Earning Per Share

Basic EPS

Date	Common Stock	Adjustments	Subtotal
Jan. 1st	1,000 outstanding	×12/12×2×1.1	=2,200
Mar. 1st	+600 new issue	×10/12×2×1.1	+1,100
May. 1st	2-for-1 split		
Jul. 1st	-400 repurchase	×6/12×1.1	- 220
Oct. 1st	10% stock dividend		
Weighted average number of common stock outstanding			=3,080

Earning Per Share

Diluted EPS

- Dilutive securities decrease EPS if exercised or converted to new common stock
- Diluted EPS can not be higher than Basic EPS
  - ✓ Stock options/warrants---Treasury stock method
  - ✓ Convertible debt---Add back related after-tax interest
  - ✓ Convertible preferred stock---Add back related dividends

Earning Per Share

Diluted EPS

Basic EPS

$$\frac{\boxed{\begin{pmatrix}\text{NI}\\-\text{preferred}\\\text{dividends}\end{pmatrix}} + \begin{pmatrix}\text{Conv.}\\\text{preferred}\\\text{dividends}\end{pmatrix} + \begin{pmatrix}\text{Conv.}\\\text{debt}\\\text{interests}\end{pmatrix}(1-t)}{\boxed{\begin{pmatrix}\text{Weighted}\\\text{average}\\\text{CS.}\end{pmatrix}} + \begin{pmatrix}\text{CS.}\\\text{from}\\\text{Conv. PS}\end{pmatrix} + \begin{pmatrix}\text{CS.}\\\text{from}\\\text{Conv. debt}\end{pmatrix} + \begin{pmatrix}\text{Net CS.}\\\text{from}\\\text{options/warrants}\end{pmatrix}}$$

Include only if security
is dilutive

Earning Per Share

Diluted EPS

- If anti-diluted financial instruments?

Financial instruments	Decision making criteria
Convertible preferred stock	dividends/new shares > basic EPS
Convertible debt	interest (1 – t)/new shares > basic EPS
Options and warrants	avg. market price < exercise price

- If yes, the security is anti-dilutive.
- Don’t include such security in the computation of dilutive EPS.

Practice 1

Golden Finance had following information at the end of the year:

Security	Authorized	Issued and Outstanding	Other info.
Common stock	500,000	250,000	Currently pays a dividend of $1/share.
Preferred stock, Series A	50,000	12,000	Nonconvertible, cumulative; pays a dividend of $4 per share.
Preferred stock, Series B	50,000	30,000	Convertible; pays a dividend of $7.50 per share. Each share is convertible into 2.5 common shares.
Additional information:			
Net income	$1 million		

Practice 1

The diluted EPS is closest to:

A. $3.08.

B. $2.93.

C. $2.91.

Answer: C

Comprehensive Income

Other comprehensive income

- Foreign currency translation gains and losses
- Certain costs of defined benefit post-retirement plans that are not recognized in the current period (DB plan)
- Unrealized G/L on derivatives accounted for as hedges
- Unrealized G/L on available-for-sale securities
- Valuation surplus for long-lived asset (IFRS only)

Practice 1

The following is a company's accounting records (in € millions) :

Net income for the year	2,500
Unrealized gains from available-for-sale securities	1,475
Unrealized loss from trading security	600
Loss on foreign currency translation adjustments on a foreign subsidiary	325
Dividends paid	500

Practice 1

The company's total comprehensive income (in € millions) is :

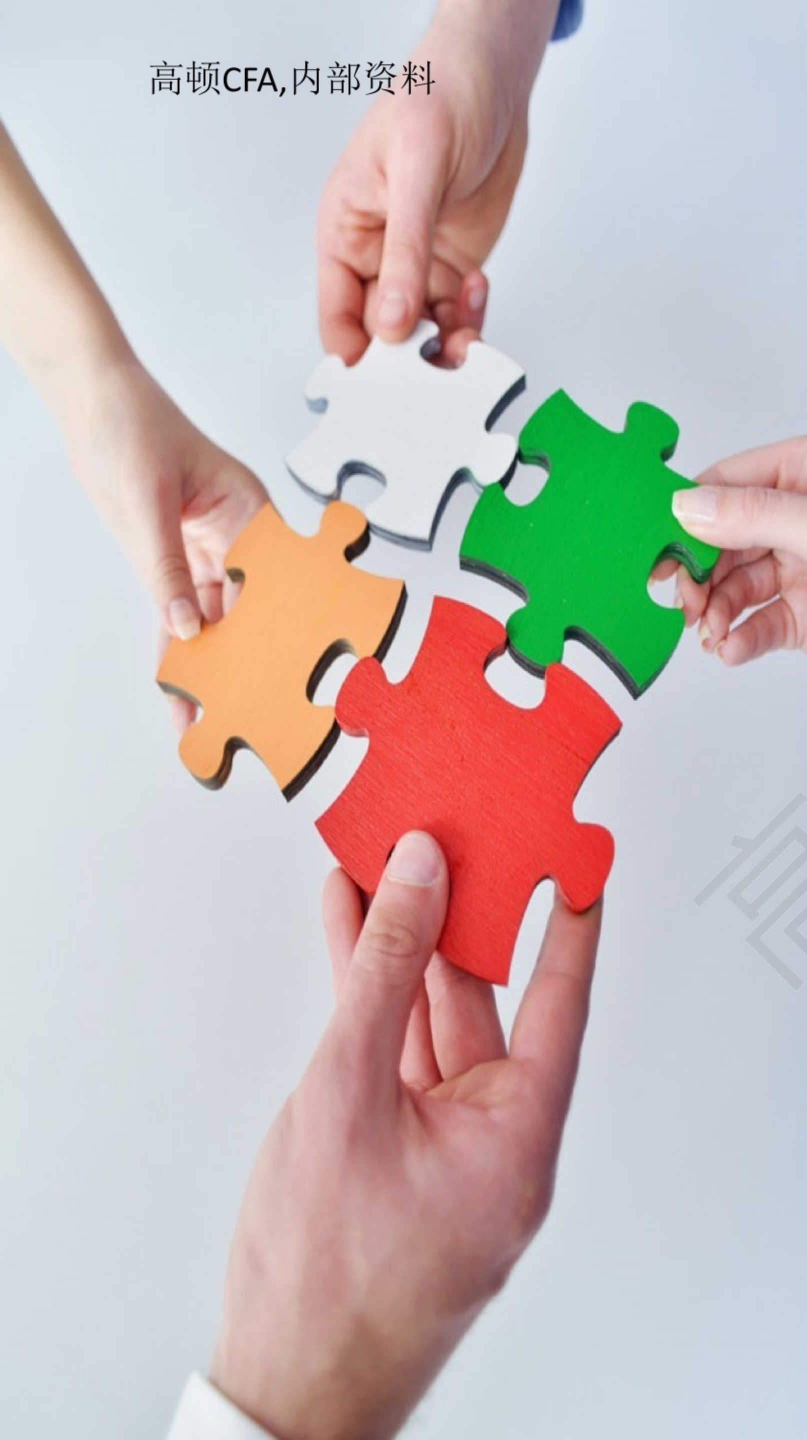
A. 2,550.

B. 3,050.

C. 3,650.

Answer: C

CI = NI + OCI = 2,500 + (1,475 - 325) = 3,650



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SESSION 2

Balance sheet

XXXX Inc. balance sheet as at 31 December 20x2

Assets	$'000	Liabilities	$'000
Current assets	X	Current liabilities	X
Cash and cash equivalents	X	Accounts payable	X
Accounts receivables	X	Unearned revenue	X
Inventory	X	Long term liabilities	X
Financial assets	X	**Total liabilities**	X
Prepaid expense	X	**Equity**	$'000
Non-current assets	X	Paid-in capital	X
Property plant & equipment	X	Retained earnings	X
Investments in affiliates	X	Accumulated OCI	X
Intangible assets	X	**Total equity**	X
Total assets	X	**Total liabilities & equity**	X

Financial Assets

Accounting for financial assets

Items	Held-to-maturity Amortized cost	Trading security FVPL	Available-for-sale FVOCI
Measurement	Amortized Cost	Fair Value	Fair Value
Unrealized Gain/Loss	Ignore	I/S	OCI
Realized Gain/Loss	I/S	I/S	I/S

Practice 1

Assume a company has the following portfolio of marketable securities which was acquired at the end of 2018:

Category	Original Cost as at the year end 2018 ($)	Fair Market Value as at the year end 2019 ($)
Held-to-maturity	20,000,000	19,000,000
Trading-security	12,000,000	12,500,000
Available-for-sale	17,000,000	16,000,000

Practice 1

What's the gain or loss will be reported in income statement at the end of 2019?

A. $1,500,000 loss

B. $500,000 gain

C. $500,000 loss

Answer: B

Only unrealized gain or loss from trading security should recognized in income statement.