

HA 3011 Advanced Financial Accounting

Assessment item 2 — Assignment

Weighting: 20%

Assessment Task Part A

(10 Marks)

In addition, to other relevant articles, for assessment task part A, please read the following article written by Paul M. Healy and Krishna G. Palepu, the fall of Enron case study by Paul M. Healy and Krishna G and write a report that addresses the following issues: The Article is on Bb.

- a) Define and explain mark-to-market accounting approach and give examples where Enron's management / accountants perhaps misused this approach to portray a rosy picture of its performance / profitability?
- b) What are special purpose entities and how Enron's management used them to fund contracts or achieve financial reporting objectives?
- c) Enron's top management enjoyed high compensation/ remuneration including stock options, what was the main purpose of the stock options compensation scheme provided to top management. Your explanation, discussion and argument should principally be based on the assumption of the agency theory.

Assessment Task Part B (10 Marks)

Describe and analyse the different ways that the five elements of financial elements, as defined in the International FRS conceptual framework, can be measured by listed companies. You are not constrained in this analysis to any one country or set of national accounting standards. Of course Australia is under International Financial Reporting Standards but your research could identify examples of companies operating under U.S. GAAP or some other regulations/guidelines that illustrate what you want to discuss. In completing this assignment, you are required to:

Required:

- a) Quote examples of measurement methodologies from company's annual reports and clearly reference your sources.
- b) In explaining how a company has measured an element, explain how the measurement method provided decision-useful information and what you understand decision-useful information to be.
- c) Provide a critical analysis of the techniques the selected company has used and why a technique deployed may be more useful or practical than another method.

As an example, two (2) techniques have been appended that show how bond liabilities and interest expense are reported and measured in Australia and the USA. The first technique is called The Effective Interest Method and the other is called the Straight Line Method. The Effective Interest Method is permitted under both IFRS and US GAAP. The Straight Line method is only permitted under US GAAP. If you were writing on example on bond liabilities you could get into a discussion on these different techniques and whether one provides more decision useful information than the other. Or you may conclude that neither technique is very satisfactory and the bond liability should be reported in the balance sheet at market value because if the company wanted to redeem the debt by buying back the securities in the open market it would have to pay fair value (and that would be based on a current trading price for the bond).