

## FA Module 14: Employee pensions and share-based compensation (overview)

(The attached PDF file has better formatting.)

Reading: chapter 10

- § 4 introduction to pensions and other post-employment benefits, *excluding*
  - Example 15 (Pension-related disclosures)

Reading: chapter 14

- § 2 pensions and other post-employment benefits, *excluding*
  - sub-section 2.4 (Disclosure of pension and other post-employment benefits – all sub-sections of 2.4 are excluded)
- § 3 share-based compensation, *excluding*
  - exhibit 6 (SABMiller plc)
  - exhibit 7 (American Eagle Outfitters)
  - exhibit 8 (GlaxoSmithKline, plc)
  - Example 7 (Coca cola)

This module deals with defined benefit pension costs; defined contribution pension costs are not materially different from other expenses. Other actuarial exams deal with measuring a defined benefit pension plan's obligations; this course covers financial statement reporting of defined benefit pension plans.

Measuring the defined benefit pension plan liability is needed for reporting it; you must understand the basic measurement procedures. Final exam problems focus on GAAP and IFRS reporting. The practice problems on the discussion forum show the types of questions asked.

Sub-section 2.4 discusses several alternative disclosures and their use for readers of financial statements. This course focuses on the GAAP and IFRS requirements; sub-section 2.4 adds unneeded complexity.

Know how five factors affects defined benefit liabilities (periodic pension costs) for GAAP and IFRS:

- service costs: current service vs past service costs; net income vs other comprehensive income
- net interest expense / income: discount rate vs expected return on plan assets
- remeasurement: actuarial gains or losses; actual vs expected return on plan assets
- actuarial gains and losses: major types
- changes in assumptions: discount rate, expected returns

Know the differences for funded vs unfunded liabilities of defined benefit plans.

Share-based compensation differs from ordinary wages and salaries. Focus on

- Stock grants vs stock options
  - effects on retained earnings, paid-in capital, and shareholders' equity
- Executive stock options: historical cost vs fair values
  - influences on fair value of stock options