

IFRS in the U.S. Timber Industry Individual Case Questions

1. [5 points] Consider the financial reporting implications under (i) U.S. GAAP and (ii) IFRS for a timber company that has significant standing timber (such as Plum Creek).
 - a. How is standing timber treated under U.S. GAAP? [1 point]
 - b. How is standing timber treated under IFRS? [1 point]
 - c. How would the income statement and balance sheets of timber firms following U.S. GAAP versus IFRS differ if the fair value of standing timber changed during the accounting period? (i.e., what accounts would be affected and how) [3 points]
2. [5 points] As a senior manager at a timber company, how might the accounting treatment of standing timber under (i) U.S. GAAP and (ii) IFRS affect your decisions about investing in additional forestland? In other words, do the different accounting treatments create different incentives to invest in and/or sell forestland at a particular time? Is this optimal for investors of the given firm? Why or why not?
3. [15] In its letter to the SEC Plum Creek concedes that fair value accounting for its timber is likely more relevant; however, it strenuously opposes the adoption of fair value accounting for timber in the U.S. and lists several reasons for this opposition.
 - a. Identify and discuss two of the reasons related to reliability that Plum Creek uses to argue against the implementation of fair value accounting. Do you find these reasons for opposition compelling? Why or why not? [6 points]
 - b. Identify and discuss two of the reasons related to something OTHER than reliability that Plum Creek uses to argue against the implementation of fair value accounting. Do you find these reasons for opposition compelling? Why or why not? [6 points]
 - c. Why do you think Plum Creek strenuously opposes the adoption of fair value accounting while Brookfield seems to embrace its adoption? (this is purely an opinion question) [3 points]
4. [15 points] Which of the following treatments: (i) US GAAP, (ii) IFRS, or (iii) something else (i.e., revaluation), would you prefer in each of the following roles and why?
 - a. senior management of a timber company [consider the volatility in earnings under IFRS, the reliability of the fair values reported on the balance sheet, and the other opposing arguments Plum Creek made] [5 points]
 - b. partner in charge of the external audit of a timber company's financial statements [consider what you will have to audit under each treatment and the related exposure to litigation] [5 points]
 - c. a potential investor in the common stock of a timber company [consider what you would like to have from the company and its auditors if your goal is having relevant/reliable information i.e., information that is decision useful] [5 points]