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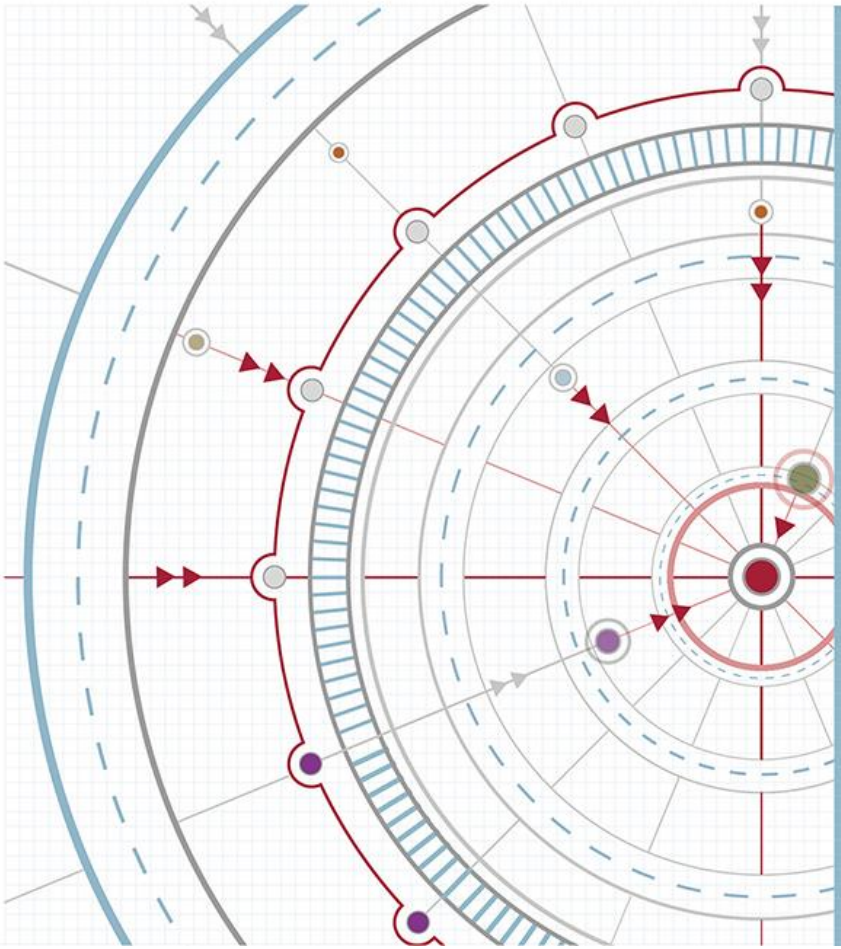

IFRS Academic Workshop

Tblisi

November 2017

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IASB Technical Developments With a special focus on Elements Relevant to Academics Teaching IFRS Standards

Matt Tilling, Director of Education, IASB

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Conceptual Framework

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Session overview

- Background
- What will change?
- Elements and recognition

Background

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Conceptual Framework history

July 1989
Conceptual Framework published by IASC

September 2010
Joint revision with FASB

July 2013
Discussion Paper

May 2015
Exposure Draft

2017
Revised *Conceptual Framework*

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What’s changed?

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What's changed?

1989 Framework	2010 Framework	2017 Framework
Objective	Objective	Objective
Qualitative Characteristics	Qualitative Characteristics	Qualitative Characteristics
Elements	Elements	Elements
Measurement	Measurement	Measurement
Recognition	Recognition	Recognition
		Derecognition
		Presentation & Disclosure
		Reporting Entity

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Why revised *Conceptual Framework*?

The existing *Conceptual Framework* has proved useful but some improvements were needed

Fill in the gaps

For example, it provides concepts on:

- reporting entity
- presentation and disclosure
- measurement

Update

For example, it updates on:

- the definitions of assets and liabilities
- recognition criteria

Clarify

For example, it clarifies the role of:

- stewardship
- prudence
- substance over form
- measurement uncertainty

Elements and recognition

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Elements: Definitions of assets and liabilities

	Existing definitions	Exposure Draft
Asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity	A present economic resource controlled by the entity as a result of past events
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits	A present obligation of the entity to transfer an economic resource as a result of past events
Economic resource	Not defined	A right that has the potential to produce economic benefits

Reasons for change – assets and liabilities

- ‘Resource’ => ‘Economic resource’:
  - Emphasising that a resource is a right rather than, for example, a physical object

- Deletion of ‘expected’:
  - Removing a perceived probability threshold

- Separate definition of economic resource:
  - Removing the reference to future economic benefits => asset (liability) is a resource (obligation), **NOT** the ultimate inflow (outflow) of economic benefits

Liability definition – supporting concepts

Present obligation to transfer an economic resource

No practical ability to avoid the transfer

- Legally enforceable
- Factors used to assess practical ability depend on the type of transaction, ie, action to avoid may, for example, cause significant business disruption for some types of transactions
- Management intent or probability of transfer not sufficient

AND

The obligation has arisen from past events

- Obligation (duty/responsibility to transfer an economic resource) must exist as a result of past events, and this is only if:
  - economic benefits have already been received; or
  - activities have already been conducted
- Enactment of law/other enforcement mechanism not sufficient

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Example 1—Long service leave

Facts

Employees have a statutory entitlement to two months' paid long service leave if they work for the same employer for 10 years.

If an employer terminates an employee's services after five years (for any reason other than serious misconduct), the employee is entitled to a pro-rata payment.

An entity has employed:

- one group of employees for nine years; and
- a second group of employees for two years.

Does it have a liability?

Example 2—Threshold levy

Facts

A government charges levies on entities that generate revenue in excess of CU50 million in a calendar year. The levy rate is two per cent of the revenue in excess of CU50 million.

An entity generates revenue from profitable activities evenly through the year. Its 20X1 revenue reaches CU50 million on 17 July 20X1.

The entity's reporting period ends on 30 June 20X1.

Does it have a liability at that date for the 20X1 levy?

Reasons for change

- ‘No practical ability to avoid’ => unclear whether the present obligation exists if:
  - the transfer of economic resources is conditional on the entity’s own actions
  - the transfer is not legally enforceable

- ‘As a result of past events’:
  - Unclear what constitutes a past event, for example, if there is more than one event that may be regarded as giving rise to the obligation

Recognition criteria

	Existing criteria	New criteria

Recognition	• meet the definition of an asset or a liability
	• probable that any future economic benefit associated with the asset or liability will flow to the entity
	• the asset or liability has a cost or value that can be measured reliably
		• focus on qualitative characteristics
		  • relevance
		  • faithful representation

Reasons for change

- Existing probability criterion does not appropriately address cases with low probability of inflow or outflow of economic resources
- Existing reliable measurement criterion does not correspond to the qualitative characteristics of relevance and faithful representation

- Replaced with reference to relevance and faithful representation and supporting concepts:
  - applying relevance:
    - existence uncertainty
    - low probability of a flow of economic benefits
    - separability
  - applying faithful representation:
    - measurement uncertainty
    - other factors

Overview of IFRS 15
Revenue from Contracts with Customers

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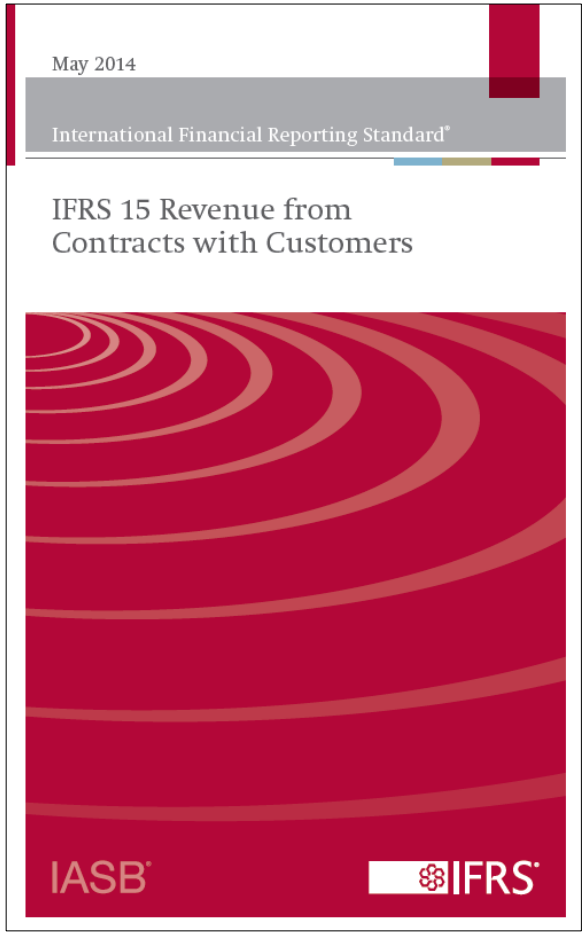
IFRS 15 at a glance



- IFRS 15 *Revenue from Contracts with Customers*
  - Replaces IAS 18, IAS 11 and related Interpretations
  - Joint Standard with FASB
- Framework for revenue recognition
- Effective date 1/1/2018, early application permitted

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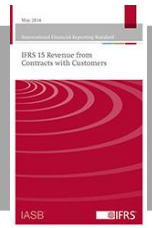
IFRS 15 implementation timeline

Joint IASB/FASB TRG discussions until Nov 2015

FASB continues US-only TRG discussions

IFRS 15 issued

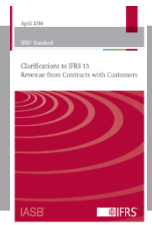
May 2014



1 Jan 2016

Clarifications to IFRS 15

April 2016



Full retrospective transition

(if one year comparative)

1 Jan 2017

Modified retrospective transition

(no restatement)

1 Jan 2018

IAS 8 disclosures on possible impact of application of IFRS 15

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Significant improvements

Robust framework for addressing revenue issues

Increases comparability

Provides guidance in areas on which previous IFRS Standards had none

Enhances disclosures

The thought process changes even if the accounting doesn't

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The 5-step revenue recognition model

Recognise revenue to depict transfer of goods or services in an amount of consideration to which the entity expects to be entitled

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 9 Financial Instruments

Yousouf Hansye
Education Project Manager, IASB

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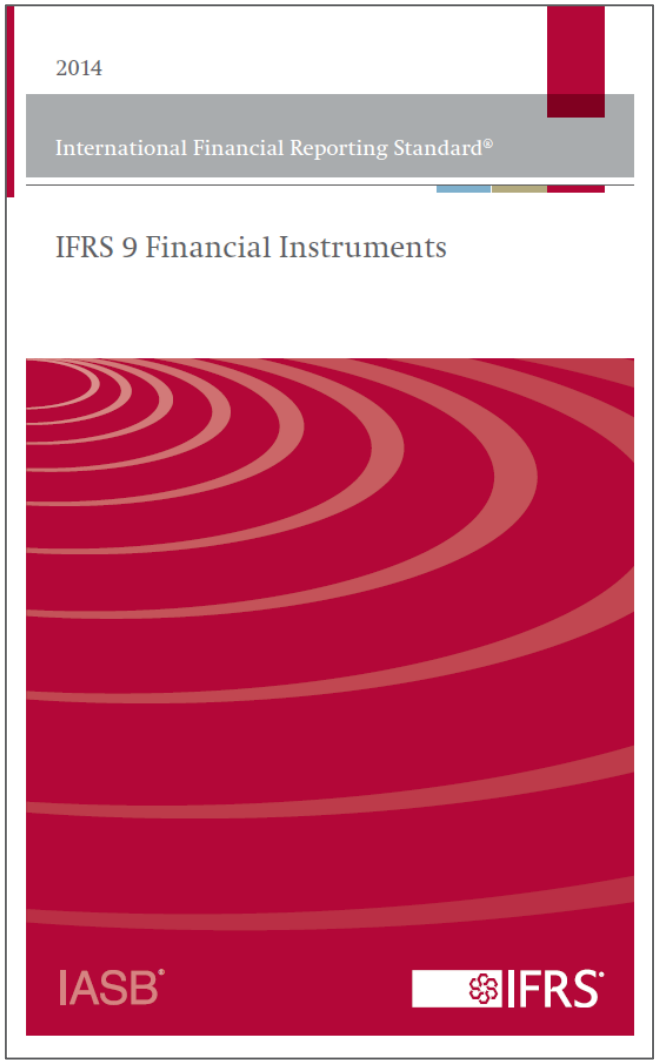
Finalisation of the IASB's project to replace IAS 39



Classification and measurement

A logical, single classification approach driven by cash flow characteristics and how it's managed

Impairment

A much needed and strongly supported forward-looking 'expected loss' model

Hedge accounting

An improved and widely welcomed model that better aligns accounting with risk management

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Classification and measurement

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Background

- IAS 39 contained many different classification categories and associated impairment models.
- Many of the application issues that arose with IAS 39 were related to the classification and measurement of financial assets.
- On the basis of feedback received, the Board decided that the most effective way to address such issues and improve the ability of users of financial statements to be better understand the information about the amounts, timing and uncertainty of future cash flows is replace the existing classification and measurement categories for financial assets.

IFRS 9 classification model for financial assets

Fair value option still available for accounting mismatches	Business model = hold to collect	Business model = hold to collect and sell	Other business models
Cash flows are solely payments of principal and interest (SPPI)	Amortised cost	FVOCI*	FVTPL
Other types of cash flows	FVTPL	FVTPL	FVTPL

* Different to FVOCI category for equity investments

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Business model test

- Factual assessment based on how assets are managed:
  - Not based on intent for individual asset
  - Typically observable through activities that the entity undertakes
  - Anchor is how cash flows are realised
- Hold to collect (amortised cost)
  - Generate value by collecting contractual cash flows
  - Consider past sales information and future expectations
  - Some sales may be consistent if infrequent or insignificant
- Hold to collect and sell (FVOCI)
  - Achieve objective by both collecting contractual cash flows and selling
  - Involves greater frequency and volume of sales
  - eg liquidity needs, interest yield management, asset/liability management
- Reclassify if, and only if, business model changes

IFRS

Contractual cash flows characteristics

- Contractual cash flows consistent with a basic lending arrangement (simple instruments)
  - Solely payments of principal and interest (SPPI)
- Interest is consideration for:
  - time value of money (TVM) and credit risk;
  - basic lending risks(eg liquidity risks);
  - other associated costs(eg administrative costs); and
  - a profit margin
- ‘Principal’ is the fair value the financial asset at initial recognition
  - amount transferred by holder (fair value)
- Explicitly excludes amounts inconsistent with basic lending such as cash flows that vary with commodity prices or equity prices
- Explicit note can meet SPPI if interest is negative.

Alternative classification

Financial assets—fair value option

- available in cases of ‘accounting mismatches’.

Equity investments—FVOCI alternative

- available for investments in equity instruments that are **not held for trading**.
- Key features:
  - instrument by instrument
  - dividends recognised in P&L
  - no recycling
  - no impairment.

Financial liabilities – ‘own credit’

Financial statements – IFRS 9			
Balance sheet		*Profit or loss*	
Financial liabilities designated at fair value through profit or loss	*Full FV*	Gain or loss	all FV Δ **except** own credit
		Other comprehensive income	
		Gain or loss	FV Δ due to ‘own credit’*

** Not recycled*

- Otherwise, **P&L gain when ‘own credit’ deteriorates**, loss when it improves
- ***Required* by IFRS 9** for liabilities under the fair value option
- **IFRS 9** allows the ‘own credit’ requirements to be early applied in isolation

Treatment of financial liabilities is carried forward from IAS 39 essentially unchanged

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Impairment

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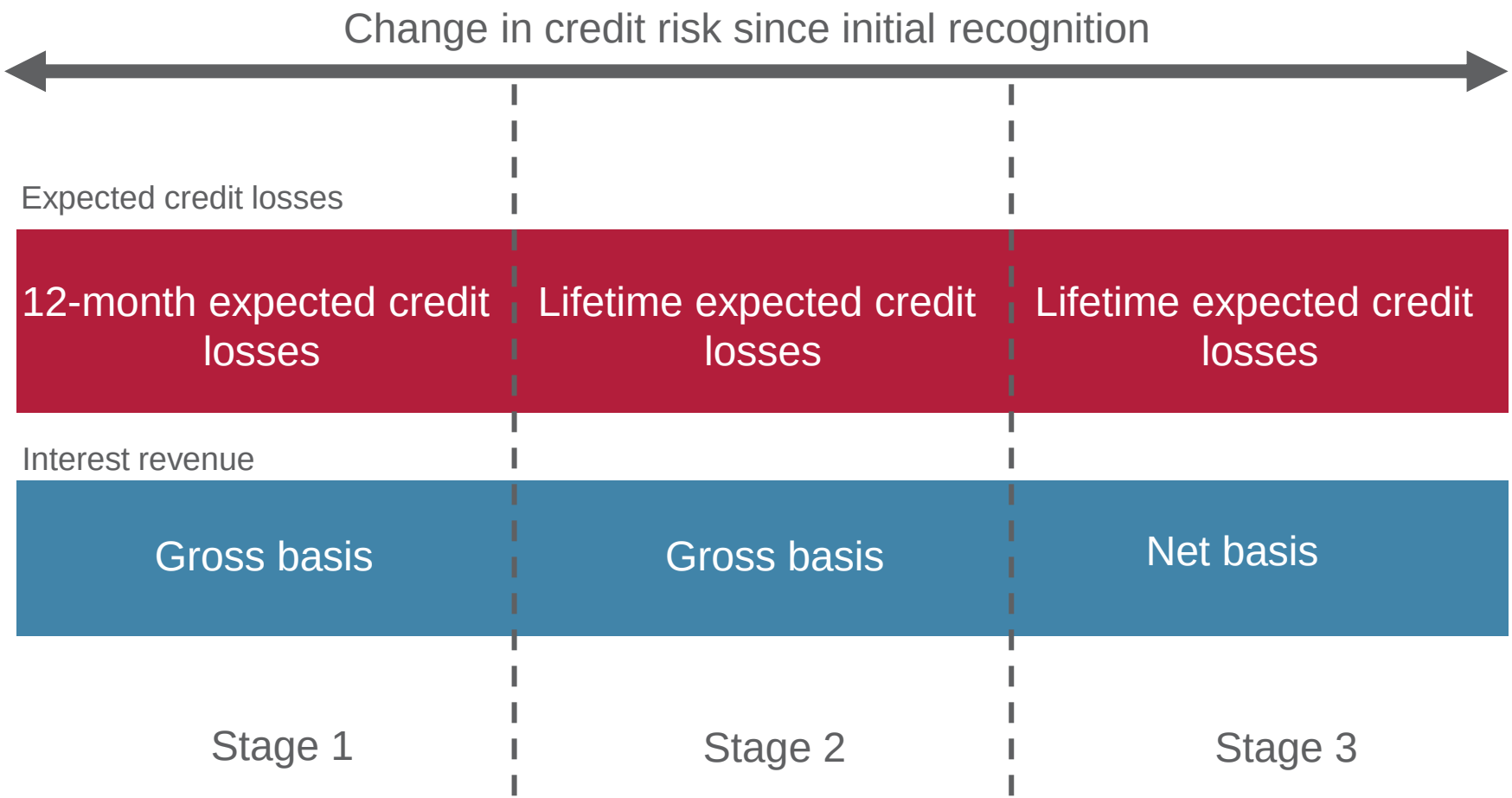
Benefits of the expected loss model

Forward-looking model that is responsive to changes in credit risk and responds to the calls of the G20 and others

- Broader range of information required to be considered
  - Ensures more timely recognition of expected credit losses
  - Elimination of IAS 39 threshold
- Builds on existing systems to balance costs and benefits
  - Approximates 2009 ED in more operational manner
- Single model reduces complexity of multiple approaches
- Enhanced disclosures:
  - Illustrate how an entity has applied the requirements
  - Show instruments which have significantly increased in credit risk

Overview of general model



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Disclosures - objectives

To enable users
to understand the ***effect of credit risk***
on the ***amount***, ***timing*** and ***uncertainty***
of ***future cash flows***

Entities' ***credit risk management practices*** and how they relate to recognition and measurement of ECL

Quantitative and qualitative information to evaluate amounts in the financials arising from ECL

Entities' ***credit risk exposure*** including significant credit risk concentrations

Hedge accounting

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Accounting and risk management

Feedback on IAS 39 *Financial Instruments: Recognition and Measurement*

- Lack of an overarching principle; complex and rule-based.
- Inability for **preparers** to reflect hedges in financial statements.
- Hard for **users** to understand risk management practices.

Solutions in IFRS 9 *Financial Instruments*

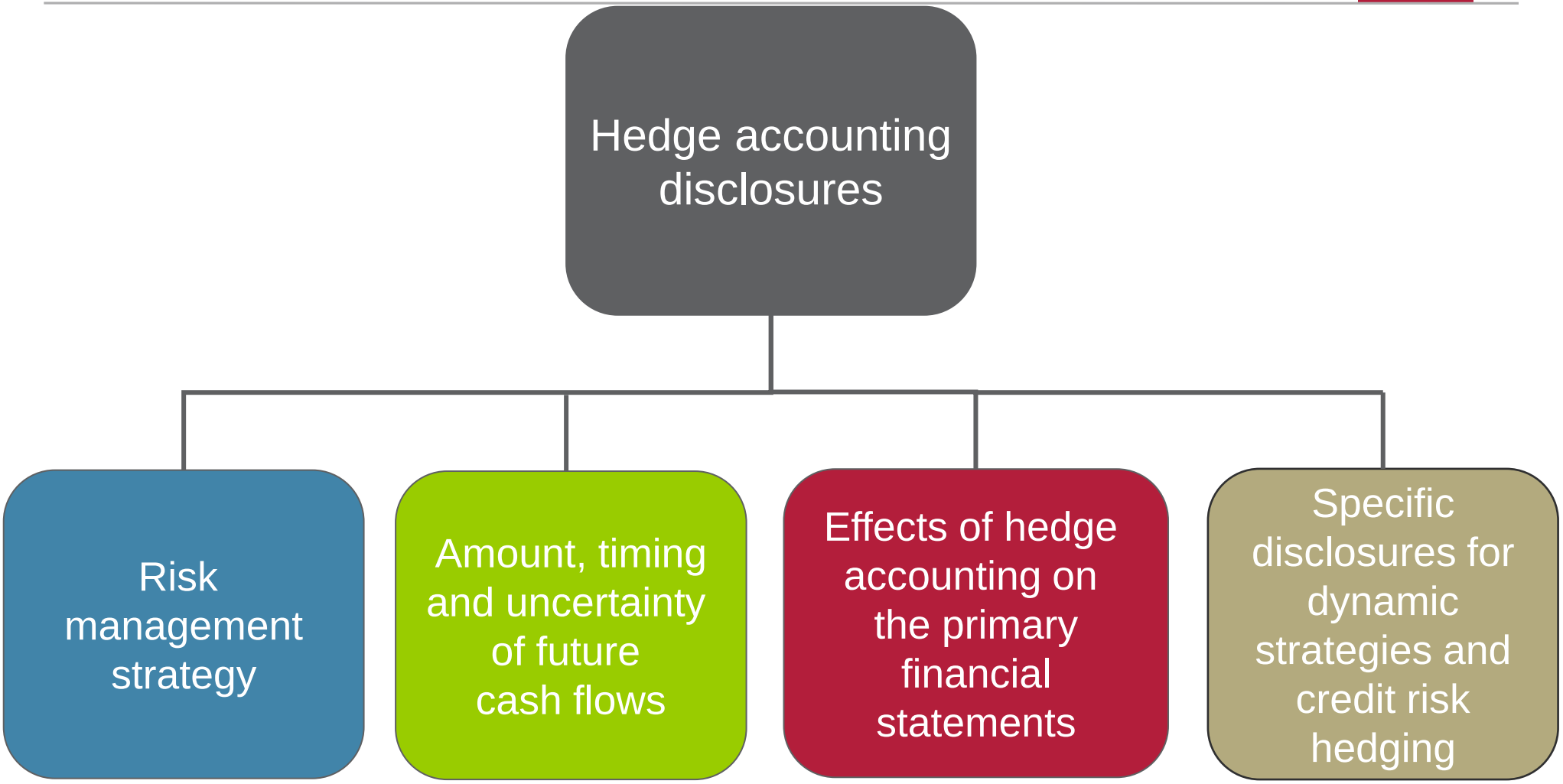
- Major overhaul of hedge accounting.
- Align accounting treatment with risk management activity.
- Enable **preparers** to better reflect hedging in financial statements.
- Provide disclosures to help **users** understand risk management and its impact on the financial statements.

Major improvements

- A principle-based hedge effectiveness assessment to achieve hedge accounting.
- Designate risk components of non-financial instruments.
- Ability to hedge aggregated exposures (combinations of derivatives and non-derivatives).
- Introduction of ‘costs of hedging’ to improve the transparency around some hedging instrument.
- Disclosures that meet the objectives of understanding the hedged risks, how those are managed and the effect of hedging.

A new approach to how accounting interacts with risk management.

Disclosures



IFRS 16 *Leases*

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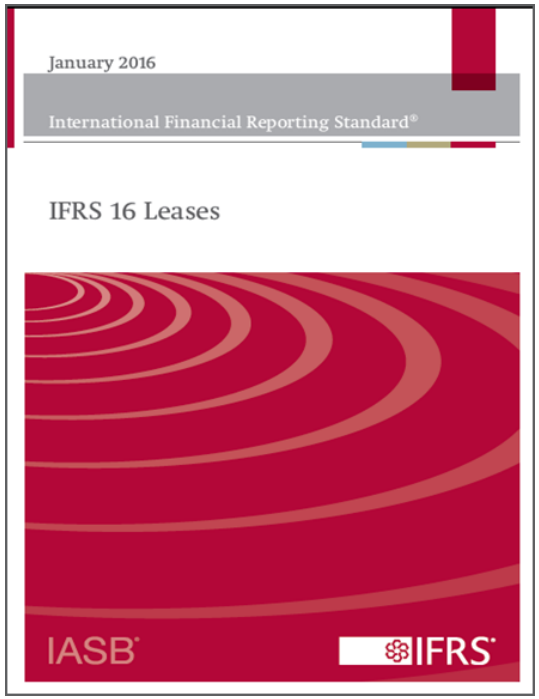
New Leases Standard



- IFRS 16 *Leases* published in January 2016
  - Replaces IAS 17 and related interpretations
  - Changes lessee accounting substantially
  - Little change for lessors
- Effective date 01 January 2019
  - Early application permitted (only with application of IFRS 15 *Revenue from Contracts with Customers*)

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Why?

The need for change

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The need for change

Leases are an important and flexible source of financing—listed companies using IFRS Standards or US GAAP estimated to have US$3.3trillion lease commitments

Over 85% of lease commitments **do not appear** on balance sheet today

Therefore, it is difficult for investors and others to:

- Get accurate picture of entity's lease assets and liabilities
- Compare companies that lease assets with those that buy
- Estimate the amount of off balance sheet obligations: often overestimated

The need for change: Currently a lack of information

- Six retail chains that ultimately went into liquidation

Retailer	Off balance sheet leases		On balance sheet debt[1]	Discounted leases as multiple of debt[3]
	(undiscounted)[1]	(discounted)[2]		
Borders (US)	$2,796M	$2,152M	$379M	5.68
Circuit City (US)	$4,537M	$3,293M	$50M	65.86
Clinton Cards (UK)	£652M	£525M	£58M	9.05
HMV (UK)	**£1,016M**	**£809M**	**£115M**	**7.03**
Praktiker (DEU)	€2,268M	€1,776M	€481M	3.69
Woolworths (UK)	£2,432M	£1,602M	£147M	10.90

[1] Based on averaged published financial statement data available for 5 years before company entered Chapter 11 (US), liquidation (UK) or bankruptcy (DEU).
[2] Estimated using (i) a discount rate of 5% and (ii) estimated average lease terms based on the information disclosed in the financial statements.
[3] Off balance sheet leases (discounted) as a multiple of on balance sheet debt

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IFRS 16 Overview

What the new Standard says

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Definition of a lease

- Based on which party **controls** the use of an **identified asset**
- Customer has right to control: **lease**
- Supplier has right to control: **service**

Customer has the right to control if it has ***BOTH:***

Right to **direct the use** of the asset

AND

Right to obtain substantially all **economic benefits** from use of the asset

What has changed for lessees?

Changes to lessee accounting

- Former operating leases capitalised.
- All[1] leases accounted for similarly to today's finance leases
  - ROU asset and lease liability recognised
  - Depreciation of all ROU assets
  - Interest expense for all lease liabilities

Balance sheet	Income statement	Cash flow statement
⬆ Leased assets ⬆ Financial Liabilities ⬇ Equity	⬇ Operating expense ⬆ Finance cost	⬇ Operating outflows ⬆ Financing outflows

[1] Exemptions for short-term leases and leases of low-value assets

What has changed for lessees?

Balance sheet

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	✈🏛	---	✈✈🚗🚌 🏛🏛🏛
Liabilities	$$	---	$$$$$$$
Off balance sheet rights / obligations	---	🚗🚌 ✈🏛🏛 $$$$$	---

Income statement

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs ***(excl. depreciation and amortisation)***	---	Single expense	---
EBITDA			⇧⇧
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			⇧
Finance costs	Interest	---	Interest
Profit before tax			⇔

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Optional recognition exemptions

- **Short-term** leases
  - Leases with lease term <12 months
- Leases of **low-value assets**
  - Leased assets in order of magnitude of <$5,000
  - Examples: laptops, office furniture, telephones

If exemption is taken, account for these leases similarly to operating leases in IAS 17

Balance sheet measurement: Lease liability

Lease liability = Lease payments during the lease term

x

Discount rate

- If readily determinable: rate implicit in the lease
- Otherwise: lessee's incremental borrowing rate

Balance sheet measurement: Lease liability

Lease payments:

Fixed payments

Variable payments
(that depend on an index or rate OR that are in-substance fixed)

Optional payments
(that are reasonably certain to occur)

Residual value guarantees
(amounts expected to be payable)

Variable payments
(that depend on **sales or use** of the underlying asset are **not included**)

Optional payments
(that are not **reasonably certain** to occur are **not included**)

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Lessor accounting

- Substantially retained the lessor accounting model in IAS 17
- Feedback on 2013 ED
  - Lessor accounting in IAS 17 is not broken
  - Concerns about cost and complexity

Subleases:

- Account for head lease and sublease as two separate contracts
- Classify a sublease with reference to the ROU asset arising from the head lease

Enhanced disclosures:

- Information about residual asset risk
- Disaggregated IAS 16 disclosures for assets subject to operating leases

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Standard-setting process

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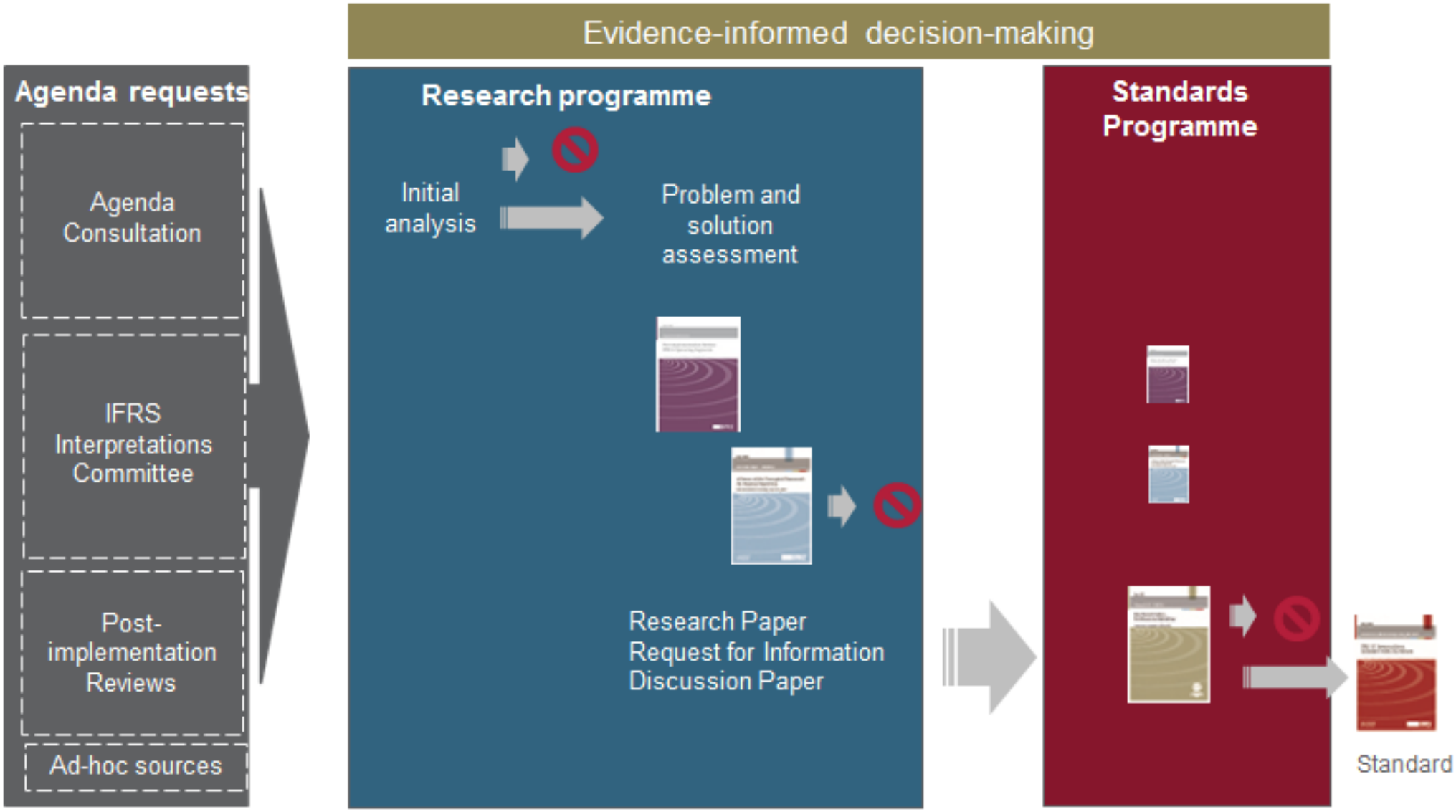
The standard-setting process today



Research programme

- A broad research and development programme
  - low threshold to get onto the programme
  - high threshold to progress further
- Emphasis on defining the problem
  - identify whether there is a financial reporting matter that justifies an effort by the IASB
  - evidence-based
- The programme is designed to **shorten** the time needed to develop improvements to financial reporting, by:
  - clarifying the problem up front, before a solution is developed
  - feeding manageable projects into the Exposure Draft phase on a timely basis

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Research topics

- Potential issues come from:
  - agenda consultation
  - IFRS Interpretations Committee
  - on-going outreach
- These are issues people want us to think about

Outcomes

- A recommendation to:
  - propose a change to IFRS
  - put a project on hold, for the time being
    - resourcing
    - other factors
  - stop working on the issue
  - develop education or support material

Current research programme

- Principles of Disclosure
- Primary Financial Statements
- Business Combinations under Common Control
- Dynamic Risk Management
- Financial Instruments with Characteristics of Equity
- Goodwill and Impairment
- Discount Rates
- Share-based Payment

IASB engagement with academics

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Overview

- IASB engagement with academics
  - evidence-informed decision making
  - academic research
    - bridging the gap between the academic community and the IASB

Evidence-informed decision making

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Where evidence is helpful

- Identifying financial reporting problems
  - Financial reporting differences
  - Scale
  - Evidence of estimation error
- Assessing solutions
  - Surveys
  - Decision experiments
  - Evidence of how information is incorporated by markets
  - Fieldwork
    - Systems testing
    - Testing draft words
    - Financial statement simulations
- Implementation
  - Evidence of diversity

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Sources

- IASB initiated work
  - Fieldwork
  - Reviews of financial statements
  - Modelling
- Independent research
  - Extant literature
  - Fostering new research

Opportunities

- IASB
  - Get a broader range of (different) perspectives
  - Better decision making
    - Better informed decisions
    - Ability to defend decisions
- Academics
  - Potential for research to have an observable effect
- Both
  - Get a better understanding of each others needs
  - Reduce the expectation gaps

Bridging the gap between the academic community and the IASB

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Bridging the gap between the academic community and the IASB

- Research centre on IASB website
- Annual research forum
- External research funding
  - IAAER-KPMG funding
  - ICAS calls for research

Research centre on IASB website

- IASB External Research Website

  http://www.ifrs.org/IFRS-Research/Pages/IFRS-Research-Centre.aspx

- Evidence-supported standard-setting
  - Explanations of when, and how, we use research
- Research opportunities
  - Awareness of work programme and specific issues
    - Topics
    - Timing

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Research centre on IASB website

- Research impact
  - When we have used research
- News and events
  - Summary of IASB discussions of projects on its research programme
  - Events

Annual Research Forum

- 2014 event
  - in conjunction with Accounting and Business Research
  - held at SAID Business School, Oxford University, UK
  - focused on Conceptual Framework
- 2015 event
  - in conjunction with Accounting and Finance, AFAANZ
  - held in Hong Kong
  - broad range of topics
- 2016 event
  - in conjunction with Contemporary Accounting Research
  - held at Waterloo, Canada
  - broad range of topics
- 2017 event
  - in conjunction with European Accounting Review and Accounting in Europe
  - held in Brussels, Belgium
  - broad range of topics

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Review of FBT and application in an undergraduate environment discussion of IASB Educational Activities and Materials

Matt Tilling, Director of Education, IASB
Yousouf Hansye, Education Project Manager, IASB

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IFRS

Framework-based teaching

Aim: support rigorous and consistent IFRS application

by developing cohesive IFRS understanding and capacity to make/audit/regulate/analyse necessary IFRS judgements

Framework-based teaching

- Determine the economic substance of the transaction(s) or other event(s)
- Consider what information about the transactions/events would primary users find useful in making decisions about providing resources to the entity
- Identify the relevant IFRS requirement/s and evaluate the requirement/s against the objective
  - is the requirement a principle rooted in the *Conceptual Framework?*
  - if not, understand why the rule does not maximise concepts (eg application of the cost constraint, reason often in Basis for Conclusions)
- Focus on making/auditing/regulating/analysing IFRS judgements and estimates

- In January 20X9, following an elephant culling operation in a country bordering on Africania, the Bilkersens rescued 20 orphaned teenage elephant calves and brought them to Freelands at a total cost to Open Safari of $400,000. To rehabilitate the young herd on Freelands, the herd was first kept in a specially constructed fenced camp.
- By March 20X9 the Bilkersens were satisfied that the herd was established and ready for life in the wild. On 1 April 20X9 the teenage herd were released into the wild on Freelands in a grand ceremony

Framework-based approach
IFRS capacity building

Class	Stage 1 (S1) CPA stream	Stage 2 (S2) CPA stream	Stage 3 (S3) CPA stream	MBA stream
Background	concepts	concepts	concepts	concepts
Content	principles	S1 + exceptions	S2 + main principles of current developments	principles, selected exceptions and current developments
Integration	little, if any	moderate	significant and complex	significant but simplified
Judgements	awareness	understanding	competence	understanding

Suggested teaching focus

Stage 1	Stage 2	Stage 3
Explain economics and relate to information needs of primary users. Teach mechanics of accounting and create **awareness** of estimates and other judgements. Reinforce with class discussion + tutorials.	Explain economics and relate to information needs of primary users. Develop **understanding** of estimates and other judgements involved in applying IFRS Standards. Reinforce teaching with class discussion + tutorials exploring judgements.	Reinforce understanding and develop **competence** in making the estimates and other judgements that are necessary to comply with IFRS Standards. Some ideas: - cross-cutting issues class discussions - advanced tutorials - integrated case studies - GAAP comparisons and improvements.

Suggested assessment focus

Stage 1	Stage 2	Stage 3
Assess knowledge and basic understanding of: i. the main concepts ii. selected main principles iii. awareness of basic estimates and judgements	Assess understanding of the estimates and other judgements in applying IFRS Standards using fact patterns including **unfamiliar items** integrated with a number of IFRS topics and some accounting related disciplines (eg finance)	Assess **competence** in making the estimates and other judgements that are necessary to apply IFRS Standards using **integrated case studies** about **unfamiliar items**. integrated with accounting related disciplines (eg finance)
Open-book examinations (ie extracts provided)	Open-book examinations (The *IFRS for SMEs* or *A Guide through IFRS*)	Open-book examinations (*A Guide though IFRS*)

The IFRS mindset

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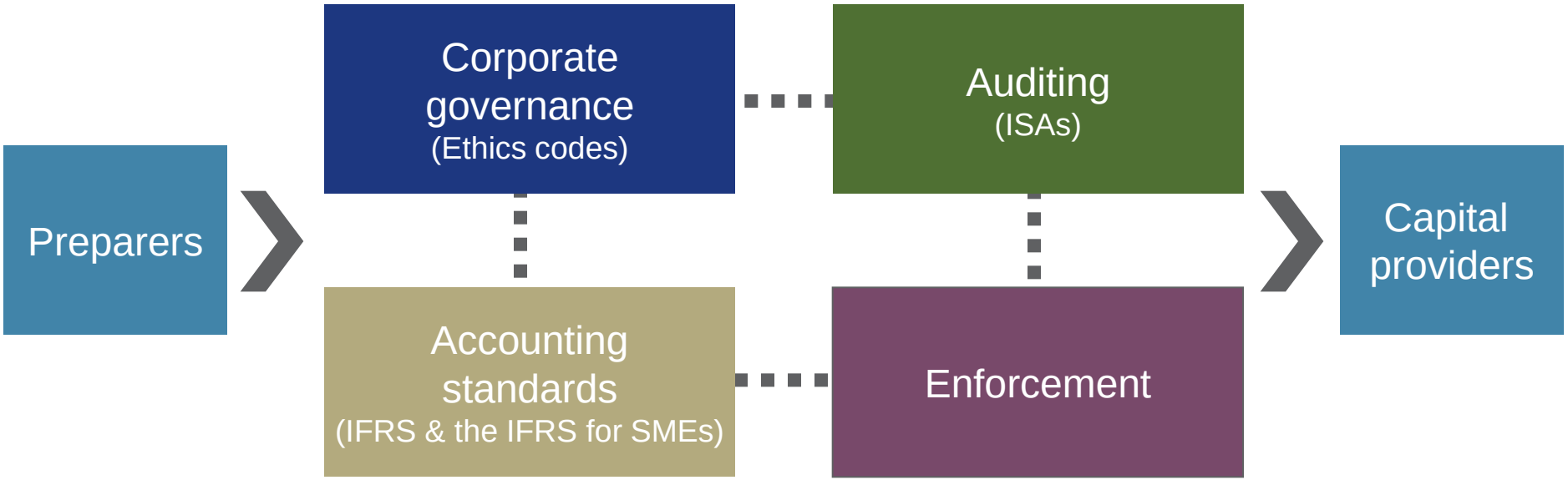
Framework-based teaching

- Determine the economic substance of the transaction(s) or other event(s)
- Consider what information about the transactions/events would primary users find useful in making decisions about providing resources to the entity
- Identify the relevant IFRS requirement/s and evaluate the requirement/s against the objective
  - is the requirement a principle rooted in the *Conceptual Framework?*
  - if not, understand why the rule does not maximise concepts (eg application of the cost constraint, reason often in Basis for Conclusions)
- Focus on making/auditing/regulating/analysing IFRS judgements and estimates

Information supply chain

Education underpins competence across the information chain



Education underpins competence across the information chain

Framework-based teaching

- Determine the economic substance of the transaction(s) or other event(s)
- Consider what information about the transactions/events would primary users find useful in making decisions about providing resources to the entity
- Identify the relevant IFRS requirement/s and evaluate the requirement/s against the objective
  - is the requirement a principle rooted in the *Conceptual Framework?*
  - if not, understand why the rule does not maximise concepts (eg application of the cost constraint, reason often in Basis for Conclusions)
- Focus on making/auditing/regulating/analysing IFRS judgements and estimates

Objective of IFRS financial reporting

Provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (buy, sell, hold, provide loan/settle (OB 2))

…who cannot require reporting entities to provide information directly to them (OB 5)

…who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently (QC 32)

Objective of IFRS financial reporting
continued

- Investors', lenders' and other creditors' expectations about returns depend on **their assessment** of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity.

Objective of IFRS financial reporting
continued

- To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about:
  - the resources of the entity;
  - claims against the entity; and
  - stewardship—how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources
    - eg protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes

IFRS

Qualitative characteristics

- If financial information is to be useful, it **must** be **relevant** and **faithfully represent** what it purports to represent (ie fundamental qualities).
  - Financial information without both relevance and faithful representation is not useful, and it cannot be made useful by being more comparable, verifiable, timely or understandable.
- The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (ie enhancing qualities—less critical but still highly desirable)
  - Financial information that is relevant and faithfully represented may still be useful even if it does not have any of the enhancing qualitative characteristics.

Fundamental qualitative characteristics

- *Relevance*: capable of making a difference in users' decisions
  - predictive value (input to process to predict future cash flows)
  - confirmatory value (confirm/disconfirm prior cash flow expectations)
  - materiality (entity-specific—could affect a user's decision)
- *Faithful representation*: faithfully represents the phenomena it purports to represent
  - completeness (depiction including numbers and words)
  - neutrality (unbiased)
  - free from error

  Note: faithful representation replaces reliability

Enhancing qualitative characteristics

- *Comparability*: like things look alike; different things look different
- *Verifiability*: knowledgeable and independent observers could reach consensus, but not necessarily complete agreement, that a depiction is a faithful representation
  - can be direct or indirect—check inputs, recalculate output
- *Timeliness*: having info in time to be capable of influencing decisions—generally older information is less useful
- *Understandability*: classify, characterise, and present information clearly and concisely

Cost constraint

- Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.
- In applying the cost constraint, the IASB assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information.

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Identifying elements

Asset (see *Conceptual Framework* para 4.4(a))

- resource controlled by the entity…
- expected inflow of economic benefits

Liability (para 4.4(b))

- present obligation…
- expected outflow of economic benefits

Equity (para 4.4(c))

- *assets – liabilities*

Income (para 4.25(a))

- recognised increase in *asset*/decrease in *liability* in current reporting period
- that result in increased equity except…

Expense (para 4.25(b))

- recognised decrease in *asset*/increase in *liability* in current period
- that result in decreased equity except…

IFRS

Recognition

- Recognise an asset (a liability) when:
  - probable that benefits will flow to (or from) the entity; and
  - has cost or value that can measured reliably.

Derecognition
concept?

- Derecognition occurs when a recognised item is removed from the statement of financial position
- There is no explicit concept for derecognition in the *Conceptual Framework*. Consequently:
  - derecognition requirements are specified at the Standards level
  - inconsistencies exist between the derecognition requirements of different IFRSs
  - derecognition does not necessarily coincide with no longer meeting the requirements specified for recognition

Measurement concepts

- Measurement is the process of determining monetary amounts at which elements are recognised and carried. (CF.4.54)
- To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions.
  - The *Conceptual Framework* establishes the concepts that underlie those estimates, judgements and models (CF.OB11)

Application to the IFRS

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In reality

- ED/2015/3 – Conceptual Framework for Financial Reporting
- Basis for Conclusion identified where current standards may not be consistent
- Very few examples
  - IFRIC 21 – *Levies*

Rather

- This step provides an opportunity to identify the appropriate standard to apply
- Identify the appropriate accounting treatment
- Reflect on the relationship between the principal based understanding and the identified standard requirements
- If there are significant differences this often indicates a misunderstanding at one of the three steps

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