	Parts:		When will be tested?
part 1	Basics of accounting		
		fin vs mgmt accounting	midterm test
		ac cycle	midterm test
		ac documents	midterm test
		double entry	midterm test
		accruals	midterm test
part 2	Conceptual framework		
		role of framework	midterm test
		role of IFRS	midterm test
		fin statements	midterm test
		ac policies, estimates, errors	midterm test
part 3	Assets		
		PPE	midterm test (will be confirm
		Intangible assets	final exam
		Right-to-use asset (lease)	final exam
		Current assets	final exam
part 4	FI		final exam
part 5	Liabilities		
		Provisions	final exam
part 5	Equity		final exam
part 6	Deferred tax		final exam
part 6	FX		final exam

Note: topics for midterm test will be also included into final exam

No. of lecture class	MU week
lecture 1	
	wk1
	wk1
	wk1
	wk1
	wk1
lecture 2, lecture 3	
	wk2
	wk2
	wk2, wk3
	wk3
lecture 4, lecture 5	
ıed later)	wk5
	wk5
	wk6
	wk6
lecture 6, lecture 7	
	wk7
lecture 7	
	wk8
lecture 7, lecture 8	wk9
lecture 8	wk9

Total split of points:

Task	Points
presentation of	20
midterm test	20
final exam	60
total	100
extra points	10
max grade	100 points

Comments:
number of examples required will be confirmed. Topic can be chosen by student BUT must be relevant
will be on Nov 4, 2020. Duration ot test will be confirmed later
will be in January 2021. Date and duration will be confirmed later.

for presentation of additional examples

(A)

to the course. Presentations need to have paper backup (i.e. written version) and will be held at the last

: seminar.

Part I. Basics of accounting

1 fin vs management accounting

Comparison between financial and management accounting Chapte

	Financial Accounting	Management Accounting
Purpose	Record historic transactions	• assist in controlling the busin operations • planning how the business wi develop • making decisions between alternatives
Audience	External parties – particularly shareholders, lenders and regulators	Internal management and owner the organisation
Legal requirements	• prepare financial statements (in accordance with legal requirements) • prepare accounts for tax authorities	• No legal requirement to prep • No set format for presentatio

Comparison between financial and management accounting (cont.) Chapte

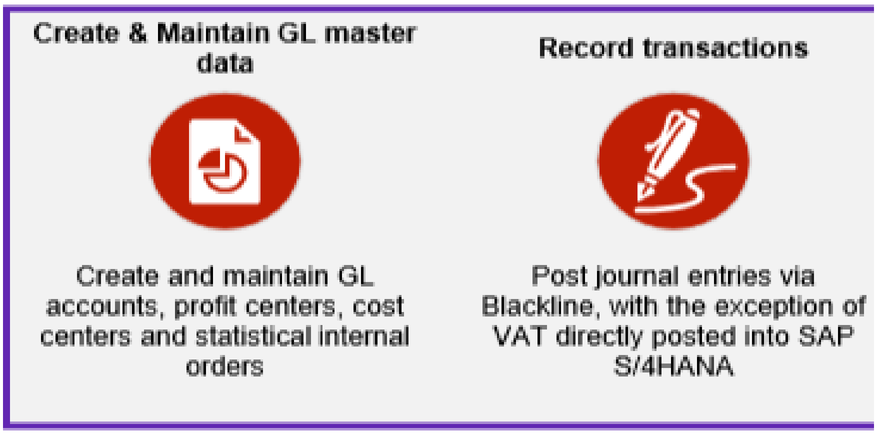
	Financial Accounting	Management Accounting
Format	Must conform to accounting and legal requirements	Presented in such a format as to b easily understood by managers
Perspective	Historic performance (i.e. backwards looking only)	Both future perspective (for planning and decision-making) an historic perspective (for control)
Nature of Information	Almost entirely financial	Both financial and non-financial
Frequency of Preparation	Usually once a year	As often as necessary – daily, weekly preparation or monthly, depending upon the needs of managers.

2 accounting cycle and double entry book keeping

- preparation of fin statements
  - transactions recorded in subledger accounts (e.g.
  - subledger accounts are balanced and closed off in
  - trial balance extracted from GL accounts
  - year-end adjustments made and GL accounts clos
  - trial balance used to prepare financial statements
- books of primary entry (records in subledgers) - are used to update GL ac
  - sales day book
  - purchases day book
  - cash book (cash receipts, cash paymens, petty cas
  - journals
- control accounts (records in general ledger) - are used to prepare trial ba
  - reconciliation (rec)
    - recs - means of checking
    - how to prepare a rec:

suspense accounts (incomplete records)

end-to-end period close includes:



3 accounting documents

Quotation	A written offer to provide goods or services at a particular price. No transaction has taken place yet and therefore nothing is recorded in the accounts.
Sales order	An order note for goods required by a customer.
Purchase order	An order note for goods required from a supplier
Goods received note	A list of goods received from a supplier. Prepared by the recipient business.
Goods despatched note	A list of goods sent to a customer. Prepared by the seller.
Invoice	A demand for payment sent to a customer.
Statement	A document sent to a customer listing all transactions between the business and that customer.
Credit note	A note sent to a customer who returns goods or overpays This reduces the amount owed by that customer.
Debit note	A note sent to a supplier to whom goods have been returned. It is in effect a request for them to issue a credit note.
Remittance advice	A document sent to a supplier alongside any payment sent to them. It details which invoices are being paid.
Receipt	A note to confirm that payment has been received.

Book of prime entry	Transaction type
Sales day book (SDB)	Credit sales
Purchases day book (PDB)	Credit purchases
Sales returns day book (SRDB)	Returns of goods sold on credit
Purchases returns day book (PRDB)	Returns of goods purchased on credit

5 accruals and prepayments

arises when moment of impact on P/L and mome

Cash flow now	Cash flow later

Income statement now		Accrual
Income statement later	Prepayment	

Accrued expense

Db

Cr

Accrued income

Db

Cr

Prepaid expense

Db

Cr

Prepaid income (aka deferred income)

Db

Cr

er 1

ess

ill

s of

are
on

er 1

e

d

customer accounts, vendor accounts)
to control/general ledger (GL) accounts (e.g. debtor account, creditor account etc.)

ed off

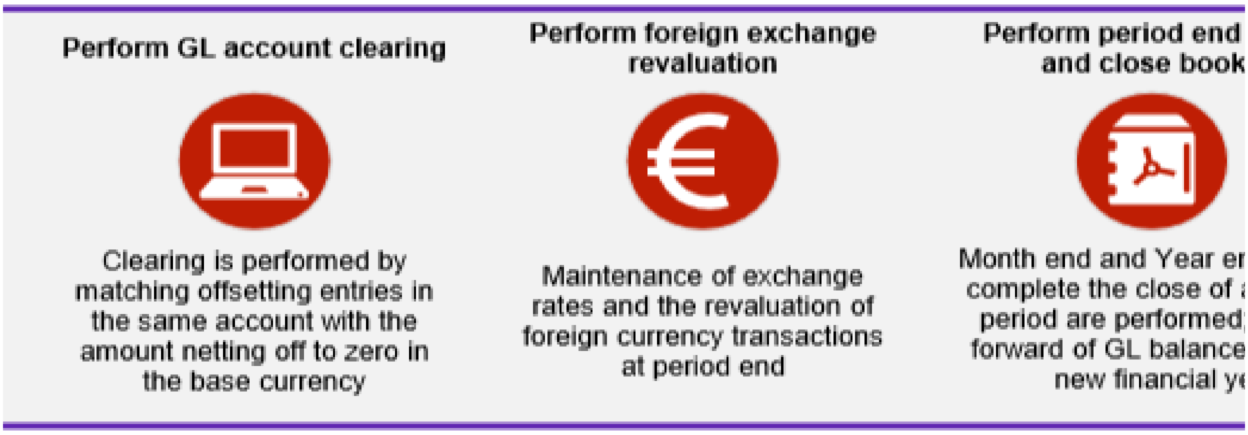
counts

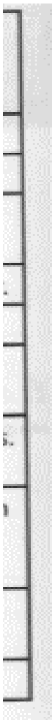
h)

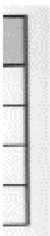
lance

that balancee on the control (GL) account agrees with balance on the ledger account

take breakdowns at transaction level of all records from related subledger accounts
compare total amount from breakdown and GL cummulative balance
if two total amount do not reconcile, investigate the variance

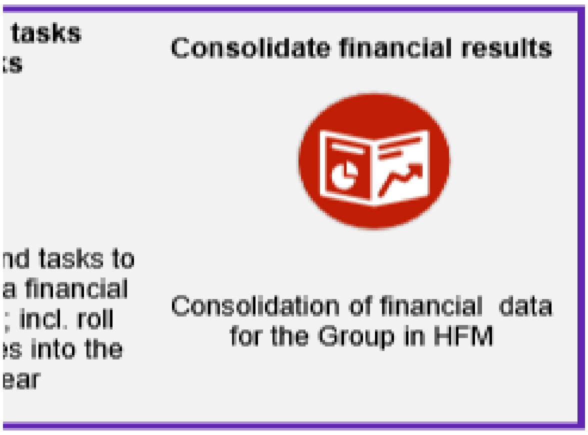






nt of actual cas are not the same:

	release		
Expense (P/L)		Db	Accued expense (B/S)
Accued expense (B/S)		Cr	Invoice received or credit note issu
Accued income (B/S)		Db	Invoice issued or debit note issued
Income (P/L)		Cr	Accued income (B/S)
Prepaid expense (B/S)		Db	Expense (P/L)
Expense (P/L)		Cr	Prepaid expense (B/S)
Income (P/L)		Db	Deferred income (B/S)
Deferred income (B/S)		Cr	Income (P/L)


tasks
:s
Consolidate financial results
nd tasks to
a financial
; incl. roll
es into the
ear
Consolidation of financial data for the Group in HFM

ued to customer (payable) (B/S)

l to vendor (receivable) (B/S)

0 impact on P/L when actual exper

release of amounts from B/S into I

		Expense				
		accrued		prepaid		
	profit redu	currentliability		profit incre	current asset	profit incre

nse/income is received

P/L

	Income	
accrued		prepaid
current asset		profit redu currentliability

Part II. Conceptual framework

1 Conceptual framework (evidence from IFRS)

Role of Conceptual framework

Conceptual framework can be seen as frame for evaluati

Past history of standard setting bodies thoughout the wo

such standards were often not consistent wit

such standards were intenrally not consistent

standards were produced on 'fire fighting' ba

the same theoretical issues were revised mar

Lack of conceptual framework resulted in creation of rul

Aims of conceptual framework are:

being a basis for evaluation of existing accounting practi

promotion of harmonization if accounting standards by r

assist acountants in dealing with accounting transactions

2 IFRS

IFRS - can be seen as common language for financial reporting which

Advantages of adoption of IFRS

IFRS are widely accepted as a set of high-quality and trar

They were produced in cooperation with other internatio

Companies using IFRS have an enhanced status and repu

International Organization for Securities Commissions (IO

Companies that own foreign subsidiaries will find it easie

Companies that use IFRS will find their results are ore ea

Note! Accounting standards alone cannot provide regulatory framev

IFRS themselves

local company law

local securities exchange regulations

EU directives

local GAAP

Structure of IFRS

IFRS Foundation

IFRS Advisory Council

International Accounting Standards Board (IA

IFRS Interpretations Committee (IFRIC)

Standard setting process

setting the agenda - IASB will add projects to its agenda

project planning - working party is established

development and publication of discussion paper (DP) - i

development and publication of exposure draft (ED) - it i

development and publication of IFRS - when al issues fro

procedures after IFRS is issued - IASB monitors the applic

3 Fin statements

information presented in fin statements - quality characteristics

Information presented in FS should be **useful**

it should be able to influence economic decis

it should be faithful - complete, neutral, free

Usefulness of information presented in FS is enhanced b
- comparable
- verifiable
- provided on timely basis
- and in compehesive way

principles/assumptions for preparation of fin statements
- going concern - company will continue its business activi
- accrual/matching - expenses and incomes should be reco
- consistency - methodology for preparation of fin stateme
- materiality - correct level of aggregation of transactions a
- substance over form - items recorded in fin stataments s
  - where assets are 'sold' at prices that are grea
  - when an asset is leased and used by lessee de
  - in consolidations despite the fact that the pa
  - in case of consignment inventory if risks and r
  - a sale and repurchase of maturing goods - wh
  - sale and lease back transaction -
- prudence - expenses recorded in fin statements shuld no

elements of fin statements
- asset - resource controlled by the entity as a result of pas
- liability - present obligation arising from past events and
- equity - residual interest in assets after deducting from t
- income - increases in economic benefits in form of enhar
- expense - decreases in economic benefits in form of decr

reporting of elements of fin statements
- recognition criteria for elements - an item can be recogn
  - meets the definition of particular element
  - it is probable that any future economic benef
  - item's cost or value can be measured reliably
  - recognition of such items (i.e. assets or liabilit
    - that is relevant - If the probability
    - that results in benefits exceeding
- measurement basis for elements (i.e. amounts at which
  - according to methodology how to calculate a
    - at cost (historical evaluation) - all
      - current cost - what the
    - at value (current evaluation) - not
      - fair value (aka market
        - info input c
        - info input c
        - info input c
      - value in use (or fulfilm
      - current cost - it is repla
  - according to application
    - carrying amount (book value) - am
    - recoverable amount - amount hig
    - revalued amount - amount highe

- types of statements
  - statement of financial position (balance sheet)
    - current/non-current distinction
      - it will be realized/settled within 12
      - it is held for the purpose of tradin
      - it is part of entity's normal operat
  - statement of P/L ad other comprehensive income (incom
    - other comprehensive income may include
      - movements in revaluation surplus
      - gains and losses on equity instrum
      - FX differences
    - exceptional items
      - certain material income or expens
      - smaller exceptional items are not
  - statement of change in equity
    - reflects changes in components of company's
      - net incomes (profits) or net expen
      - direct contribution or distribution
      - reclasses (transfers) between disff
  - statement of cash flow
    - it highlights the key areas where a business h
    - Good cash management ensures a business h
    - Advantages of cash flow statement
      - cash flow balances are a matter o
      - cash flow balances are objective, u
      - users of fin statements can establ
      - users can identify exactly how cas
      - users can assess the ability of busi
    - Operating cash flow
      - Methods for calculating operating
        - direct - information is
          - Cash sales
          - Cash receiv
          - Cash purch
          - Cash paid t
          - Cash expen
          - cash wages
        - indirect - information i
          - Profit befor
          - Adjustmen

          - (Increase)/
          - (Increase)/
          - Increase/(d

Investment cash flow
(Purchase of non-curre
Proceeds from sale of
Interest received
Dividends received (if i
Financing cash flow
Funds raised - through
Borrowings received
(Borrowings repaid)
(Redemption of issued
(finance costs)
Dividends paid (if in ca
consolidated financial instruments
basic terms
parent - a company that has a con
subsidiary - a company that belon
control
what is control?
one compa
it can be ac
it is irreleva
non-controlling interest (NCI) - a n
associate - a company in which an
significant influence - when a com
consolidation adjustments
general rules:
the legal form here is t
fin statements of parer
all group companies sh
there is a single entity
there are some except
a parent sh
parent's se
consolidated statement of financi
steps in consolidation
cost of inve

if parent is
assets and
share capit
retained ea
proforma

total assets

total equity

Notes:

Elimination

Provision fo

Cost of inve

consolidated income statement

steps in consolidation

group incor

group expe

dividend in

profit attrib

goodwill re

proforma

Notes:

product	
product	
product	non-direct
product	non-direct
product	non-direct
non-product	
non-product	
non-product	
non-product	
other	
other	
other	
other	
other	

events after the reporting period (i.e. after year-end)

an event after the reporting period is the eve

types of events and their impact on fin staten

adjusting events - provide additio

non-adjusting events - conditions

accounting policy and accounting estimates

accounting policy - a set of rules (methodolog

change in accounting policy shou

change in policy should be caused

Note! When company applies new accountin

accounting estimate - professional judgemen

change in estimate should be alw

change in estimate should be acc

correction of prior period error

correction of prior period error is

correction should be done restros

on of existing accounting practices and development of new ones. It forms theoretical basis for detern
orld indicates that absence of conceptual framework results in production of accounting standards tha
h each other particularly in questions of prudence vs accruals basis
: and often prioritized effect of transaction on P/L in compariosn with effect on B/S
sis, often reacting on corporate scandals rather than being proactive in determining best pracice
ny times in successive standards (e.g. R&D expenses)
es-based system of accounting according to which atment of all accounting transactions shuld be delt v

ces and development of new ones
reducing the number of permitted alternative accounting treatments
s for which there is not (yet) an accounting standard

n first firat created for EU-member states, but soon received wide-world adoption.

nsparent global standards intented to achieve consistency and comparability across the globe
onally renowned standard setters with aim of achiving consesnsu and global convergence
ntation
OSCO) recognizes IFRS for listing purposes. This makes it easier and cheaper tp raise finance in internati
er to consolidate fin statements of all members of tho group if all subsidiaries use IFRS.
sily compared with those of other companies that use IFRS.
work, particulary since in many countries they (IFRS) do not have legal standing. Thus regulatory framev

SB)

on requests of IASB staff members and practicing accountants

t is not mandatory step, but it is oftenly used, especially in case if project addresses a major issue. DP e
s mandatory step. It is a draft of future standard. Comments on it are collected and analyzed and if req
m ED are resolved, final standard is subject to approval by IASB.
cation of new standard and any areas that may need clarification and addresses these when standard is

fundamental
characteristics

ion of users of such fin statements (**relevance**)
from error and reflect economic substance of the transaction rat**ity**)

y if such info is also

enhancing characteristics

ty in the foreseable future
orded in PL in the period when they actually happened regardless of recipt/issue of invoice or cash pay
ents cannot change fro period to period (otherwise information presented in such statements will not l
and items should be applied
hould be recorded according to their economic substance and never according to their legal form. Exa
ter or less than their fair values, substance is applied. Ofthen it is really a secured loan.
espite the fact that the lessor is still the legal owner until fully paid, the lessee behaves like owner. So ir
rent owns only 51% of subsidiary, the entire subsidiary is consolidated (i.e. 100% of subsidiary's assets
rewards of for example motor vehicle despatched from manufacturer to show-room owner are substa
here the inventory doesn't leave the premise of the seller and sale is to a bank - it is considered a seure

ot be underestimated and incomes recorded should not be overestimated. This is often called 'assymet

st event and from which future economic benefits are expected (i.e. there are potencial economic ben
settlement of which is certain and will result in (potencial) outflow of resources embodying economic
hem liabilities => equity = net assets
ncements of assets or decreases of liabilities that result in increase in equity other than by controbutio
reases of assets or increases of liabilities that result in decrease in equity other than by distributions to

ized as element of fin statements (i.e. recorded in fin statements as such) if it:

fits associated with such item will inflow or otflow from the entity

ties) provides users of fin statements with information
of the event is low, this may not be the most relevant information. The most relevant information may
the cost of providing that information
elements are recorded in fin statements):
nd economic substance
input info is available but it can be outdated
e asset cost to purchase less any depreciation or amortization.
all input info may be available (thus actuals can be substituted with estimates), but up to date
value) - it is an estimate of what the asset could be sold for (if certain conditions are met). Thus it is exi
of level 1 - quoted price: identical items at active market
of level 2 - observable inputs: similar items at active/inactive market
of level 3 - unobservable inputs: best info available e.g. valuation models
ent value for liabilities) - it is present value, which is an estimate of discounted future cash flow which
acement cost, which is an estimated cost to buy an identical item or construct/produce it at current pri

nount at which item is recorded in evidence
gher of either the asset's **future** value for the company or the amount it can be sold for, minus any tran
er of either the asset's **present** value for the company or the amount it can be sold for, minus any trans

2 months of the reporting date or
g or
ing cycle
ne statement)

;

nents classified as financial assets measured at FV through othercomprehensive income

se items, known as exceptional items, may be listed on the face of income statetemnts before profit fr
disclosed in income statement but instead within notes to accounts, normally the operatingprofit note

; equity due to
ises (losses) generated during busoness activity of the company
s of equity components by/to business owners
ferent components of equity

nas generated and spent cash.
nas sufficient cash to run its day to day operations.

f fact and are not distorted by accounting policies (adjustments, estimates, accruals etc.)
unlike profit which is subjective.
ish how business has generated cash.
h has been spent.
iness to generate cash in the future.

; cash flow
extracted from ledger accounts (not just fin statements), mainly from bank accounts (cash flow picture

ved from credit customers
ases
o credit suppliers
ises
; and salaries
is extracted from fin statements (cash flow picture is reconciled from fin stataments) => used by extern
re tax
t for non-cash items
depreciation/amortization
loss/(profit) on disposal of non-current assets
finance costs - it needs to be added here because it will be deducted in the part of Financing cash flow
(investment income) - it needs to be dedcuted here because it will be adde back in part of Investing ca
decrease ininventory
decrease in receivables
lecerase) in payables

ent assets)
non-current assets

in cash)

ı issue of financial instruments

financial instruments)

sh)

ıtrolling interest in another company, giving it control of its operations.
gs to another company, which is usually referred to as the parent company. Subsidiary's fin statatment

ny has power over another when it has the ability to direct that company's business activities, which si
chieved simply by owning a majority or voting shares or it may come from contractual arrangements
ant wether a parent company uses its ability to direct business activity of subsidiary, what is important
ninority interest; it is an ownership position wherein a shareholder owns less than 50% of outstanding
ıother company owns a significant portion of voting shares (aka 'significant nterest'), usually 20–50%. I
ıpany holds approximately 20% to 50% of a company's stock, it is considered to have significant influen

two separate companies but the economic reality is single entity and that must be reflected in the met
nt and subsidiary used in the consolidation should have the same year end. If subsidiary has different y
ıould have the same accounting policies. This may require adjustments to subsidiary's figures.
concept: all intergoup transactions between the parent and subsidiary should be cancelled out becaus
ions from consolidation:
ıouldn't prepare consolidated fin statatements if it itself is wholly-owned subsidiary
curities are not publicly traded and it is not in the process of issuing secutiries
al position

estment into subsidiary shown in parent's BS is canceleld against subsidiary's share capital and pre-acq
if difference is positive, then goodwill is recognized as intangible asset, which is not amortized but me
if difference is negative, then goodwill is credited to consolidated income statement.
Note! Inherent (non-purchased) goodwill should never be included into BS
not purchasing 100% of subsidiary, then NCI is recognized
liabilities of parent and subsidiary are combined on line-by-line basis (except group receivables and pa
al presented in BS is only that of parent (because the one of subsidiary wqas already cancelled at prior
ırnings are parent's retained earnings plus subsidiary's post-acquisition retained earnings

			Adjustmen
non-current assets			1 Goodwill a
PPE	100% P + S		

goodwill see adjustments No. 1
current assets
stock 100% P + S
receivables 100% P + S (BUT except intra-group balances) 2 NCI adjustr
bank and c 100% P + S
;
equity
share capit 100% P 3 Consolidate
retained ea see adjustments No. 3
NCI see adjustments No.2
non-current liabilities 100% P + S
current liabilities 100% P + S (BUT except intra-group balances)
/ and liabilities

ı of intra-group balances
group accounts should only show balances with parties outside the group. If intra-group balance exists
Db Group payable
Cr Group receivable
or unrealized profit (PUP)
companies within a group have made sales to one another at a profit, yet the goods traded between s
If there is intra-group sales but all goods have subsequently been sold outside the group i.e. nothing is
If there is intra-group sales and not all goods have subsequently been sold outside the group i.e. some
from P to S - debit Group sale, credit Group COS of such inventory, credit Group inventory
from S to P - debit Group sale, credit Group COS of such inventory, credit Group inventory;
from S to S - debit Selling entity's sale, credit Selling entity's COS of such inventory, credit P
estment
ways how to structure the deal:
to purchase shares in subsidiary for cash
to purhase shares in subsidiary and give them paranet's own sahers in return (known as sh
if share exchange is the case how transaction price is paid, then the cost of investment is determined i
work out number of shares acquired in the subsidiary
calculate how many parent's shares will be issued in return (what is the ration between sha
calculate the value of parent's shares by multiplying by the parent share price at acquisitio

me = parent's income + subsidiary's income (as all income is controlled by the group)
nses = parent's expenses + subsidiary's expenses (as all expenses are ontrolled by the group)
come from subsidiary which is shown in parent's income statement, should be cancelled in consolidate
outable to NCI is calculated as: NCI% * subsidiary's profit after tax adjusted for consolidation purposes
cognized as result of business combination in consolidated balance sheet should be tested for impairm
if full goodwill is impaired - loss is shared between the NCI and the group in the same ratio as subsidia
if proportionate goodwill is impaired - loss is assigned only to the group reservesin group's share on su

Mid-year acquisitions of subsidiary
we must include into consolidated business result only that part of subsidiary's business re

Elimination of intra-group trading

an adjustment shuld be made to reflect intra-group sales revenue: such revenue should be

Db	Group sales	
Cr	Group COS	

If there is intra-group sales but all goods have subsequently been sold outside the group i.e

Accounting treatment of associate (equity methond)

investment into associate is initially recognized at cost in the group BS and the carrying am

investor;s share of profit or loss of investee is recognized in the group income statements a

till revenue		Adjusteme
direct COS	transaction margin	Adjusteme
transaction margin		
supplier rebates		
product WOFs/WONs	non-transaction margin	
product returns		
product margin		
services sold to customers		
direct COS	non-product margin	
bad debt expense		
credit cards commissions		
marketing costs	operating expenses before gross margin	
distribution costs		Extra line: l
Gross margin		
property costs	operating expenses after gross margin	
payroll costs		
overheads		
		Extra line: p
Operating profit		
Finance costs		
Profit before tax		
Income tax expense		
Profit after tax		
Discontinued operations		Extra line: l
Profit for the year		

nt that occurs between the accounting year end and the date on which the fin statements are authoriz
nents
nal evidence of conditions that existed before/at year-end date => fin statements need to be adjusted
that did not exist before/at year-end date => fin statements shouldn't be adjusted to include the impa

gies) for fin reporting applied by business
ld be applied retrospectively i.e. adjustment should be done to at least one period (fin year) from the p
by change in environment of the business (external or internal)
g policy for the first time, it is not a change in exisitng policy, but first-time adoption of new one. Thus
t done by accountant when actual amount is not available e.g. duration of useful life of non-current as
ays based on new information which was not available before (i.e. in the moment when original estima
ounted prospectively i.e. starting from the current period

always based on information which was available before (i.e. when original estimate was done or actu
pectively i.e. in the period when the error happened.

ıining how transactions should be measured (historcial value or current value) and reported - i.e. how
t have serios drawbacks:

with by detailed specific rules or requirements. Such system is very prescriptive and inflexible but has t

ional markets.

work of juresdiction may include all of the following:

explains the issue and possible accounting solutions and invites to comment
quired ED is amended and re-exposed.

s revised.

Conceptual framework
IFRS
Fin statements
quality characteristics
underlying assumptior
elements of fin statetn

reporting of elements
types of fin statatment
consolidation of fin sta
events after reporting

ments
be comparable between periods)

mples

ı case of such lease - fin lease - lessee is user of leased asset during the assets economic life: lessee cap
are added to parent's assets). Legally the parent may own 51% only but in day-to-day economic reality
ntially with the showroom owner then the showroom owner must treat it as of it is its inventory even t
d loan. Legally title mayhave passed to the bank but linking the two transactions together, it is invento

ric prudence'.

efits)
benfits

n from equity participants. Note: some types of ncome are required tobe directly recognized in equity
equity participants

y be about the potential magnitude of the item, the possible timing and the factors affecting the proba

it value focusing on the values which will be gained from the item. Methogology how it should be dete

is expected to be generated by the asset
ices. It is entry value.

ısaction costs. It is used for comparison with carrying amount in **cases of impairment testing**
ıaction costs. It is used for comparison with carrying amount in **cases of revaluations** (write downs or w

om operations
e.

e is actual) =: used by internal users who has access to management accounts

al users who do not have access to management accounts

/; otherwise it will be double counted: (1) as per of Profit before tax; (2) as part of Financing cash flow
ish flow' otherwise it will be double counted: (1) as per of Profit before tax; (2) as part of Investing cash

Amount of	Classificati
<20% of ordinary shar	
20-50% of	associate
>50% of or	subsidiary

ts are consolidated with fin statements of the parent.

ignificantly affect investee's returns

is that it has the ability to do so.
shares and has no control over decisions.
n this case, parent company does not consolidate the associate's financial statement
ıce

thod of consolidation.
ear end date within 3 months of that of the parent then the fin statements can be used with adjustme

e they took place within the same entity and only transactions with the outside world must be recorde

uisition retained earnings. Any difference between the two offseting amounts (i.e. balancing figure) is r
asured at its historical cost and tested for impairment annualy.

yables)
step against parent's investment into subsidiary)

ts to BS
djustments - **net total** value acquired
investment at cost

Substance of adjusting entries:
price paid for consolidation

NCI at FV at acquisition date	price paid for consolidation
(Net assets at FV at acquisition date)	value acquired from consolidation

nents - **total** value

NCI at FV at acquisition date	amount before consolidation
NCI % in post acquisition reserves of subsidia	impact of consolidation

ed reserves - **net total** value acquired

100% of reserves of parent at year-end	amount before consolidation
group % of post acquisition reserves in subsic	impact of consolidation
(PUP adjustment (P sells to S))	remove double counting

s between parent and subsidiary then an adjustment should be made in group accounts in order to car

uch companies remain within the group at the reporting date, this creates 'unrealized profit'.
; in the inventory at the year-end, there is no PUP
: inventories acquired in IC transaction are left is in the inventory of the Group at the year-end, there is

where reversal of Group sale is apportioned between controlling and NCI.
urchasing entity's inventory (at difference between market price and transfer price if transfer price wa

are exchange)
in the following way:

ares subsidiary's share acquired and parent's shares given away)
n

ed income statement (because single entity doesn't pay income to itself)

nent annually.
ry's profit for the year
ıbsidiary's profit for the year

sult that arose after acquisition i.e. whilest under the control of the parent. If the acquisition occurred deducted from total consolidated revenue. The same should be done for COS: they need to be deduct

:. nothing is in the inventory at the year-end, show only cancellation of intra-group tarding (i.e. cancela

ount is increased/decerased to recognize the investor's share of profit or loss of investee after date of
ıs a single line entry.

nt: less intra-group sales (reversal; if it is vertical IC transaction)
nt: less intra-group purchases (reversal; if it is vertical IC transaction)

ess unralized profit in inventory

ɔlus admin expenses

Db	BS - as getting new resource for the business
Cr	CF statement - as outflow of cash
Db	CF statement - as inflow of cash
Cr	BS - as taking out an existing resource from tl
Cr/Db	P/L - as result on disposal

ess unralized profit in non-current assets

:ed for issue

to include the impact of such event
ct of such event. EXCEPTION: going concern is the only exception

›ast.

no retrospective adjustments are needed for this new policy.
set, likelihood of collection of aged debt from customer, expected amount of delivery costs from 3d pa
ıte was done)

al was calculated)

transactions are presented and communicated to users of fin statements

he attraction of fin statements being more comparable and consistent.

of information
ıs for preparation of fin statements
nents

of fin statements(recognition and measurement)
ts
ıtements
period

Many standards, such as International Accounting Standard (I
Liabilities and Contingent Assets, apply a system of asymmetr
outflow of economic benefits would be recognised as a provisi
would only be shown as a contingent asset and merely disclos
Therefore, two sides in the same court case could have differi
the likelihood of the pay-out being identical for either party. Ma
asymmetric prudence as necessary under some accounting st
of the term was required. Whilst this is true, the Board believes
should not identify asymmetric prudence as a necessary chara
reporting.

ɔitalizes it at cash price, de
the parent can control the
:hough legally they belong
ry of seller.

The 2018 Conceptual Framework states that the concept of pr
asymmetry, such as the need for more persuasive evidence to
than liabilities. It has included a statement that, in financial rep
may sometimes arise as a consequence of requiring the most

(not through P/L first) e.g.

ıbility.

A key change to this is the removal of a 'probability criterion'.
financial reporting standards apply different criterion; for exam
virtually certain and some reasonably possible. This also mea
prohibit the recognition of assets or liabilities with a low proba
economic resources.

rmined:

The first of the measurement bases discussed is historical cost
is unchanged, but the Conceptual Framework now explains tha
financial items held at historical cost should be adjusted over ti
form of depreciation or amortisation). Alternatively, the carrying
that the historical cost is no longer recoverable (impairment). F
cost should reflect subsequent changes such as interest and p
often referred to as amortised cost.

vrite ups)

often referred to as amortised cost.

ı flow

Method of accounting to be applied
cost method. Cost is measured at fair value
equity method of accounting for such investment. Use of equity method is based on assumption that investo
consolidation method of accounting for such investment. Use of consolidation method is based on assumptic

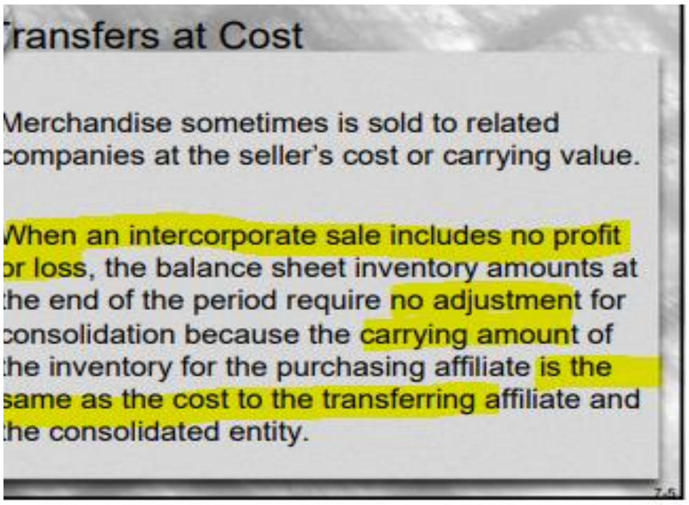
0%	20%	50%
	investment	
	associate	

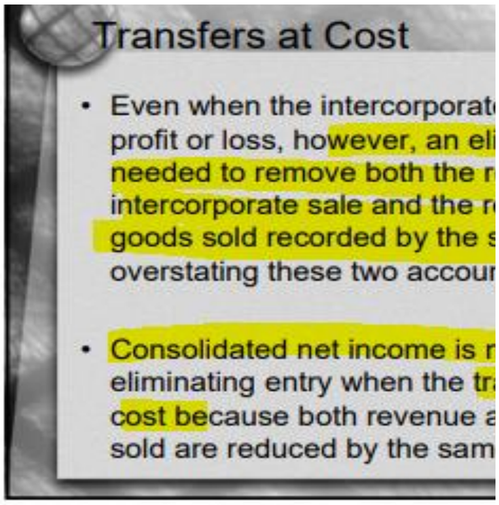
:nt for any significant transactions in the 3 month period. if the period is greater than 3 months, then the draf

:d in the consolidated accounts.

:ecognized as goodwill

https://www.ocf.berkeley.edu/~cchang/pdf%20docs/ch007.pdf





ıcel the respective balance.

PUP and adjustments to IC accounts are needed. The type of adjustment depends on direction of original IC s

s higher i.e. profit) between controlling and NCI.

What is pup in accounting?

The second step here is to identify the provision for u
although we refer to this as a provision, it is not a liab
asset, inventory.

in the middle of the year, we should only include the second half of the subsidiary's result for the year

:ed from total COS.

ıtion of intra-goup sales and COS) but nort PUP.

acquisition.

ıe business

ırty (cost accrual)

AS®) 37, *Provisions, Contingent*
ic prudence. In IAS 37, a probable
ion, whereas a probable inflow
sed in the financial statements.
ng accounting treatments despite
any respondents highlighted this
tandards and felt that a discussion
s that the Conceptual Framework
acteristic of useful financial

udence does not imply a need for
support the recognition of assets
orting standards, such asymmetry
useful information.

This has been removed as different
nple, some apply probable, some
ans that it will not specifically
ability of an inflow or outflow of

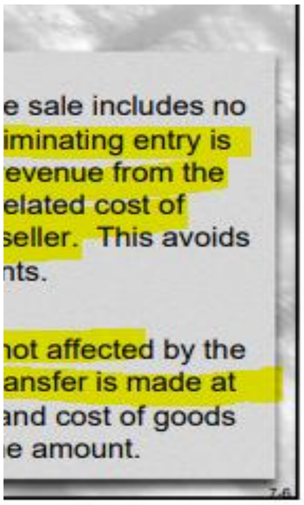
t. The accounting treatment of this
at the carrying amount of non-
me to reflect the usage (in the
amount can be adjusted to reflect
inancial items held at historical
ayments, following the principle

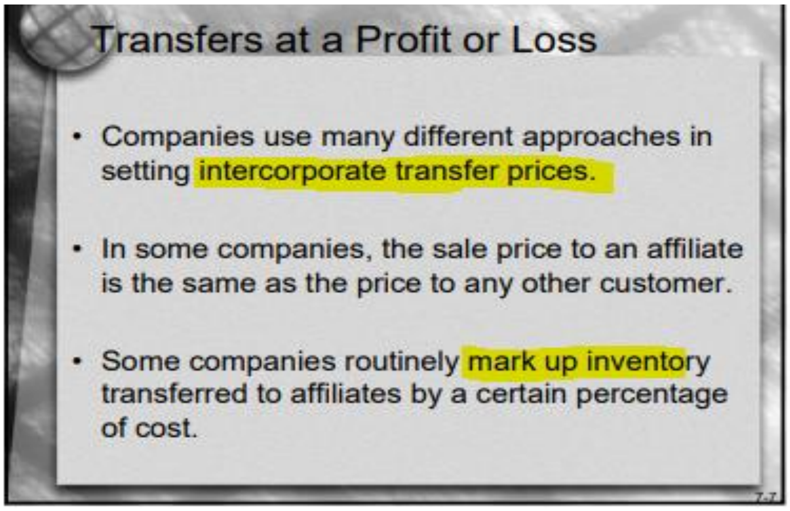
r can exert a significant influence over the investee (purchased company). Two companes - investing compan
on that investor exerts a full control over the investee (purchased company). Two companes - parent company

100%

subsidiary

t fin statements for the subsidiary must be prepared for the purpose of consolidation

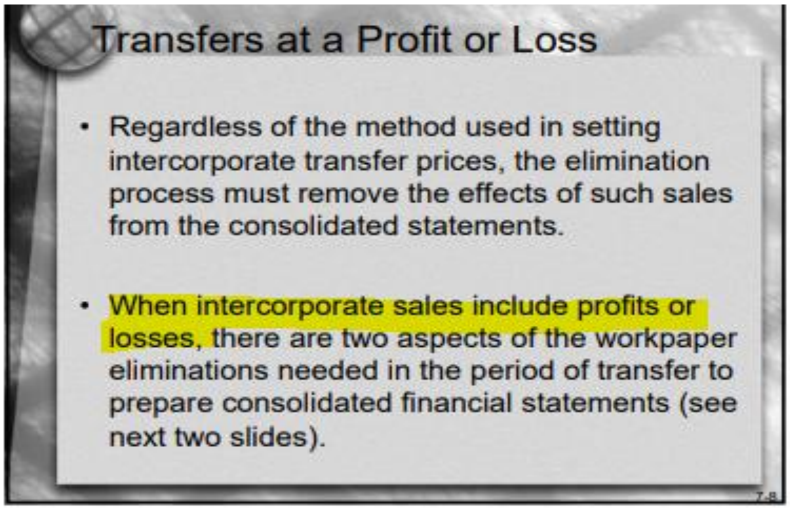


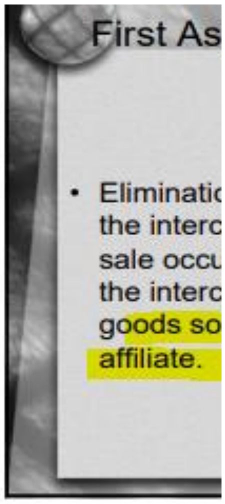


sale of inventory: from P to S (downstream IC transaction), from S to P (upstream IC transaction), from S to S (

nrealised profit (**PUP**). Note
ility but an adjustment to the

y and associate - become together a joint venture
y and subsidiary - become together a group.





(horizontal IC transaction)

pect: Income Statement Focus

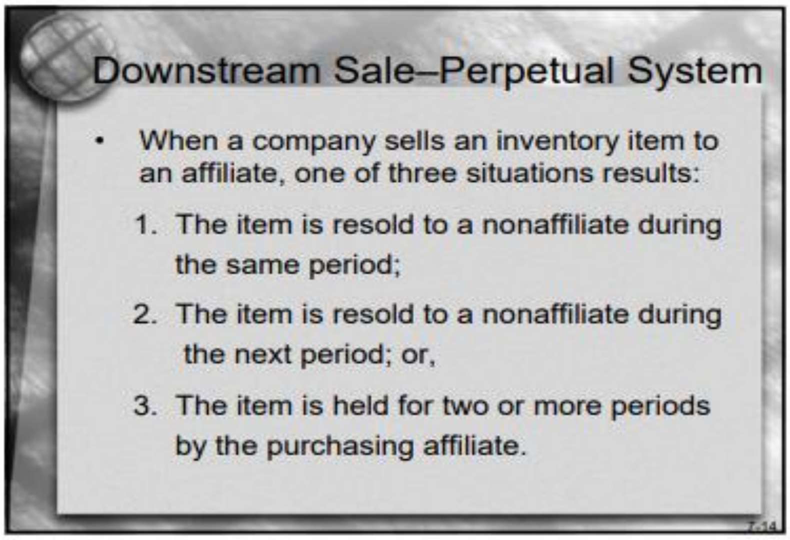
on of the income statement effects of
corporate sale in the period in which the
urs, including the sales revenue from
corporate sale and the related cost of
ld recorded by the transferring

7-8

Second Aspect: Balance

- Elimination from the inventory c
sheet of any profit or loss on th
sale that has not been confirme
the inventory to outsiders.

DOWNSTREAM STOCK SALE (from P to S)



Sheet Focus

on the balance
e intercompany
ed by resale of

7-10

1. Profit Realized in Same Period

- Required Elimination Entry:

Sales	$10,000	
Cost of Goods Sold		$10,000

- Note the elimination entry does not effect consolidated net income because sales and cost of goods sold both are reduced by the same amount. [Continued on next slide.]

7-15

2. Profit Realized in Next Period

- When inventory is sold to an affiliate a profit and the inventory is not resold during the same period, appropriate adjustments are needed to prepare consolidated financial statements in the period of the intercompany sale and in each subsequent period until the inventory is sold to a nonaffiliate. [Continued on next slide.]

7-17

3. Inventory Held Two or More Periods

- Companies may carry the cost of inventory purchased from an affiliate for more than one accounting period. For example, the cost of an item may be in a LIFO inventory layer and would be included as part of the inventory balance until the layer is liquidated.

- Prior to liquidation, an eliminating entry is needed in the consolidation workpaper each time consolidated statements are prepared to restate the inventory to its cost to the consolidated entity.

7-19

UPSTREAM

1. Profit Realized in Same Period

- No elimination of intercompany profit is needed because all of the intercompany profit has been realized through resale of the inventory to the external party during the current period.

2. Profit Realized in Next Period

- By way of illustration, assume that Peerless Products purchases inventory in 20X1 for $7,000 and sells the inventory during the year to Special Foods for $10,000. Thereafter, Special Foods sells the inventory to Nonaffiliated Corporation for $15,000 on January 2, 20X2.
- Required Elimination Entry (20X1):

Sales	$10,000	
Cost of Goods Sold		$7,000
Inventory		$3,000

3. Inventory Held Two or More Periods

For example, if Special Foods continues to hold the inventory purchased from Peerless Products, the following eliminating entry is needed in the consolidation workpaper each time a consolidated balance sheet is prepared for years following the year of intercompany sale, for as long as the inventory is held:

Retained Earnings, January 1	$3,000	
Inventory		$3,000

Eliminate beginning inventory profit.

STOCK SALE (from S to P)

HORIZONTAL STOCK SALE (from S

pstream Sale – Perpetual System

/hen an upstream sale of inventory occurs and
ie inventory is resold by the parent to a
onaffiliate during the same period, all the
liminating entries in the consolidation work
aper are identical to those in the downstream
ase.

7-22

Sale from One S

- Transfers of inventor
companies that are u
ownership.
- When one subsidiary
another subsidiary, th
identical to those pre
from a subsidiary to i
- The full amount of an
profit is eliminated, w
allocated proportiona
interests of the sellin

Jpstream Sale – Perpetual System

Vhen the inventory is not resold to a nonaffiliate
efore the end of the period, work paper
liminating entries are different from the
lownstream case only by the apportionment of
he unrealized intercompany profit to both the
ontrolling and noncontrolling interests.

'he elimination of the unrealized intercompany
rofit must reduce the interests of both
wnership groups each period until the profit is
onfirmed by resale to the inventory to a
ionaffiliated party.

7-23

Lowe

- Invent
writter
the lo
value
price.

to S)

ubsidiary to Another

y often occur between
nder common control or

sells merchandise to
e eliminating entries are
sented earlier for sales
ts parent.

y unrealized intercompany
ith the profit elimination
tely against the ownership
subsidiary.

r of Cost or Market

tory purchased from an affiliate might be
n down by the purchasing affiliate under
wer-of-cost-or-market rule if the market
is less than the intercompany transfer
[Continued on next slide.]

Lower of Cost or Market

The subsidiary writes the inventory down from $35,000 to its lower market value of $25,000 at the end of the year and records the following entry:

Loss on Decline in Value of Inventory	$10,000	
Inventory		$10,000

Write inventory down to market value.

Part III. Assets

1 PPE - IAS 16 and IFRS for SME section 17

definition

- it is held for use in the production or supply of goods or s
- it is expected to be used during more than one period (ye

recognition - for an item to be recognized as PPE it needs:

- to meet definition of PPE
- to meet general recognition criteria set by Conceptual fra

derecognition - item of PPE is derecognized from evidence when:

- there occur circumstances as the ones stated in Framewo
- when asset of PPE stopes meeting its definition as asset c
  - purpose of holding an asset stops meeting the

measurement

- assets of PPE are intially measured at cost
  - initial cost includes:
    - costs which are directly attributab
      - purchase price
      - transportation and har
      - non-refundable purcha
      - site preparation
      - installation
      - professional fees
      - direct labor
      - borrowing costs
      - future dismantling
  - Note: future dismantling and restoration costs
  - initial cost excludes:
    - costs incurred after asset is ready
    - repair maintenace costs
    - early settlement discounts
  - Borrowing costs (IAS 23) as part of initial cost
    - it is interest and other costs that a
    - they deal with question of whethe
    - Borrowing costs must be capitalize
    - Commence capitalization of borro
      - expeniture being incur
      - borrowing being incurr
      - work commenced

- assets of PPE are subsequently measured through either
  - cost model - assets are held at historical cost l
    - if cost model is chosen, then asset
      - Impairment test
        - PPE should

Impairment

Reversal of
after asset's impairmen
revaluation model - assets are held at revalue
if revaluation model is chosen, the
Revaluation
it must be applied cons
assets should be revalu
upwards revaluations a
Db
Db
Cr
downward revaluation
Db
Db
Cr
the revalued amount s
depreciation
it is a systematic allocation of depr
depreciation begins when an asset
when an asset is made of two or r
if depreciation method or rate is a
methods of depreciation:
straight-line
% on cost o
(Cost - resid
reducing balance
% on carryi

CAPEX (capitalization)
any subsequent expenditure on ex
Capitalization should be stopped w
2 Intangible assets - IAS 38 and IFRS for SME section 18
definition
it has identifiable non-monetary form
separable:
is separable = it can be sold as sing
is not separable but arises from co
non-monetary
any asset other than cash or an ass
recognition - for an item to be recognized as intangible asset it needs
to meet definition of intangible asset
to meet general recognition criteria set by Conceptual fra
because of intangible assets have towo comp
because it is impossible to measur

only when initial cost can be meas
research - should be ex
development - should l
it is separte
all expendit
it is comme
it is technic
it is overall
there are re
Note: if item is recogni
derecognition - see rules for item of PPE
measurement
intangible assets are intially measured at cost or at fair va
if cost basis is chosen, cost includes all costs ir
If fair value basis if chosen, it needs to be revi
identical items are traded
between willing buyers and sellers
with prices available to public
subsequent measurement of intangible assets
chosen model needs to be applied consistentl
amortization (is calculated on monthly basis)
if an assset has finite useful lifetim
Impairment test
Goowill, intangible assets with an i
Impairment loss on goodwill can n
Busness combinations
all acquisition costs incl. those dire
goodwill and NCI - there are two w
at FV (aka full goodwill
e.g.

at NCI's proportionate
e.g.

ervices, for rental to others, or for admin purposes
ear) or during one operating cycle if it is longer than 1 year

mework (i.e measurability and probability of generating of future/potencial economic benefit)

ork for derecognition to happen
of PPE. It happens when
e criteria of using an asset as PPE (e.g. item was consumed within one operating cycle)

le to getting asset into working condition for its intended use:

ndling
ase taxes and duties

s are included as part of initial cost only when the company had an obligation to incure these costs and r

for use but not being used

of PPE:
n entity incurs in connection with the borrowing of funds
er finance costs incurred in the construction of the building can be capitalized.
ed as part of the cost of asset, if asset is one which necessarily takes a substantial time to get ready for it
wing costs when:
red
red

cost model or through revaluation model
less accumulated depreciation and impairment losses
needs to be tested regularly for impairment

be tested for impairment when indicators of impairment exist:
internal
evidence of obsolescence (moral aging) or damage of asset
current period operating loss or net cash outflow from operating activities
a commitment by management to undergo a significant reorganization
a major loss of key employees

external
a significant decline in the market value of an asset during the period
a significant adverse change in the commercial environment in which the entity operates.
t occurs when:
carrying value > recoverable amount
recoverable amlount is higher of Net seplling price (i.e. fair value less costs to sell) and Value
previously recognized impairment loss
nt the new carrying amount will be depreciated over asset's remaining useful economic life (i.e. recalcul
d amount less accumulated depreciation and impairment losses
n asset needs to be revalued regularly

sistently to all assets in the same class of PPE
ued with sufficient regularity so that their carrying amount is not significantly different from their fair val
are recognized in OCI (i.e. BS, particularly in revaluation reserve)
PPE - difference between valuation and original cost/valuation
Accumulated depreciation
OCI: gain on revaluation aka revaluation reserve
s are recognized in OCI and charged against the revaluation reserve to the extent that is exists in relatio
Revaluation reserve - to max of original gain
P/L - any residual amount (if balance at revaluation reserve is not enough to cover the amount of calcul
PPE - loss on revaluation
hould be depreciated over asset's remaining useful economic life

reciable amount of an asset over its useful lifetime
: is available for normal use.
nore significant components, each with their own useful economic lifetime, each component is depreci
djusted, the adjustment is made prospectively (i.e. forward looking).

r
dual value) / useful economic life (years)

ng value
carrying value = net book value

isting assets of PPE should only be capitalized if it imporves an asset's revenue earning capacity i.e. capi
vhen asset is ready for use or if construction is susspensed.

gle item
ntactual rights

set to be settled ina fxed amount of cash
:

mework (i.e measurability and probability of generating of future economic benefit)
onents - purchased items and internally genaretd items, both general recognition criteria need to be ev
e pricisely initial cost of some itmes, they cannot be recognized as assets e.g. internally generated good

ured reliably, items can be recognized => R&D costs
‹pensed immediately (i.e. should be recorded as costs in PL)
be capetalized (i.e. recorded as intangible assets in BS) if:
: project
tures are identifiable
ercially viable
:ally feasible
profitable
esources available to complete it
zed as development, it nees to be reviewed annually to ensure criteria still met; if not - expense immedi

alue
ncurred in bringing such assets to their present location and condition (see PPE initial costs). If cost basis
ewed every period and amortization of such asset is allowed, Fair value model can be chosen only if the

; (not a single buyer or a single seller)

y to all assets in the same class of intangible or investment assets and change from one model to anoth

ıe (e.g asset which has infinite useful life is goodwill)

indefinite life and intangible assets that are not yet ready for use are tested for impairment annually (i.e
ever be reversed. Impairment loss on other assets can be reversed where the recoverable amount has i

ectly related to acquisition such as professional fees (legal, accounting, valuation etc.) must be expensed
vays how to measure NCI:
method)

Consideration paid by Parent	100
NCI	25
FV of net assets	-75
GW	50

share of acquiree's (subsidiary's) net assets (aka proportionate goodwill method)

Consideration paid by Parent	100
Share of net assets acquire at FV	80%
FV of net assets	-60
GW	40

PPE Intangible assets (incl. R&D, Goodwill) Right-to-use Stock

eliable measurement is possible

s intended use or sale i.e. it is a quilifying asset.

e in use (present value of future cash inflow generated by this item of PPE)

ation of depreciaton schedule)

lue

n to the relevant asset; otherwise downward revaluations are recognized in PL.

ated loss)

ated separately. When component is replaced, the cost of replacement part is capitalized.

talize an extension to a building but not decoration costs.

aluated very carefully for internally generated items:
will

iately.

is chosen, such assets cannot be revalued.
r can be made a refernce to active market i.e.:

er is not allowed unless it results in more appropriate presentation.

. even when there are no external or internal indicvators that impairment loss exisis)
ncreased because of a change in economic conditions or expected use of asset.

l.