	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 0.

How reporting emerged?

Industrial revolution resulted in rapid grwoth of production => cons

embargo from Britain when its colonies refused paying f

war for independence, wealth of nations by Adam Smitł

industrial revolution: steam power and mechanized spin

The Industrial Revolutior

stock exchanges, trusted funds started to appear

Part I. Basics of accounting

1 fin vs management accounting

Comparison between financial and management accounting

	Financial Accounting	Managemen
Purpose	Record historic transactions	• assist in co operations • planning ho develop • making dec alternative
Audience	External parties – particularly shareholders, lenders and regulators	Internal manag the organisatio
Legal requirements	• prepare financial statements (in accordance with legal requirements) • prepare accounts for tax authorities	• No legal re • No set forn

Comparison between financial and management accounting (cont.)

	Financial Accounting	Management
Format	Must conform to accounting and legal requirements	Presented in su easily understoo
Perspective	Historic performance (i.e. backwards looking only)	Both future per planning and de historic perspec
Nature of Information	Almost entirely financial	Both financial a
Frequency of Preparation	Usually once a year	As often as nec weekly prepara depending upor managers.

2 accounting cycle and double entry book keeping

preparation of fin statements

transactions recorded in

subledger accounts are k

trial balance extracted fr

year-end adjustments m

trial balance used to pre

books of primary entry (records in subledgers) - are usec

sales day book

purchases day book

cash book (cash receipts

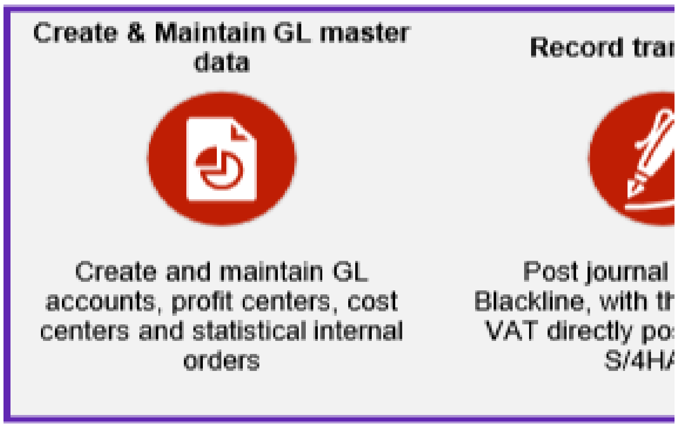
journals

control accounts (records in general ledger) - are used tc

reconciliation (rec)

suspense accounts (incomplete records)

end-to-end period close includes:



3 accounting documents

Quotation	A written offer to provide goods or servic particular price. No transaction has taker therefore nothing is recorded in the acco
Sales order	An order note for goods required by a cu
Purchase order	An order note for goods required from a
Goods received note	A list of goods received from a supplier. F recipient business.
Goods despatched note	A list of goods sent to a customer. Prepai
Invoice	A demand for payment sent to a custom
Statement	A document sent to a customer listing all between the business and that custome
Credit note	A note sent to a customer who returns gc This reduces the amount owed by that cu
Debit note	A note sent to a supplier to whom gc

	returned. It is in effect a request for a credit note.
Remittance advice	A document sent to a supplier alongside sent to them. It details which invoices ar
Receipt	A note to confirm that payment has bee

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 cr
Purchases returns day book (PRDB)	Returns of goods purchase

5 accruals and prepayments

arises when moment of

	Cash flow now
Income statement now	
Income statement later	Prepayment

Accrued expense

Accrued income

Prepaid expense

Prepaid income (aka deferred ir

tant need in new capital => emergence and growth of stock exchanges => segragation of ownership and
urther taxes, colonies started to develop their own production (1750s)
ı (1770s)
ıning thus increase of cotton production, intorduction of iron construction, railways as means of commui
ı was **a time when the manufacturing of goods moved from small shops and homes**

Chapter 1

t Accounting
ntrolling the business ow the business will cisions between s
gement and owners of ın
quirement to prepare nat for presentation

Chapter 1

Accounting
ch a format as to be od by managers
spective (for ecision-making) and ctive (for control)
nd non-financial
essary – daily, tion or monthly, n the needs of

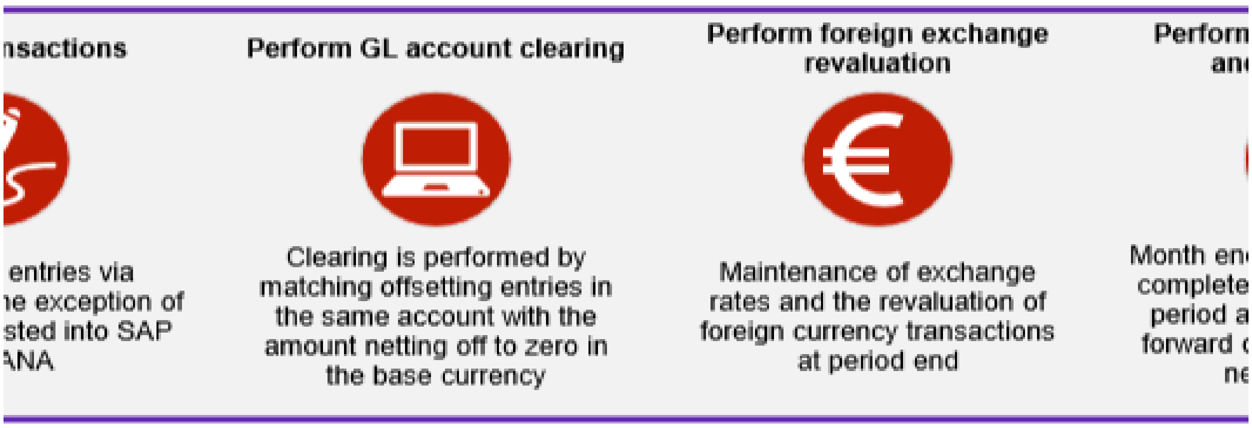
subledger accounts (e.g. customer accounts, vendor accounts)
balanced and closed off into control/general ledger (GL) accounts (e.g. debtor account, creditor account
rom GL accounts
ade and GL accounts closed off

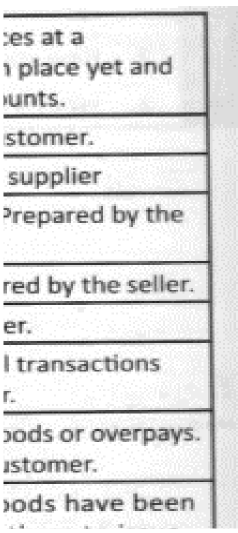
pare financial statements
ŀ to update GL accounts

, cash paymens, petty cash)

ɔ prepare trial balance

recs - means of checking that balancee on the control (GL) account agrees with balance on the ledger ac
how to prepare a rec:
take breakdowns at transaction level of all records from related subledger acco
compare total amount from breakdown and GL cummulative balance
if two total amount do not reconcile, investigate the variance




ces at a
ı place yet and
ounts.
stomer.
supplier
Prepared by the
red by the seller.
er.
l transactions
r.
oods or overpays.
ıstomer.
oods have been

them to issue
any payment e being paid.
n received.

redit
d on credit

impact on P/L and moment of actual cas are not the same:

Cash flow later
Accrual

			release		
	Db	Expense (P/L)		Db	Accued exp
	Cr	Accued expense (B/S)		Cr	Invoice rec
	Db	Accued income (B/S)		Db	Invoice issu
	Cr	Income (P/L)		Cr	Accued inc
	Db	Prepaid expense (B/S)		Db	Expense (P/
	Cr	Expense (P/L)		Cr	Prepaid exp
ıcome)					
	Db	Income (P/L)		Db	Deferred in
	Cr	Deferred income (B/S)		Cr	Income (P/

prof management => need to control how well capital entrusted to those charged with governance is r

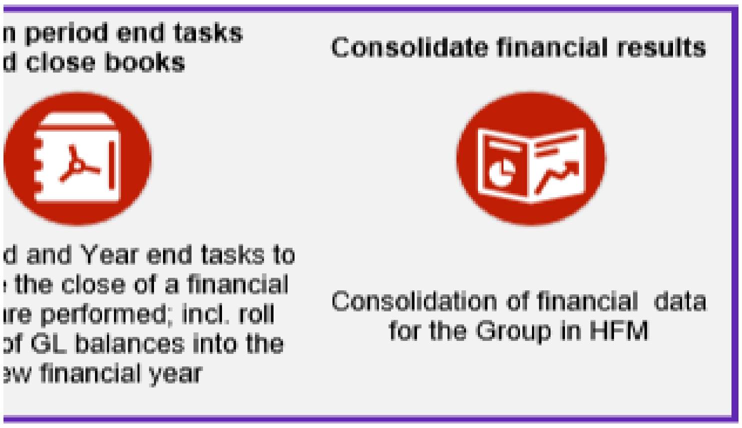
ication, introduction of telegraph (1770s-1790s)

to large factories. This shift brought about changes in culture as people moved from

etc.)

count

unts


n period end tasks
d close books
d and Year end tasks to
the close of a financial
re performed; incl. roll
of GL balances into the
w financial year
Consolidate financial results
Consolidation of financial data
for the Group in HFM

ɔense (B/S)
eived or credit note issued to customer (payable) (B/S)

ued or debit note issued to vendor (receivable) (B/S)
ome (B/S)

0 impact or

/L)
ɔense (B/S)

ıcome (B/S)
L)

release of a

managed

rural areas to big cities in order to work.

Correction of errors and suspense accounts:

Error type
1 Omission – a transaction is not recorded at all
2 Error of commission – an item is entered to the correct side (there is a debit and a credit here, so the records balance)
3 Error of principle – an item is posted to the correct side of t as when cash paid for plant repairs (expense) is debited to pla (errors of principle are really a special case of errors of commi there is a debit and a credit)
4 Error of original entry – an incorrect figure is entered in the to the correct account Example: Cash $1,000 for plant repairs is entered as $100; pl debited with $100
5 Reversal of entries – the amount is correct, the accounts us account that should have been debited is credited and vice ve Example: Factory employees are used for plant maintenance: Correct entry: Debit: Plant maintenance

Credit: Factory wages
Easily done the wrong way round

6 Addition errors – figures are incorrectly added in a ledger a

7 Posting error
a. an entry made in one record is not posted at all
b. an entry in one record is incorrectly posted to another
Examples: cash $10,000 entered in the cash book for the purcl
a. not posted at all
b. posted to Motor cars account as $1,000

8 Trial balance errors – a balance is omitted, or incorrectly ex
trial balance

9 Compensating errors – two equal and opposite errors leave
balancing (this type of error is rare, and can be because a delit
been made to force the balancing of the records or to conceal a
each of the errors as discovered

	Expense			
	accrued		prepaid	
profit redu	currentliability		profit incre	current ass

ı P/L when actual expense/income is received

ımounts from B/S into P/L

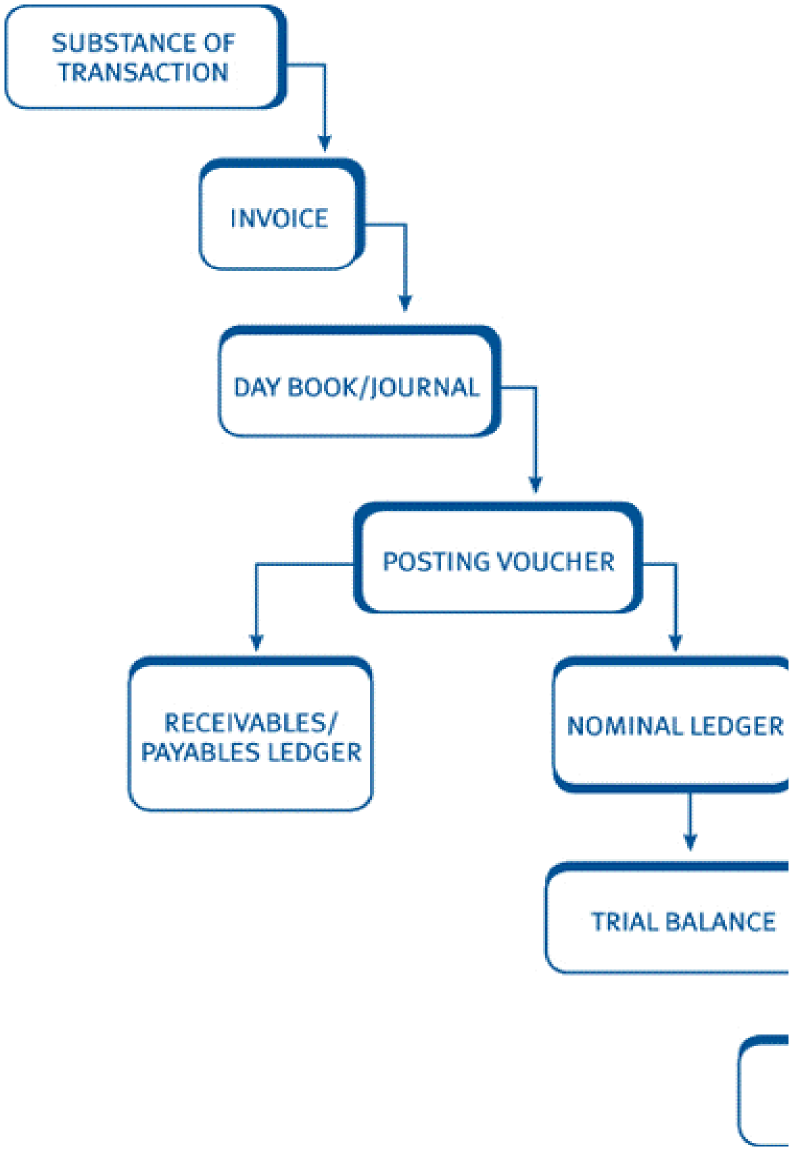
	Suspense account involved?
	No
e of the wrong account	No
:he wrong type of account, nt account (asset) ssion, and once again	No
: records and then posted ant repairs account is	No
sed are correct, but the rsa	No

ccount	Yes
hase of a car is:	Yes
tracted, in preparing the	Yes
the trial balance perate second error has a fraud). Yes, to correct	Yes, to correct each of the errors as discovered

			Income		
		accrued		prepaid	
et	profit incre	current asset		profit redu	currentliability

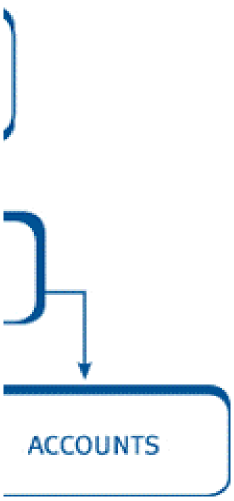
https://kfknowledgebank.kaplan.co.uk/acca/chapter-8-systems-and

A simple system can be illustrated as follows:



SUBSTANCE OF TRANSACTION
INVOICE
DAY BOOK/JOURNAL
POSTING VOUCHER
RECEIVABLES/ PAYABLES LEDGER
NOMINAL LEDGER
TRIAL BALANCE

l-controls


ACCOUNTS

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 by
  - comparable
  - complete
  - verifiable
  - provided on timely basis
  - and in compehesive way
  - faithful presentation
  - free from error (accuracy)

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 par
  - in case of consignment inventory if risks and r
  - a sale and repurchase of maturing goods - wh
- 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 th
- income - increases in economic benefits in form of enhan
- 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 o
        - info input o
        - info input o
      - 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 1:
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 disfi
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 befo
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 financia
    - 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 rather than its legal form (**reliability**)

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 i
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. It is exit value
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

;her of either the asset's **future** value for the company or the amount it can be sold for, minus any tran
ɛr 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
ıe statement)

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

ıas generated and spent cash.
ıas 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
ıses
; 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 in inventory

decrease in receivables
lecerase) in payables

ent assets)
non-current assets

in cash)

issue of financial instruments

financial instruments)

sh)

itrolling 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
nother company owns a significant portion of voting shares (aka 'significant interest'), usually 20–50%. I
npany 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
hould 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:
ouldn't prepare consolidated fin stataments 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 mea
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 was already cancelled at prior s
rnings 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

ɔr 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

ɘstment

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)

ɛnses = 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

ɔutable 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		
non-transaction margin		
product margin		
services sold to customers		
direct COS	non-product margin	
bad debt expense		
credit cards commissions		
non-product margin		
marketing costs	operating expenses before gross margin	
distribution costs		Extra line: I
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
l 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) a
t have serios drawbacks:

with by detailed specific rules or requirements. Such system is very prescriptive a

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
IFRS
Fin stateme

ments
be comparable between periods)

mples

ı case of such lease - fin lease - lessee is user of leased asset during the assets ec
are added to parent's assets). Legally the parent may own 51% only but in day-t
ntially with the showroom owner then the showroom owner must treat it as of i
d loan. Legally title mayhave passed to the bank but linking the two transaction
ric prudence'.

efits)
benfits

n from equity participants. Note: some types of ncome are required tobe directl
equity participants

y be about the potential magnitude of the item, the possible timing and the fact

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

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 impair**
:action costs. It is used for comparison with carrying amount in **cases of revalua**

om operations
:.

: is actual) => used by internal users who have access to management accounts

ıal users who do not have access to management accounts

; otherwise it will be double counted: (1) as part of Profit before tax; (2) as part
ısh flow' otherwise it will be double counted: (1) as part of Profit before tax; (2)

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.
In this case, parent company does not consolidate the associate's financial state
ice

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

e they took place within the same entity and only transactions with the outside

uisition retained earnings. Any difference between the two offseting amounts (i.
asured at its historical cost and tested for impairment annualy.

yables)
tep against parent's investment into subsidiary)

ts to BS

djustments - **net total** value acquired	Substance of adjusting entries:
investment at cost	price paid for consolidation
NCI at FV at acquisition date	price paid for consolidation
(Net assets at FV at acquisition date)	value acquired from consolidatior
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 a

uch companies remain within the group at the reporting date, this creates 'unre
; 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 a
By reversal of profit margin of the Group we are basically debiting its Reserves/
By reversal of profit margin of the Subsudiary we are basically debiting its Net a
urchasing entity's inventory (at difference between market price and transfer pı

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)
(see PuP adjustment)
ent 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 th

deducted from total consolidated revenue. The same should be done for COS: t

:. nothing is in the inventory at the year-end, show only cancellation of intra-grc

ount is increased/decerased to recognize the investor's share of profit or loss 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 res
Cr	CF statement - as outfl
Db	CF statement - as inflo
Cr	BS - as taking out an ex
Cr/Db	P/L - as result on dispo

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

ɔast.

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

al was calculated)

ınd reported - i.e. how transactions are presented and communicated to users of fin st

and inflexible but has the attraction of fin statements being more comparable and con

l framework

ents

quality characteristics of information

underlying assumptions for preparation of fin statements

elements of fin statetments

reporting of elements of fin statements(recognition and measurement)
types of fin statatments

consolidation of fin statements
events after reporting period

conomic life: lessee capitalizes it at cash price, depreciates etc.
o-day economic reality the parent can control the entire subsidiary.
it is its inventory even though legally they belong to manufacturer until paid for
s together, it is inventory of seller.

ly recognized in equity (not through P/L first) e.g. revaluation gains on assets go straigh

ors affecting the probability.

how it should be determined:

ment testing
tions (write downs or write ups)

of Financing cash flow
as part of Investing cash flow

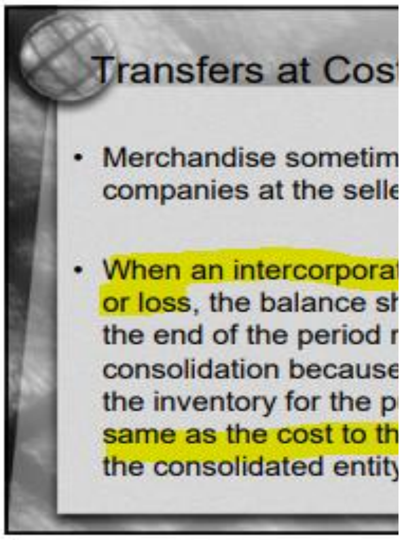
Amount of investment:	Classification of investment
<20% of ordinary shares of acquired entity	**investment**
20-50% of ordinary shares of acquired entity	**associate**
>50% of ordinary shares of acquired entity	**subsidiary**

ement

be used with adjustment for any significant transactions in the 3 month period. if the

world must be recorded in the consolidated accounts.

.e. balancing figure) is recognized as goodwill ı



ccounts in order to cancel the respective balance.

alized profit'.

t the year-end, there is PUP and adjustments to IC accounts are needed. The type of a
retained earnings)
ssets at NCI% => we are debiting NCI
rice if transfer price was higher i.e. profit) between controlling and NCI.

e acquisition occurred in the middle of the year, we should only include the second ha

:hey need to be deducted from total COS.

›up tarding (i.e. cancelation of intra-goup sales and COS) but nort PUP.

investee after date of acquisition.

ource for the business
low of cash

w of cash
xisting resource from the business
›sal

:livery costs from 3d party (cost accrual) atements

nsistent.

Many standards, such as International Accountin
Liabilities and Contingent Assets, apply a system
outflow of economic benefits would be recognise
would only be shown as a contingent asset and
Therefore, two sides in the same court case cou
the likelihood of the pay-out being identical for e
asymmetric prudence as necessary under some
of the term was required. Whilst this is true, the
should not identify asymmetric prudence as a ne
reporting.

The 2018 Conceptual Framework states that the
asymmetry, such as the need for more persuasi
than liabilities. It has included a statement that, i
may sometimes arise as a consequence of requ

nt to reserves which are part of equity.

A key change to this is the removal of a 'probab
financial reporting standards apply different crit
virtually certain and some reasonably possible.
prohibit the recognition of assets or liabilities wi
economic resources.

The first of the measurement bases discussed is
is unchanged, but the Conceptual Framework no
financial items held at historical cost should be a
form of depreciation or amortisation). Alternativel
that the historical cost is no longer recoverable (i

cost should reflect subsequent changes such as
often referred to as amortised cost.

Method of accounting to be applied
cost method. Cost is measured at fair value. Two sides of the deal remain as two **independent companies**. N
equity method of accounting. Use of equity method is based on assumption that investor has a significant in
consolidation method of accounting for such investment. Use of consolidation method is based on assumpt

0% **20%**
investment
associate

period is greater than 3 months, then the draft fin statements for the subsidiary must be prepared for the pu

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

ıes is sold to related
ɜr's cost or carrying value.

te sale includes no profit
ıeet inventory amounts at
require no adjustment for
ɜ the carrying amount of
urchasing affiliate is the
ıe transferring affiliate and
y.

Transfers at Cost

- Even when the intercorporate sale includes no profit or loss, however, an eliminating entry is needed to remove both the revenue from the intercorporate sale and the related cost of goods sold recorded by the seller. This avoids overstating these two accounts.
- Consolidated net income is not affected by the eliminating entry when the transfer is made at cost because both revenue and cost of goods sold are reduced by the same amount.

djustment depends on direction of original IC sale of inventory: from P to S (downstream IC transaction), fron

What is pup in accounting?

The second step here is to identify the pro
although we refer to this as a provision, it i
asset, inventory.

ılf of the subsidiary's result for the year

ng Standard (IAS®) 37, *Provisions, Contingent*
n of asymmetric prudence. In IAS 37, a probable
ed as a provision, whereas a probable inflow
merely disclosed in the financial statements.
ıld have differing accounting treatments despite
ither party. Many respondents highlighted this
accounting standards and felt that a discussion
Board believes that the Conceptual Framework
ecessary characteristic of useful financial

concept of prudence does not imply a need for
ve evidence to support the recognition of assets
in financial reporting standards, such asymmetry
iring the most useful information.

bility criterion'. This has been removed as different
erion; for example, some apply probable, some
This also means that it will not specifically
ith a low probability of an inflow or outflow of

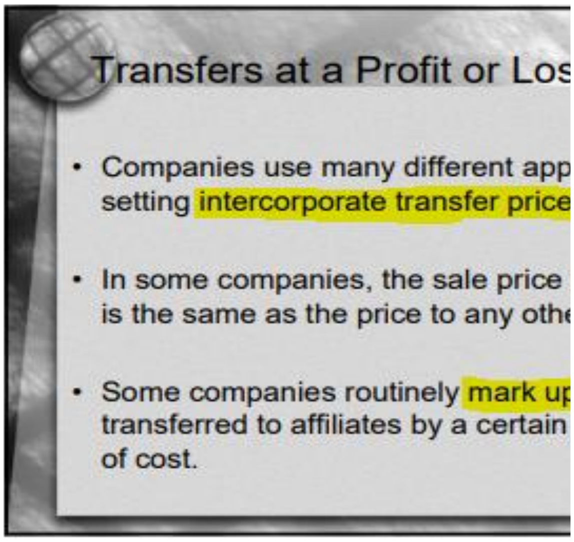
historical cost. The accounting treatment of this
w explains that the carrying amount of non-
djusted over time to reflect the usage (in the
y, the carrying amount can be adjusted to reflect
mpairment). Financial items held at historical

interest and payments, following the principle

/linority interest (NCI) in the FS of investee belongs to investing company.
ıfluence over the investee (purchased company). Two companes - investing company and associate - car
ion that investor exerts a full control over the investee (purchased company). Two companes - parent cc

50%	**100%**
	subsidiary

rpose of consolidation



n S to P (upstream IC transaction), from S to S (horizontal IC transaction)

vision for unrealised profit (**PUP**). Note
is not a liability but an adjustment to the

ı become together **a joint venture**. Minority interest (NCI) in the FS of investee belongs to investing co
ımpany and subsidiary - become together a group. Minority interest in the FS of investee belongs to 3d

ss

roaches in
s.

to an affiliate
er customer.

inventory
percentage

Transfers at a Profit or Loss

- Regardless of the method used in setting intercorporate transfer prices, the elimination process must remove the effects of such sales from the consolidated statements.

- When intercorporate sales include profits or losses, there are two aspects of the workpaper eliminations needed in the period of transfer to prepare consolidated financial statements (see next two slides).

mpany.
l party as parent company is majority owner.

First Aspect: Income Statement Focus

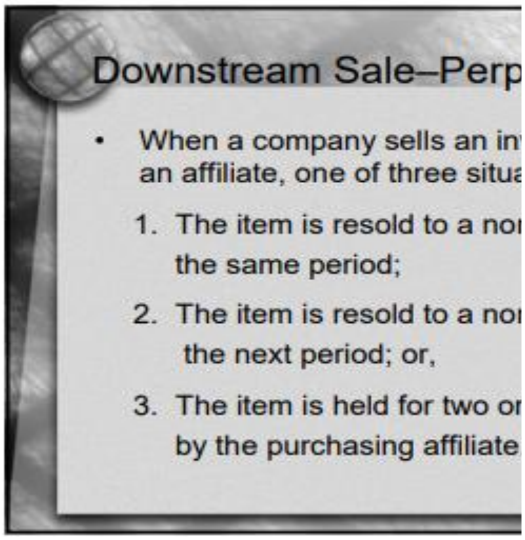
- Elimination of the income statement effects of the intercorporate sale in the period in which the sale occurs, including the sales revenue from the intercorporate sale and the related cost of goods sold recorded by the transferring affiliate.

7-9

Second A

- Elimination
sheet of an
sale that ha
the invento

DOWNSTREAM STOCK SALE (from P to S)



spect: Balance Sheet Focus

from the inventory on the balance
y profit or loss on the intercompany
as not been confirmed by resale of
ry to outsiders.

1. Profit Realized in Sa

- Required Elimination Entry:

Sales	$1
Cost of Goods Sold	

- Note the elimination entry do consolidated net income bec cost of goods sold both are r same amount. [Continued o

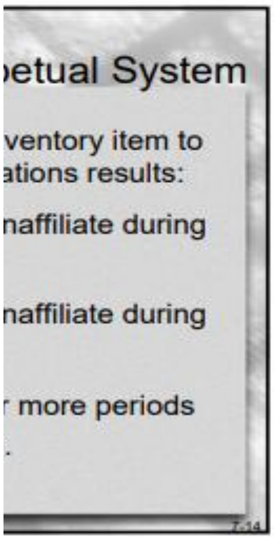
2. Profit Realized in Ne

- When inventory is sold to an affi and the inventory is not resold d period, appropriate adjustments prepare consolidated financial s the period of the intercompany s subsequent period until the inve a nonaffiliate. [Continued on ne

3. Inventory Held Two or

- Companies may carry the cost purchased from an affiliate for accounting period. For examp an item may be in a LIFO inve would be included as part of th balance until the layer is liquid

- Prior to liquidation, an eliminat needed in the consolidation wo time consolidated statements a restate the inventory to its cost consolidated entity.



petual System
ventory item to
ations results:
naffiliate during
naffiliate during
r more periods

me Period

0,000

$10,000

es not effect
ause sales and
educed by the
n next slide.]

7-15

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.

7-16

xt Period

iliate a profit
luring the same
are needed to
tatements in
sale and in each
ntory is sold to
xt slide.]

7-17

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

7-18

More Periods

t of inventory
more than one
le, the cost of
ntory layer and
e inventory
ated.

ing entry is
orkpaper each
are prepared to
t to the

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.

7-19

7-20

UPSTREAM STOCK SALE (from S to P)

HORIZONT

Upstream Sale – Perpetual System

- When an upstream sale of inventory occurs and the inventory is resold by the parent to a nonaffiliate during the same period, all the eliminating entries in the consolidation work paper are identical to those in the downstream case.

Upstream Sale – Perpetual System

- When the inventory is not resold to a nonaffiliate before the end of the period, work paper eliminating entries are different from the downstream case only by the apportionment of the unrealized intercompany profit to both the controlling and noncontrolling interests.
- The elimination of the unrealized intercompany profit must reduce the interests of both ownership groups each period until the profit is confirmed by resale to the inventory to a nonaffiliated party.

AL STOCK SALE (from S to S)

ale from One Subsidiary to Another

ransfers of inventory often occur between ompanies that are under common control or wnership.

Vhen one subsidiary sells merchandise to nother subsidiary, the eliminating entries are dentical to those presented earlier for sales rom a subsidiary to its parent.

he full amount of any unrealized intercompany rofit is eliminated, with the profit elimination llocated proportionately against the ownership nterests of the selling subsidiary.

Lower of Cost or Market

- Inventory purchased from an affiliate might be written down by the purchasing affiliate under the lower-of-cost-or-market rule if the market value is less than the intercompany transfer price. [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 (y

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

to meet definition of PPE

to meet general recognition criteria set by Conceptual fr

derecognition - item of PPE is derecognized from evidence when:

there occur circumstances as the ones stated in the Fram

when asset of PPE stopes meeting its definition as asset

purpose of holding an asset stops meeting th

measurement

assets of PPE are intially measured at cost

initial cost includes:

costs which are directly attributab

purchase price

transportation and ha

non-refundable purch

site preparation

installation

professional fees

direct labor

borrowing costs

future dismantling

Note: future dismantling and rest

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 wheth

Borrowing costs must be capitaliz

Commence capitalization of borro

expeniture being incur

borrowing being incur

work commenced

assets of PPE are subsequently measured through either

cost model - assets are held at historical cost

if cost model is chosen, then asset

Impairment test

PPE should

Impairmen

Reversal of

after asset's impairme

revaluation model - assets are held at revalue

if revaluation model is chosen, the

Revaluation

it must be applied con

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 dep

depreciation begins when an asse

when an asset is made of two or r

if depreciation method or rate is a

methods of depreciation:

straight-line

% on cost c

(Cost - resi

reducing balance

% on carryi

CAPEX (capitalization)

any subsequent expenditure on ex

Capitalization should be stopped v

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 sin

is not separable but arises from co

non-monetary

any asset other than cash or an as
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 measu
only when initial cost can be meas
research - should be ex
development - should
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 v
if cost basis is chosen, cost includes all costs i
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 consistent
amortization (is calculated on monthly basis)
if an assset has finite useful lifetim
Impairment test
Goowill, intangible assets with an
Impairment loss on goodwill can n
Busness combinations
all acquisition costs incl. those dir
goodwill and NCI - there are two v
at FV (aka full goodwill
e.g.

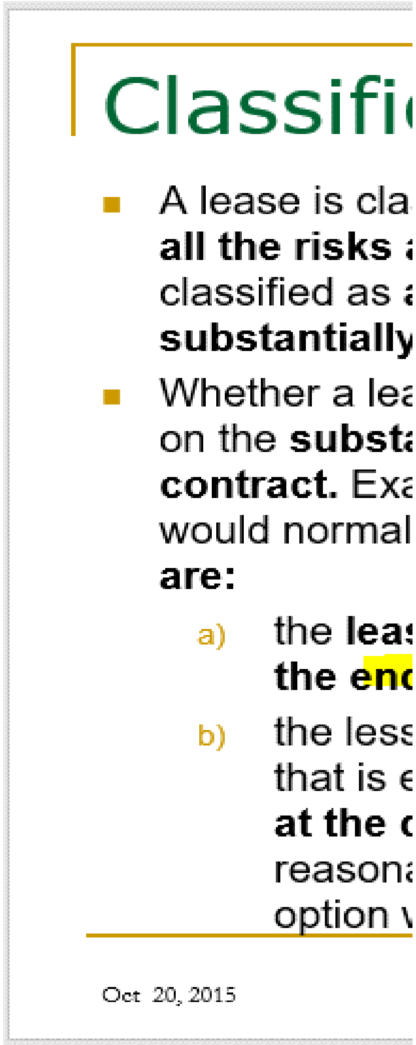
at NCI's proportionate
e.g.

3 Right-to-use asset (lease) - IFRS 16 and IFRS for SME ...

classification of lease

full IFRS: IFRS 16 introduces a single lessee accounting m

IFRS for SME: old approach to classification of lease cont



recognition

A lessee is required to recognise a right-of-use asset repr

The depreciation would usually be on a straight-line basi

In the statement of cash flows, a lessee separates the to

measurement

Assets and liabilities arising from a lease are initially mea

The initial lease asset equals the lease liability in most ca

presentation in BS:

The lease asset is the right to use the underlying asset ar

Balance sheet

PPE or Right-to-use asset	(Financial liability)
(Accumulated deprecition on PPE	Business result i.e. dep
(Bank i.e. as outgoing lease payment)	

lease payments

advance payments (payments at the beginning of the pe payments in arrears (payments at the end to the period)

4 Stock - IAS 2 and IFRS for SME par. ...

definition

it is property intended for consumption or sale in the ord

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

to meet definition of current asset

to meet general recognition criteria set by Conceptual fra

dereconition - see rules for PPE

measurement

initially stock is measured at cost

general rule: cost includes all costs incurred i

specific rule for inventories:

costs include:

- purchase price
- import duties (non-ref
- carriage in (delivery in
- manufacturing costs
- cost of conversion (for

costs exclude

- abnormal costs
- storage costs
- selling costs
- carriage out (delivery c

subsequently carrying amount of stock is subsequently e

year-end accounting with valuation of stock i

During the year:

Db	Purchases (PL)
Cr	Trade payables

continuous accounting with valuation of stoc

During the year:

Db	Stock (BS)
Cr	Trade payables

Impairment test

Inventories should be tested for ir

internal

- evidence o
- current per
- a commitm
- a major los

external

- a significan
- a significan

Impairment occurs when:

carrying value > recove
recoverabl

5 Impairment of assets

impairment loss is the amount by which the carrying amount of asset or ca
objective of impairment testing:
assets are recorded in fin statetemnts at no more than tl
any resulting impairment loss is measured and recognize
sufficient information is disclosed in fin statements
impairment testing is required:
for all assets when there is an indication of impairment a
annually for certain other assets
goodwill acquired in a business combination
intangible assets with indefinite useful life (tr
intangible assets which are not yet available f
impairment loss arises where:
carrying value > recoverable amount
recoverable amlount is higher of **Net seplling**
where value in use is present valu
cash-generating unit (CGU)
the value in use of non-current asset should be estimate
when impairment loss is recognized for CGU, fist item wl
accounting for impairment loss
for assets held at historcial cost

Db	P/L
Cr	Non-current asset

for revalued assets

Db	Revaluation surplus (other compre
Db	P/L with any excess impairment
Cr	Non-current asset

reversal of previously recognized impairment loss
reversal of past impairment losses should be recognized

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

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

nework 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)

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

ndling
ase taxes and duties

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

for use but not being used

of PPE:
an 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 its inten
owing costs when:
rred
red

r cost model or through revaluation model
less accumulated depreciation and impairment losses
t 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 in use
previously recognized impairment loss
nt the new carrying amount will be depreciated over asset's remaining useful economic life (i.e. recalculation o
ed amount less accumulated depreciation
en 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 value
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
is are recognized in OCI and charged against the revaluation reserve to the extent that is exists in relation to the
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 calculated lo
PPE - loss on revaluation
should be depreciated over asset's remaining useful economic life

reciable amount of an asset over its useful lifetime
t is available for normal use.
more significant components, each with their own useful economic lifetime, each component is depreciated se
adjusted, the adjustment is made prospectively (i.e. forward looking).

or
dual value) / useful economic life (years)

ng value
carrying value = net book value

xisting assets of PPE should only be capitalized if it imporves an asset's revenue earning capacity i.e. capitalize a
when asset is ready for use or if construction is susspensed.

gle item
ontractual rights

;set to be settled ina fxed amount of cash

amework (i.e measurability and probability of generating of future economic benefit)
ɔonents - purchased items and internally genaretd items, both general recognition criteria need to be evaluate‹
re pricisely initial cost of some itmes, they cannot be recognized as assets e.g. internally generated goodwill
sured reliably, items can be recognized => R&D costs
xpensed immediately (i.e. should be recorded as costs in PL)
be capetalized (i.e. recorded as intangible assets in BS) if:
e project
tures are identifiable
ercially viable
ally feasible
profitable
esources available to complete it
ized as development, it nees to be reviewed annually to ensure criteria still met; if not - expense immediately.

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

s (not a single buyer or a single seller)

ly to all assets in the same class of intangible or investment assets and change from one model to another is nc

ne (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. even
never be reversed. Impairment loss on other assets can be reversed where the recoverable amount has increas‹

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

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

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

Consideration paid by Parent	100	100
Share of net assets acquire at FV	80%	20%
FV of net assets	-60	75
GW	40	

odel and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months,
racts:

cation of leases

ssified as **a finance lease** if it **transfers substantially and rewards incidental to ownership**. A lease is **an operating lease** if it **does not transfer all the risks and rewards incidental to ownership**.

ase is a finance lease or an operating lease depends **ance of the transaction rather than the form of the** amples of situations that individually or in combination ly lead to a lease being classified as **a finance lease**

se transfers ownership of the asset to the lessee **by d of the lease term.**

see has the **option to purchase the asset at a price** expected to be **sufficiently lower than the fair value date the option becomes exercisable** for it to be ably certain, at the inception of the lease, that the will be exercised.

3

esenting its right to use the underlying leased asset and a lease liability representing its obligation to make leas
s.
tal amount of cash paid into principal (presented within financing activities) and interest (presented within eith

sured on a present value basis.
ses.

d is presented in the statement of financial position either as part of property, plant and equipment or as its o

reciation charge and interest charge for Right-to-se asset

riod): b/f amount of lease liability - payment + interest charge = c/f amount of lease liability

: b/f amount of lease liability + interest charge - payment = c/f amount of lease liability

dinary course of business activity

amework (i.e measurability and probability of generating of future economic benefit)

n bringing such assets to their present location and condition (see PPE initial costs)

undable)
wards)

unfinished products) - direct costs e.g. material and production overheads e.g. factory heat and light

outwards)
stimated by one of the following three approaches depending on the type of accounting applied to company's
n actual amounts - mainly used by sole trader who has detailed listing of all stock with actual unit costs identifi

	At the year-end:
Db	Stock
Cr	Purchases

year-end adjustment is made to purchases - reversal of COS of unsold stock

k through estimates - mainly used by companies which do not have unit costs identified for each item of stock

	At the year-end:
Db	Purchases
Cr	Stock

year-end adjustment is made to stock - disposal of sold stock

npairment when indicators of impairment exist (same like for PPE and intangible assets):

f obsolescence or damage of asset
riod operating loss or net cash outflow from operating activities
ient by management to undergo a significant reorganization
s of key employees

t decline in the market value of an asset during the period
t adverse change in the commercial environment in which the entity operates.

erable amount
e amlount is Net selling price (i.e. fair value less costs to sell and to finish (for WIP))

ısh-generating unit exceeds its recoverable amount

ıeir recoverable amount
ed on a consistent basis

ıt the reporting date

ademark, perpetual franchise)
for use (development)

price (i.e. fair value less costs to sell) and **Value in use**
e of future cash flows generated by the asset. Present cash flows should be based on the most recent budgets a

d individually where reasonable practicable. Where it is not possible to identify cash flows arising from an indiv
ıich is impaired (written off) is goodwill.

ehensive income) to the extent that a revaluation surplus relating to the asset exists

when the recoverable amount of asset (except goodwill) has increased because of a change in economic condi

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

and reliable measurement is possible

ıded use or sale i.e. it is a quilifying asset.

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

f depreciaton schedule)

e relevant asset; otherwise downward revaluations are recognized in PL.

ss)

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

in extension to a building but not decoration costs.

d very carefully for internally generated items:

sen, such assets cannot be revalued.
e made a refernce to active market i.e.:

ot allowed unless it results in more appropriate presentation.

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

unless the underlying asset is of low value.

Classification of leases

c) the **lease term** is for the **major part of the econo[** **the asset** even if title is not transferred.

d) at the inception of the lease **the present value of** **minimum lease payments amounts to at least substantially all of the fair value of the leased a**

e) **gains or losses** from the **fluctuation in the resid[** **of the leased asset** accrue **to the lessee** (e.g. in t a rent rebate equaling most of the sales proceeds a of the lease).

f) the lessee has the **ability to continue the lease f[** **secondary period at a rent** that is substantially **lo[** **market rent.**

Oct 20, 2015

se payments.

ner operating or financing activities) in accordance with IAS 7.

wn line item.

stock:
ed for each item of stock (small number of units which are not interchangeable)

(high volumes of interchangeable units). Estimates are used instead of actuals. Types of estimates usec and generally for a maximum of 5 years.

ʼiddual non-current asset, value in use should be calculated at the level of cash-generating unit.

tions or in the intended use of asset

mic life of

the

sset.
ual value
the form of
at the end

or a
wer than

d - weighted average and FIFO (first-in first-out)

Part IV. Financial instruments - IAS 32, IFRS 9, IAS 36 and IFRS for SME par. 11

- see "Fin insturments - measurement notes" file
- FI is a contract that gives rise to the fin asset of one entity and to the fin liability
- Accounting for fin instruments includes:
  - accounting for fin assets - investments in shares, investments in bon
  - accounting for fin liabilities - long-term loans, bonds issued and trad
  - accounting for equity share capital - shares and options issued
- There are many issues around accounting for fin instruments:
  - classification - accounting for any fin instrument strats with classifica
  - measurement
    - see table from Course notes
- fin assets
  - recognition
    - fin assets are any assets that are:
      - cash
      - equity instrument of another entity
      - contractual right to receive cash or another a
      - contractual right to exachange fin asset or lia
      - contract that will be settled in entity's own ec
  - classification and measurement
    - fin asset is only measured at **amortized cost** if
      - the asset is held within a business model whc
      - fin asset gives rise to cash flows on specified
    - fin asset is only measured at **FVTOCI** if
      - the asset is held within a business model whc
      - fin asset gives rise to cash flows on specified
    - fin assets are measured at **FVTPL** (it is default category fo
      - they do not meet either the business model t
- fin liabilities
  - recognition
    - fin liabilities are any liabilities that are contractual obliga
      - to deliver cash or another fin asset to anothe
      - to exachange fin asset or liability with anothe
      - than will or may be settled in entity's own eq
  - classification and measurement
    - fin liability is measured at FVTPL if such fin instruments a

    - fin liability is measured at **amortized cost** if fin liability fa
- equity instrument is any contract that evidences a residual interest in the assets
  - when preference shares issues should be classified as debt or as equ

Preference shares

redeemable — non-redeemable

debt — cumulative — non-cumul

debt

equity

SME A
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SME A
redeer
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liabilit

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Note:
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instru

SME A
Divide

SME A
redeer
anoth

An obl
its int

/ or equity instrument of another entity. Simpliest example of such contract (i.e. basic fin instrument) is

ıds abd trade receivables
le payables

ation (as per list above), especially when it is fin liability - it should be classified either as debt insturme

sset from another entity
bility with another entity under conditions that are potencially favourable
quity instruments

ɔse objective is to hold the asset to collect contractual cash flows ('hold to collect' business test) and
dates that are solely payments of principle and interest on principle outstanding ('contractual cash flov

ɔse objective is achieved by both collecting contractual cash flows and selling fin asset ('hold to collect a
dates that are solely payments of principle and interest on principle outstanding ('contractual cash flov
ɔr fin assets) when
test or contractual cash flow test

tion
r entity
er entity under conditions that are potencially unfavourable
uity instruments

ıre derivatives (e.g. share options, futures, forwards, interest rate swaps), fin instruments held for tradi

ıils to meet meausrement conditions stated above to be measured at FVTPL (e.g. held to maturity issue
s of an entity after deducting all of its liabilities.
ıity:

ative

. issues ordinary shares. Shareholders are entitled to a pro rata share ends or other distributions of the entity. Dividends are discretionary.

. does not have a contractual obligation to make dividend distributions o n the shares (ie it cannot be required to deliver cash or another financial areholders). The ordinary shares are classified as equity.

cts are the same as in Example 2 except that, because of legal require urisdiction, SME A is required to pay an annual dividend of at least 1 f the par value of its issued shares.

has a contractual obligation to make dividend distributions (ie it is requi cash or another financial asset to the shareholders and it does not, there ie unconditional right to avoid such payment). The ordinary shares are f ies accounted for in accordance with Section 11/12.

cts are the same as in Example 2. However, in this example, SME A m n the shares for par in the event of an initial public offering (IPO). SI scretion on whether or not to initiate an IPO.

e SME A has discretion on whether or not to initiate an IPO, it can avoid ning the shares by avoiding the IPO. The ordinary shares are classified as

. issues preference shares that are mandatorily redeemable at par 30 Dividends are discretionary.

ractual obligation to deliver cash exists to repay the principal in 30 years That present obligation is a liability. Because the dividend payments are tion of SME A, it could avoid paying those dividends and consequently th bilities. SME A has issued a compound financial instrument. At initial nition, in accordance with paragraph 22.13, the present value of the amo ned in cash is the financial liability component with the residual amoun eds being the equity component of the compound financial instrument. ability component is accounted for in accordance with Section 11/12.

. issues preference shares that are redeemable at par at the option of r. Dividends are discretionary.

ractual obligation to deliver cash exists to repay the principal at the hold st. That present obligation is a liability. SME A cannot avoid redeeming t Because the dividend payments are at the discretion of SME A, it could

g those dividends and consequently they are not liabilities. SME A has iss
ound financial instrument. At initial recognition, in accordance with pa
the present value of the amount to be redeemed in cash is the financial l
onent, with the residual amount of the proceeds being the equity compo
mpound financial instrument. The liability component is accounted for
lance with Section 11/12.

for Examples 8 and 9, refer to Section 22.13 in order to obtain more detai
ethod for determining the different components of the compound finan
ment.

issues preference shares that are redeemable at par at the option of
ends are discretionary.

does not have a contractual obligation to make dividend distributions o
n the shares (ie it cannot be required to deliver cash or another financial
er party). The preference shares are classified as equity.

ligation will arise if SME A exercises its option and informs the sharehol
ention to redeem.

s trade receivable when company sells its goods on credit. Seller has right to receive settlement for the

ent or as equity instrument. This distinction is important as it will directly affect gearing ratio (debt-to-c

v' characteristics test)

and sell' business test)
v' characteristics test)

ing in short-term (repurchase agreements with floating interest rate), any fin instuments designed as F

ed debt instruments quoted in an active market, that is, bonds; loans received and trade payables

: of any
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SME A.

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e supply provided and buyer has liability to provide settlement for supply received at given point of tim

quity) - a key measure that users of fin statements use to assess fin risk of the entity. This distinction w

VTPL on inception (i.e. on initial recognition it is part of a portfolio of identified financial instruments th

ıe in the future at agreed amount. Most complicated examples (i.e. other fin instruments) contain struc

ill also impact amount business result for the period as fin costs associated with debt will be charged to

ıat are managed together and for which there is evidence of a recent actual pattern of short-term prof

ctured products and derivatives.

o P/L ths reducing profit of entity, while dividends paid on shares are an appropriation (distribution) of

fit-taking and embedded derivatives can sufficiently modify the cash flows of the whole liability and are

profit rather than expense in P/L.

e not clearly closely related to underlying lianility - e.g. conversion option embedded in a convertible bond)