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 a

sales day book

purchases day book

cash book (cash receipts, cash paymens, petty ca

journals

control accounts (records in general ledger) - are used to prepare trial b

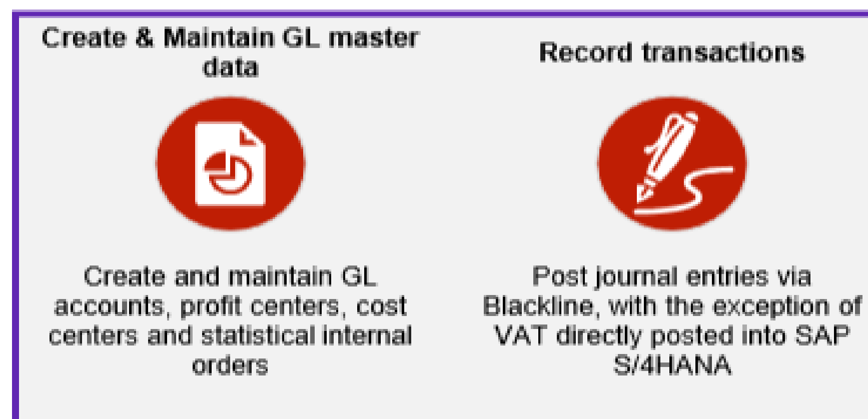
reconciliation (rec)

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 late	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

pare
on

er 1

pe

d

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

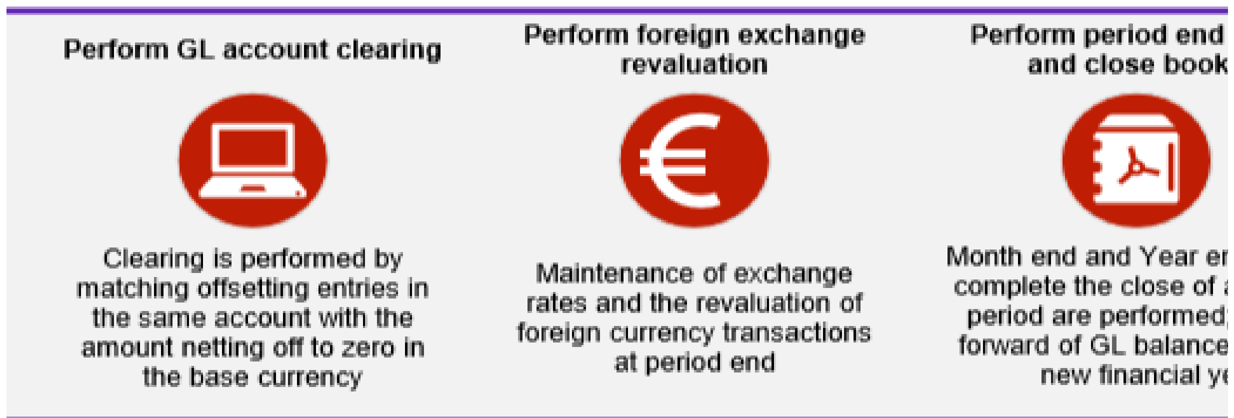
sed off
s
ccounts

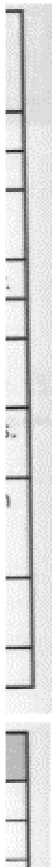
sh)

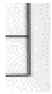
alance

; 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







ꞏnt 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
ks

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)

ɖ to vendor (receivable) (B/S)

0 impact on P/L when actual expe

release of amounts from B/S into

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 of the wrong accou (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 the wrong type of acc as when cash paid for plant repairs (expense) is debited to plant account (asset) (errors of principle are really a special case of errors of commission, and once agai there is a debit and a credit)
4 Error of original entry – an incorrect figure is entered in the records and then po to the correct account Example: Cash $1,000 for plant repairs is entered as $100; plant repairs account is debited with $100
5 Reversal of entries – the amount is correct, the accounts used are correct, but th account that should have been debited is credited and vice versa 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 account

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 purchase of a car is:

a. not posted at all

b. posted to Motor cars account as $1,000

8 Trial balance errors – a balance is omitted, or incorrectly extracted, in preparing trial balance

9 Compensating errors – two equal and opposite errors leave the trial balance balancing (this type of error is rare, and can be because a deliberate second error h been made to force the balancing of the records or to conceal a fraud). Yes, to corre each of the errors as discovered

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

nse/income is received

P/L

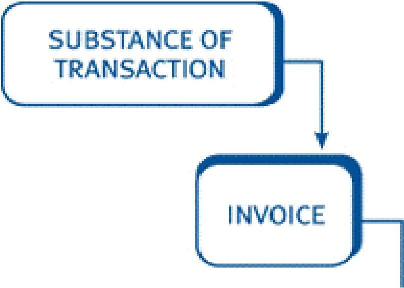
	Suspense account involved?
	No
nt	No
ount, n	No
osted ;	No
he	No
	Yes

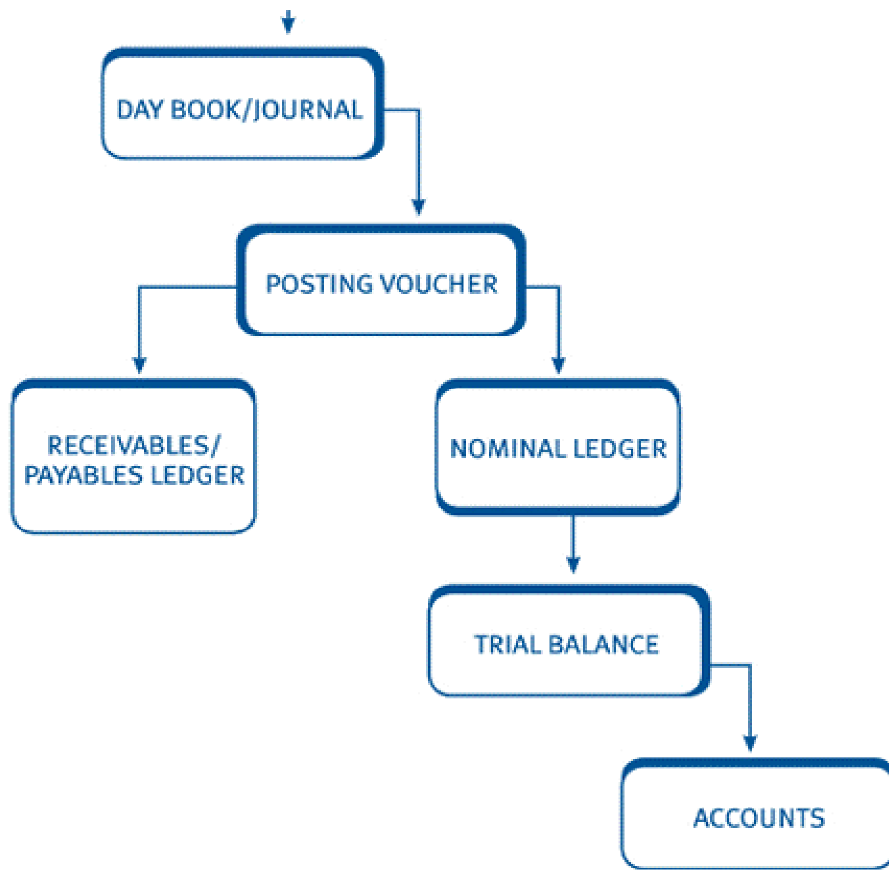
	Yes
the	Yes
ıas ect	Yes, to correct each of the errors as discovered

	Income	
accrued		prepaid
current asset		profit redu currentliability

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

A simple system can be illustrated as follows:




DAY BOOK/JOURNAL
POSTING VOUCHER
RECEIVABLES/
PAYABLES LEDGER
NOMINAL LEDGER
TRIAL BALANCE
ACCOUNTS

Part II. Conceptual framework

1 Conceptual framework (evidence from IFRS)

- Role of Conceptual framework
  - Conceptual framework can be seen as frame for ev
  - Past history of standard setting bodies thoughout t
    - such standards were often not consiste
    - such standards were intenrally not con
    - standards were produced on 'fire fighti
    - the same theoretical issues were revise
  - Lack of conceptual framework resulted in creation
- Aims of conceptual framework are:
  - being a basis for evaluation of existing accounting
  - promotion of harmonization if accounting standar
  - assist acountants in dealing with accounting transa

2 IFRS

- IFRS - can be seen as common language for financial reporting
- Advantages of adoption of IFRS
  - IFRS are widely accepted as a set of high-quality ar
  - They were produced in cooperation with other int
  - Companies using IFRS have an enhanced status an
  - International Organization for Securities Commissi
  - Companies that own foreign subsidiaries will find i
  - Companies that use IFRS will find their results are
- Note! Accounting standards alone cannot provide regulatory f
  - IFRS themselves
  - local company law
  - local securities exchange regulations
  - EU directives
  - local GAAP
- Structure of IFRS
  - IFRS Foundation
    - IFRS Advisory Council
    - International Accounting Standards Bo
    - IFRS Interpretations Committee (IFRIC)
- Standard setting process
  - setting the agenda - IASB will add projects to its ag
  - project planning - working party is established
  - development and publication of discussion paper (
  - development and publication of exposure draft (E
  - development and publication of IFRS - when al issu
  - procedures after IFRS is issued - IASB monitors the

3 Fin statements

- information presented in fin statements - quality characteristi
  - Information presented in FS should be **useful**
    - it should be able to influence economic
    - it should be faithful - complete, neutral

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

principles/assumptions for preparation of fin statements
- going concern - company will continue its business
- accrual/matching - expenses and incomes should b
- consistency - methodology for preparation of fin st
- materiality - correct level of aggregation of transac
- substance over form - items recorded in fin statam
    - where assets are 'sold' at prices that ar
    - when an asset is leased and used by les
    - in consolidations despite the fact that t
    - in case of consignment inventory if risk
    - a sale and repurchase of maturing good
    - sale and lease back transaction -
- prudence - expenses recorded in fin statements sh

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

reporting of elements of fin statements
- recognition criteria for elements - an item can be r
    - meets the definition of particular elem
    - it is probable that any future economic
    - item's cost or value can be measured re
    - recognition of such items (i.e. assets or
        - that is relevant - If the prob
        - that results in benefits exce
- measurement basis for elements (i.e. amounts at v
    - according to methodology how to calcu
        - at cost (historical evaluation
            - current cost - wh
        - at value (current evaluation
            - fair value (aka m
            - value in use (or f
            - current cost - it i
    - according to application
        - carrying amount (book valu
        - recoverable amount - amou
        - revalued amount - amount

types of statements
statement of financial position (balance sheet)
current/non-current distinction
it will be realized/settled wi
it is held for the purpose of
it is part of entity's normal c
statement of P/L ad other comprehensive income
other comprehensive income may inclu
movements in revaluation s
gains and losses on equity in
FX differences
exceptional items
certain material income or e
smaller exceptional items ar
statement of change in equity
reflects changes in components of com
net incomes (profits) or net
direct contribution or distrib
reclasses (transfers) betwee
statement of cash flow
it highlights the key areas where a bus
Good cash management ensures a busi
Advantages of cash flow statement
cash flow balances are a ma
cash flow balances are obje
users of fin statements can
users can identify exactly ho
users can assess the ability c
Operating cash flow
Methods for calculating ope
direct - informat

indirect - inform

Investment cash flow
(Purchase of nor
Proceeds from s
Interest receivec
Dividends receiv
Financing cash flow
Funds raised - tl
Borrowings rece
(Borrowings rep:
(Redemption of
(finance costs)
Dividends paid (
consolidated financial instruments
basic terms
parent - a company that ha:
subsidiary - a company that
control
what is control?
non-controlling interest (NC
associate - a company in wh
significant influence - when
consolidation adjustments
general rules:
the legal form h
fin statements o
all group compa
there is a single
there are some e
consolidated statement of f
steps in consolid
proforma

Notes:

consolidated income statem
steps in consolid

proforma

product
product

product
product
product

non-product
non-product
non-product
non-product

other
other

other
other
other

events after the reporting period (i.e. after year-er
- an event after the reporting period is tl
- types of events and their impact on fin
  - adjusting events - provide a
  - non-adjusting events - cond

accounting policy and accounting estimates
- accounting policy - a set of rules (meth
  - change in accounting policy
  - change in policy should be c
- Note! When company applies new acco
- accounting estimate - professional judg
  - change in estimate should b
  - change in estimate should b

correction of prior period error
  - correction of prior period er
  - correction should be done r

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

practices and development of new ones
ds by reducing the number of permitted alternative accounting treatments
actions for which there is not (yet) an accounting standard

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

nd transparent global standards intented to achieve consistency and comparability across the globe
ernationally renowned standard setters with aim of achiving consesnsu and global convergence
d reputation
ons (IOSCO) recognizes IFRS for listing purposes. This makes it easier and cheaper tp raise finance in internati
t easier to consolidate fin statements of all members of tho group if all subsidiaries use IFRS.
ore easily compared with those of other companies that use IFRS.
framework, particulary since in many countries they (IFRS) do not have legal standing. Thus regulatory framev

ard (IASB)

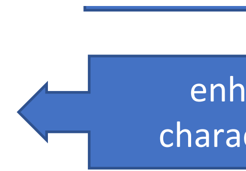
;enda on requests of IASB staff members and practicing accountants

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

cs

: decision of users of such fin statements (**relevance**)
l, free from error and reflect economic substance of the transaction rather than its legal form (

ıced by if such info is also



; activity in the foreseable future
ɔe recorded in PL in the period when they actually happened regardless of recipt/issue of invoice or cash payr
tatements cannot change fro period to period (otherwise information presented in such statements will not b
:tions and items should be applied
ıents should be recorded according to their economic substance and never according to their legal form. Exar
e greater or less than their fair values, substance is applied. Ofthen it is really a secured loan.
ssee despite the fact that the lessor is still the legal owner until fully paid, the lessee behaves like owner. So ir
:he parent owns only 51% of subsidiary, the entire subsidiary is consolidated (i.e. 100% of subsidiary's assets a
s and rewards of for example motor vehicle despatched from manufacturer to show-room owner are substar
ds - where the inventory doesn't leave the premise of the seller and sale is to a bank - it is considered a seure

ıuld not be underestimated and incomes recorded should not be overestimated. This is often called 'assymetr

: of past event and from which future economic benefits are expected (i.e. there are potencial economic bene
ts and settlement of which is certain and will result in (potencial) outflow of resources embodying economic l
from them liabilities => equity = net assets
enhancements of assets or decreases of liabilities that result in increase in equity other than by controbutior
of decreases of assets or increases of liabilities that result in decrease in equity other than by distributions to

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

e) - amount at which item is recorded in evidence
ınt higher of either the asset's **future** value for the company or the amount it can be sold for, minus any tran
higher of either the asset's **present** value for the company or the amount it can be sold for, minus any trans

thin 12 months of the reporting date or
trading or
operating cycle
(income statement)
ude
urplus
nstruments classified as financial assets measured at FV through othercomprehensive income

expense items, known as exceptional items, may be listed on the face of income statetemnts before profit fr
re not disclosed in income statement but instead within notes to accounts, normally the operating profit note

pany's equity due to
expenses (losses) generated during business activity of the company
butions of equity components by/to business owners
en different components of equity

iness has generated and spent cash.
iness has sufficient cash to run its day to day operations.

atter of fact and are not distorted by accounting policies (adjustments, estimates, accruals etc.)
ctive, unlike profit which is subjective.
establish how business has generated cash.
ow cash has been spent.
of business to generate cash in the future.

erating cash flow
tion is extracted from ledger accounts (not just fin statements), mainly from bank accounts (cash flow picture
Cash sales
Cash received from credit customers
Cash purchases
Cash paid to credit suppliers
Cash expenses
cash wages and salaries
ation is extracted from fin statements (cash flow picture is reconciled from fin stataments) => used by extern
Profit before tax
Adjustment 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 Finan
(investment income) - it needs to be dedcuted here because it will be adde back in part
(Increase)/decrease in inventory
(Increase)/decrease in receivables
Increase/(decerase) in payables

ı-current assets)
ale of non-current assets
d
ed (if in cash)

hrough issue of financial instruments
ived
aid)
issued financial instruments)

if in cash)

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

one company has power over another when it has the ability to direct that company's business activities, wh
it can be achieved simply by owning a majority or voting shares or it may come from contractual arrangemer
it is irrelevant wether a parent company uses its ability to direct business activity of subsidiary, what is impor
I) - a minority interest; it is an ownership position wherein a shareholder owns less than 50% of outstanding s
ıich another company owns a significant portion of voting shares (aka 'significant nterest'), usually 20–50%. Ir
a company holds approximately 20% to 50% of a company's stock, it is considered to have significant influen

ere is two separate companies but the economic reality is single entity and that must be reflected in the met
f parent and subsidiary used in the consolidation should have the same year end. If subsidiary has different y
nies should have the same accounting policies. This may require adjustments to subsidiary's figures.
entity concept: all intergroup transactions between the parent and subsidiary should be cancelled out becaus
exceptions from consolidation:
a parent shouldn't prepare consolidated fin stataments if it itself is wholly-owned subsidiary
parent's securities are not publicly traded and it is not in the process of issuing secutiries
inancial position
lation
cost of investment into subsidiary shown in parent's BS is canceleld against subsidiary's share capital and pre
if difference is positive, then goodwill is recognized as intangible asset, which is not amo
if difference is negative, then goodwill is credited to consolidated income statement.
Note! Inherent (non-purchased) goodwill should never be included into BS
if parent is not purchasing 100% of subsidiary, then NCI is recognized
assets and liabilities of parent and subsidiary are combined on line-by-line basis (except group receivables an
share capital presented in BS is only that of parent (because the one of subsidiary wqas already cancelled at
retained earnings are parent's retained earnings plus subsidiary's post-acquisition retained earnings

non-current assets
PPE 100% P + S

goodwill see adjustments No. 1

current assets

stock 100% P + S

receivables 100% P + S (BUT except intra-group balances)

bank and c 100% P + S

total assets

equity

share capit 100% P

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)

total equity and liabilities

Elimination of intra-group balances

group accounts should only show balances with parties outside the group. If intra-group

Db Group payable

Cr Group receivable

Provision for unrealized profit (PUP)

companies within a group have made sales to one another at a profit, yet the goods trac

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

If there is intra-group sales and not all goods have subsequently been sold outside the g

from P to S - debit Group sale (where such reversal of Group sale is a

from S to P - debit subsidiary sale, credit subsidiary COS of such inve

from S to S - debit Selling entity's sale, credit Selling entity's COS of s

Cost of investment

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

if share exchange is the case how transaction price is paid, then the cost of investment is

work out number of shares acquired in the subsidiary

calculate how many parent's shares will be issued in return (what is

calculate the value of parent's shares by multiplying by the parent sl

ıent

lation

group income = parent's income + subsidiary's income (as all income is controlled by the group)

group expenses = parent's expenses + subsidiary's expenses (as all expenses are ontrolled by the group)

dividend income from subsidiary which is shown in parent's income statement, should be cancelled in consol

profit attributable to NCI is calculated as: NCI% * subsidiary's profit after tax adjusted for consolidation purpo

goodwill recognized as result of business combination in consolidated balance sheet should be tested for imp

if full goodwill is impaired - loss is shared between the NCI and the group in the same ra

if proportionate goodwill is impaired - loss is assigned only to the group reservesin group

Notes:

Mid-year acquisitions of subsidiary

we must include into consolidated business result only that part of s

Elimination of intra-group trading

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

Db	Group sales
Cr	Group COS

If there is intra-group sales but all goods have subsequently been so

Accounting treatment of associate (equity methond)

investment into associate is initially recognized at cost in the group l

investor;s share of profit or loss of investee is recognized in the grou

	till revenue	transaction margin
	direct COS	
	Transaction margin	
non-direct COS	supplier rebates	non-transaction margin
non-direct COS	product WOFs/WONs	
non-direct COS	product returns	
	Product margin	
	services sold to customers	non-product margin
	direct COS	
	bad debt expense	
	credit cards commissions	
	marketing costs	operating expenses before gross margin
	distribution costs	
	Non-product margin	
	Product margin + Non-product = Gross margin	
	property costs	operating expenses after gross margin
	payroll costs	
	overheads	
	Operating profit (EBIT)	
	Finance costs	
	Profit before tax	
	Income tax expense	
	Profit after tax	
	Discontinued operations	

Profit for the year

Other comprehensive income/expenses

Total profit for the year

ıd)
ıe event that occurs between the accounting year end and the date on which the fin statements are authoriz
statements
dditional evidence of conditions that existed before/at year-end date => fin statements need to be adjusted t
litions that did not exist before/at year-end date => fin statements shouldn't be adjusted to include the impac

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

rror is always based on information which was available before (i.e. when original estimate was done or actua
estrospectively 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
t have serios drawbacks:

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

onal markets.

vork of juresdiction may include all of the following:

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

ː revised.

Conceptual
IFRS
Fin stateme

ımental
cteristics

ancing
cteristics

nents
›e comparable between periods)

nples

ı case of such lease - fin lease - lessee is user of leased asset during the assets economic life: lessee cap
ıre added to parent's assets). Legally the parent may own 51% only but in day-to-day economic reality
ıtially 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 inventor

ric prudence'.

efits)
benfits

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

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

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

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

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

om operations
e.

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

al users who do not have access to management accounts

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

:s are consolidated with fin statements of the parent.

ich significantly affect investee's returns
ıts
:tant is that it has the ability to do so.
shares and has no control over decisions.
ı this case, parent company does not consolidate the associate's financial statement
ce

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

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

-acquisition retained earnings. Any difference between the two offseting amounts (i.e. balancing figure
ırtized but measured at its historical cost and tested for impairment annualy.

ıd payables)
prior step against parent's investment into subsidiary)

Adjustments to BS

1 Goodwill adjustments - **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 consolidatior

2 NCI adjustments - **total** value

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

3 Consolidated 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

balance exists between parent and subsidiary then an adjustment should be made in group accounts i

ded between such companies remain within the group at the reporting date, this creates 'unrealized pr
i.e. nothing is in the inventory at the year-end, there is no PUP
roup i.e. some inventories acquired in IC transaction are left is in the inventory of the Group at the yea
apportioned between controlling and NCI), credit Group COS of such inventory, credit subsidiary invent
ntory, credit Group inventory
such inventory, credit Purchasing entity's inventory (at difference between market price and transfer pr

in return (known as share exchange)
s determined in the following way:

the ration between shares subsidiary's share acquired and parent's shares given away)
hare price at acquisition

lidated income statement (because single entity doesn't pay income to itself)
oses
pairment annually.
tio as subsidiary's profit for the year
o's share on subsidiary's profit for the year

subsidiary's business result that arose after acquisition i.e. whilest under the control of the parent. If th

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

ld outside the group i.e. nothing is in the inventory at the year-end, show only cancellation of intra-gro

BS and the carrying amount is increased/decerased to recognize the investor's share of profit or loss of
ıp income statements as a single line entry.

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

Extra line: less unralized profit in inventory

Extra line: plus admin expenses

Db	BS - as getting new res
Cr	CF statement - as outfl
Db	CF statement - as inflo
Cr	BS - as taking out an e›
Cr/Db	P/L - as result on dispo

Extra line: less 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
te was done)

al was calculated)

:ransactions are presented and communicated to users of fin statements

ıe attraction of fin statements being more comparable and consistent.

---

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

italizes it at cash price, depreciates etc.
the parent can control the entire subsidiary.
hough legally they belong to manufacturer until paid for
ry of seller.

(not through P/L first) e.g. revaluation gains on assets go straight to reserves which are part of equity.

bility.

rmined:

vrite ups)

ing cash flow
Investing cash flow

Amount of investment:	Classification of investment
<20% of ordinary shares of acquired entity	
20-50% of ordinary shares of acquired entity	associate
=50% of ordinary shares of acquired entity and acqu	joint venture
>50% of ordinary shares of acquired entity	subsidiary

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

ed in the consolidated accounts.

e) is recognized as goodwill

ı

in order to cancel the respective balance.

ofit'.

r-end, there is PUP and adjustments to IC accounts are needed. The type of adjustment depends on direc
tory

rice if transfer price was higher i.e. profit)

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

: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
‹isting resource from the business
›sal

rty (cost accrual)

Many standards, suc
Liabilities and Contir
outflow of economic
would only be showr
Therefore, two sides
the likelihood of the
asymmetric prudenc
of the term was requ
should not identify a
reporting.

The 2018 Conceptua
asymmetry, such as
than liabilities. It has
may sometimes aris

A key change to thi
financial reporting s
virtually certain and
prohibit the recogni
economic resource

The first of the meas
is unchanged, but the
financial items held a
form of depreciation
that the historical cos
cost should reflect su
often referred to as a

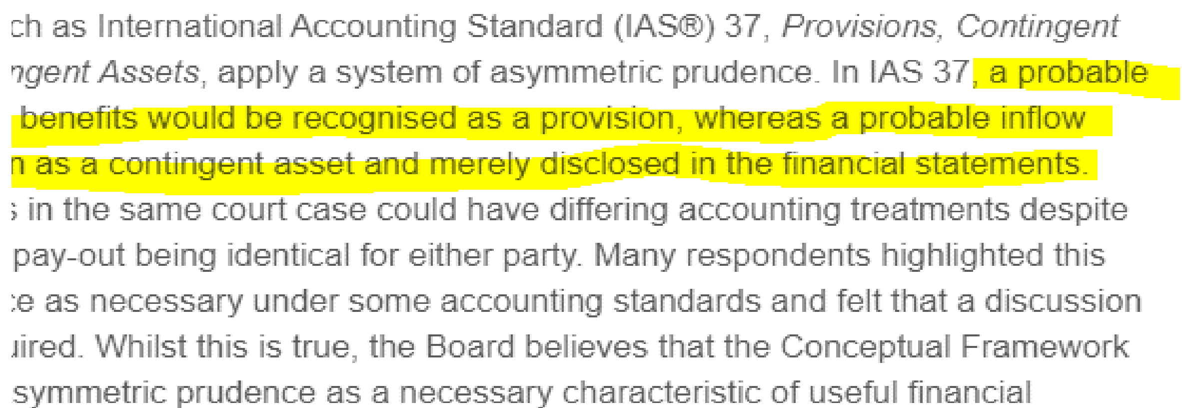
Method of accounting to be applied
cost method. Cost is measured at fair value
equity method of accounting for such investment. Use of equity method is based on assumption t
same like for associate i.e. equity method
consolidation method of accounting for such investment. Use of consolidation method is based o

0%

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

:tion of original IC sale of inventory: from P to S (downstream IC transaction), from S to P (upstrear

's result for the year



ch as International Accounting Standard (IAS®) 37, *Provisions, Contingent*
ngent Assets, apply a system of asymmetric prudence. In IAS 37, a probable
benefits would be recognised as a provision, whereas a probable inflow
n as a contingent asset and merely disclosed in the financial statements.
s in the same court case could have differing accounting treatments despite
pay-out being identical for either party. Many respondents highlighted this
ce as necessary under some accounting standards and felt that a discussion
uired. Whilst this is true, the Board believes that the Conceptual Framework
symmetric prudence as a necessary characteristic of useful financial

al Framework states that the concept of prudence does not imply a need for
the need for more persuasive evidence to support the recognition of assets
s included a statement that, in financial reporting standards, such asymmetry
e as a consequence of requiring the most useful information.

s is the removal of a 'probability criterion'. This has been removed as different
standards apply different criterion; for example, some apply probable, some
l some reasonably possible. This also means that it will not specifically
tion of assets or liabilities with a low probability of an inflow or outflow of
s.

urement bases discussed is historical cost. The accounting treatment of this
e Conceptual Framework now explains that the carrying amount of non-
at historical cost should be adjusted over time to reflect the usage (in the
or amortisation). Alternatively, the carrying amount can be adjusted to reflect
st is no longer recoverable (impairment). Financial items held at historical
ubsequent changes such as interest and payments, following the principle
amortised cost.

:hat investor can exert a significant influence over the investee (purchased company). Two companes - investin

n assumption that investor exerts a full control over the investee (purchased company). Two companes - paren

if 50% by both sides => join venture

20%	50%	100%
investment		
associate or affiliate		**subsidiary**

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

g company and associate - become together a joint venture

ıt company and subsidiary - become together a group.

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 fra

derecognition - item of PPE is derecognized from evidence when:

- there occur circumstances as the ones stated in Framew
- 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 har
      - non-refundable purcha
      - site preparation
      - installation
      - professional fees
      - direct labor
      - borrowing costs
      - future dismantling
  - Note: future dismantling and restoration cost
  - 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 capitaliz
    - Commence capitalization of borro
      - expeniture being incur
      - borrowing being incur
      - work commenced
    - If capitalized, borrowing costs are
- 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, th

Revaluation

it must be a

assets shou

upwards re

downward

the revalue

depreciation

it is a systematic allocation of dep

depreciation begins when an asse

when an asset is made of two or

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 e

Capitalization should be stopped

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 c

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 fr

because of intangible assets have towo comp

because it is impossible to measu

only when initial cost can be meas

research - should be e

development - should

it is separte

all expendi

it is comme

it is technic

it is overall

there are r

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 seller

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 lifeti

Impairment test

Goowill, intangible assets with an

Impairment loss on goodwill can r

Busness combinations

all acquisition costs incl. those dir

goodwill and NCI - there are two v

at FV (aka full goodwil

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

Classifi

- A lease is cla **all the risks** classified as **substantially**
- Whether a lea on the **subst contract.** Exa would normal **are:**
  - a) the **lea the end**
  - b) the less that is e **at the** reasona option v

Oct 20, 2015

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 in

specific rule for inventories:

costs include:

purchase price

import duties (non-ref

carriage in (delivery inv

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 in

During the year:

Db	Purchases (PL)
Cr	Trade payables

continuous accounting with valuation of stock

During the year:

Db	Stock (BS)
Cr	Trade payables

Impairment test

Inventories should be tested for in

internal

evidence of

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 statements at no more than th
  - any resulting impairment loss is measured and recognize
  - sufficient informatin 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 wh
- accounting for impairment loss
  - for assets held at historcial cost

Db	P/L
Cr	Non-current asset

  - for revalued assets

Db	Revaluation surplus (other compr
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)

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)

ole 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 reliable

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
wing costs when:
red
red

calculated using effective interest method. The calculation includes fees, transaction costs and amortisation of
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 selling 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 and impairment losses
en asset needs to be revalued regularly

applied consistently to all assets in the same class of PPE
ld be revalued with sufficient regularity so that their carrying amount is not significantly different from their fa
valuations are recognized in OCI (i.e. BS, particularly in revaluation reserve)
Db PPE - difference between valuation and original cost/valuation
Db Accumulated depreciation
Cr OCI: gain on revaluation aka revaluation reserve
revaluations are recognized in OCI and charged against the revaluation reserve to the extent that is exists in re
Db Revaluation reserve - to max of original gain
Db P/L - any residual amount (if balance at revaluation reserve is not enough to cover the amount of c
Cr PPE - loss on revaluation
ed amount 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
djusted, the adjustment is made prospectively (i.e. forward looking).

r
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
ntactual rights

ɜset to be settled ina fxed amount of cash

amework (i.e measurability and probability of generating of future economic benefit)
ponents - purchased items and internally genaretd items, both general recognition criteria need to be evaluated
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
cally 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 increase

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

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 eitl

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/d amount of lease liability

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

dinary course of business activity

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

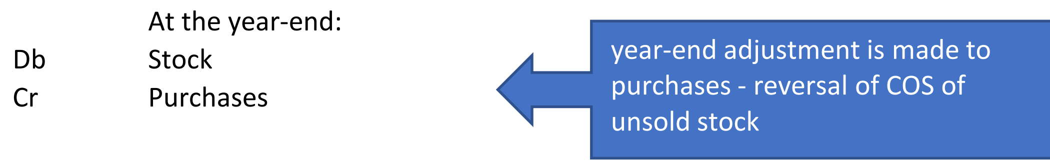
n bringing such assets to their present location and condition (see PPE initial costs)

undable)
wards)

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

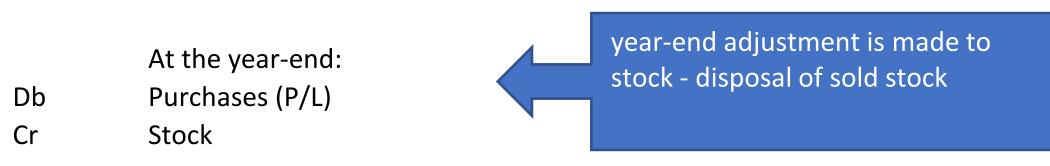
outwards)
stimated by one of the following three approaches depending on the type of accounting applied to company's
n actual amounts - mainly used by sole trader who has detailed listing of all stock with actual unit costs identifi

	At the year-end:
Db	Stock
Cr	Purchases



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 (P/L)
Cr	Stock



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

f obsolescence or damage of asset
iod 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))

ash-generating unit exceeds its recoverable amount

eir recoverable amount
ed on a consistent basis

at 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
hich 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

ɘ measurement is possible

ɩded use or sale i.e. it is a quilifying asset. It can be PPE during the construction period, intangible asset

ᶠ discounts or premiums relating to borrowings

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

f depreciaton schedule)

ir value

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

alculated loss)

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 indicvators 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 [...] a rent rebate equaling most of the sales proceeds [...] 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.

[...]ıer 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.

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

tions or in the intended use of asset

s during the development period, or "made-to-order" inventories (i.e. a production technique in which

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)

ı producers start manufacturing a product only after the customer places an order for it). An asset that

Suppose and entity bought a building three years ago for
life of 10 years. Currently its accumulated depreciation is
net book value of 70,000 (100,000 – 30,000)

Now fair value of asset can either be significantly more th
significantly less. For example:

- Fair market value is 150,000; or
- Fair market value is 50,000

Lets see the accounting under both situations side by side

FMV is 150,000	
Step 1: Compare cost of the asset with the fair market value of t decrease required in the **asset's a**	
FMV – Cost 150,000 – 100,000 = 50,000 Increase **Debit: Building a/c 50,000**	50,00 **Cr**
Step 2: Any existing accumulated depreciation at the time of re but the most followed option is to eliminate any ac	
This step remains the same under both situations i.e. rev **Debit: Building accumulated depreciati**	
Step 3: Compare carrying value with the fair market value to c increase or revaluation decrea	
FMV – NBV 150,000 – 70,000 = 80,000 Gain **Credit: Revaluation Surplus a/c 80,000**	50, **Debit**
Complete journal entries under both sit	
Debit: Building a/c 50,000	Debit: Buildi

Debit: Building a/c 50,000 Debit: Building accum. depreciation a/c 30,000 Credit: Revaluation surplus a/c 80,000	Debit: Buildi Debit: Reval Credit: Build

normally takes more than a year to be ready for use will usually be a qualifying asset.

100,000 with an estimated useful
standing at 30,000. This gives the

ıan the net book value of asset or

ɜ under each of the three steps:

FMV is 50,000
he asset to understand the increase or **ıccount**
FMV – Cost
ı0 – 100,000 = 50,000 Decrease
redit: Building a/c 50,000
ɜvaluation can be treated in two ways ːcumulated depreciation.
valuation increase or decrease
ion a/c 30,000
determine the amount of revaluation ase
FMV – NBV
,000 – 70,000 = 20,000 Loss
: Revaluation loss a/c 20,000

tuations are:
ing Accum. Depreciation a/c 30,000

ing Accum. Depreciation a/c 30,000
luation loss a/c 20,000
ding a/c 50,000

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 classific
- 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 e
- classification and measurement
  - fin asset is only measured at **amortized cost** if
    - the asset is held within a business model wh
    - 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 wh
    - fin asset gives rise to cash flows on specified
  - fin assets are measured at **FVTPL** (it is default category f
    - they do not meet either the business model t

fin liabilities

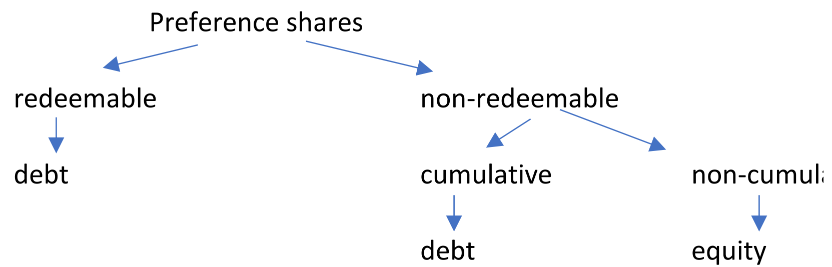
- recognition
  - fin liabilities are any liabilities that are contractual obliga
    - to deliver cash or another fin asset to anothe
    - to exachange fin asset or liability with anothe
    - than will or may be settled in entity's own eq
- classification and measurement
  - fin liability is measured at FVTPL if such fin instruments a

The conditions to be met in
profit or loss are the same a
the entity intends to repurch
interest rates is an **example**

Convertible bonds are bas
convert into equity shares a

and equity elements. The o
embedded into the host con

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



SME A
divide

SME A
redeer
the sh

The fa
in its j
cent o

SME A
deliver
have th
liabilit

The fa
redeen
has dis

Becaus
redeen

SME A
later.

A cont

ume.
discret
not lia
recogn
redeem
procee
The lia

SME A
holder

A cont
reques
shares
paying
compo
22.13,
compo
the co
accord

Note: t
the mo
instru

SME A
Divide

SME A
redeem
anothe

An obl
its inte

/ 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
ղuity 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
ːest or contractual cash flow test

tion
r entity
ːr 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

order to designate a **financial liability** at fair value through
ıs for **financial assets**. ... An issued debt instrument that
ase soon to make a gain from short-term movements in
ː of a **liability held for trading**. 1 окт. 2006 г.

sically **debt instruments** but they also contain an option to
ınd this means that a **convertible bond** contains both **debt**

ption to convert into equity is strictly a derivative that is
ıtract.

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
:nds 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.

:ts 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
ıe 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
ıing 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 hol
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
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 deta
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

e of any

.

r to

asset to

ments

.0 per

ired to

efore,

inancial

ust

ME A

equity.

years

s'

at the

: at the
.ey are

unt to be
.t of the

' **the**

der's
the
avoid
;ued a
ragraph
liability
nent of
in

il about
cial

' SME A.

r
l asset to

ders of

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)