Part I. Basics of accounting

1 fin vs management accounting

Comparison between financial and management accounting

	Financial Accounting	Mar
Purpose	Record historic transactions	• a c • p c • r a
Audience	External parties – particularly shareholders, lenders and regulators	Inter the c
Legal requirements	• prepare financial statements (in accordance with legal requirements) • prepare accounts for tax authorities	• I • I

Comparison between financial and management accounting (cont.)

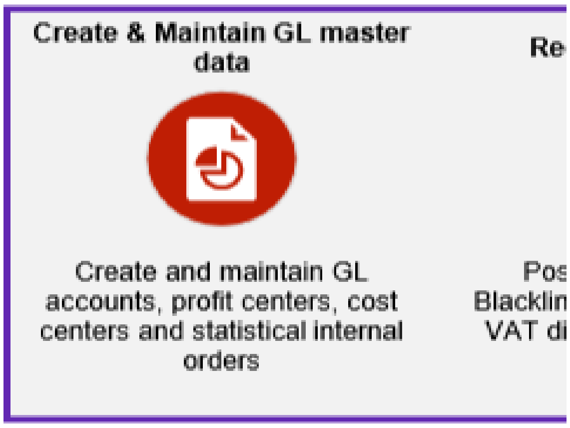
	Financial Accounting	Man
Format	Must conform to accounting and legal requirements	Prese easily
Perspective	Historic performance (i.e. backwards looking only)	Both plann histoi
Nature of Information	Almost entirely financial	Both
Frequency of Preparation	Usually once a year	As oft week depe mana

2 accounting cycle and double entry book keeping

- preparation of fin statements
  - transactions recorded in
  - subledger accounts are b
  - trial balance extracted fr
  - year-end adjustments m
  - trial balance used to pre
- books of primary entry (records in subledgers) -
  - sales day book
  - purchases day book
  - cash book (cash receipts
  - journals
- control accounts (records in general ledger) - ar
  - reconciliation (rec)

suspense accounts (incomplete records)

end-to-end period close includes:



3 accounting documents

Quotation	A written offer to provide goods particular price. No transaction therefore nothing is recorded in
Sales order	An order note for goods require
Purchase order	An order note for goods require
Goods received note	A list of goods received from a s recipient business.
Goods despatched note	A list of goods sent to a custom
Invoice	A demand for payment sent to
Statement	A document sent to a customer between the business and that
Credit note	A note sent to a customer who This reduces the amount owed
Debit note	A note sent to a supplier to returned. It is in effect a req a credit note.
Remittance advice	A document sent to a supplier sent to them. It details which in
Receipt	A note to confirm that paymen

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
Purchases returns day book (PRDB)	Returns of goods

5 accruals and prepayments

arises when moment of i

	Cash flow now
Income statement now	
Income statement late	Prepayment

Accrued expense

Accrued income

Prepaid expense

Prepaid income (aka deferred ir

Chapter 1

nagement Accounting
assist in controlling the business operations planning how the business will develop making decisions between alternatives
rnal management and owners of organisation
No legal requirement to prepare No set format for presentation

Chapter 1

nagement Accounting
ented in such a format as to be y understood by managers
future perspective (for ning and decision-making) and ric perspective (for control)
financial and non-financial
ten as necessary – daily, ly preparation or monthly, nding upon the needs of agers.

subledger accounts (e.g. customer accounts, vendor accounts)
balanced and closed off into control/general ledger (GL) accounts (e.g. debtor account, creditor account
om GL accounts
ade and GL accounts closed off
pare financial statements
- are used to update GL accounts

, cash paymens, petty cash)

re used to prepare trial balance

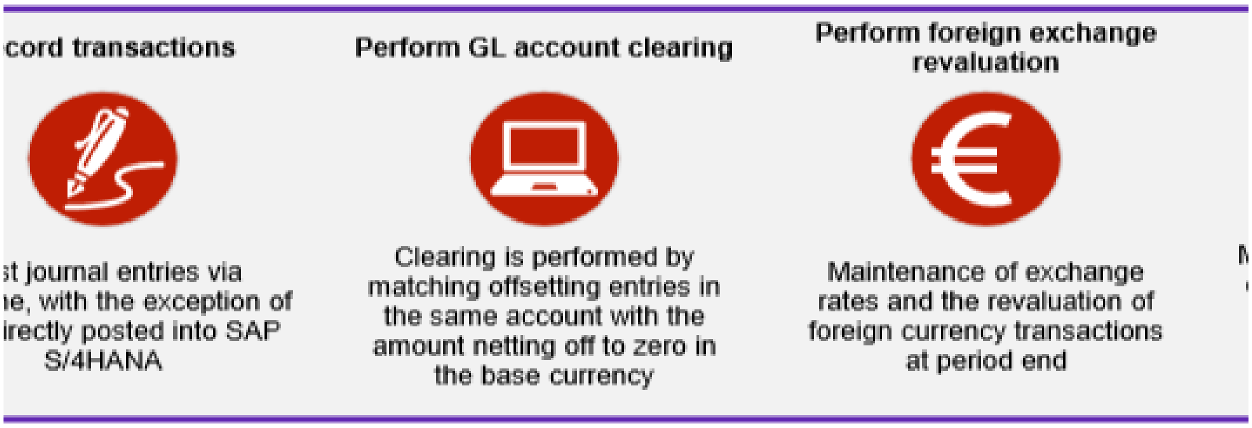
recs - means of checking that balancee on the control (GL) account agrees with balance on the ledger ac

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



s or services at a has taken place yet and ı the accounts.
ed by a customer.
ed from a supplier
supplier. Prepared by the
er. Prepared by the seller.
a customer.
r listing all transactions customer.
returns goods or overpays. by that customer.
whom goods have been quest for them to issue
alongside any payment nvoices are being paid.
t has been received.

sold on credit
purchased 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

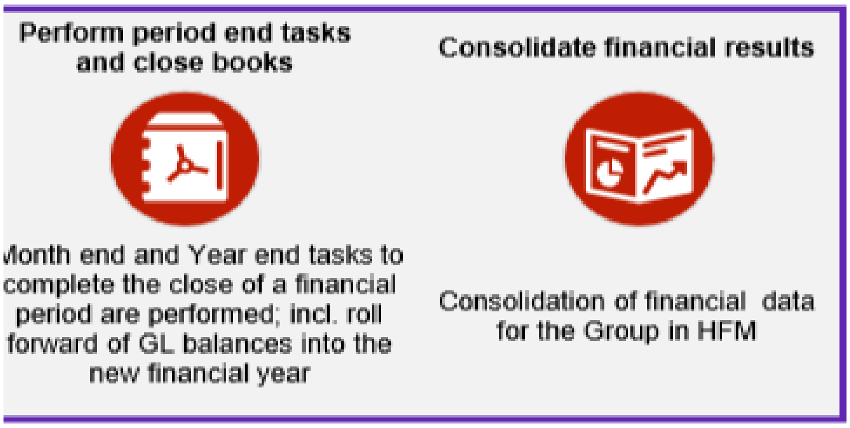
ıcome)

Db	Income (P/L)	Db	Deferred in
Cr	Deferred income (B/S)	Cr	Income (P/

etc.)

count

unts


Perform period end tasks and close books
Consolidate financial results
Month end and Year end tasks to complete the close of a financial period are performed; incl. roll forward of GL balances into the new financial year
Consolidation of financial data for the Group in HFM

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

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

0 impact oı

/L)
ɔense (B/S)

ıcome (B/S)
L)

release of a

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 sid (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; pla debited with $100
5 Reversal of entries – the amount is correct, the accounts u 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 delib

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

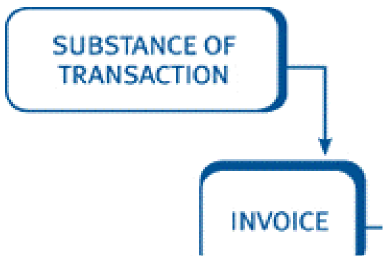
ı P/L when actual expense/income is received

ımounts from B/S into P/L

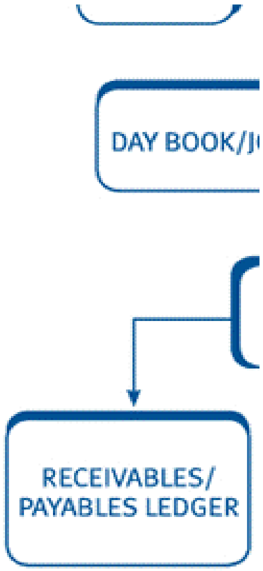
	Suspense account involved?
	No
e of the wrong account	No
he wrong type of account, nt account (asset) ssion, and once again	No
records and then posted ant repairs account is	No
sed are correct, but the rsa	No
ccount	Yes

https://kfknowledgebank.kaplan.c

A simple system can be illustrated as f



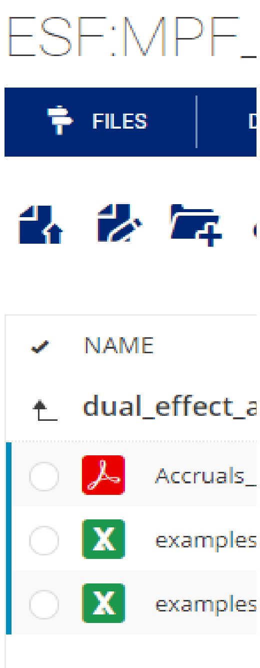
hase of a car is:	Yes
tracted, in preparing the	Yes
e the trial balance perate second error has a fraud). Yes, to correct	Yes, to correct each of the errors as discovered



			Income		
		accrued		prepaid	
et	profit incre	current asset		profit redu	currentliability

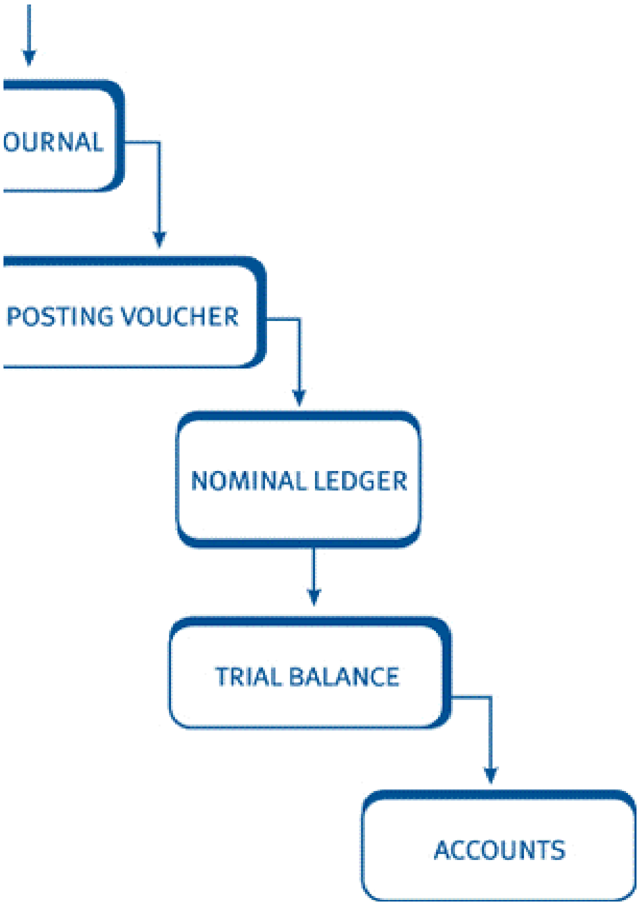
SUMMARY:

Basics of ac



co.uk/acca/chapter-8-systems-and-controls

follows:


OURNAL
POSTING VOUCHER
NOMINAL LEDGER
TRIAL BALANCE
ACCOUNTS

:counting
fin vs management accounting
accounting cycle and double entry book keeping
preparation of fin statements
books of primary entry (records in subledgers) - are used to update GL accounts
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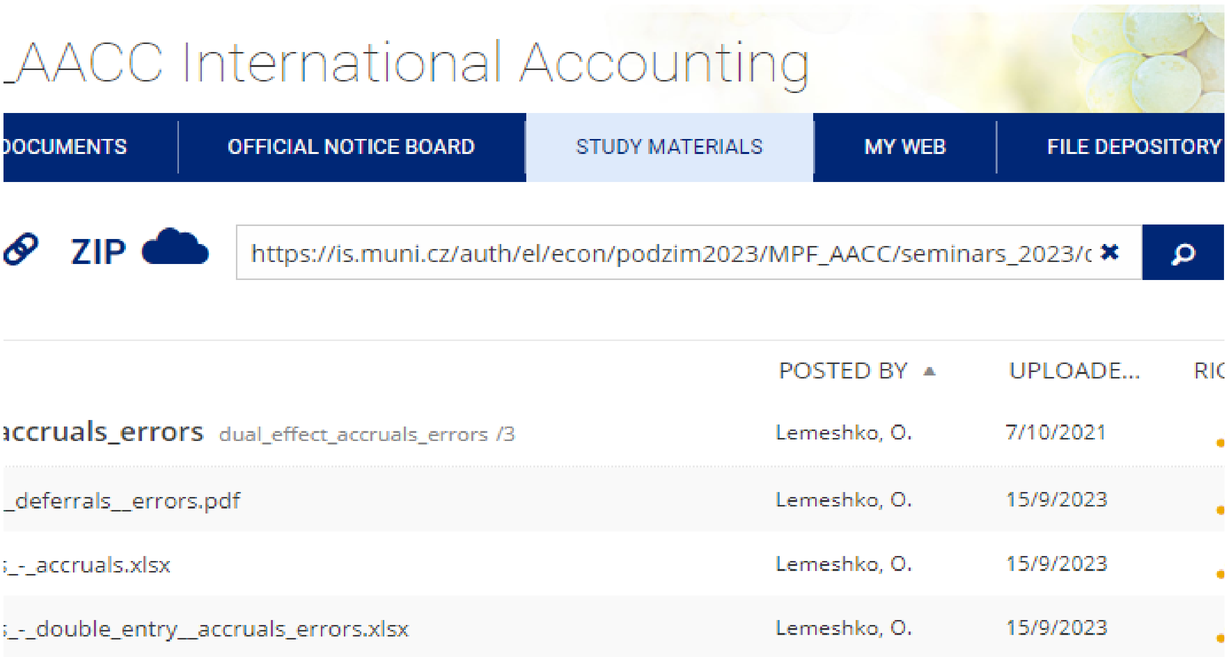
end-to-end period close includes:
accounting documents
accruals and prepayments



GHTS

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 standard

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 inte

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 Boa

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 (ED

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 enhan
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 w
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 o
    - 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 statements

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

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

an event after the reporting period is the event that occurs be

types of events and their impact on fin statements

adjusting events - provide additional evidence of c

non-adjusting events - conditions that did not exis

5 Accounting policy and accounting estimates

accounting policy - a set of rules (methodologies) for fin repor

change in accounting policy should be applied retı

change in policy should be caused by change in en

Note! When company applies new accounting policy for the fi

accounting estimate - professional judgement done by accour

change in estimate should be always based on nev

change in estimate should be accounted prospecti

6 Correction of prior period error

correction of prior period error is always based on

correction should be done restrospectively i.e. in t

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
ent 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
ed 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

g 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)

genda 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

funda

: 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

funda
charac

enh
chara

; activity in the foreseable future
ɔe recorded in PL in the period when they actually happened regardless of recipt/issue of invoice or cash payı
tatements cannot change fro period to period (otherwise information presented in such statements will not k
: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.
ısee 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
ɔf 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)
ıde
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 p
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
nent
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 grou

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 I

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

:tween the accounting year end and the date on which the fin statements are authorized for issue

onditions that existed before/at year-end date => fin statements need to be adjusted to include the impact o
t before/at year-end date => fin statements shouldn't be adjusted to include the impact of such event. EXCEP

ting applied by business
rospectively i.e. adjustment should be done to at least one period (fin year) from the past.
vironment of the business (external or internal)
rst time, it is not a change in exisitng policy, but first-time adoption of new one. Thus no retrospective adjust
ıtant when actual amount is not available e.g. duration of useful life of non-current asset, likelihood of collec
v information which was not available before (i.e. in the moment when original estimate was done)
vely i.e. starting from the current period

information which was available before (i.e. when original estimate was done or actual was calculated)
he period when the error happened.

ıining how transactions should be measured (historcial value or current value) and reporte
t have serios drawbacks:

vith by detailed specific rules or requirements. Such system is very prescriptive and inflexib

onal markets.

vork of juresdiction may include all of the following:

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

; revised.

ımental

amental
cteristics

ancing
cteristics

nents
oe comparable between periods)

nples

ı case of such lease - fin lease - lessee is user of leased asset during the assets economic life
are added to parent's assets). Legally the parent may own 51% only but in day-to-day econ
ntially with the showroom owner then the showroom owner must treat it as of it is its inve
d loan. Legally title mayhave passed to the bank but linking the two transactions together,

ric prudence'.

efits)
benfits

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

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

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

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 testir**
action costs. It is used for comparison with carrying amount in **cases of revaluations** (write

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

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

: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 wi

se they took place within the same entity and only transactions with the outside world mus

-acquisition retained earnings. Any difference between the two offseting amounts (i.e. bal
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	Substance of adj
	investment at cost	price paid for coı
	NCI at FV at acquisition date	price paid for coı
	(Net assets at FV at acquisition date)	value acquired fı
2	NCI adjustments - **total** value	
	NCI at FV at acquisition date	amount before c
	NCI % in post acquisition reserves of subsidiary	impact of consol
3	Consolidated reserves - **net total** value acquired	
	100% of reserves of parent at year-end	amount before c
	group % of post acquisition reserves in subsidiary	impact of consol
	(PUP adjustment (P sells to S))	remove double c

balance exists between parent and subsidiary then an adjustment should be made in grou

ded between such companies remain within the group at the reporting date, this creates 'u
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 Grou
apportioned between controlling and NCI), credit Group COS of such inventory, credit subs
ntory, credit Group inventory
such inventory, credit Purchasing entity's inventory (at difference between market price an

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

ıubsidiary's business result that arose after acquisition i.e. whilest under the control of the

uch revenue should be deducted from total consolidated revenue. The same should be doı

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

BS and the carrying amount is increased/decerased to recognize the investor's share of prc
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
Cr

Db
Cr
Cr/Db

Extra line: less unralized profit in non-current assets

f such event
TION: going concern is the only exception

ments are needed for this new policy.
tion of aged debt from customer, expected amount of delivery costs from 3d party (cost ac

d - i.e. how transactions are presented and communicated to users of fin statements

ɔle but has the attraction of fin statements being more comparable and consistent.

e: lessee capitalizes it at cash price, depreciates etc.
omic reality the parent can control the entire subsidiary.
ntory even though legally they belong to manufacturer until paid for
it is inventory of seller.

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

ıg the probability.

ıuld be determined:

ng

: downs or write ups)

ırt of Financing cash flow

2) as part of Investing cash flow

Amount of investment:
<20% of ordinary shares of acquire
20-50% of ordinary shares of acqui
=50% of ordinary shares of acquire
>50% of ordinary shares of acquire

th adjustment for any significant transactions in the 3 month period. if the period is greater than 3 mont

st be recorded in the consolidated accounts.

ancing figure) is recognized as goodwill

usting entries:
nsolidation
nsolidation
rom consolidation

onsolidation
idation

onsolidation
idation
ounting

ıp accounts in order to cancel the respective balance.

ınrealized profit'.

p at the year-end, there is PUP and adjustments to IC accounts are needed. The type of adjustment depe
idiary inventory

d transfer price if transfer price was higher i.e. profit) parent. If the acquisition occurred in the middle of the year, we should only include the second half of th

ne for COS: they need to be deducted from total COS.

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

ofit or loss of investee after date of acquisition.

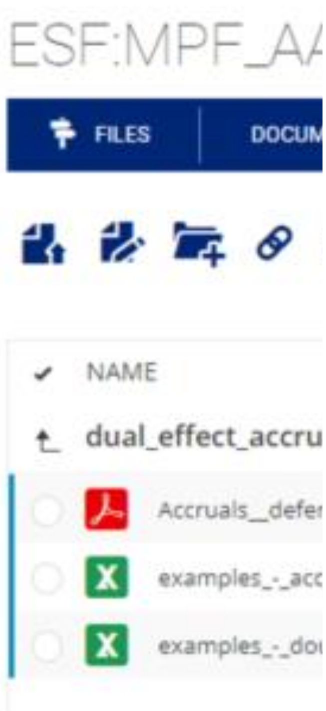
)

BS - as getting new resource for the business
CF statement - as outflow of cash

CF statement - as inflow of cash
BS - as taking out an existing resource from the business
P/L - as result on disposal

:crual)

SUMMARY: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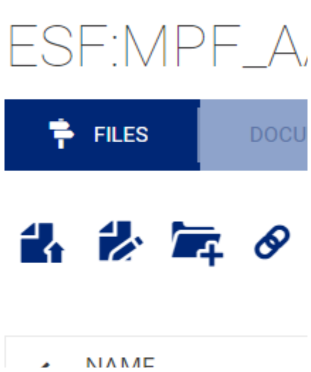
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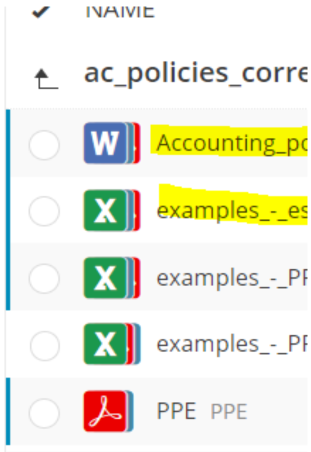
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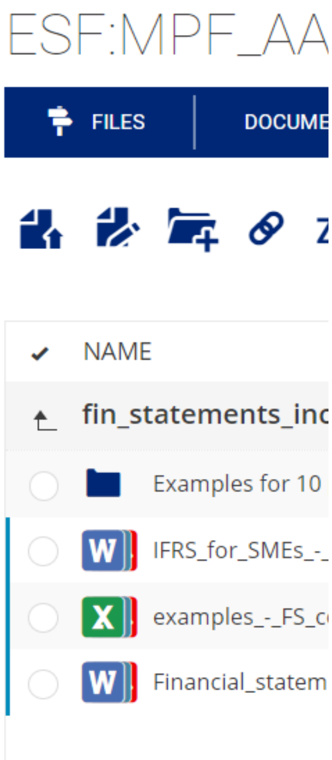
PPE PPE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Examples for 10
IFRS_for_SMEs_-_
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Financial_statem

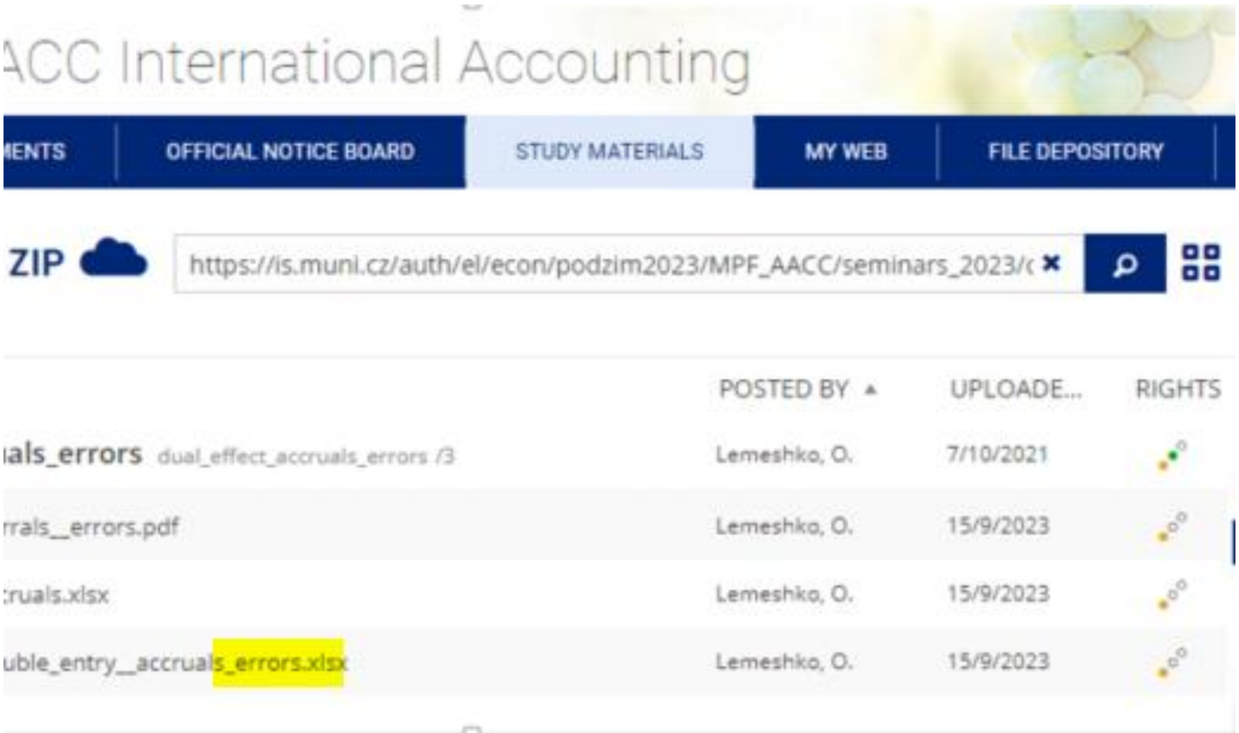
ɔf equity.

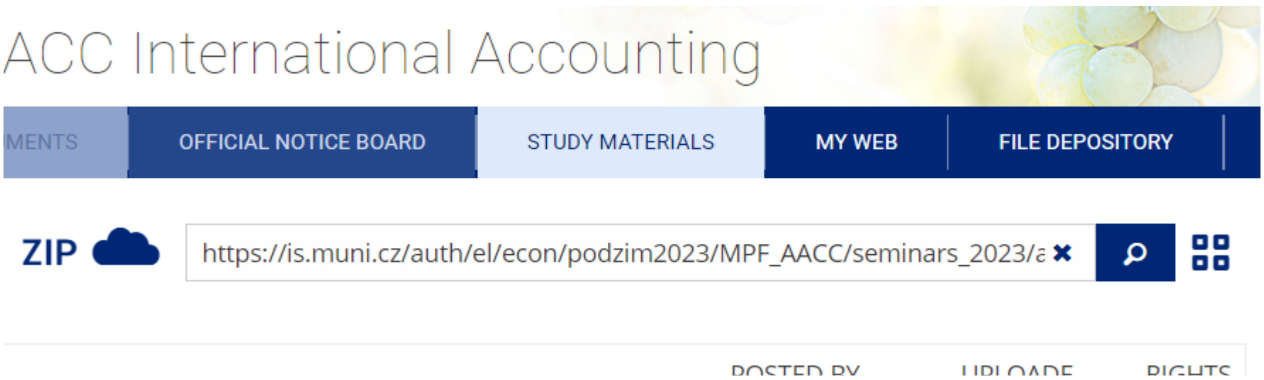
	Classification of investment	:hod of accounting to be app
d entity		cost method. Cost is measur
associate		equity method of accounting
joint venture		same like for associate i.e. e
subsidiary		consolidation method of acc

hs, then the draft fin statements for the subsidiary must be prepared for the purp ends on direction of original IC sale of inventory: from P to S (downstream IC trans ıe subsidiary's result for the year

Conceptual framework

- Role of Conceptual framework
- IFRS
  - Advantages of adoption of IFRS
  - Structure of IFRS
  - Standard setting process
- Fin statements
  - information presented in fin stateme
  - principles/assumptions for preparati
  - elements of fin statements
  - types of statements
- Events after the reporting period (i.e. after year-end)
- Accounting policy and accounting est &





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lied
red at fair value
g for such investment. Use of equity method is based on assumption that investor can exert a significant influen
quity method
counting for such investment. Use of consolidation method is based on assumption that investor exerts a full co

pose of consolidation

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

:nts - quality characteristics
on of fin statements
& reporting of elements of fin statements
& consolidated financial statements

Correction of prior period error

ce over the investee (purchased company). Two companes - investing company and associate - become togethe

ntrol over the investee (purchased company). Two companes - parent company and subsidiary - become togethe

		if 50% by both sid
0%	**20%**	**50%**
	investment	
	associate or affiliate	

· a joint venture

·r a group.

es => join venture

	100%
subsidiary	

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 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 incurr

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, the
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 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 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 lifetin
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 goodwill
e.g.

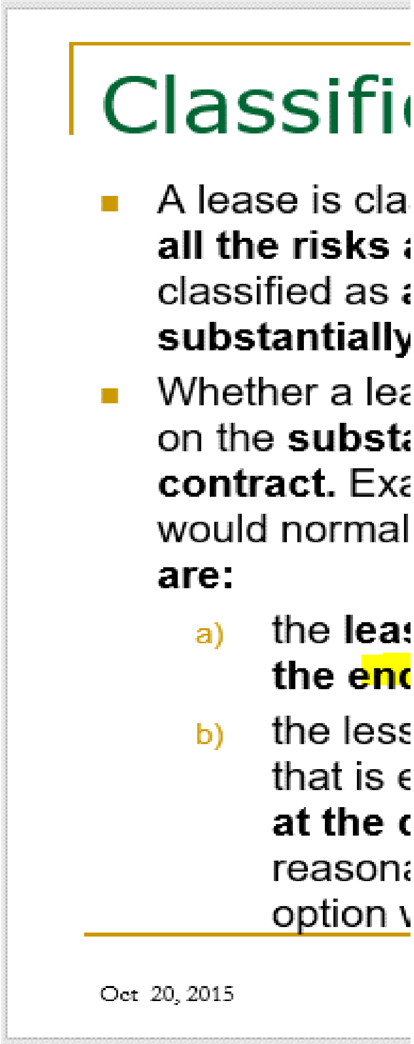
at NCI's proportionate
e.g.

3 Right-to-use asset (lease) - IFRS 16 and IFRS for SME section 20

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. 13
definition
it is property intended for consumption or sale in the orc
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 ir
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 ir
During the year:

Db	Purchases (PL)
Cr	Trade payables

continuous accounting with valuation of stocl

During the year:

Db	Stock (BS)
Cr	Trade payables

Impairment test
Inventories should be tested for ir
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 IFRS for SME section 17
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 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)

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

ts 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
owing 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
:d 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
uld be revalued with sufficient regularity so that their carrying amount is not significantly different from their fa
evaluations 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 ca	
Cr	PPE -	loss on revaluation

:d 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
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
ontactual rights

sset 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 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
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 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 ɔreciation 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

ɔutwards)
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 (P/L)
Cr	Stock

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

ish-generating unit exceeds its recoverable amount

eir recoverable amount
d on a consistent basis

it the reporting date

ademark, perpetual franchise)
or 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

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 ꞓ measurement is possible

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

ꜰ 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.

ın 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 economic lif** **the asset** even if title is not transferred.

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

e) **gains or losses** from the **fluctuation in the residual va** **of the leased asset** accrue **to the lessee** (e.g. in the for a rent rebate equaling most of the sales proceeds at the of the lease).

f) the lessee has the **ability to continue the lease for a secondary period at a rent** that is substantially **lower tl** **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 used - weig and generally for a maximum of 5 years.

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

tions or in the intended use of asset

SUMMARY:

PPE - IAS 16 and IFRS for SME section 17
- definition
- recognitior & derecogniti
- measurement
  - assets of PPE are intia
  - assets of PPE are subs

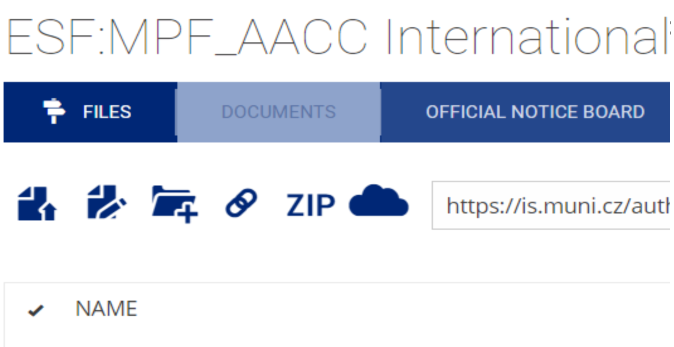
Intangible assets - IAS 38 and IFRS for SME se
- definition
- recognitior & derecogniti
- measurement
  - intangible assets are i
  - subsequent measurem

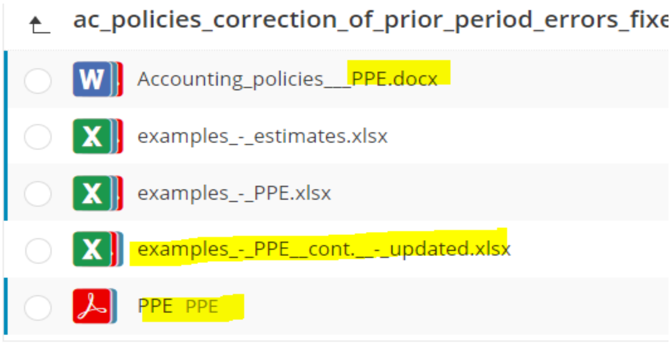
Right-to-use asset (lease) - IFRS 16 and IFRS fo
- classification of lease
- recognition
- measurement
- presentation in BS:
- lease payments

Stock - IAS 2 and IFRS for SME par. 13
- definition
- recognitior & dereconitic
- measurement
  - initially stock is measu
  - subsequently carrying

Impairment of assets IFRS for SME section 17
- objective of impairment testing:
- impairment testing is required:
- impairment loss arises where:
- cash-generating unit (CGU)
- accounting for impairment loss
- reversal of previously recognized i

g the development period, or "made-to-order

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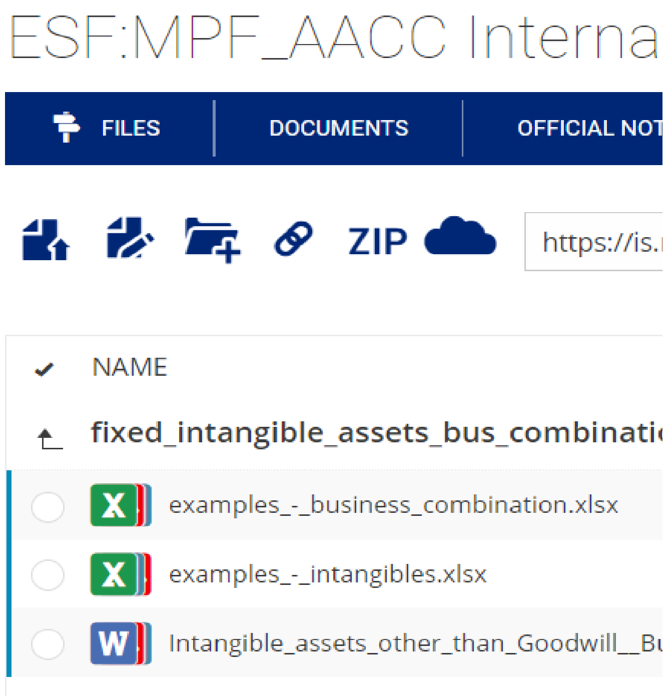
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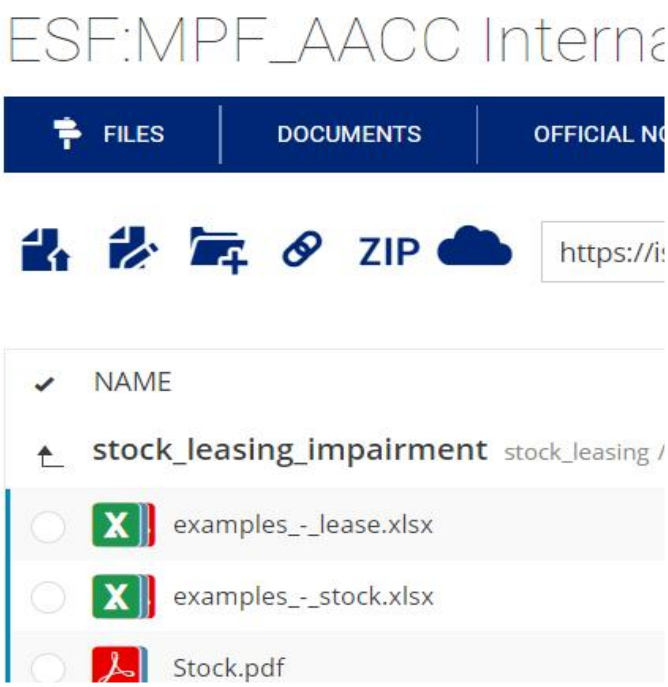
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Lease.docx

examples_-_impairment.xlsx

Impairment_of_assets.docx

Impairment.pdf

fe of

alue
rm of
end

han

hted average and FIFO (first-in first-out)

ion - item of PPE is derecognized from evidence when:

lly measured at cost
equently measured through either cost model or through revaluation model
ection 18

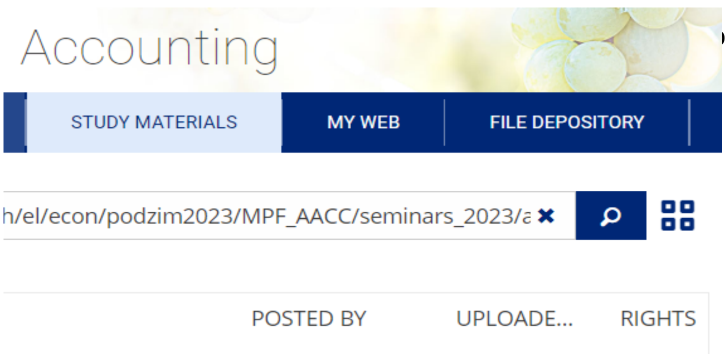
ion - see rules for item of PPE

ntially measured at cost or at fair value
ent of intangible assets
or SME section 20

on - see rules for PPE

red at cost
amount of stock is subsequently estimated by one of the following three approaches depending on the
y

impairment loss



laces an order for it). An asset that norma

ed_tangible_...	Lemeshko, O.	11/11/2021	
	Lemeshko, O.	11/11/2021	
	Lemeshko, O.	11/11/2021	
	Lemeshko, O.	11/11/2021	
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ational Accounting

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e type of accounting applied to company's stock:

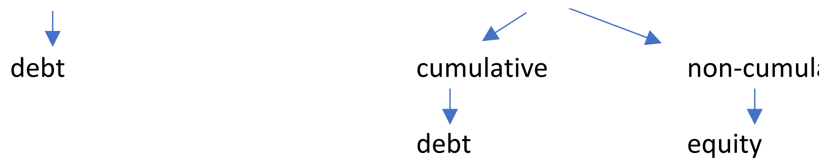
lly takes more than a year to be ready for use will usually be a qualifying asset.

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

/ 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
est or contractual cash flow test

tion
r entity
:r 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

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-e

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

SUMMARY:

Financial instruments - IAS 32, IFRS 9, IAS 36 a

FI is a contract that gives rise to the fin asset

e supply provided and buyer has liability to provide settle fin assets

recognition

classification and measurement

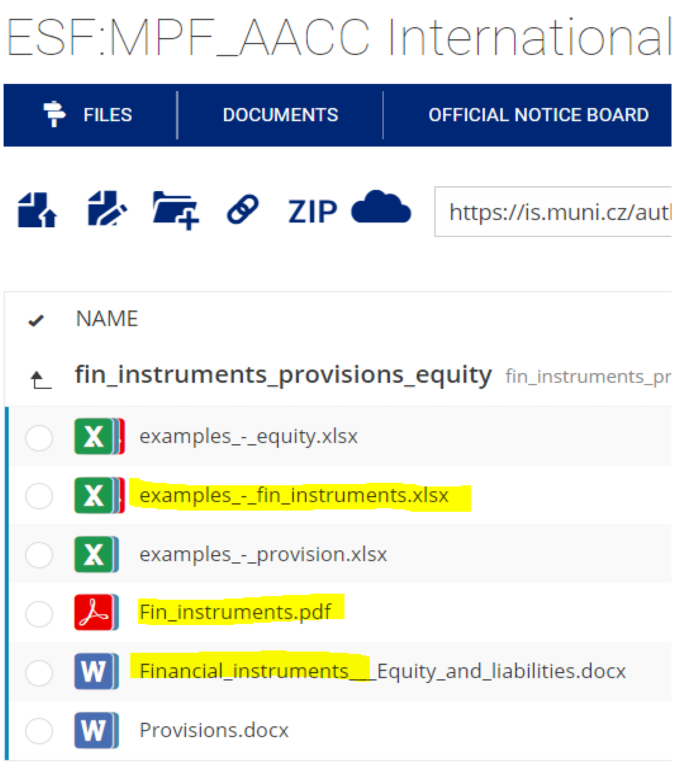
fin liabilities

recognition

classification and measurement

quity) - a key measure that users of fin statements use to equity instrument is any contract that eviden

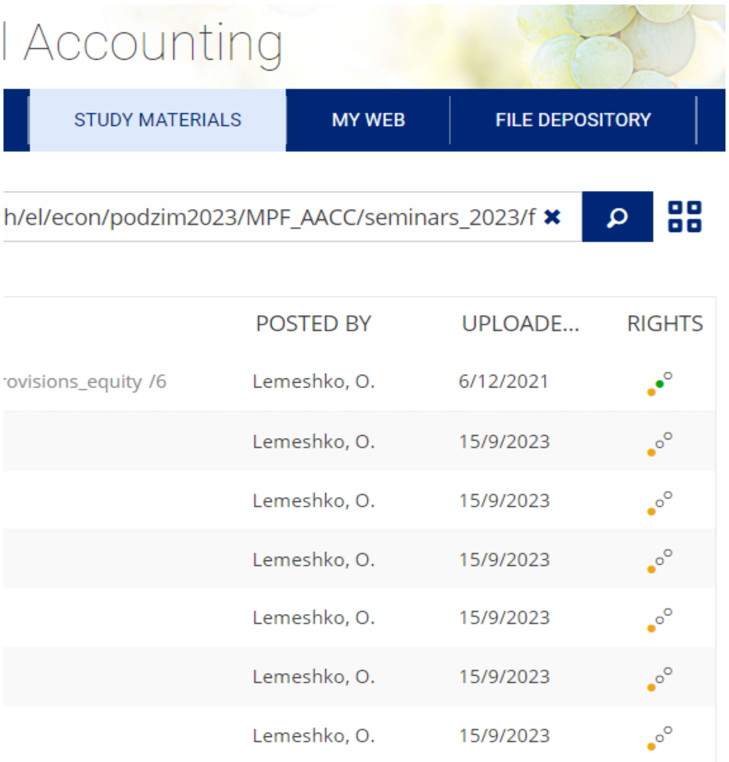
see "Fin insturments - measurement notes" fi



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

ɿnd IFRS for SME par. 11
of one entity and to the fin liability or equity instrument of another entity. Simpliest example of such c

ces a residual interest in the assets of an entity after deducting all of its liabilities.
ile



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

ontract (i.e. basic fin instrument) is trade receivable when company sells its goods on credit. Seller has

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

right to receive settlement for the supply provided and buyer has liability to provide settlement for su

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

ıpply received at given point of time in the future at agreed amount. Most complicated examples (i.e. c

ɔnd)

ther fin instruments) contain structured products and derivatives.

Part V. Liabilities and equity

Liabilities - IAS 37 (provisions) and IFRS for SME par. 21

Provisions

provision is recorded in fin statements where

an entity has a present bligation (legal* o

it is probable*** that an outflow of resou

a reliable estimate can be made of the an

Provision is a liability of uncertain timing or amount

Measurement

the best estimate of the expenditure requ

if a large population of items is involved,

where time value of money is material, th

Contingencies

Contingent liability

a possible obligation that arises from past

it is a present obligation that arises from

it is not probable tha

the amount of the ol

Contingent liability is disclosed in notes to

Contingent asset

Contingent asset is a possible asset that a

Contingent asset is disclosed in notes to

Warranties (legal obligation)

a mnaufacturer gives warrany at the time of sale to purchaser

Present obligation as result ofpast event - the obligating event

A provision should be recognized for the best estimate of the

Onerous contract (legal obligation)

An onerous contract is a contract in which the aggregate

Prudence would require that if a future liability is foreseen we

Dr	PL
Cr	Warranty provision

Restructuring

It inclused sale or termination of business, closure or relocatio

Provision should be recognized if a constructive obligation exis

detailed formal plan for the restructuring

valid expectation has been raised in those

No obligationb arises for the sale of an operation until the ent

Future repairs or refurbishments

some assets require substantial expenditure every few years f

Future operating losses

No porvision is allowed for future operating losses.

Equity - there is no specific IFRS for equity; basic guidance can be found in IAS 1, IAS

recognition

a. shares are issued before receipt of cash or other assets

Receivables for shares issued	Share capital

b. cash or other assets have been received before shares are issu

Consideration received (bank)	Advance received fo

measurement

a. consideration is received within normal business terms

at (FV - transaction costs)

b. receipt of consideration is deferred

at PV

special cases

bonus issue - is an issue of new shares to existing shareholders

Db Share premium

Cr Share capital

rights issue (option issue) - issue of options to existing shareho

Db Cash

Cr Option reserve

Db Cash

Cr Share capital

(Cr Share premium (in ca

Db Option reserve

Cr Share capital

share split - division of issued shares of an entity into a greate

no double entries are required. A memo e

treasury shares - an entity's own repurchased shares. By doing

Db Share capital

Cr Cash

distributions to shareholders

a. monetary distributions

Db

Cr

b. nonmonetary distributions

Db

Cr

convertible debt (bond) - can be either redeemed for cash or converted i

liability and equity components needs to be separated

principle as debt compoment - needs to b

option to convert principle into ordinary s

Db

Cr

Cr

r constructive**) as a result of past event and
ırces embodying economic benefits will be required to settle the obligation and
nount of obligation

ıired to settle the present obligation
expected values can be used to measure the required provision.
ıe amount of provision should be discounted to its present value using pre-tax rate. Subsequent unwind of disco

t events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncer
past events but it is not recognized because:
ıt an outflow of resources embodying economic benefits will be required to settle the obligation or
bligation cannot be measured with sufficient reliability
ɔ fin statements unless the related outflow of resources embodying economic benefits is remote.

ırises from past events and whose existence will be confirmed only by the occurance or non-occurrence of one c
fin statements unless the related inflow of resources embodying economic benefits is remote.

s of its products. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair
: is the sale of the product with warranty (legal obligation)
costs of making good under warranty products sold before BS date.

cost required to fulfill the agreement is higher than the economic benefit to be obtained from it
shuld recognize it (i.e. provision with uncertain timing)

ın of a business, change in management structure, fundamental reorganizations.
sts:
has been identified
e affected that it will be carried out by either implementing the plan or announcing it to those affected.
ity is committed to the sale i.e. there is a binding sale agreement.

or major repairs or refurbishments and replacement of major components. Before IAS37 was introduced compa

B, IAS 16, IAS 32 and 39; in IFRS for SME par 22 ıed

r shares to be issued

s, in proportion to their existing shareholding, for no cost or consideration. The company receives absolutely no

olders by using which existing ordinary shareholders can purchase additional ordinary shares with some discount

ase when even with discount the new market price of 1 share is still higher than nominal value)

r number of shares without any further consideration from the shareholders. By doing this entity reduces marke

entry is normally made to reflect the fact that the split has occurred and that the par value has changed proporti

; this entity increases market price of its outstanding shares (the share count is permanently reduced, which cau

Retained earnings or Share premium
Cash

Retained earnings or Share premium
PPE - at FV

nto ordinary shares at maturity. Convertible bonds are a type of compound financial instrument with characteris

e recorded at amortized cost as fin liability (i.e. by discounting the future cash flows of the bonds (interest and
shares as equity component - needs to be recorded as derivative (equity) i.e. at FVTPL where FV is initially measu

Cash
Fin liability - convertable bond at PV
Equity - embaded conversion option as balancing figure

*	legal obligation derives from: a contract, legislation
**	constructive obligation derives from entity's actions where: by an established p
***	IAS37 states that an event is probable if the event is more likely to occur. Practi

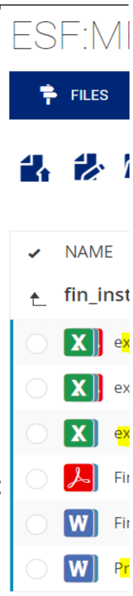
SUMMARY:

›unt is recorded as finance cost in PL.

tain future events not whole within the control of the entity or

›r more uncertain future events not wholyy within the control of the entity.

or replacement, manufacturing defects that become apparent within given time (e.g. 2 years in CZ) frc



nies used to created provisions for such future repairs but currently as per IAS37 it is forbid‹

money for it, they’re given away free of charge. By doing this entity reduces market price of its outstar

t to the fair value of the share in the future.

t price of its outstanding shares

ionally.

ses the remaining shares present in circulation to represent a larger percentage of shareholder owners stics of both liability and equity.

principle) at the rate of a similar debt instrument)
ured as difference between the present value of the liability component of the convertible bond (as me

atter of past practice, published policies the entity has indicated to other parties that it will accept cert
cally, this means that if and event has more than 50% likelihood of occuring, then it is probable.

:

Liabilities and equity

Liabilities - IAS 37 (provisions) and IFRS for SME par. 21

Provisions

Contingencies

Warranties (legal obligation)

Onerous contract (legal obligation)

Restructuring

Equity - there is no specific IFRS for equity; basic guidance can be found in IAS 1, IAS 8, IAS

recognition

measurement

special cases

bonus issue - is an issue of new shares to existing shareholders, in pı

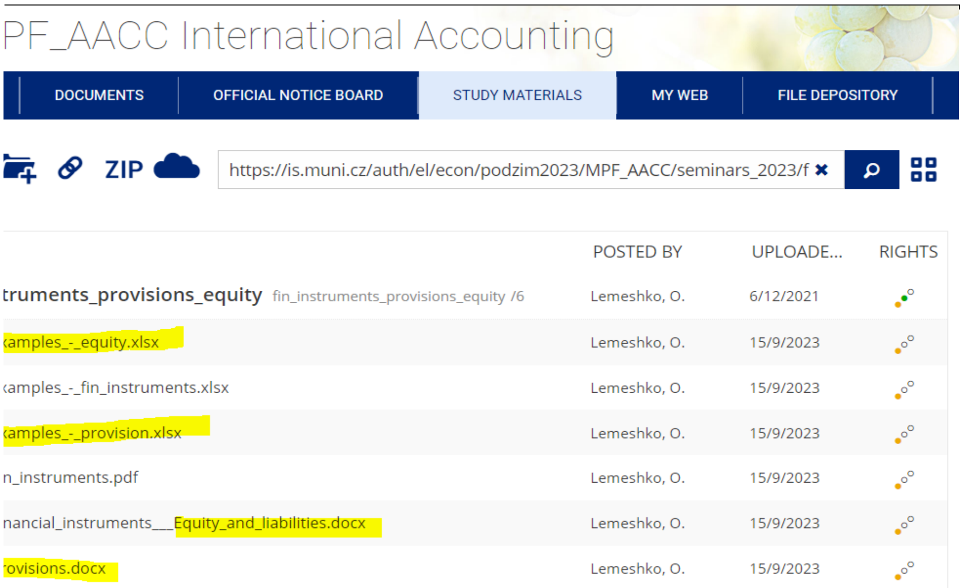
rights issue (option issue) - issue of options to existing shareholders

share split - division of issued shares of an entity into a greater numl

treasury shares - an entity's own repurchased shares. By doing this e

ım the date of the sale distributions to shareholders

convertible debt (bond) - can be either redeemed for cash or converted into or



ıding shares. It also can be considered as reward for loyalty as for each additioanl share every sharehol

ship, including dividends and profits)

entioned above) and the total proceeds from the issue of such bond. It is residual approach.

:ain responsibilities

16, IAS 32 and 39; in IFRS for SME par 22

roportion to their existing shareholding, for no cost or consideration. The company receives absolutely
by using which existing ordinary shareholders can purchase additional ordinary shares with some disco
ber of shares without any further consideration from the shareholders. By doing this entity reduces ma
entity increases market price of its outstanding shares (the share count is permanently reduced, which

dinary shares at maturity. Convertible bonds are a type of compound financial instrument with charac lders gets entitlement for dividends (when they will be announced by the company)

no money for it, they’re given away free of charge. By doing this entity reduces market price of its out
ount to the fair value of the share in the future.
arket price of its outstanding shares
causes the remaining shares present in circulation to represent a larger percentage of shareholder ow

teristics of both liability and equity.

=>

standing shares. It also can be considered as reward for loyalty as for each additioanl share every share

nership, including dividends and profits)

eholders gets entitlement for dividends (when they will be announced by the company)

Part VI. Revenue & deferred income tax

- Revenue - IFRS 15 (replaced IAS18 Revenue and IAS 11 Construction contracts) a
  - general info
    - new standard specifies how and when a company will re
  - definitions
    - revenue is income arising in the course of an entity's ord
    - income is increases in economic benefits during the acco
    - a contract is an agreement betweent two or more partie
    - a customer is a party that has contracted with an entity t
  - recognition - 5-step approach. The effect of this approach is that rev
    - 1. Identify the contract
      - Contract can have a written and non-written
      - Should be approved by parties, and have a co
      - Should create enforceable rights and obligati
      - Should have a consideration established takir
      - New contracts may arise when terms of existi
        - New contract arises as a result of
        - Continuation of an existing contra
    - 2. Identify separate performance obligations
      - A performance obligation is a distinct promis
      - Performance obligation is distinct when its fu
        - The following are examples of circ
          - providing goods at scra
          - activities relating to in
      - Identifying performance obligations may resu
        - Unbundling a contract may apply
        - Circumstances which could result
          - it is negotiated as a pa
          - consideration for one
    - 3. Determine the transaction price
      - Transaction price is the most likely value the
      - May include significant financing component
        - may arise as a result of discounts,
        - variable consideration is only reco
        - no revenue is recognised if the ve
          - instead a provision ma
          - the restriction results i
        - variable consideration is measure
          - expected value for the
          - single most likely outc
      - Adjustments for the effects of the time
        - if a financing component is s
          - cash received in advan
          - cash received in arrear
        - no adjustment for a financing

no adjustment for a financing

consideration is variab

the difference betwee

4. Allocate transaction price to performance obligations

Allocation is based on the standalone selling

Allocation of transaction price may include al

on a proportionate basis to all per

to specific performance obligatior

observable evidence e

Contract modifications may require reassessr

5. Recognise revenue when each performance obligation

The point of revenue recognition is the point

May result in revenue recognition at a point i

Recognition over time applies whe

the customer simultan

the vendor's performa

How to recognise revenue o

output method - direc

input method - based

The vendor's performance creates an asset, v

the asset has *no alternative us*

the v*endor is restric*

the asset is manufactu

the entity cannot prac

no such practical or co

the vendor *has an enforceable*

the vendor does not have an enfo

terms of contract allov

the customer can pay

Capitalisation of costs associated with

Only incremental costs of obtaini

direct sales commissio

costs of running a lega

Capitalise – if expected to be reco

Amortise on a basis that is consist

Deferred income tax - IAS 12 and IFRS fo SME par. 29

general info:

deferred tax is tax that is payable in the future in respect

temporary differences - differences between the carryin

Within financial statements, non-curre

example:

A non-current asset costing $2,000

straight line over four years, resulti

$2,000 of depreciation is being cha

1	
	Year 1
	Year 2
	Year 3
	Year 4
	Total capital allowances

The ***movement*** in the deferred tax lia

increase in liability => increase in t
decrease in liability => decerase t

Revaluation of non-current assets and deferred tax

When an NCA is revalued to its curren

Asset with acquisition price of 2k a

Year 2
Opening balance
Depreciation charge / capital allowance
Revaluation
Closing balance

Other cases when temporary difference will arise:

- impairment of non-current assets
- WOF of stock

and IFRS for SME par. 23

cognize Revenue as well as requiring them to provide users of fin statements with more informative, re

inary activities.
ounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in
s that creates enforceable rights and obligations.
to obtain goods or services that are an output of entity's ordinary activities in exchange for consideratio
venue is recognized when control over the goods or services promised in the contract is provided.

form or be implied (contract may not be limited to goods or services explicitly mentioned in a contract
ommercial basis
ons between parties
ng into account ability and intention to pay
ing contracts are modified
modifications if a new performance obligation is added to a contract. If a customer orders additional u
ict arises when no distinct goods or services are provided as part of the modification. For example: a cu

e to transfer specific goods or services, distinct from other goods or services
lfilment is separable from other obligations in the contract – goods or services offered are not integrat
cumstances which do not give rise to a performance obligation:
ap value
ternal administrative contract set-up
ult in unbundling contracts into performance obligations, or combining contracts into a performance ob
when incentives are offered at the time of sale, such as free servicing or enhanced warranties. In this c
in contracts being combined
ckage with a single commercial objective
contract depends on the price or performance of the other contract

entity expects to be entitled to in exchange for the promised goods or services supplied under a contra
s and incentives and non-cash amounts offered (all are knows as variable amounts of consideration), w
rebates, refunds, credits, concessions, incentives, performance bonuses, penalties, and contingent pa
ognised when it is highly probable that there will not be a significant reversal in the cumulative amount
ndor expects goods to be returned
itching the asset is recognised at the same time as the asset, with an adjustment to cost of sales
n a later recognition of revenue and profit (once there is certainly the goods will not be returned) in co
d by reference to two methods
contract portfolio (for a large number of contracts), or
ome amount (if there are only two potential outcomes)
value of money (a 'financing component'):
significant, IFRS 15 requires an adjustment to be made for the effect of implicit financin
ice from buyer – vendor to recognise finance cost and increase in deferred revenue
s from buyer – vendor to recognise finance income and reduction in revenue
g component is needed if payment is settled within one year of goods or services trans

ȷ component is needed if payment is settled within one year of goods or services transf
ıle and the amount or timing depends on factors outside of parties' control
n the consideration and cash selling price arises for other non-financing reasons (ie performance prote

price of goods or services forming that performance obligation
location of discounts, which are applied:
formance obligations based on the stand-alone selling price of each performance obligation (observab
ns only, if
xists evidencing that the discount relates to those specific obligations only; and
nent how consideration is allocated to performance obligations.
ı is satisfied.
when performance obligation is satisfied, per each distinctive obligation
n time or over time
en:
eously receives and consumes the asset/service as the vendor performs the service, or
nce creates or enhances an asset (for example, work in progress) that is controlled by the customer as
ver time:
t measurement of the value of goods or services transferred to date for example per surveys of comple
on measures such as resources consumed, costs incurred (but see below re contract set up costs), num
vhen:
e to the vendor:
ted from using the asset for any other purpose other than selling it to that specific cust
red to specific specifications or delivery time, meaning that from the point of commencement of asset
tically or contractually sell the asset to a different customer as it would be practically and contractually
ntractual limitations would apply if the entity production is that of identical assets in bulk, and those a
e right to be paid for work completed to date
rceable right to pay when, for example:
v customer to cancel or modify the contract
an amount other than the value of the asset or service created to date (ie compensation only)
ı a sale contract (for example bidding costs, sales commission)
ıg a contract (which would not have been incurred if the contract had not been obtained) to be conside
ns payable if contract is awarded - include
l department proving an across-business legal support function - exclude
vered (contract will generate profits)
ent with the transfer of the goods or services specified in the contract

: of taxable temporary differences
g amount of an asset (or liability) within BS and its tax base ie the amount at which the asset (or liabilit
nt assets with a limited economic life are subject to depreciation. However, within tax c

ı was acquired at the start of year 1. It is being depreciated
ng in annual depreciation charges of $500. Thus a total of
ırged. The capital allowances granted on this asset are:

	$	Year
	800	1
	600	2
	360	3
	240	4
	2,000	

bility in the year is recorded in the statement of profit or loss where:

tax expense in PL
ax expense in PL

3

Year
Opening
Increase

Closing

4

Opening
Increase *Tax rate* *tempora*
Closing *Tax rate*

5

Profit b
Deprec
Capital
Taxable

Tax liat
@ 25%
taxable

6

Income

Increas

Total ta

ıt value within the financial statements, the revaluation surplus is recorded in equity (in

and useful life of 4 years (example above) was revalued to 2.5k at the end of 2d year

Carrying value	Tax base

(Cost - accumulated depreciation) $	(Cost - accumulated capital allowances) $	Temporary difference $
1,500	1,200	300
(500)	(600)	100
1,500	-	1,500
2,500	600	1,900

elevant disclosures. This standard provides a single, principles-based 5-step model to be applied to con

an increase in equity other than those relating to contributions from equity participants.

on.

, but also include those expected to be delivered due to business practices or statements made)

nits at a later date, the additional order is considered distinct, even if the order is for identical goods
istomer negotiates a discount in relation to units already delivered, for example due to unsatisfactory

ted or dependent on other goods or services provided already under the contract; the obligation provic

bligation, to recognise revenue correctly.
ase servicing and warranties are performance obligations that are distinct and revenue relating to ther

ict
which affect how revenue is recognised
yments
of revenue recognised to date

omparison with current accounting

g

ferred

ferred

ction)

le or estimated), or

the work progresses.

etion to date, appraisals of results achieved, milestones reached, units produced/delivered; or
ber of hours per time sheets or machine hours, which are directly related to the vendor's performance

tomer, for example
creation, it is clear the asset is for a specific customer
prohibitive (for example would require a costly rework, selling at a reduced price, or if customer can p
ssets are interchangeable

ered, for example:

y) is valued for tax purposes by the relevant tax authority.Taxable temporary differences are those o
omputations, non-current assets are subject to capital allowances (also known as tax d

Carrying value (Cost - accumulated depreciation) $	Tax base (Cost - accumulated capital allowances) $	Temporary difference $
1,500	1,200	300
1,000	600	400
500	240	260
Nil	Nil	Nil

	1 $	2 $	3 $	4 $
g deferred tax liability	0	75	100	65
e/(decrease) in the year	75	25	(35)	(65

deferred tax liability	75	100	65	(

	$	
ɟ deferred tax liability	X	As given in the trial balance
e/(decrease) in the year *% x increase / decrease in year-end taxable ıry differences*	X/(X)	This is taken to the taxation charge the Income Statement
deferred tax liability *% x year-end taxable temporary differences*	X	This is reported in the Statement of Financial Position

	Year 1 $	Year 2 $	Year 3 $	Ye
ɩefore tax	10,000	10,000	10,000	10,0(
ciation	500	500	500	5(
l allowances	(800)	(600)	(360)	(24
e profits	9,700	9,900	10,140	10,2(

bility s of e profits	2,425	2,475	2,535	2,56

	Year 1 $	Year 2 $	Year 3 $	Ye
e tax	2,425	2,475	2,535	2,5
se/(decrease) due to deferred tax	75	25	(35)	((
ax expense	(2,500)	(2,500)	(2,500)	(2,5(

a revaluation reserve) and reported as other comprehensive income. While the carryir

SUMMARY:

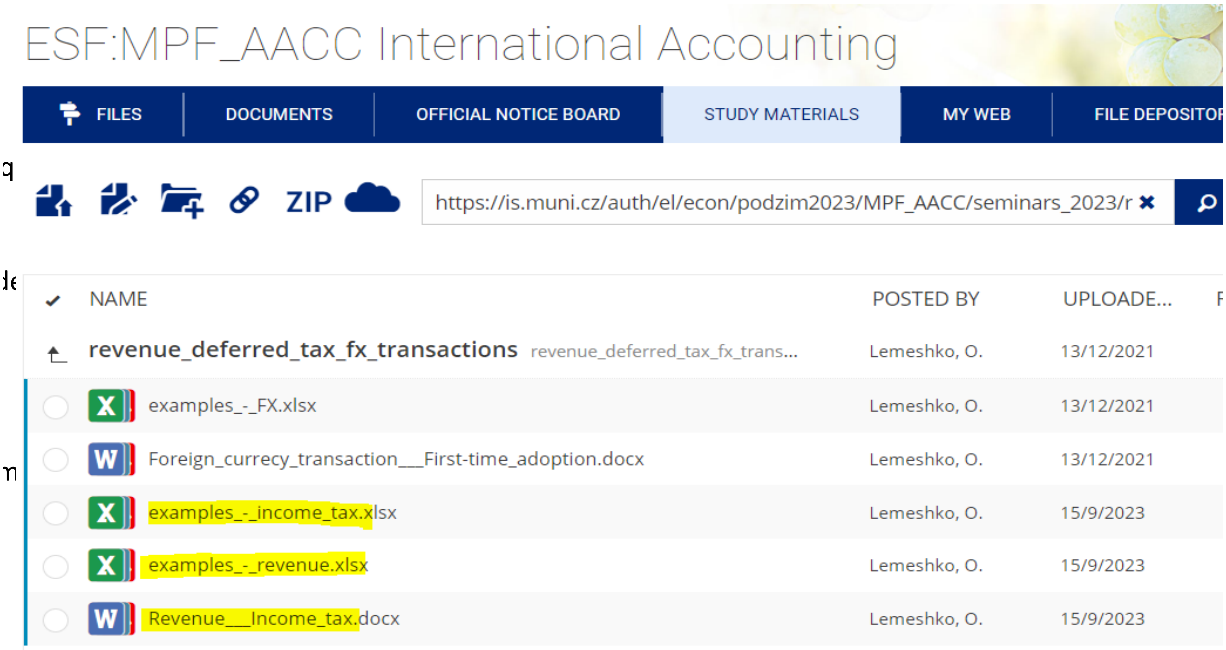
Revenue - IFRS 15 (replaced IAS18 Revenue and IAS 11 Construction contracts) and IFRS for
tracts with customers. definitions

recognition - 5-step approach. The effect of this approach is that revenue is rec

1. Identify the contract
2. Identify separate performance obligations
3. Determine the transaction price
4. Allocate transaction price to performance obligations
5. Recognise revenue when each performance obligation is satisfied

Deferred income tax - IAS 12 and IFRS fo SME par. 29

general info:



e

prohibit redirection)

n which tax will be charged in the future when the asset (or liability) is recovered (or settled).
depreciation) at rates set within the relevant tax legislation. Where at the year-end the c

4
S

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0

e in

f

ar 4 $
00
00
0)
60

:65

ear 4 $
:65
65)
00)

ng value of the asset has increased, the tax base of the asset remains the same and sc

SME par. 23

ognized when control over the goods or services promised in the contract is provided.

.

.

:umulative depreciation charged and the cumulative capital allowances claimed are dif

ɔ a temporary difference arises. Tax will become payable on the surplus when the asse

ferent, the carrying value of the asset (cost less accumulated depreciation) will then be

et is sold and so the temporary difference is taxable. Since the revaluation surplus has

different to its tax base (cost less accumulated capital allowances) and hence a taxab

been recognised within equity, to comply with matching, the tax charge on the surplus i

le temporary difference arises.

is also charged to equity.

IAS 21 and IFTS for SME par. 30

- recognition
  - Entity level
    - functional currency - the currency of the primary econor
      - determinants
        - This currency should be the one ir
        - in which the entity normally gener
      - All transactions in currencies other than the f
      - Once decided on, the functional currency doe
    - presentation currency - the currency in which the financi
      - Assets and liabilities (including any goodwill a
      - Income statements - at the spot rate at the da
      - All exchange differences are recognised in a s
  - Group level
    - At the group level, various entities within a multinational
    - When preparing group accounts, the financial statement
    - Exchange differences on intra-group items are recognise
    - When a foreign operation is disposed of, the cumulative
- measurement
  - initial
    - spot ER (approximate rate can be used)
  - subsequent
    - monetary amounts - should be reported using the closin
    - non-monetary items - any differences should be reporte
      - measured at historical cost should be reporte
      - measured at fair value, however, should be re

nic environment in which the entity operates. Since transactions are initially recorded in an entity's fu

n which transactions (purchases and sales) are normally denominated (primary factors) and
rates and spends cash (secondary factors)
unctional currency are treated as transactions in foreign currencies.
es not change unless there is a change in the underlying nature of the transactions and relevant conditi
ial statements are presented. An entity can present its financial statements in any currency. If the pres
rising on the acquisition and any fair value adjustment) - at the closing spot rate at the date of that bal
ate of the transactions (average rates are allowed if there is no great fluctuation in the exchange rates)
separate component of equity (OCI)

l group will often have different functional currencies. The functional currency is identified at entity lev
s of a foreign subsidiary should be translated into the presentation currency of the Group. Any goodwi
d in profit or loss
amount of the exchange differences in equity relating to that foreign operation is recognised in profit

g rate. Any differences should be reported in PL except differences arising on monetary items that forn
d in equity (OCI)
ed using the exchange rate at the date of the transaction.
eported at the rate that existed when the fair values were determined.

nctional currency, the results and financial position would need to be retranslated where this differe

ions and events
entation currency differs from the functional currency, the financial statements are retranslated into th
lance sheet
)

vel for each group entity. Each group entity translates its results and financial position into the present
ll and fair value adjustments are treated as assets and liabilities of the foreign entity, and therefore ret

or loss when the gain or loss on disposal is recognised.

n part of the reporting entity's net investment in a foreign operation - these differences are reported in

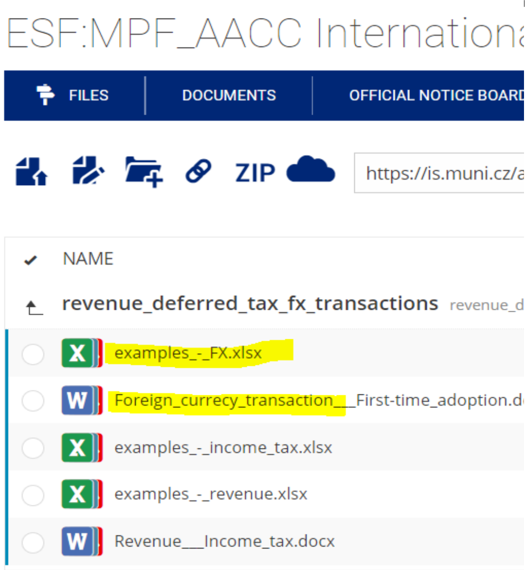
Def: net investment in a foreign operation - monetary items receivable from, or payable to

SUMMARY:

IAS 21 and IFTS for SME par. 30
recognition
Entity level
Group level
measurement
initial
subsequent

d to the presentation currency

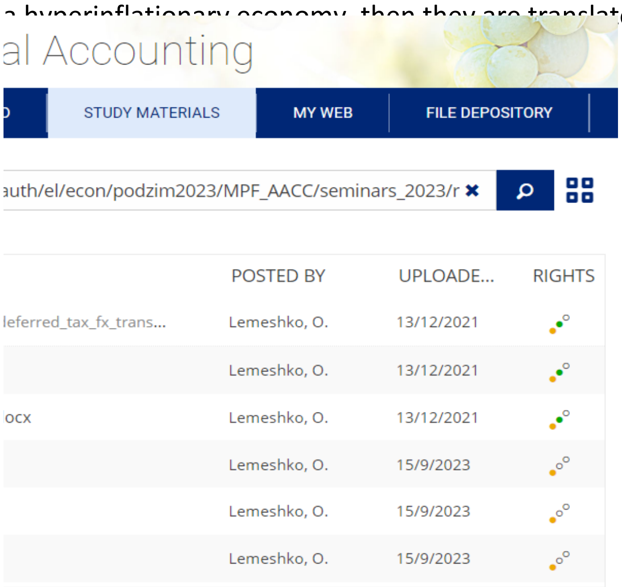
ne presentation currency. If the financial statements of the



ation currency of the reporting entity.
ranslated at each balance sheet date at the closing spot ra

n equity (OCI)

, a **foreign operation** for which settlement is neither planned nor likely to occur in the f a hyperinflationary economy, then they are translated into the presentation currency as follows:



oreseeable future