THE CONCEPTUAL AND REGULATORY FRAMEWORK FOR FINANCIAL REPORTING

CONCEPTUAL FRAMEWORK

The IFRS Framework describes the basic concepts that underlie the preparation and presentation of financial statements for external users. A conceptual framework can be seen as a statement of generally accepted accounting principles (GAAP) that form a frame of reference for the evaluation of existing practices and the development of new ones.

Purpose of framework

It is true to say that the Framework:

- Seeks to ensure that accounting standards have a consistent approach to problem solving and do not represent a series of ad hoc responses that address accounting problems on a piece meal basis
- Assists the IASB in the development of coherent and consistent accounting standards
- Is not a standard, but rather acts as a guide to the preparers of financial statements to enable them to resolve accounting issues that are not addressed directly in a standard
- Is an incredibly important and influential document that helps users understand the purpose of, and limitations of, financial reporting
- Used to be called the Framework for the Preparation and Presentation of Financial Statements
- Is a current issue as it is being revised as a joint project with the IASB's American counterparts the Financial Accounting Standards Board.

Advantages of a conceptual framework

- Financial statements are more consistent with each other
- Avoids firefighting approach and a has a proactive approach in determining best policy
- Less open to criticism of political/external pressure
- Has a principles based approach
- Some standards may concentrate on effect on statement of financial position; others on statement of profit or loss

Disadvantages of a conceptual framework

- A single conceptual framework cannot be devised which will suit all users
- Need for a variety of standards for different purposes
- Preparing and implementing standards may still be difficult with a framework

The purpose of financial reporting is to provide useful information as a basis for economic decision making.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPOTING (Revised - March 2018)

In March 2018, the International Accounting Standards Board (the Board) finished its revision of The Conceptual Framework for Financial Reporting (the Conceptual Framework) a comprehensive set of concepts for financial reporting. The Board needed to consider that too many changes to the Conceptual Framework may have knock-on effects to existing International Financial Reporting Standards (IFRS®). Despite that, the Board has now published a new version of the Conceptual Framework.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity provides a summary of all changes in equity arising from transactions with owners in their capacity as owners.

This includes the effect of share issues and dividends.

XYZ Group

Statement of changes in equity for the year ended 31 December 20X9

	Share capital	Share premium	Revaluation surplus	Retained earnings	Total equity
	$	**$**	**$**	**$**	**$**
Balance at 31 December 20X8	X	X	X	X	X
Change in accounting policy	_	_	_	(X)	(X)
Restated balance	X	X	X	X	X
Dividends				(X)	(X)
Issue of share capital	X	X			X
Total Comprehensive income for the year			X	X	X
Transfer to retained earnings	_	_	(X)	X	--
Balance at 31 December 20X9	**X**	**X**	**X**	**X**	**X**

This is a very basic format of statement of changes in equity. Workings and relevant columns will be added to it as the course proceeds and relevant Standards are covered.

Solution:
$147,292

DISPOSAL
Remove from statement of financial position when disposed of or abandoned. Recognize any gain or loss in the statement of profit or loss.

GOODWILL

Goodwill is not normally recognised in the accounts of a business at all. The reason for this is that goodwill is considered inherent in a business and it does not have any objective value.

Purchased goodwill

There is one exception to the principle that goodwill has no objective value, this is when a business is sold.

Purchased goodwill is shown in the statement of financial position because it has been paid for. It has no tangible substance, and so it is an intangible non-current asset. It is dealt with under IFRS 3 Business Combinations

SUBSEQUENT EXPENDITURE

Due to the nature of intangible assets, subsequent expenditure will only rarely meet the criteria for being recognised in the carrying amount of an asset. Subsequent expenditure on brands, mastheads, publishing titles, customer lists and similar items must always be recognised in profit or loss as incurred.

PAST EXAMS ANALYSIS

Topic	Exam Attempt	Question
IAS 38	Dec. 15 June 15 June 14	Q.1 (ii) MCQ.2 Q.5(i)

	Opening balance	Plus statement of profit or loss finance charge @7% on the opening balance	Less the cash paid	Closing balance, being the liability on the statement of financial position
Year 1	$10,000	$700	(Nil)	$10,700
Year 2	$10,700	$749	($11,449)	Nil

Question 4: Accounting for a financial liability at amortised cost

Broad raises finance by issuing $20,000 6% four-year loan notes on the first day of the current accounting period. The loan notes are issued at a discount of 10%, and will be redeemed after three years at a premium of $1,015. The effective rate of interest is 12%. The issue costs were $1,000.

Required

Explain and illustrate how the loan is accounted for in the financial statements of Broad.

Solution

Broad is receiving cash that is obliged to repay, so this financial instrument is classified as a financial liability. Again, as is perfectly normal, the liability will be classified and accounted for at amortised cost and, thus, initially measured at the fair value of consideration received less the transaction costs.

With both a discount on issue and transaction costs, the first step is to calculate the initial measurement of the liability.

Cash received – the nominal value less the discount on issue	($20,000 x 90%)	$18,000
Less the transaction costs		($1,000)
Initial recognition of the financial liability		$17,000

In applying amortised cost, the finance cost to be charged to the statement of profit or loss is calculated by applying the effective rate of interest (in this example 12%) to the opening balance of the liability each year. The finance cost will increase the liability. The actual cash is paid at the end of the reporting period and is calculated by applying the coupon rate (in this example 6%) to the nominal value of the liability (in this example $20,000). The annual cash payment of $1,200 (6% x $20,000 = $1,200) will reduce the liability. In the final year there is an additional cash payment of $21,015 (the nominal value of $20,000 plus the premium of $1,015), which extinguishes the remaining balance of the liability. The workings for the liability being accounted for at amortised cost can be summarised and presented as follows.