

# Contents at a Glance

---

<b><i>Introduction .....</i></b>	<b>1</b>
<b><i>Part I: Concepts and Basic Standards.....</i></b>	<b>7</b>
Chapter 1: Introducing IFRS.....	9
Chapter 2: Getting to Grips with Some Basic IFRS .....	27
Chapter 3: Taking the Plunge: Adopting IFRS for the First Time .....	51
<b><i>Part II: Looking at the Key Components of Financial Statements .....</i></b>	<b>69</b>
Chapter 4: Accounting for Assets .....	71
Chapter 5: Looking at Assets You Don't See Every Day.....	95
Chapter 6: Accounting for Liabilities.....	117
Chapter 7: Examining Liabilities You Don't See Every Day .....	141
Chapter 8: Accounting for Revenue.....	161
Chapter 9: Accounting for Equity.....	179
<b><i>Part III: Consolidating and Investing.....</i></b>	<b>201</b>
Chapter 10: Getting Your Head Around the Basics of Consolidation .....	203
Chapter 11: Getting to Grips with More Complex Consolidation Issues .....	217
Chapter 12: Tackling Associates .....	239
Chapter 13: Juggling Joint Ventures .....	257
<b><i>Part IV: Disclosing Information in the Financial Statements.....</i></b>	<b>269</b>
Chapter 14: Reporting Related Parties.....	271
Chapter 15: Skilfully Segmenting Information .....	289
Chapter 16: Easing into Earnings per Share .....	303
<b><i>Part V: The Part of Tens .....</i></b>	<b>321</b>
Chapter 17: Ten Pitfalls to Avoid .....	323
Chapter 18: Ten Disclosure Requirements Under IFRS.....	333
Chapter 19: Ten Future Developments in IFRS .....	343

<b><i>Part VI: Appendices .....</i></b>	<b>349</b>
Appendix A: Sources of Guidance.....	351
Appendix B: IFRS for SMEs .....	357
Appendix C: Glossary .....	361
<b><i>Index .....</i></b>	<b>365</b>

http://www.pbookshop.com

# Table of Contents

---

<b>Introduction .....</b>	<b>1</b>
About This Book .....	1
Conventions Used in This Book.....	2
What You're Not to Read.....	2
Foolish Assumptions.....	2
How This Book Is Organised .....	3
Part I: Concepts and Basic Standards .....	3
Part II: Looking at the Key Components of Financial Statements....	4
Part III: Consolidating and Investing.....	4
Part IV: Disclosing Information in the Financial Statements .....	4
Part V: The Part of Tens .....	4
Part VI: Appendixes .....	5
Icons Used in This Book .....	5
Where to Go from Here.....	6
 <b>Part I: Concepts and Basic Standards .....</b>	 <b>7</b>
 <b>Chapter 1: Introducing IFRS .....</b>	 <b>9</b>
Creating and Amending the Standards .....	10
Understanding the Framework .....	10
Going through the IFRS-setting steps .....	13
Changing the standards .....	14
Understanding IFRIC.....	14
Spreading IFRS Worldwide .....	15
Countries that have taken the plunge and adopted IFRS .....	16
Countries that are planning to take the plunge .....	16
Dealing With the Numbers: The IFRS Financial Statements .....	17
Presenting the statement of financial position .....	19
Understanding the statement of comprehensive income .....	20
Unravelling the statement of changes in equity .....	22
 <b>Chapter 2: Getting to Grips with Some Basic IFRS .....</b>	 <b>27</b>
Finding Out Where the Money Has Gone in the Statement of Cash Flows .....	28
Seeing the importance of the statement of cash flows .....	28
Preparing the statement of cash flows.....	29
Coming Up with Appropriate Accounting Policies.....	37
Selecting policies best suited to individual circumstances .....	38
Dealing with transactions and events not covered by an IFRS/IAS.....	39
Knowing how to change accounting policies .....	39
Understanding estimation techniques .....	41

Putting Mistakes Right .....	42
Correcting mistakes in previous years' accounts .....	42
Disclosing your mistakes in the accounts .....	43
Dealing With Events After the Reporting Period .....	44
Adjusting your accounts .....	44
Dishing out dividends .....	46
Approving your accounts .....	47
Considering whether the company is a going concern .....	48
<b>Chapter 3: Taking the Plunge: Adopting IFRS for the First Time . . . . .</b>	<b>51</b>
Checking That Your Accounting Policies Fit with IFRS .....	52
Recognising how IFRS differs from domestic GAAP .....	52
Changing policies as required .....	55
Disclosing the accounting policies .....	56
Preparing and Adjusting Your Opening	
Statement of Financial Position .....	58
Getting your head around the date of transition.....	58
Recognising assets and liabilities .....	59
Reclassifying assets and liabilities .....	61
Dealing with disclosure issues in the first	
IFRS financial statements .....	62
Getting Away with Some Exemptions .....	63
Dealing with retrospective application of IFRS: The exceptions ...	64
Using popular exemptions .....	64
Seeing the merits of some not-so-popular exemptions .....	65
Looking at some handy voluntary exemptions .....	66
Ensuring that Your First Financial Statements Comply with IFRS .....	67
<b>Part II: Looking at the Key Components of Financial Statements .....</b>	<b>69</b>
<b>Chapter 4: Accounting for Assets . . . . .</b>	<b>71</b>
Defining an Asset .....	71
When is an asset an asset? .....	72
The grey area: Contingent assets .....	73
Understanding Accounting Treatments for Assets .....	73
Writing off assets as expenses .....	74
Measuring the cost of your assets.....	74
Considering agricultural and biological assets.....	76
Understanding how net realisable value affects assets .....	77
Offsetting assets against liabilities – can you?.....	78
Looking at Everyday Assets: Inventories,	
Work-in-Progress and Non-Current Assets.....	79
Inventories and work-in-progress.....	79
Intangible non-current assets.....	83
Tangible non-current assets: Property, plant and	
equipment and investment property.....	87

Recognising and measuring your property, plant and equipment.....	87
Writing off the cost of PPE.....	90
Selling your PPE .....	91
Knowing when a property is an investment property .....	92
Accounting for and revaluing your investment property in the financial statements.....	93
<b>Chapter 5: Looking at Assets You Don't See Every Day .....</b>	<b>95</b>
Constructing Your Own Assets.....	96
Placing values on your unfinished non-current assets .....	96
Knowing when property, plant and equipment isn't a non-current asset.....	97
Dealing with interest on loans for non-current assets .....	98
Writing off the cost of self-constructed non-current assets.....	99
Receiving Grants for Assets .....	100
Accounting for a grant .....	101
Offsetting a liability against an asset.....	101
Getting the right accounting treatment for grants .....	102
Disclosing grants and government assistance.....	104
Repaying the grant – what to show in the financial statements ...	105
Accounting for Financial Assets .....	106
Pinning down the definition of a financial asset .....	106
Looking at the different sorts of financial assets.....	107
Getting rid of financial assets in the financial statements.....	109
Dicing with derivatives.....	110
Dealing with an Impaired Asset .....	112
Assessing the company's assets for impairment .....	112
Finding out about fair value.....	113
Considering value in use.....	113
Accounting for goodwill impairment.....	115
Recognising and reversing impairment losses .....	116
<b>Chapter 6: Accounting for Liabilities .....</b>	<b>117</b>
Defining a Liability .....	117
Deciding when a liability is a liability.....	118
Looking to the future: future liabilities .....	119
Recognising a Liability in the Financial Statements.....	120
Knowing how much to account for .....	120
Classifying current and non-current liabilities .....	122
Dealing with the disclosures .....	124
Taking a Close Look at Trade Payables .....	125
Defining a trade payable .....	126
Accounting for trade payables.....	126
Recognising a supplier who hasn't invoiced in time.....	128
Exploring Operating and Finance Leases .....	129
Classifying and accounting for operating leases .....	129
Classifying and accounting for finance leases.....	130
Looking from the other side of the fence: Lessor accounting .....	133

Getting to Grips with Income Taxes .....	134
Dealing with tax on your profits in the financial statements .....	134
Getting into the nitty gritty of deferred tax accounting.....	135
Dealing with the disclosures in the financial statements .....	139

## **Chapter 7: Examining Liabilities You Don't See Every Day ..... 141**

Considering Provisions and Contingencies .....	142
Understanding the necessity for a standard for provisioning ....	142
Knowing when to make a provision and when not to.....	143
Demystifying the complexities of contingent liabilities.....	143
Dealing with the disclosures in the financial statements .....	144
Exploring Financial Liabilities .....	146
Understanding what financial liabilities are all about.....	146
Looking at the classifications of financial liabilities.....	147
Placing values on financial liabilities.....	148
Getting rid of financial liabilities in the financial statements.....	153
Handling Employee Benefits .....	154
Dealing with short-term employee benefits .....	155
Taking a look at defined benefit and defined contribution plans....	156

## **Chapter 8: Accounting for Revenue ..... 161**

Timing of Revenue.....	162
Coming up with reliable estimates .....	163
Calculating a reliable estimate of costs .....	164
Losing money on a contract.....	164
Deciding on the probability that a sale will occur.....	165
Taking a Close Look at Revenue Recognition Rules .....	166
Supplying goods.....	166
Selling services.....	171
Dealing with dividend income.....	175
Handling royalty revenue .....	176
Recognising interest income .....	177

## **Chapter 9: Accounting for Equity..... 179**

Issuing and Accounting for Share Capital: The Basics .....	180
Issuing Shares at a Premium .....	181
Understanding why and how companies issue shares at more than their par value .....	182
Accounting for shares issued at more than their par value.....	183
Dealing with Share-Based Payments .....	184
Understanding a share-based payment .....	184
Conquering the calculations in a share-based payment .....	185
Tackling the deferred taxation issues in a share-based payment....	189
Understanding Retained Earnings.....	192
Making a loss and paying dividends.....	192
Knowing when to put transactions directly to retained earnings....	194

Revaluing Non-Current Assets .....	194
Dealing with the revaluation reserve account .....	195
Offsetting two assets in the same class .....	197
Moving the revaluation reserve into retained earnings .....	198

## **Part III: Consolidating and Investing ..... 201**

### **Chapter 10: Getting Your Head Around the Basics of Consolidation ..... 203**

Knowing the Objectives of Consolidated Financial Statements .....	204
Seeing how individual group companies report as one.....	205
Looking at some exemptions.....	206
Working out who has control of a subsidiary, and when.....	207
Creating Separate Financial Statements .....	208
Understanding why to bother doing separate financial statements .....	209
Seeing what's in separate financial statements but not consolidated ones .....	209
Group Accounting: The Fundamentals .....	210
Eliminating intra-group trading on consolidation .....	211
Dealing with unrealised group profits at year-end .....	212
Remembering amounts owed by and to group companies at year-end .....	213
Dealing with dividends to non-controlling interests .....	214

### **Chapter 11: Getting to Grips with More Complex Consolidation Issues ..... 217**

Disposing of a Subsidiary .....	218
Selling a subsidiary outright.....	218
Selling off parts of a subsidiary.....	220
Subjecting sale proceeds to contingencies .....	221
Accounting for Changes in Ownership .....	223
Keeping control of a subsidiary.....	223
Losing control of a subsidiary.....	224
Buying more ownership interest .....	227
Accounting for Goodwill.....	228
Working out goodwill . . . the new method .....	228
Sticking to the old method of goodwill calculation.....	230
Comparing the goodwill calculation methods .....	230
Considering impairment of goodwill .....	231
Dealing with Deemed Disposals.....	232
Accounting for a deemed disposal .....	233
Accounting for a deemed partial disposal.....	234
Handling Step Acquisitions .....	235
Defining a step acquisition .....	236
Accounting for a step acquisition.....	236

---

<b>Chapter 12: Tackling Associates.....</b>	<b>239</b>
Defining an Associate in IFRS .....	239
Seeing which entities are associates .....	240
Looking at exemptions from IAS 28 requirements .....	240
Understanding Significant Influence .....	241
Knowing the indicators of significant influence.....	241
Calling significant influence into question.....	242
Losing significant influence .....	243
Using Equity Accounting .....	244
Knowing the exemptions .....	244
Bringing the investment on to your statement of financial position .....	245
Receiving dividends from an associate.....	246
Dealing with loss-making associates .....	247
Accounting for the goodwill in your associate .....	248
Recognising transactions with an associate .....	249
Knowing what to do when an associate is up for sale.....	250
Presenting Associates in the Financial Statements .....	251
Disclosing the correct amount of information for an associate....	251
Showing associates in the financial statements.....	252
<b>Chapter 13: Juggling Joint Ventures.....</b>	<b>257</b>
Understanding a Joint Venture .....	257
Looking at how IAS 31 defines a joint venture .....	257
Thinking about why parties may form a joint venture .....	258
Comparing the definition of a joint venture and control.....	258
Accounting for Joint Ventures .....	259
Knowing the three types of joint venture.....	259
Using the equity accounting method for joint ventures.....	261
Using proportionate consolidation .....	262
Considering presentation in the financial statements .....	266
Keeping Up with New Developments in the Accounting Standard .....	267
Knowing what's changed and why .....	267
Looking at how the changes affect companies with joint ventures .....	267
Knowing when the changes take effect.....	268
<b>Part IV: Disclosing Information in the Financial Statements .....</b>	<b>269</b>
<b>Chapter 14: Reporting Related Parties .....</b>	<b>271</b>
Understanding Related Parties .....	272
Knowing why you disclose related party transactions.....	273
Considering examples of when related party relationships exist.....	276

Defining control in the context of related parties .....	277
Defining significant influence in the context of related parties ...	278
Looking at some grey areas – when related parties may not be related parties.....	279
Establishing who falls under the scope of key management personnel.....	279
Considering Close Family .....	280
Knowing when close family become related parties.....	280
Seeing the influence that close family may have on a reporting entity.....	281
Disclosing the dependants of key management personnel.....	282
Dealing with Post-Employment Benefit Plans .....	282
Disclosing Related Party Transactions.....	283
Making full disclosure .....	283
Disclosing information about transactions with key management.....	284
Terminating staff or directors? What to disclose as related party transactions.....	285
Disclosing short-term employee benefits in the notes .....	285
Disclosing transactions between group companies.....	286
<b>Chapter 15: Skilfully Segmenting Information .....</b>	<b>289</b>
Understanding the Basics of Segmental Information.....	289
Defining an operating segment.....	290
Preparing to report about reportable segments .....	291
Understanding the management approach to reporting segmental information .....	292
Identifying and Aggregating Reportable Segments .....	293
Dealing with the easy ones first: single operating segments .....	293
Tackling more complex reportable segments: aggregating multiple segments.....	293
Looking at the whole step-by-step approach.....	294
Disclosing long-term financial performance.....	294
Looking at some practical examples of segmental reporting .....	295
Restating Comparative Segments.....	297
Discovering errors and correcting comparative segmental information.....	298
Disclosing information about restated comparative segmental information.....	298
Disclosing Information About Segments in the Financial Statements....	299
Detailing the measurement basis used for segmental information.....	299
Understanding the reconciliations used in segmental information.....	300

<b>Chapter 16: Easing into Earnings per Share .....</b>	<b>303</b>
Calculating Basic Earnings per Share .....	303
Doing the basic calculation .....	303
Establishing what basic earnings per share means .....	304
Knowing which profit figure to use for the calculation .....	304
Calculating basic earnings per share: A practical illustration .....	305
Understanding Weighted Average Number of Shares .....	306
Making Rights Issues.....	308
Getting to grips with the theoretical ex-rights fair value calculations.....	309
Taking a look at a practical example.....	310
Boning Up on Bonus Issues .....	312
Understanding why companies give bonus issues.....	312
Calculating earnings per share after a bonus issue .....	313
Making retrospective adjustments .....	314
Calculating Diluted Earnings per Share .....	314
Understanding diluted earnings per share.....	315
Knowing which profit figure to use for the calculation .....	315
Taking a look at a practical example.....	316
Presenting Earnings per Share in the Financial Statements .....	317
Knowing where to present earnings per share.....	317
Disclosing earnings per share for discontinued areas of the business.....	318
Discovering the detailed disclosure requirements of IAS 33 .....	318
Taking a look at a practical disclosure illustration .....	319
<b>Part V: The Part of Tens .....</b>	<b>321</b>
<b>Chapter 17: Ten Pitfalls to Avoid .....</b>	<b>323</b>
Reporting Incorrect Transactions with Related Parties .....	324
Treating Accounting Policy Changes Incorrectly.....	325
Disclosing Inappropriate Accounting Policies.....	326
Neglecting to Ensure That the Numbers Balance.....	326
Forgetting to Disclose Items Separately in the Statement of Comprehensive Income .....	327
Failing to Split Non-Current Liabilities .....	328
Getting into a Muddle with Deferred Tax Assets.....	328
Forgetting the Statement of Cash Flows .....	329
Incorrectly Claiming Audit Exemption.....	330
Mistaking When to Amortise Goodwill .....	331

<b>Chapter 18: Ten Disclosure Requirements Under IFRS . . . . .</b>	<b>333</b>
Non-Current Tangible Assets .....	334
Non-Current Intangible Assets (Goodwill) .....	334
Prior-Period Adjustments .....	335
Assets That You've Held for Sale.....	336
Inventories and Work-in-Progress.....	336
Construction Contracts .....	337
Employee Benefits .....	338
Share-based Payment Transactions.....	339
Provisions and Contingencies.....	340
Business Combinations .....	341
<b>Chapter 19: Ten Future Developments in IFRS . . . . .</b>	<b>343</b>
Overhauling the Financial Instruments Standards.....	343
Changing Fair Value Measurements.....	344
Re-jigging Consolidated Financial Statements.....	344
Revising How You Present Financial Statements .....	344
Leasing: The Future.....	344
Transforming Revenue Recognition.....	345
Overhauling Joint Ventures.....	345
Revising IAS 19 .....	345
Understanding Changes in Insurance Contracts .....	346
Including a Bit of Flexibility in IAS 12 .....	346
<b>Part VI: Appendixes . . . . .</b>	<b>349</b>
<b>Appendix A: Sources of Guidance . . . . .</b>	<b>351</b>
On the Web.....	351
Accountancystudents.co.uk.....	351
AccountingWEB.com .....	351
AccountingWEB.co.uk .....	352
Association of Chartered Certified Accountants .....	352
Chartered Accountants Ireland.....	352
IAS Plus.....	353
Institute of Chartered Accountants in England and Wales.....	353
Institute of Chartered Accountants in Scotland .....	353
International Accounting Standards Board.....	353
More Books on IFRS .....	354
Interpretation and Application of International Financial Reporting Standards .....	354
Interpretation and Application of International Standards on Auditing .....	354
Wiley IFRS: Practical Implementation Guide and Workbook .....	355



---

<b>Appendix B: IFRS for SMEs .....</b>	<b>.357</b>
Understanding the Need for IFRS for SMEs .....	357
Seeing the Scope of IFRS for SMEs.....	358
Knowing What IFRS for SMEs Doesn't Cover .....	359
Summarising the Main Differences between IFRS for SMEs and Full IFRS .....	359
<b>Appendix C: Glossary .....</b>	<b>.361</b>
<b>Index.....</b>	<b>.365</b>

http://www.pbookshop.com