

# BRIEF CONTENTS

## Part 1 CONCEPTUAL FRAMEWORK 1

- 1 The IASB and its *Conceptual Framework* 3

## Part 2 ELEMENTS 23

- 2 Financial statement presentation 25
- 3 Revenue from contracts with customers 55
- 4 Inventories 83
- 5 Property, plant and equipment 109
- 6 Intangible assets 151
- 7 Impairment of assets 173
- 8 Fair value measurement 199
- 9 Leases 223
- 10 Provisions, contingent liabilities and contingent assets 259
- 11 Employee benefits 279
- 12 Owners' equity: share capital and reserves 307
- 13 Financial instruments 331
- 14 Share-based payment 379
- 15 Income taxes 403

## Part 3 PRESENTATION AND DISCLOSURES 433

- 16 Statement of cash flows 435
- 17 Key notes disclosures 457
- 18 Operating segments 479
- 19 Business combinations 497

## Part 4 ECONOMIC ENTITIES 523

- 20 Consolidation: controlled entities 525
- 21 Consolidation: wholly owned subsidiaries 539
- 22 Consolidation: intragroup transactions 561
- 23 Consolidation: non-controlling interest 585
- 24 Translation of foreign currency transactions and the financial statements of foreign entities 625



# CONTENTS

*Preface* xiii  
*About the Authors* xv  
*Acronyms* xvii

## Part 1

### CONCEPTUAL FRAMEWORK 1

#### 1 The IASB and its *Conceptual Framework* 3

Introduction 4

1.1 The IFRS Foundation and the International Accounting Standards Board (IASB) 4

1.2 The purpose of a conceptual framework 7

1.3 Qualitative characteristics of useful financial information 8

1.4 Going concern assumption 10

1.5 Definition of elements in financial statements 11

1.6 Recognition of elements of financial statements 14

1.7 Derecognition 16

1.8 Measurement of the elements 16

1.9 Unit of account 18

1.10 Presentation and disclosure 18

1.11 Concepts of capital 19

*Summary* 19

*Discussion questions* 20

*References* 20

*Academic perspective* 21

*References* 22

## Part 2

### ELEMENTS 23

#### 2 Financial statement presentation 25

Introduction 26

2.1 Components of financial statements 26

2.2 General principles of financial statements 27

2.3 Statement of financial position 29

2.4 Statement of profit or loss and other comprehensive income 33

2.5 Statement of changes in equity 39

2.6 Notes 41

2.7 Accounting policies, changes in accounting estimates and errors 45

2.8 Events after the reporting period 49

2.9 Future developments 50

*Summary* 51

*Discussion questions* 51

*References* 51

*Academic perspective* 52

*References* 53

#### 3 Revenue from contracts with customers 55

3.1 Introduction 56

3.2 Scope 56

3.3 Identify the contract with the customer 57

3.4 Identify the performance obligations 58

3.5 Determine the transaction price 61

3.6 Allocate the transaction price 65

3.7 Satisfaction of performance obligations 67

3.8 Contract costs 70

3.9 Other application issues 72

3.10 Presentation and disclosures 76

*Summary* 79

*Discussion questions* 80

*Reference* 80

*Academic perspective* 81

*References* 81

#### 4 Inventories 83

4.1 Introduction 84

4.2 The nature of inventories 84

4.3 Measurement of inventory 87

4.4 Determination of cost 88

4.5 Recording inventory transactions 92

4.6 End-of-period accounting 95

4.7 Assigning costs to inventory on sale 98

4.8 Net realisable value 103

4.9 Recognition as an expense 106

4.10 Disclosure 106

*Summary* 107

*Academic perspective* 108

*References* 108

#### 5 Property, plant and equipment 109

5.1 The nature of property, plant and equipment 110

5.2 Initial recognition of property, plant and equipment 112

5.3 Initial measurement of property, plant and equipment 113

5.4 Measurement subsequent to initial recognition 117

5.5 The cost model 118

5.6 The revaluation model 123

5.7 Choosing between the cost model and the revaluation model 133

5.8 Derecognition 133

5.9 Disclosure 135

5.10 Investment properties 136

*Summary* 139

*Discussion questions* 146

*References* 147

*Academic perspective* 148

*References* 149

## 6 Intangible assets 151

- Introduction 152
- 6.1 The nature of intangible assets 153
- 6.2 Recognition and initial measurement 155
- 6.3 Measurement subsequent to initial recognition 161
- 6.4 Retirements and disposals 164
- 6.5 Disclosure 164

*Summary* 167

*Discussion questions* 169

*References* 170

*Academic perspective* 171

*References* 172

## 7 Impairment of assets 173

- 7.1 Introduction to IAS 36 174
- 7.2 When to undertake an impairment test 175
- 7.3 Impairment test for an individual asset 176
- 7.4 Cash-generating units — excluding goodwill 182
- 7.5 Cash-generating units and goodwill 186
- 7.6 Reversal of an impairment loss 188
- 7.7 Disclosure 190

*Summary* 191

*Discussion questions* 195

*References* 195

*Academic perspective* 196

*References* 197

## 8 Fair value measurement 199

- 8.1 Introduction 200
- 8.2 The definition of fair value 201
- 8.3 The fair value framework 202
- 8.4 Application to non-financial assets 209
- 8.5 Application to liabilities 212
- 8.6 Application to measurement of an entity's own equity 215
- 8.7 Disclosure 215

*Summary* 219

*Discussion questions* 219

*References* 219

*Academic perspective* 220

*References* 221

## 9 Leases 223

- 9.1 Introduction 224
- 9.2 Background of current lease accounting 224
- 9.3 Scope and lessee exemptions 225
- 9.4 What is a lease? 225
- 9.5 Lessee accounting 234
- 9.6 Lessee presentation and disclosure 241
- 9.7 Lease classification by lessors 243
- 9.8 Accounting for finance leases by lessors 246
- 9.9 Accounting for finance leases by manufacturer or dealer lessors 250
- 9.10 Accounting for operating leases by lessors 251
- 9.11 Accounting for sale and leaseback transactions 253

*Summary* 255

*Academic perspective* 257

*References* 257

## 10 Provisions, contingent liabilities and contingent assets 259

- 10.1 Introduction to IAS 37 260
- 10.2 Scope 260
- 10.3 What is a provision? 260
- 10.4 What is a contingent liability? 262
- 10.5 Distinguishing a contingent liability from a provision 263
- 10.6 Measurement of provisions 263
- 10.7 Application of the definitions, recognition and measurement rules 268
- 10.8 Contingent assets 273
- 10.9 Disclosure 273

*Summary* 275

*Discussion questions* 275

*References* 275

*Academic perspective* 276

*References* 276

## 11 Employee benefits 279

- 11.1 Introduction to accounting for employee benefits 280
- 11.2 Scope and purpose of IAS 19 280
- 11.3 Defining employee benefits 280
- 11.4 Short-term employee benefits 280
- 11.5 Post-employment benefits 287
- 11.6 Accounting for defined contribution post-employment plans 288
- 11.7 Accounting for defined benefit post-employment plans 289
- 11.8 Other Long-term employee benefits 297
- 11.9 Termination benefits 301

*Summary* 302

*Discussion questions* 302

*References* 303

*Academic perspective* 304

*References* 304

## 12 Owners' equity: share capital and reserves 307

- 12.1 Equity 308
- 12.2 For-profit companies 309
- 12.3 Key features of corporate structure 309
- 12.4 Different forms of share capital 310
- 12.5 Contributed equity: issue of share capital 312

12.6	Contributed equity: subsequent movements in share capital	314
12.7	Share capital: subsequent decreases in share capital	318
12.8	Reserves	320
12.9	Disclosure	324
	<i>Summary</i>	324
	<i>Discussion questions</i>	327
	<i>References</i>	327
	<i>Academic perspective</i>	328
	<i>References</i>	329

## 13 Financial instruments 331

13.1	Introduction	332
13.2	What is a financial instrument?	334
13.3	Financial assets and financial liabilities	335
13.4	Distinguishing financial liabilities from equity instruments	336
13.5	Compound financial instruments	339
13.6	Interest, dividends, gains and losses	340
13.7	Financial assets and financial liabilities: scope	341
13.8	Derivatives and embedded derivatives	342
13.9	Financial assets and financial liabilities: categories of financial instruments	344
13.10	Financial assets and financial liabilities: recognition criteria	348
13.11	Financial assets and financial liabilities: measurement	348
13.12	Financial assets and financial liabilities: offsetting	359
13.13	Hedge accounting	360
13.14	Disclosures	368
	<i>Summary</i>	374
	<i>Discussion questions</i>	374
	<i>Reference</i>	375
	<i>Academic perspective</i>	376
	<i>References</i>	377

## 14 Share-based payment 379

	Introduction	380
14.1	Application and scope	382
14.2	Cash-settled and equity-settled share-based payment transactions	382
14.3	Recognition	383
14.4	Equity-settled share-based payment transactions	383
14.5	Vesting	386
14.6	Other considerations	390
14.7	Modifications to terms and conditions on which equity instruments were granted	391
14.8	Cash-settled share-based payment transactions	392
14.9	Disclosure	397
	<i>Summary</i>	399
	<i>Discussion questions</i>	399

<i>References</i>	400
<i>Academic perspective</i>	401
<i>References</i>	401

## 15 Income taxes 403

15.1	The nature of income tax	404
15.2	Differences between accounting profit and taxable profit	404
15.3	Accounting for income taxes	407
15.4	Calculation of current tax	407
15.5	Recognition of current tax	412
15.6	Payment of tax	412
15.7	Tax losses	413
15.8	Calculation of deferred tax	414
15.9	Recognition of deferred tax liabilities and deferred tax assets	421
15.10	Change of tax rates	424
15.11	Other Issues	424
15.12	Presentation in the financial statements	425
15.13	Disclosures	426
	<i>Summary</i>	429
	<i>Discussion questions</i>	430
	<i>References</i>	430
	<i>Academic perspective</i>	431
	<i>References</i>	432

## Part 3

## PRESENTATION AND DISCLOSURES 433

### 16 Statement of cash flows 435

	Introduction and scope	436
16.1	Purpose of a statement of cash flows	436
16.2	Defining cash and cash equivalents	436
16.3	Classifying cash flow activities	437
16.4	Format of the statement of cash flows	439
16.5	Preparing a statement of cash flows	441
16.6	Other disclosures	450
16.7	Future developments	453
	<i>Summary</i>	454
	<i>Discussion questions</i>	454
	<i>References</i>	454
	<i>Academic perspective</i>	455
	<i>References</i>	456

### 17 Key notes disclosures 457

	Introduction	458
17.1	Related party disclosures	458
17.2	Earnings per share	464
	<i>Summary</i>	475
	<i>Discussion questions</i>	476
	<i>Academic perspective</i>	477
	<i>References</i>	478

## 18 Operating segments 479

- 18.1 Objectives of financial reporting by segments 480
- 18.2 Scope 480
- 18.3 Management approach vs risks and rewards approach 481
- 18.4 Identifying operating segments 481
- 18.5 Identifying reportable segments 484
- 18.6 Applying the definition of reportable segments 486
- 18.7 Disclosure 487
- 18.8 Applying the disclosures in practice 490

*Summary* 494

*Discussion questions* 494

*References* 494

*Academic perspective* 495

*References* 496

## 19 Business combinations 497

- 19.1 The nature of a business combination 498
- 19.2 Accounting for a business combination — basic principles 499
- 19.3 Subsequent accounting for a business combination 510
- 19.4 Disclosure — business combinations 513

*Summary* 515

*Discussion questions* 520

*References* 520

*Academic perspective* 521

*References* 522

## Part 4

### ECONOMIC ENTITIES 523

## 20 Consolidation: controlled entities 525

- 20.1 Introduction 526
  - 20.2 Consolidated financial statements 526
  - 20.3 Control as the criterion for consolidation 528
  - 20.4 Preparation of consolidated financial statements 534
  - 20.5 Business combinations and consolidation 535
  - 20.6 Disclosure 536
- Discussion questions* 537

## 21 Consolidation: wholly owned subsidiaries 539

- 21.1 The consolidation process 540
- 21.2 Consolidation worksheets 541
- 21.3 The acquisition analysis: determining goodwill or bargain purchase 542
- 21.4 Worksheet entries at the acquisition date 545
- 21.5 Worksheet entries subsequent to the acquisition date 550
- 21.6 Consolidation worksheet when the parent company accounts for investment in subsidiary using the equity method 555
- 21.7 Disclosure 557

*Summary* 560

*Discussion questions* 560

## 22 Consolidation: intragroup transactions 561

Introduction 562

- 22.1 Rationale for adjusting for intragroup transactions 562
- 22.2 Transfers of inventory 564
- 22.3 Intragroup services 570
- 22.4 Intragroup dividends 571
- 22.5 Intragroup borrowings 573

*Summary* 574

*Discussion questions* 583

## 23 Consolidation: non-controlling interest 585

- 23.1 Non-controlling interest explained 586
- 23.2 Effects of NCI on the consolidation process 588
- 23.3 Calculating the NCI share of equity 594
- 23.4 Adjusting for the effects of intragroup transactions 608
- 23.5 Gain on bargain purchase 612

*Summary* 613

*Discussion questions* 624

## 24 Translation of foreign currency transactions and the financial statements of foreign entities 625

- 24.1 Translation of foreign currency transactions and foreign subsidiary's statements 626
- 24.2 Key concepts in foreign currency translation 626
- 24.3 Functional and presentation currencies 627
- 24.4 Identifying the functional currency 630
- 24.5 Translation of transactions into the functional currency 632
- 24.6 Translation of financial statements into the functional currency 632
- 24.7 Translation into the presentation currency 638
- 24.8 Consolidating acquired foreign subsidiaries — where the functional currency is not the presentation currency 640
- 24.9 Consolidating acquired foreign subsidiaries — where functional currency is the parent's reporting currency 648
- 24.10 Net Investment in a foreign operation 649
- 24.11 Disclosure 650

*Summary* 651

*Discussion questions* 651

*References* 651

*Online chapter A Exploration for and evaluation of mineral resources*

*Online chapter B Agriculture*

*Online chapter C Associates and joint ventures*

*Online chapter D Joint arrangements*

*Glossary* 653

*Index* 663