Q4 2018 FAR Book Update

Page numbers refer to 2018 FAR textbook pages. When new/edited text is shown along with old text, the new/edited text is highlighted in gray, unless noted otherwise.

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IASB Framework

Like the FASB, the IASB develops IFRS using principles that are established in a conceptual framework, referred to as “The Conceptual Framework for Financial Reporting.” A newly revised framework was released in March 2018. The revisions, completed as part of a joint project with the FASB, have essentially eliminated any significant differences in the frameworks.

Unlike that of the FASB, the IASB conceptual framework is authoritative but is lower in the hierarchy of standards than IFRSs. An IFRS that addresses a transaction, event, or element of financial reporting is authoritative. An entity that is seeking guidance in the accounting for a transaction, event, or element that is not addressed in an IFRS will refer to the conceptual framework.
Faithful representation implies that the information does report resources, claims against those resources, and effects of transactions and events factually and in appropriate amounts. The characteristics of faithful representation are (FENC):

- **Freedom from Error**
- **Neutrality**
  - *Prudence*, defined as “the exercise of caution when making judgments under conditions of uncertainty” was re-introduced into the March 2018 framework and is considered a characteristic which enhances neutrality.
- **Completeness**

The March 2018 IFRS Conceptual Framework acknowledges measurement uncertainty as a factor with the potential to affect faithful representation. Relevant information with a high level of measurement uncertainty may, in some cases, be less useful than slightly less relevant information with a lesser degree of measurement uncertainty.

Other characteristics that enhance the usefulness of financial information include (CUT-V):

- **Comparability**
- **Understandability**
- **Timeliness**
- **Verifiability**
Elements of Financial Position

These are defined in the conceptual framework as follows:

- **Asset** – “A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.”
- **Liability** – “A present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty of responsibility that the entity has no practical ability to avoid.”
- **Equity** – “The residual interest in the assets of the entity after deducting all its liabilities.”
Recognition and Derecognition
Recognition describes when an item that fits the definition of an element of financial reporting will be incorporated in the balance sheet or income statement, which will be when it results in both:

- **Relevant Information** about the element, and
- **Faithful Representation** of the element.

Notice that the March 2018 revised framework puts more emphasis now on the qualitative characteristics of useful information over the quantitative characteristics, that is, whether the item is probable or whether it can be measured reliably.

Guidance on derecognition was added to the framework in 2018. It provides that an asset or liability that has been recognized should generally be removed from the entity’s statement of financial position when the entity:

- Loses control of all or part of an asset,
- No longer has a present obligation for all or part of a liability.

Any remaining assets/liabilities, if any, and the change in assets/liabilities caused by the event that triggered derecognition should be faithfully represented after derecognition.

Measurement
The reliability with which an item can be measured is a matter of professional judgment. One should consider the qualitative characteristics (i.e., relevance and faithful representation) of useful information as well as the nature of the information (i.e., whether it hits the balance sheet or income statement) when selecting the appropriate measurement approach. The cost of an approach will also be a determining factor. The two categories of **measurement approaches** include:

- **Historical cost**
- **Current value**
  - Current cost—the amount it would currently cost to replace the same or an equivalent asset.
  - Fair Value—The price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
  - Value-in-Use/Fulfilment Value—Takes into account the time value of money and the effects of uncertainty.

<table>
<thead>
<tr>
<th><strong>Asset</strong></th>
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<td><strong>Expenses</strong></td>
<td>Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in <em>decreases in equity</em>, other than those relating to distributions to equity participants.</td>
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<tr>
<td><strong>Capital Maintenance Adjustments</strong></td>
<td>Result from the revaluation or restatement of assets and liabilities that cause an increase or decrease in equity, but not based on the definition of Income or expense items.</td>
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