Oops! Since publishing the 2019 FAR text, we have found the following issues. When new/edited text is shown along with old text, the new/edited text is highlighted in gray, unless noted otherwise.

**Page 1-22**

**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.
Lecture 1.09 – IFRS – Class Questions

7. According to the IASB Framework, the qualitative characteristic of relevance includes
   a. Confirmatory value, Predictive value, and Comparability.
   b. Free from Error, Neutrality, and Completeness.
   c. Predictive value, Confirmatory value, and Materiality.
   d. Neutrality, Completeness and Comparability.

8. According to the IASB Framework, which of the following financial statement elements is defined as “A present obligation of the entity to transfer an economic resource as a result of past events”?
   a. Equity.
   b. Liability.
   c. Expense.
   d. Cost.

Class Solutions

7. (c) The qualitative characteristics for Relevance under the IASB Framework are Predictive value, Confirmatory value and Materiality, which is very similar under the FASB conceptual framework. Remember that Roger is PC, but also very Materialistic. Answer (a) is incorrect because comparability is an enhancing qualitative characteristic. Answer (b) is incorrect because completeness, neutrality, and free from error are the ingredients that make up faithful representation. Answer (d) is incorrect because completeness and neutrality are ingredients that make up faithful representation.

8. (b) According to the IASB Framework, there are 5 elements that make up the financial statements, they include: asset, liability, equity, income, and expense. The definition given is that of a Liability, which is “a present obligation of the entity to transfer an economic resource as a result of past events.”. Answer (a) is incorrect because equity is the residual interest in assets after deducting liabilities. Answer (c) is incorrect because an expense is an outflow or decrease in assets or an increase in liabilities that result in decreases in equity but that do not result from distributions to equity holders. Answer (d) is incorrect because a cost is not a financial statement element.
Some hedges do not entirely protect a company against the risk that the hedge is intended to mitigate. A fair value hedge, for example, may not offset all changes in the fair value of the hedged item. Likewise, a cash flow hedge may not offset all changes in the cash flows associated with the hedged item. The degree to which a change in the value of a fair value hedge offsets the change in the value of the hedged item, and the degree to which a change in the cash flows of a cash flow hedge offset changes in the cash flows of the hedged item is called the hedge's **effectiveness**.

- A hedge is **perfectly effective** if all changes in the fair value or cash flows of the hedged item are offset by corresponding changes in the hedge.
- A hedge is **highly effective** if most changes in the fair value or cash flows of the hedged item are offset by corresponding changes in the hedge. The portion not offset is the degree to which the hedge is **ineffective**.
- A hedge is considered **ineffective** if relatively few or none of the changes in the fair value or cash flows of the hedged item are offset by changes in the hedge.

Changes in the fair value of a hedging instrument, including both the effective and ineffective portions, are reported as follows:

- **Fair value hedges**—Recognized in *income* on the same line as the corresponding gain or loss on the hedged item in the income statement.
- **Cash flow hedges**—Recognized in *other comprehensive income*, to be taken into income in the same period in which changes to the hedged item affect income.
  - **Net investment hedges** (i.e., a foreign currency cash flow hedge designed to mitigate foreign currency exposure due to a net investment in a foreign operation)—Recognized in *the currency translation adjustment section of other comprehensive income*

**To summarize**, when derivatives are used as speculation or fair value hedges, gains and losses are reported in net income (in the case of a fair value hedge, there will be offsetting amounts on the asset or commitment being hedged). When derivatives are used as cash flow hedges, gains and losses are reported in other comprehensive income (they are transferred to net income when the expected events occur and offsetting amounts are reported in net income).
2. Gains and losses of a hedging instrument will be recognized in current earnings in each reporting period for which of the following?

<table>
<thead>
<tr>
<th>Fair value Hedge</th>
<th>Cash Flow Hedge</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Yes</td>
<td>No</td>
</tr>
<tr>
<td>b. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>c. No</td>
<td>No</td>
</tr>
<tr>
<td>d. No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
2. (a) Gains or losses on fair value hedges are recognized in income in the period in which the fair value changes. Gains or losses on cash flow hedges are reported in other comprehensive income until such time as the corresponding gain or loss on the hedged item is recognized in income.
Disclosures
Certain disclosures are required in relation to the items reported on the balance sheet. In general, they may be provided on the face of the financial statements, in supplementary schedules, or in the notes to the financial statements. These include:

- The components of the net deferred tax asset or liability reported on the balance sheet, including:
  - The total of all deferred tax liabilities;
  - The total of all deferred tax assets; and
  - The total deferred tax asset valuation allowance recognized, along with the net change in the allowance for the period.
- The amounts of operating loss carryforwards and tax credit carryforwards along with their expiration dates.

An entity will also provide disclosures about temporary differences. The specific disclosures are different for public and nonpublic entities.

- Public entities will disclose the approximate tax effect of each type of temporary difference and carryforward that affects deferred tax assets or liabilities.
- Nonpublic entities will disclose the types but are not required to disclose the approximate tax effects.

For each year presented, the significant components of income tax expense arising from continuing operations are disclosed.

- Current tax expense or benefit
- Deferred tax expense or benefit
- Investment tax credits
- Government grants
- Benefits of operating loss carryforwards
- Adjustments to deferred tax assets or liabilities resulting from changes in tax laws, tax rates, or the entity's tax status
- Adjustment to the beginning valuation allowance due to changes in judgment about the realizability of deferred tax assets