

contents

Foreword xi
Preface xiii
About the authors xv
Acknowledgements xvii

PART 1 Framework 1

- 1 The IASB: history, current structure and processes 2
 - 1.1 National accounting standards 4
 - 1.2 Globalisation of capital markets 4
 - 1.3 Calls for the harmonisation of accounting standards 7
 - 1.4 Formation and achievements of the IASC (1973–2000) 7
 - 1.5 Restructuring of the IASC into the IASB 14
 - 1.6 Who uses IFRSs? 17
 - 1.7 IASB activities to date 26
 - 1.8 Recent trends in International Financial Reporting Standards 29
 - 1.9 First-time adoption of IFRSs 30
 - 1.10 International Accounting Standards for the public sector 33
 - 1.11 International Auditing Standards 34
 - 1.12 Summary 34
- Discussion questions 35
- Appendices 36

2 The conceptual Framework of the IASB 54

- 2.1 Introduction 56
- 2.2 Purpose and status of the Framework 56
- 2.3 General purpose financial statements 58
- 2.4 Users and their information needs 59
- 2.5 Responsibility for financial statements 60
- 2.6 The objective of financial statements 61
- 2.7 Underlying assumptions 63
- 2.8 Qualitative characteristics of financial statements 64
- 2.9 The elements of financial statements 67
- 2.10 Recognition of the elements of financial statements 68
- 2.11 Measurement of the elements of financial statements 70

2.12 Summary 71
Discussion question 72
Problems 72

PART 2 Elements 77

- 3 Shareholders' equity: share capital and reserves 78
 - 3.1 Shareholders' equity 80
 - 3.2 Types of companies 80
 - 3.3 Key features of the corporate structure 83
 - 3.4 Contributed equity: issue of share capital 85
 - 3.5 Contributed equity: subsequent movements in share capital 90
 - 3.6 Share capital: subsequent decreases in share capital 95
 - 3.7 Reserves 97
 - 3.8 Disclosure 101
 - 3.9 Summary 107
- Discussion questions 108
- Exercises 109
- Problems 111
- 4 Provisions, contingent liabilities and contingent assets 118
 - 4.1 Introduction to IAS 37 120
 - 4.2 Definition of a provision 121
 - 4.3 Distinguishing provisions from other liabilities 122
 - 4.4 Definition of a contingent liability 122
 - 4.5 Distinguishing a contingent liability from a provision 122
 - 4.6 The recognition criteria for provisions 123
 - 4.7 Putting it all together – a useful decision tree 124
 - 4.8 Measurement of provisions 125
 - 4.9 Application of the definitions, recognition and measurement rules 129
 - 4.10 Contingent assets 138
 - 4.11 Disclosure 139
 - 4.12 Summary 140
- Discussion questions 141
- Exercises 142
- Problems 144

5 Financial instruments	148	
5.1 Introduction to IAS 32 and IAS 39	150	
5.2 IAS 32 <i>Financial Instruments: Disclosure and Presentation</i>	150	
5.3 IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	165	
5.4 Summary	189	
Discussion questions	191	
Exercises	191	
Problems	193	
Appendix	196	
6 Income taxes	202	
6.1 The nature of income tax	204	
6.2 Differences between accounting profit and taxable profit	204	
6.3 Accounting for income taxes	208	
6.4 Calculation of current tax	208	
6.5 Recognition of current tax	214	
6.6 Payment of tax	214	
6.7 Tax losses	215	
6.8 Calculation of deferred tax	217	
6.9 Recognition of deferred tax liabilities and deferred tax assets	225	
6.10 Change of tax rates	228	
6.11 Amended prior year tax figures	228	
6.12 Presentation in the financial statements	229	
6.13 Disclosures	230	
6.14 Summary	234	
Discussion questions	235	
Exercises	235	
Problems	237	
7 Inventories	248	
7.1 The nature of inventories	250	
7.2 Initial recognition of inventory	251	
7.3 Determination of cost	251	
7.4 Accounting for inventory	256	
7.5 End-of-period accounting	259	
7.6 Assigning costs to inventory	263	
7.7 Net realisable value	268	
7.8 Recognition as an expense	270	
7.9 Disclosure	270	
7.10 Summary	272	
Discussion questions	273	
Exercises	273	
Problems	278	
8 Property, plant and equipment	284	
8.1 The nature of property, plant and equipment	286	
8.2 Initial recognition of property, plant and equipment	287	
8.3 Initial measurement of property, plant and equipment	289	
8.4 Measurement subsequent to initial recognition	295	
8.5 The cost model	296	
8.6 The revaluation model	304	
8.7 Choosing between the cost model and the revaluation model	316	
8.8 Derecognition	317	
8.9 Disclosure	319	
8.10 Summary	320	
Discussion questions	321	
Exercises	322	
Problems	325	
9 Intangible assets	334	
9.1 Introduction	336	
9.2 The nature of intangible assets	337	
9.3 Recognition and initial measurement	346	
9.4 Measurement subsequent to initial recognition	358	
9.5 Retirements and disposals	362	
9.6 Disclosure	362	
9.7 Innovative measures of intangibles	365	
9.8 Summary	368	
Discussion questions	369	
Problems	371	
10 Business combinations	376	
10.1 The nature of a business combination	378	
10.2 Accounting for a business combination – basic principles	380	

10.3	Accounting in the records of the acquirer	384
10.4	Accounting in the records of the acquiree	404
10.5	Subsequent adjustments to the initial accounting for a business combination	407
10.6	Disclosure – business combinations	412
10.7	Business combination (Phase II) considerations	413
10.8	Non-current assets held for sale and discontinued operations	415
10.9	Summary	423
	Discussion questions	425
	Exercises	426
	Problems	431
11	Impairment of assets	440
11.1	Introduction to IAS 36	442
11.2	When to undertake an impairment test	443
11.3	Impairment test for an individual asset	444
11.4	Cash-generating units – excluding goodwill	451
11.5	Cash-generating units and goodwill	457
11.6	Reversal of an impairment loss	466
11.7	Disclosure	469
11.8	Summary	474
	Discussion questions	475
	Exercises	477
	Problems	478
12	Leases	482
12.1	Leases	484
12.2	What is a lease?	484
12.3	Classification of leases	485
12.4	Applying the classification guidance	488
12.5	Substance over form: incentives to misclassify leases	493
12.6	Accounting for finance leases by lessees	497
12.7	Accounting for finance leases by lessors	503
12.8	Accounting for operating leases	509
12.9	Accounting for sale and leaseback transactions	515
12.10	Likely future developments	519
12.11	Summary	520
	Discussion questions	521
	Exercises	521
	Problems	524
	Appendix	528
	PART 3 Disclosure	531
13	Principles of disclosure – IAS 1, IAS 8 and IAS 10	532
13.1	Introduction to IAS 1, IAS 8 and IAS 10	534
13.2	<i>IAS 1 Presentation of Financial Statements</i>	534
13.3	<i>IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors</i>	540
13.4	<i>IAS 10 Events After the Balance Sheet Date</i>	547
13.5	Summary	549
	Discussion questions	550
	Exercises	550
	Problems	552
14	Presentation of financial statements	554
14.1	Presentation of financial statements	556
14.2	Scope	556
14.3	Balance sheet	556
14.4	Income statement	565
14.5	Statement of changes in equity	570
14.6	Cash flow statement	572
14.7	Notes	572
14.8	Summary	575
	Discussion questions	576
	Exercises	576
	Problems	580
15	Cash flow statements	588
15.1	Introduction to IAS 7	590
15.2	Scope of IAS 7	590
15.3	Objectives of a cash flow statement	590

15.4	Defining cash and cash equivalents	590
15.5	Classifying cash flow activities	591
15.6	Format of cash flow statements	592
15.7	Preparing a cash flow statement	594
15.8	Other disclosures	603
15.9	Comprehensive example	605
15.10	Extracts from financial reports	612
15.11	Summary	616
	Discussion questions	617
	Exercises	617
	Problems	620

PART 4 Economic entities 631

16	Controlled entities – the consolidation method	632
16.1	Introduction	634
16.2	Forms of controlled entities	634
16.3	Applying the consolidation method	637
16.4	Control as the criterion for consolidation	638
16.5	Presentation of consolidated financial statements	649
16.6	Parent entities and identification of an acquirer – reverse acquisitions	650
16.7	Concepts of consolidation	652
16.8	Format of consolidated financial statements	656
16.9	Summary	659
	Discussion questions	660

17	Consolidated financial statements: wholly owned subsidiaries	666
17.1	The consolidation process	668
17.2	Consolidation worksheets	670
17.3	The acquisition analysis	671
17.4	Worksheet entries at the acquisition date	673
17.5	Worksheet entries subsequent to the acquisition date	680
17.6	Comprehensive example	694
17.7	Revaluations in the records of the subsidiary at acquisition date	698
17.8	Disclosure	698

17.9	Reverse acquisitions	702
17.10	Summary	705
	Discussion questions	706
	Exercises	706
	Problems	710

18 Consolidated financial statements: intragroup transactions 720

18.1	Introduction	722
18.2	Rationale for adjusting for intragroup transactions	722
18.3	Transfers of inventory	724
18.4	Transfers of non-current assets	731
18.5	Comprehensive example: intragroup transfers of assets	738
18.6	Intragroup services	744
18.7	Intragroup dividends from post-acquisition equity	745
18.8	Intragroup borrowings	752
18.9	Summary	756
	Discussion questions	757
	Exercises	757
	Problems	761

19 Consolidated financial statements: minority interest 772

19.1	Introduction	774
19.2	Effects of an MI on the consolidation process	777
19.3	Calculating the MI share of equity	780
19.4	MI share of recorded equity of the subsidiary	781
19.5	Adjusting for the effects of intragroup transactions	791
19.6	Excess on acquisition	805
19.7	Summary	806
	Discussion questions	807
	Exercises	807
	Problems	813

20 Consolidated financial statements: indirect ownership interests	826
20.1 Introduction	828
20.2 Direct and indirect minority interest (MI)	829
20.3 Sequential acquisitions	829
20.4 Non-sequential acquisitions	854
20.5 Reciprocal ownership	858
20.6 Summary	866
Discussion questions	867
Exercises	867
Problems	873
21 Consolidated financial statements: foreign subsidiaries	886
21.1 Translation of foreign subsidiary's statements	888
21.2 Functional and presentation currencies	888
21.3 The rationale underlying the functional currency choice	888
21.4 Identifying the functional currency	892
21.5 Translation into the functional currency	893
21.6 Changing the functional currency	900
21.7 Translation into the presentation currency	900
21.8 Consolidating foreign subsidiaries – where local currency is the functional currency	905
21.9 Consolidating foreign subsidiaries – where functional currency is that of the parent entity	914
21.10 Net investment in a foreign operation	915
21.11 Disclosure	916
21.12 Summary	918
Discussion questions	919
Exercises	920
Problems	926

22 Accounting for investments in associates	934
22.1 Accounting for equity investments in other entities	936
22.2 Identifying associates	937
22.3 Application – consolidated or separate financial statements	939
22.4 Application of the equity method of accounting	939
22.5 Disclosure	962
22.6 Comprehensive example	963
22.7 Summary	969
Discussion questions	970
Exercises	970
Problems	974
23 Interests in joint ventures	984
23.1 Investments in other entities	986
23.2 The nature of a joint venture	986
23.3 Accounting for jointly controlled operations under IAS 31	990
23.4 Accounting for jointly controlled assets under IAS 31	991
23.5 Accounting by an unincorporated joint venture that is sharing output	991
23.6 Accounting by a venturer in an unincorporated joint venture that is sharing output	995
23.7 Accounting by a venturer in a jointly controlled entity that is sharing profit	1014
23.8 Equity method versus proportionate consolidation	1017
23.9 Disclosures required by IAS 31	1022
23.10 Summary	1024
Discussion questions	1025
Exercises	1025
Problems	1029
24 Segment reporting – IAS 14	1040
24.1 Introduction to IAS 14	1042
24.2 Scope	1042

24.3 Objectives of financial reporting by segments 1042	24.8 Disclosures 1056
24.4 Business and geographical segments 1043	24.9 Summary 1070
24.5 Primary and secondary segment reporting formats 1044	Discussion questions 1071
24.6 Identifying an entity's reportable segments 1047	Exercises 1071
24.7 Segment accounting policies 1052	Problems 1073
	Useful terms 1077
	Index 1085