



Framework-based IFRS teaching

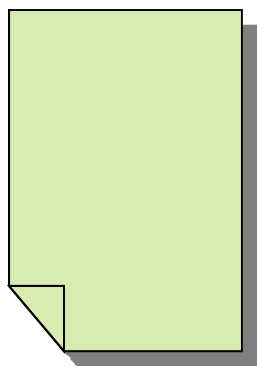
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Framework-based teaching...

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- relates the IFRS requirements being taught to the concepts in the *Conceptual Framework*
- explains why some IFRS requirements do not maximise those concepts (eg application of the cost constraint or inherited requirements)



Concepts



Principles



Rules

Framework-based teaching provides...

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- a **cohesive understanding** of IFRSs
 - *Framework* facilitates **consistent and logical formulation** of IFRSs
- a basis for **judgement** in applying IFRSs
 - *Framework* established the concepts that underlie the estimates, judgements and models on which IFRS financial statements are based
- a basis for **continuously updating** IFRS knowledge and IFRS competencies

Support for *Framework*-based teaching

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- IFRS Foundation education initiative works with others to support *Framework*-based teaching
 - create awareness
 - develop material (starting with PPE)
 - hold workshops (in 2011: Basseterre and Vienna with World Bank; Bucharest, Denver, George and Venice with IAAER; and Rio with BNDES)
 - encourage those certifying accountants to examine their students' ability to make the judgements that are necessary to apply IFRSs

Can I use *Framework*-based teaching in my IFRS class?

- Yes, the starting point for all IFRS teaching should be the objective of IFRS financial information and the concepts that flow logically from that objective
- However, the extent of IFRS requirements taught are likely to vary by course level and to suit the objectives of the course

Focus on CA/CPA stream students

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- Can be used at all levels of IFRS classes
- This presentation is for CA/CPA stream
- Financial reporting courses at 3 broadly defined stages along the progression to CA/CPA
 - Stage 1: first course
 - Stage 2: course mid-way to qualifying
 - Stage 3: immediately before qualifying
- Stages are broadly defined to take account of different approaches to qualifying CA/CPA's

Progression for CA/CPA stream

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	Stage 1	Stage 2	Stage 3
Reference material (for course work and open-book assessment)	Extracts from <i>Framework</i> and basic IFRS principles	<i>Framework</i> , IFRS requirements and accompanying material and <i>IFRS for SMEs</i>	<i>Framework</i> , IFRSs and accompanying material, Local GAAP (if any) & IASB DPs & EDs
IFRS judgements and estimates	Awareness	Understanding	Competence
Integration of IFRS topics	Very little, if any	Moderate	Significant
Integration with related disciplines	Very little, if any	Moderate	Significant

Why PPE material first?

- As jurisdictions implement IFRSs many find that the accounting for PPE is a special challenge (Upton, IASB's Director of International Activities, 2010)
 - IFRS requirements for PPE require many estimates and judgements
 - previous accounting frequently influenced or governed by tax requirements or central government planning
 - even where previous accounting is based on a similar Framework, those requirements often rules-based (eg industry specific guidance)

Reference material: PPE course work & open-book assessment

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Stage 1	Stage 2	Stage 3
Extracts from <i>Framework</i> + basic IFRS principles from Section 17 of the <i>IFRS for SMEs</i> or IAS 16 (eg, see handout)	<i>A Guide through IFRSs</i> (includes full text of <i>Framework</i> + IFRSs and accompanying material with extensive cross-references and annotations, eg IFRIC agenda decisions) + the <i>IFRS for SMEs</i> and accompanying documents	Stage 2 material + Local GAAP (if any) + main principles in IASB DPs and EDs

Class material: PPE

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Stage 1	Stage 2	Stage 3
Reference material (previous slide) + notes (eg see handout) + video/web clips + basic tutorials (eg see handout)	Reference material (previous slide) + notes (eg see handout), video/web clips + tutorials + IFRS financial statements + select regulatory decisions + relevant press coverage + main principles in issues being considered by IASB	Reference material (previous slide) + advanced tutorials and integrated case studies + IFRS financial statements + relevant regulatory decisions + relevant press coverage + IASB DPs and EDs and select agenda papers

Relate PPE accounting & reporting to objective & main concepts (pervasive)

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Stage 1	Stage 2	Stage 3
<p>Explain why relevant and faithfully represented information about PPE (particularly manufacturers and retailers) is useful to the primary user group.</p> <p>Reinforce with class discussion + tutorial.</p> <p>Assess understood.</p>	<p>Stage 1 + (don't limit to manufacturers and retailers, eg include service industry buildings and explain in more detail).</p> <p>Reinforce teaching with class discussion + tutorials.</p> <p>Assess understood.</p>	<p>Reinforce understanding and develop competence in making the judgements that are necessary to account for assets.</p> <p>Some ideas:</p> <ul style="list-style-type: none">- cross-cutting issues class discussions- advanced tutorials- integrated case studies- GAAP comparisons & improvements.

Identifying PPE

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Stage 1	Stage 2	Stage 3
<p>Classification: is the item an asset?</p> <p>Sub-classification: Why separate PPE from other assets (relate to objective + QCs)?</p> <p>What is PPE? (basic examples, eg manufacturing equipment, retail outlet and administration building).</p>	<p>Stage 1 + focus on teaching the judgements necessary to identify PPE. Some examples:</p> <ul style="list-style-type: none">- land and buildings (inventory, investment property or PPE?)- farm land with plantation, guard dogs, bird breeder, bird breeding zoo (IAS 16, IAS 40 or IAS 41?)- when does PPE become held for sale (IAS 16 or IFRS 5?)- asset? (IFRIC 18 <i>Transfer of Assets from a Customer</i>)- when is PPE reclassified to another asset sub-classification?	<p>Reinforce understanding and develop competence in sub-classifying assets. Some ideas:</p> <ul style="list-style-type: none">- cross-cutting issues class discussions- advanced tutorials- integrated case studies.

Unit of account for PPE

what constitutes an item of PPE?

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Stage 1	Stage 2	Stage 3
	<p>IAS 16 does not prescribe the unit of measure for recognition of PPE (an item of PPE) consequently use judgement.</p> <p>Focus on teaching the judgements necessary to identify an item of PPE. Some examples:</p> <ul style="list-style-type: none">-immaterial items-individually insignificant items (eg moulds, tools & dies?)	<p>Reinforce understanding and develop competence in identifying the unit of account. Some ideas:</p> <ul style="list-style-type: none">-cross-cutting issues class discussions-advanced tutorials-integrated case studies-GAAP comparisons & improvements.

Recognition of PPE

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Stage 1	Stage 2	Stage 3
<p>PPE asset recognition principle is from the <i>Framework</i> :</p> <ul style="list-style-type: none">- probable FEBs associated with the item will flow to the entity- cost of the item can be measured reliably (IAS16.7) <p>Creates awareness of judgements (eg what is material, probable and reliable).</p>	<p>Stage 1 + focus on teaching the judgements necessary to identify PPE. Some egs:</p> <ul style="list-style-type: none">- immaterial items- backup generator at hospital- day-to-day servicing- replacement parts- major inspections	<p>Reinforce understanding and develop competence in making the judgements necessary to recognise assets. Some ideas:</p> <ul style="list-style-type: none">- cross-cutting issues class discussions- advanced tutorials- integrated case studies- GAAP comparisons & improvements.

- Because measuring PPE requires **significant estimates and judgements**, it is important that students be taught those requirements in a way that prepares them to make those judgements and estimates.

- Measurement is the process of determining monetary amounts at which elements are recognised and carried. (¶4.54)
- To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The *Framework* establishes the concepts that underlie those estimates, judgements and models (¶OB11)
- IASB guided by **objective** and **qualitative characteristics** when specifying measurements.

- Measurement section of *Framework* is weak—only lists some measurement methods used in practice:
 - historical cost: cash paid or fair value of consideration given
 - current cost: cash that would be paid if acquired now
 - realisable (settlement) value: cash that could be obtained by selling the asset now
 - present value: present discounted value of future net cash inflows that the item is expected to generate
 - market value: listed but not described in *Framework*.
For fair value see IFRS 13 *Fair Value Measurements*

- PPE and intangible assets: initial = cost, then
 - cost model (cost-depreciation-impairment) or
 - revaluation model (fair value-depreciation-impairment)
- Investment property: initial = cost, then
 - cost model (cost-depreciation-impairment) or
 - fair value model (fair value through profit or loss)
- Inventories: initial = cost, then
 - lower of cost or net realisable value (entity specific value)
- Biological assets that relates to agricultural activity
 - fair value less costs to sell (if impracticable then cost model)

Explain reasons for different measurements

Measurement of PPE at recognition

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Stage 1	Stage 2	Stage 3
<p>At initial recognition: cost = cash price equivalent at recognition date. Cost comprises:</p> <ul style="list-style-type: none">- purchase price- costs directly attributable to bring item to location and condition necessary for it to be capable of operating as intended by mgt.- initial estimate of costs of dismantling and removing and restoring the site. <p>Create awareness of judgements.</p>	<p>Stage 1 + focus on judgements to measure cost. Some egs:</p> <ul style="list-style-type: none">- self constructed- borrowing costs- dismantling etc- deferred payments- exchange transactions <p>Explain why exceptions:</p> <ul style="list-style-type: none">- leases (IAS 17)- government grants (IAS 20)	<p>Reinforce understanding & develop competence in judgements to measure cost. Some ideas:</p> <ul style="list-style-type: none">- cross-cutting issues class discussions- advanced tutorials- integrated case studies.

Measurement of PPE after recognition

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Stage 1	Stage 2	Stage 3
<p>Accounting policy choice: cost model or revaluation model.</p> <p>Which model provides primary users most useful information?</p> <p>Teach the theory and mechanics of depreciation.</p> <p>Reinforce with class discussion + tutorial.</p> <p>Assess understood.</p>	<p>Stage 1 + focus on teaching the judgements necessary to measure PPE after initial recognition. Some examples:</p> <ul style="list-style-type: none">- useful life- residual value- depreciation method- for revaluation (fair value if no recent transactions)- for impairment (fair value less costs to sell)	<p>Reinforce understanding and develop competence in making the judgement necessary to measure assets.</p> <p>Some ideas:</p> <ul style="list-style-type: none">- cross-cutting issues class discussions- advanced tutorials- integrated case studies.

Allocating depreciation: **concepts**

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- Information about an entity's financial performance in a period, reflected by changes in economic resources (eg PPE) is useful in assessing the entity's past and future ability to generate net cash inflows (see ¶OB18)
- Expenses are decreases in economic benefits during an accounting period in the form of depletions of assets... (¶4.25)
- **Depreciation represents the consumption of the assets service potential in the period.**
 - land with an indefinite useful life is not depreciated because its service potential does not reduce with time

Allocating depreciation: **principle**

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- Depreciation is the **systematic allocation** of the **depreciable amount** of an asset over its **useful life** (IAS16.6)
 - essentially a cost allocation technique (IAS16.BC29)

Allocating depreciation: application guidance (1)

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- Systematic allocation (application guidance):
 - **Depreciation method** must closely reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
 - **Unit of measure** for depreciation is different from that for an item of PPE. By depreciating significant parts of an item of PPE separately, depreciation more faithfully represents the consumption of the asset's service potential. (IAS16.BC26)

Allocating depreciation: application guidance (2)

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- Depreciable amount =
 - cost model: historical cost less residual value
 - revaluation model: fair value less residual value
- Residual value =
 - amount that the entity would currently obtained from disposal of asset (less estimated disposal costs) if the asset were already of the age and in the condition expected at the end of its useful life

Allocating depreciation: application guidance (3)

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- Useful life (entity specific) =
 - the period over which the asset is expected to be available for use by the entity; or
 - the number of production or similar units expected to be obtained from the asset by the entity.
- Consequently, depreciation **continues when idle** (if useful life = period)
- However, depreciation **ceases when classified as held for sale** because IFRS 5 measurement is essentially a process of valuation, rather than allocation (IFRS5.BC29)

- Derecognition of an asset refers to when an asset previously recognised by an entity is removed from the entity's statement of financial position
 - Derecognition requirements are specified at the **standards level**.
 - Derecognition does not necessarily occur when the asset no longer satisfies the conditions specified for its initial recognition (ie derecognition does not necessarily coincide with the loss of control of the asset).

Derecognition of PPE

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Stage 1	Stage 2	Stage 3
<p>PPE is derecognised:</p> <ul style="list-style-type: none">-on disposal, or-when no future economic benefits are expected from its use or disposal (IAS16.67)	<p>Stage 1 + focus on teaching the judgements necessary to determine when to derecognise PPE.</p> <p>For example:</p> <ul style="list-style-type: none">-applying the criteria for the sale of goods in IAS 18 to determine when to recognise the sale of an item of PPE (see IAS16.69 and BC34)	<p>Reinforce understanding and develop competence in making the judgements necessary to derecognise assets.</p> <p>Some ideas:</p> <ul style="list-style-type: none">-cross-cutting issues class discussions-advanced tutorials-integrated case studies-GAAP comparisons & improvements.

- Objective of financial reporting
- Presentation: financial statements portray financial effects of transactions and events by:
 - grouping into broad classes (the elements, eg asset)
 - sub-classify elements (eg assets sub-classified by their nature or function in the business)
- IAS 1
 - application of IFRSs with additional disclosures when necessary results in a fair presentation (faithful representation of transactions, events and conditions)
 - don't offset assets & liabilities or income & expenses

Presentation and disclosure of PPE

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Stage 1	Stage 2	Stage 3
<p>Statement of financial position: why present PPE separately from other assets (relate to objective + QCs)?</p> <p>Statement of comprehensive income or notes: why present depreciation separately from other expenses (relate to objective + QCs)?</p> <p>Offsetting: why is gain (or loss) on disposal of PPE presented net?</p>	<p>Stage 1 + focus on teaching the judgements necessary to present and disclose PPE, egs</p> <ul style="list-style-type: none">-identify (see slide 12)-sub-classify PPE into separate classes (grouping of assets of a similar nature and use in the entity's operations, eg how many classes of land—vacant land, land on which buildings are situated and landfill site?)	<p>Reinforce understanding and develop competence in presenting assets and related income & expenses.</p> <p>Some ideas:</p> <ul style="list-style-type: none">-cross-cutting issues class discussions-advanced tutorials-integrated case studies.

Transitional provisions and effective dates: **concepts and principles**

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- The concepts = objective of financial reporting and qualitative characteristics, particularly comparability (see *Framework*)
- The principle for changes in accounting policies (see IAS 8) =
 - retrospective application of new accounting policy
 - voluntary policy change only if change results in reliable and more relevant information
 - disclose the effects of retrospective application

- For cost-beneficial reasons or to avoid the subjective use of hindsight:
 - transitional provisions for new and amended IFRSs (IAS 8.19 and IAS 16.80–81E)
 - initial accounting for a change from cost model to revaluation model is accounted for as a revaluation (IAS 8.17)
 - impracticability exception (practical expedient)
 - specified disclosures (IAS 8)

Questions or comments?

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Expressions of individual views by members of the IASB and their staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

