

Applying IFRS[®] Standards

Fourth Edition



Ruth Picker
Kerry Clark
John Dunn
David Kolitz
Gilad Livne
Janice Loftus
Leo van der Tas

APPLYING IFRS® Standards

FOURTH EDITION

RUTH PICKER
EY

KERRY CLARK
EY

JOHN DUNN
University of Strathclyde

DAVID KOLITZ
University of Exeter Business School

GILAD LIVNE
University of Exeter Business School

JANICE LOFTUS
University of Adelaide

LEO VAN DER TAS
EY
Tilburg University

WILEY

Copyright © 2016 John Wiley & Sons, Ltd

Copyright © 2013 Ruth Picker, Ken Leo, Janice Loftus, Victoria Wise, Kerry Clark

Copyright © 2009 Keith Alfredson, Ken Leo, Ruth Picker, Janice Loftus, Kerry Clark, Victoria Wise

Copyright © 2007, 2005 Keith Alfredson, Ken Leo, Ruth Picker, Paul Pacter, Jennie Radford, Victoria Wise

All effort has been made to trace and acknowledge ownership of copyright. The publisher would be glad to hear from any copyright holders whom it has not been possible to contact.

Cover image credit: © Val_Iva/Shutterstock.com

Registered office

John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

The rights of the authors of this work has been asserted in accordance with the UK Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior permission of the publisher.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Disclaimer: To the extent permitted by applicable law, the publisher, the authors, the International Accounting Standards Board (IASB) and the IFRS Foundation expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs. Any and all implied warranties — including but not limited to — implied warranties of satisfactory quality, fitness for a particular purpose, non-infringement and accuracy are excluded to the extent that they may be excluded as a matter of law. Information contained in this publication does not constitute advice, should therefore not be used as a basis for making decisions and should not be substituted for the services of an appropriately qualified professional. For further information on financial reporting, reference must be made to the IFRS Standards as issued by the IASB.

Content provided by IFRS is copyright © IFRS Foundation, used under licence. All rights reserved. Reproduction and use rights are strictly limited. For further details with regard to publication and copyright matters, please contact the Foundation at (licenses@ifrs.org).

The following trademarks are the registered trademarks of The International Financial Reporting Standards Foundation: 

The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the 'Hexagon Device', 'IFRS Foundation', 'eIFRS', 'IAS' 'IASB', 'IFRS for SMEs', 'IAss', 'IFRS', 'IFRSs', 'International Accounting Standards', 'International Financial Reporting Standards', 'IFRIC' 'SIC' and 'IFRS Taxonomy'.

Further details of the Trade Marks including details of countries where the Trade Marks are registered or applied for are available from the Foundation on request.

Library of Congress Cataloging-in-Publication Data

Names: Picker, Ruth.

Title: Applying IFRS / Ruth Picker,

Ernst & Young, Kerry Clark, Ernst & Young, John Dunn, University of Strathclyde, David Kolitz, University of Exeter Business School, Gilad Livne, University of Exeter Business School, Janice Loftus, The University of Adelaide, Leo van der Tas, Ernst & Young.

Description: Fourth edition. | Chichester, West Sussex, United Kingdom: John

Wiley & Sons, [2016] | Includes bibliographical references and index.

Identifiers: LCCN 2015048910 | ISBN 9781119159223 (pbk.)

Subjects: LCSH: Accounting—Standards. | Financial statements—Standards.

Classification: LCC HF5626 .P45 2016 | DDC 657/.30218—dc23 LC record available at <http://lcn.loc.gov/2015048910>

ISBN 9781119159223 (pbk)

ISBN 9781119250777 (ebk)

A catalogue record for this book is available from the British Library

Set in 9.5pt/ITC Giovanni Std by Aptara Inc., India

Printed in Great Britain by TJ International, Padstow, Cornwall

FROM THE PROFESSION

EY is delighted to support *Applying IFRS Standards*, fourth edition. With International Financial Reporting Standards (IFRS®) now being mandated, or permitted, for the financial reporting of listed entities in most parts of the world, it has become the global language of accounting. This means that comparing financial statements from companies across the globe has become much easier, fostering capital markets and reducing the cost of capital. It also has led to reductions in training costs and greater mobility of accounting staff and professionals across countries. You, as accountancy students and professionals, will benefit greatly from being able to carry your knowledge and experience from country to country without always having to study local accounting standards each time you cross a border.

Business and capital markets are developing continuously. So must financial reporting. The International Accounting Standards Board (IASB®), the IFRS Standards setter, recently issued a number of important new standards. The new IFRS 9 *Financial Instruments* addresses the issues that arose during the global credit crisis and, among others, answers calls for better loan loss provisions by banks and more practical hedge accounting rules. IFRS 15 *Revenue from Contracts with Customers* modernises and greatly enhances the guidance on revenue recognition. Both new standards are covered in this new edition of *Applying IFRS Standards* as well as the key highlights of the new standard for lease accounting.

Applying IFRS Standards aims to help you master the complex world of IFRS Standards; as such, it is truly global in the wealth of insights and examples it provides, as well as abstracts from financial statements of companies across the globe. I am sure this book will be instructive not only to those learning about financial reporting standards for the first time, but also to accountancy professionals keeping abreast of developments in IFRS Standards and trying to find their way in applying IFRS Standards to transactions and events.

Now that IFRS Standards have been adopted in most parts of the world, it is important to interpret and apply the standards consistently to make it a truly single global set of accounting standards. I hope and trust this book will help in achieving a common and consistent understanding and application of IFRS Standards.

Leo van der Tas
Global Leader — IFRS Services, Global Professional Practice
EY
London

May 2016

BRIEF CONTENTS

Part 1 CONCEPTUAL FRAMEWORK 1

- 1 The IASB and its *Conceptual Framework* 3

Part 2 ELEMENTS 19

- 2 Owners' equity: share capital and reserves 21
- 3 Fair value measurement 49
- 4 Revenue from contracts with customers 73
- 5 Provisions, contingent liabilities and contingent assets 95
- 6 Income taxes 123
- 7 Financial instruments 155
- 8 Share-based payment 199
- 9 Inventories 219
- 10 Employee benefits 245
- 11 Property, plant and equipment 275
- 12 Leases 321
- 13 Intangible assets 355
- 14 Business combinations 379
- 15 Impairment of assets 417

Online chapter A Exploration for and evaluation of mineral resources

Online chapter B Agriculture

PART 3 PRESENTATION AND DISCLOSURES 447

- 16 Financial statement presentation 449
- 17 Statement of cash flows 485
- 18 Operating segments 517
- 19 Other key notes disclosures 537

PART 4 ECONOMIC ENTITIES 559

- 20 Consolidation: controlled entities 561
- 21 Consolidation: wholly owned subsidiaries 577
- 22 Consolidation: intragroup transactions 00
- 23 Consolidation: non-controlling interest 00
- 24 Translation of the financial statements of foreign entities 00

Online chapter C Associates and joint ventures

Online chapter D Joint arrangements

With International Financial Reporting Standards (IFRS®) now being mandated for listed companies in 100+ countries across the globe, it has become a truly global set of standards for financial reporting. IFRS Standards have also become the example for national accounting standards. The credit crisis has shown that a stable, globally accepted set of financial reporting standards is important to maintain transparency in financial communication by companies to their constituents.

An understanding of the IFRS Standards is therefore paramount for all those involved in financial reporting or preparing to attain such a role. It provides not just technical knowledge and in-depth understanding of the financial reporting process, but does so in a global business environment. *Applying IFRS Standards*, fourth edition, has been written to meet the needs of accountancy students and practitioners in understanding the complexities of IFRS Standards.

This publication is the fourth edition of the book. It has now established itself as a text that is used by academics and practitioners throughout the world. We have welcomed the comments and suggestions received from various people and have tried to ensure that these are reflected in this edition.

What's new in this edition?

The fourth edition addresses the major changes to a number of accounting standards and the release of new IFRS Standards, in particular:

- the IASB's *Conceptual Framework for Financial Reporting*
- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*.

The chapters covering these topics reflect these changes and discuss the consequences.

An important new feature has been introduced for the first time in this edition. Academic perspectives can be found at the end of all chapters in the first three parts of the book (i.e. chapters 1 to 19). These academic perspectives summarise and highlight certain findings from published research in accounting and other fields that pertain to a chapter's topic. Referring to these Perspectives should give the reader a basic understanding of questions that accounting researchers have attempted to address. Note, however, that the academic perspectives do not furnish a comprehensive review of related literature. Rather, they provide a starting point for further reading and exploration of relevant academic research.

Applying IFRS Standards fourth edition, also comes equipped with discussion questions and exercises at the end of each chapter, specifically designed to test the reader's understanding of the content. A wealth of additional learning materials can also be found at www.wiley.com/college/picker, including:

- Four additional chapters entitled: Exploration for and evaluation of mineral resources; Agriculture; Associates and joint ventures; Joint arrangements
- Instructor slides
- Testbank
- Additional exercises
- Solutions manual
- Access to the IFRS Learning Resources

In writing this book, we have endeavoured to ensure that the following common themes flow throughout the text:

- *Accounting standards are underpinned by a conceptual framework.* Accounting standards are not simply a rulebook to be learnt by heart. An understanding of the conceptual basis of accounting, and the rationale behind the principles espoused in particular standards, is crucial to their consistent application in a variety of practical applications.
- *The International Accounting Standards Board (IASB®) financial reporting standards are principles-based.* Although a specific standard is a stand-alone document, the principles in any standard relate to and are interpreted in conjunction with other standards. To appreciate the application of a specific standard, an understanding of the reasoning within other standards is required. We have endeavoured where applicable to refer to other accounting standards that are connected in principle and application. In particular, extensive references are made to the Basis for Conclusions documents accompanying each standard issued by the IASB. This material, although not integral to the standards, explains the reasoning process used by the IASB and provides indicators of changes in direction being proposed by the IASB.
- *Accounting standards have a practical application.* The end product of the standard-setting process must be applied by accounting practitioners in a variety of organisational structures and practical settings. While a theoretical understanding of a standard is important, practitioners should be able to apply the relevant standard. The author of each chapter has demonstrated the practical application of the

accounting standards by providing case studies, examples and journal entries (where relevant). The references to practical situations require the reader to pay close attention to the detailed information discussed, given that such a detailed examination is essential to an understanding of the standards. Having only a broad overview of the basic principles is insufficient.

Writing a book like this is impossible without the help and input from many people. Much of the knowledge and insights reflected in this book have been gained through discussions and debates with many colleagues and with staff associated with the standard-setting bodies, particularly at the IASB. We thank them for sharing their perspectives and experience. We would like to thank the following people in particular. A team of people from EY's Global IFRS team in London, consisting of Angela Covic, Pieter Dekker, Steinar Kvifte, Victoria O'Leary, Alexandra Poddubnaya, Serene Seah-Tan and Charlene Teo, wrote and reviewed individual chapters of the book. Richard Barker from Saïd Business School, Oxford University reviewed the chapters in Part 4. Erik Roelofsen from Rotterdam School of Management, Erasmus University Rotterdam and PwC reviewed the Academic Perspectives. Elisabetta Barone from Brunel Business School updated the testbank. We would also like to thank Natalie Forde from Cardiff Business School and other anonymous reviewers who have provided valuable feedback and recommendations during the development of the fourth edition. In addition, we extend our thanks to the people at Wiley and professional freelancers for their help realising this edition, including Juliet Booker, Steve Hardman, Georgia King, Joyce Poh and Joshua Poole as well as Jennifer Mair and Paul Stringer. Last but not least, writing a book takes huge commitment, and this has left less time for family and friends. We thank them also for their support and understanding.

Finally, in a time when the world, with its increasing sophistication, seems to produce situations and pronouncements that have added complexity, we hope that this book assists in the lifelong learning process that ourselves and the readers of this book are continuously engaged in.

*Ruth Picker
Kerry Clark
John Dunn
David Kolitz
Gilad Livne
Janice Loftus
Leo van der Tas*

May 2016

ABOUT THE AUTHORS

Ruth Picker

Ruth Picker BA, FCA, FSIA, FCPA, was Global Leader, Global IFRS Services, Global Professional Practice, with EY between 2009 and 2013. Ruth has over 30 years' experience with EY and has held various leadership roles during this time. Up until June 2009, Ruth was Managing Partner — Melbourne and the Oceania Team Leader of Climate Change and Sustainability Services. Prior to this role, Ruth was a senior partner in the Technical Consulting Group, Global IFRS and the firm's Professional Practice Director (PPD) responsible for directing the firm's accounting and auditing policies with the ultimate authority on accounting and auditing issues.

Ruth's authoritative insight and understanding of accounting policy and regulation was acknowledged through her appointment to the International Financial Reporting Interpretations Committee (IFRIC®), the official interpretative arm of the International Accounting Standards Board (IASB®). She was a member of IFRIC between 2006 and 2013.

Ruth has conducted numerous 'Directors' Schools' for listed company boards. These schools were designed by Ruth and are aimed at enhancing the financial literacy of listed company board members.

She is a frequent speaker and author on accounting issues and has been actively involved in the Australian accounting standard-setting process, being a past member and former deputy chair of the Australian Accounting Standards Board (AASB) and having served on the Urgent Issues Group for 3 years. She has been a long-standing lecturer and Task Force member for the Securities Institute of Australia, serving that organisation for 17 years.

Her written articles have been published in numerous publications, and she is frequently quoted in the media on accounting and governance issues.

Kerry Clark

Kerry Clark BCom, CA, CPA, is an Associate Partner in EY's Financial Accounting Advisory Services team in Calgary, Canada. Kerry provides accounting guidance to clients and staff advising on various financial reporting matters under International Financial Reporting Standards (IFRS® Standards) and United States generally accepted accounting principles and has over 25 years of experience with EY.

Kerry is a member of CPA Canada's Oil and Gas Industry Task Force, the Canadian Association of Petroleum Producers' IFRS Committee, EY's internal expert network on the new revenue recognition and leases standards and EY's Global Oil and Gas Industry Network.

Kerry's accounting experience spans a variety of industries, with a specific focus over the past several years on financial reporting issues in the energy industries, including oil and gas, infrastructure and utilities in Canada. Prior to this Kerry was a key member of EY's Technical Consulting Group, Global IFRS based in Melbourne, Australia, where she was responsible for advising clients on the application of IFRS Standards to complex transactions with a specific focus on the communications, entertainment and technology industry sectors.

Kerry frequently assists clients in understanding the financial reporting implications of complex transactions such as complicated infrastructure construction and partnership arrangements, leases, acquisitions and joint arrangements. She has been involved in the authoring of many EY publications and *Charter* magazine articles and assisted Ruth Picker in conducting 'Directors' Schools' for listed company boards. She has also spoken on accounting issues in many different forums in both Canada and Australia.

John Dunn

John Dunn is a lecturer at the University of Strathclyde in Glasgow, where he teaches financial accounting and auditing. He has published widely on those topics and others. He is a qualified accountant with extensive experience of examining for professional bodies.

David Kolitz

David Kolitz, BComm (Natal), BCom (Hons) (SA), MCom (Wits) is Senior Lecturer in the Business School at the University of Exeter. He was previously Associate Professor and Assistant Dean in the Faculty of Commerce, Law and Management at the University of the Witwatersrand, Johannesburg. He is an experienced accounting academic and the lead author/co-author of three other books in the area of Financial Accounting.

Gilad Livne

Gilad Livne, PhD, CPA, is a professor of accounting at the University of Exeter Business School. Previously Gilad served on the accounting faculty of the London Business School and Cass Business School. Gilad

received his MSc and PhD in accounting at the University of California at Berkeley, and BA (Accounting and Economics) in Tel Aviv University.

Gilad's teaching involves financial statement analysis, international accounting as well as advanced financial accounting courses. Gilad has taught on Undergraduate, MBA, Executive MBA, Sloan, Ph.D., and MSc programmes. In addition to teaching at Cass and LBS, Gilad has also taught at HEC (Paris), New Economic School (Moscow), Lancaster University, University of Lausanne (Switzerland), Oulu University (Finland) and on various company-specific programmes. Gilad has also consulted and appeared on TV and various radio programmes.

Gilad's research looks into auditor independence, international accounting, fair value accounting, and compensation. Gilad currently serves on a number of editorial boards of accounting journals. His research has been published in several journals including *European Accounting Review*, *Journal of Banking and Finance*, *Journal of Business Finance and Accounting*, *Journal of Corporate Finance*, and *Review of Accounting Studies*.

Janice Loftus

Janice Loftus BBus, MCom (Hons) FCPA is an associate professor in accounting at the University of Adelaide, Australia. Her teaching interests are in the area of financial accounting and she has written several study guides for distance learning programmes. Janice's research interests are in the areas of financial reporting and social and environmental reporting. She co-authored Accounting Theory Monograph 11 on solvency and cash condition with Professor M.C. Miller. She has numerous publications on international financial reporting standards, risk reporting, solvency, earnings management, social and environmental reporting, and developments in standard setting in Australian and international journals. Janice co-authored *Financial Reporting, Understanding Australian Accounting Standards* and *Accounting: Building Business Skills* published by John Wiley & Sons Australia. Prior to embarking on an academic career, Janice held several senior accounting positions in Australian and multinational corporations.

Leo van der Tas

Leo van der Tas (PhD, RA) is the Global IFRS Leader at EY in London since 2013, before which he was the Global IFRS Technical Director at EY in London. In that role he is responsible for the IFRS Standards policy of EY and consistency of IFRS Standards implementation within the EY network. He is senior technical partner at EY in the Netherlands. He was a member of the IFRIC (and predecessor Standing Interpretations Committee of the IASB) between 1997 and 2006 and a member of the IFRS Foundation Advisory Council between 2009 and 2013.

Leo has been part-time full professor of financial reporting at Tilburg University, the Netherlands, since 2010 and before that part-time full professor at Erasmus University Rotterdam, the Netherlands, since 1993. He chaired the committee for permanent education in financial reporting of the Dutch Institute of Accountants (NIVRA) until 2010.

Leo has been a member of the Consultative Working Group of the Standing Corporate Reporting Committee of the European Securities and Market Authority (ESMA) in Paris, France, since 2010. From 2007 to 2012 he was a member of the Advisory Committee on Financial Reporting of the Netherlands Authority for the Financial Markets (AFM) in Amsterdam, the Netherlands.

He has published many books and articles in the area of international accounting and is a frequent speaker and teacher on the subject.

He was seconded to the European Commission in Brussels, Belgium, for a period of 2 years to assist in the development of the Commission's policy in the area of European accounting harmonisation.

ACRONYMS

AFS	Available-for-sale
AGM	Annual general meeting
ASC	Accounting Standards Codification
BCVR	Business combinations value reserve
CEO	Chief Executive Officer
CGU	Cash-generating unit
CODM	Chief Operating Decision Maker
COO	Chief Operating Officer
DBL(A)	Defined benefit liability (asset)
DBO	Defined benefit obligation
ED	Exposure draft
EFRAG	European Financial Reporting Advisory Group
EPS	Earnings per share
FAS	Financial Accounting Standards
FASB	US Financial Accounting Standards Board
FIFO	First-in, first-out
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GAAP	US generally accepted accounting principles
IAS®	International Accounting Standards
IASB®	International Accounting Standards Board
IASC	International Accounting Standards Committee, predecessor of the IASB
IDC	Initial direct costs
IFRIC®	International Financial Reporting Interpretations Committee, now the IFRS® Interpretations Committee
IFRS®	International Financial Reporting Standards
IPO	Initial public offering
LIBOR	London interbank offered rate
MLP	Minimum lease payments
NCI	Non-controlling interest
OCI	Other comprehensive income
PV	Present value
R&D	Research and development
ROA	Return on assets
SAC	Standards Advisory Council
SARs	Share appreciation rights
SFAS	US Statement of Financial Accounting Standards
SPPI	Solely payments of principal and interest
TSR	Total shareholder return
US GAAP	see GAAP

CONTENTS

Preface ix
About the authors xi
Acknowledgements xiii
List of Acronyms xv

Part 1

CONCEPTUAL FRAMEWORK 1

1 The IASB and its *Conceptual Framework* 3

- 1.1 The International Accounting Standards Board (IASB®) 4
- 1.2 The purpose of a conceptual framework 6
- 1.3 Qualitative characteristics of useful financial information 7
- 1.4 Going concern assumption 9
- 1.5 Definition of elements in financial statements 10
- 1.6 Recognition of elements of financial statements 12
- 1.7 Measurement of the elements of financial statements 13
- 1.8 Concepts of capital 14
- 1.9 Future developments 14

Summary 15

Discussion questions 15

References 15

Exercises 15

Academic perspective 17

Part 2

ELEMENTS 19

2 Owners' equity: share capital and reserves 21

- 2.1 Equity 22
- 2.2 For-profit companies 23
- 2.3 Key features of the corporate structure 23
- 2.4 Different forms of share capital 24
- 2.5 Contributed equity: issue of share capital 26
- 2.6 Contributed equity: subsequent movements in share capital 28
- 2.7 Share capital: subsequent decreases in share capital 32
- 2.8 Reserves 34
- 2.9 Disclosure 38

Summary 40

Discussion questions 40

References 40

Exercises 40

Academic perspective 46

3 Fair value measurement 49

- 3.1 Introduction 50
- 3.2 The definition of fair value 51
- 3.3 The fair value framework 53
- 3.4 Application to non-financial assets 59

3.5 Application to liabilities 62

3.6 Application to measurement of an entity's own equity 65

3.7 Application to financial instruments with offsetting positions 65

3.8 Disclosure 65

Summary 68

Discussion questions 68

References 68

Exercises 69

Academic perspective 71

4 Revenue from contracts with customers 73

- 4.1 Introduction 74
- 4.2 Scope 74
- 4.3 Identify the contract with the customer 75
- 4.4 Identify the performance obligations 76
- 4.5 Determine the transaction price 78
- 4.6 Allocate the transaction price 81
- 4.7 Satisfaction of performance obligations 82
- 4.8 Contract costs 84
- 4.9 Other application issues 85
- 4.10 Presentation and disclosures 87

Summary 89

Discussion questions 89

References 90

Exercises 90

Academic perspective 92

5 Provisions, contingent liabilities and contingent assets 95

- 5.1 Introduction to IAS 37 96
- 5.2 Scope 96
- 5.3 Definition of a provision 97
- 5.4 Distinguishing provisions from other liabilities 97
- 5.5 Definition of a contingent liability 97
- 5.6 Distinguishing a contingent liability from a provision 98
- 5.7 The recognition criteria for provisions 98
- 5.8 Measurement of provisions 100
- 5.9 Application of the definitions, recognition and measurement rules 104
- 5.10 Contingent assets 111
- 5.11 Disclosure 111
- 5.12 Comparison between IFRS 3 and IAS 37 in respect of contingent liabilities 113
- 5.13 Expected future developments 115

Summary 115

Discussion questions 116

References 116

Exercises 116

Academic perspective 120

6	Income taxes	123	8.7	Modifications to terms and conditions on which equity instruments were granted	208
6.1	The nature of income tax	124	8.8	Cash-settled share-based payment transactions	209
6.2	Differences between accounting profit and taxable profit	124	8.9	Disclosure	212
6.3	Accounting for income taxes	126	<i>Summary</i>	214	
6.4	Calculation of current tax	127	<i>Discussion questions</i>	214	
6.5	Recognition of current tax	131	<i>References</i>	214	
6.6	Payment of tax	131	<i>Exercises</i>	214	
6.7	Tax losses	132	<i>Academic perspective</i>	217	
6.8	Calculation of deferred tax	133	9	Inventories	219
6.9	Recognition of deferred tax liabilities and deferred tax assets	139	9.1	The nature of inventories	220
6.10	Change of tax rates	142	9.2	Measurement of inventory upon initial recognition	221
6.11	Other issues	142	9.3	Determination of cost	221
6.12	Presentation in the financial statements	143	9.4	Accounting for inventory	224
6.13	Disclosures	144	9.5	End-of-period accounting	227
<i>Summary</i>	148		9.6	Assigning costs to inventory on sale	231
<i>Discussion questions</i>	148		9.7	Net realisable value	234
<i>References</i>	148		9.8	Recognition as an expense	236
<i>Exercises</i>	148		9.9	Disclosure	236
<i>Academic perspective</i>	153		<i>Summary</i>	237	
7	Financial instruments	155	<i>Discussion questions</i>	237	
7.1	Introduction	156	<i>References</i>	238	
7.2	What is a financial instrument?	158	<i>Exercises</i>	238	
7.3	Financial assets and financial liabilities	159	<i>Academic perspective</i>	243	
7.4	Distinguishing financial liabilities from equity instruments	160	10	Employee benefits	245
7.5	Compound financial instruments	163	10.1	Introduction to accounting for employee benefits	246
7.6	Interest, dividends, gains and losses	164	10.2	Scope and purpose of IAS 19	246
7.7	Financial assets and financial liabilities: scope	164	10.3	Defining employee benefits	246
7.8	Derivatives and embedded derivatives	166	10.4	Short-term employee benefits	246
7.9	Financial assets and financial liabilities: categories of financial instruments	168	10.5	Post-employment benefits	253
7.10	Financial assets and financial liabilities: recognition criteria	171	10.6	Accounting for defined contribution post-employment plans	254
7.11	Financial assets and financial liabilities: measurement	171	10.7	Accounting for defined benefit post-employment plans	255
7.12	Financial assets and financial liabilities: offsetting	181	10.8	Other long-term employee benefits	263
7.13	Hedge accounting	181	10.9	Termination benefits	266
7.14	Disclosures	188	<i>Summary</i>	268	
<i>Summary</i>	194		<i>Discussion questions</i>	268	
<i>Discussion questions</i>	194		<i>References</i>	268	
<i>References</i>	194		<i>Exercises</i>	269	
<i>Exercises</i>	194		<i>Academic perspective</i>	273	
<i>Academic perspective</i>	197		11	Property, plant and equipment	275
8	Share-based payment	199	11.1	The nature of property, plant and equipment	276
	Introduction	200	11.2	Initial recognition of property, plant and equipment	277
8.1	Application and scope	200	11.3	Initial measurement of property, plant and equipment	278
8.2	Cash-settled and equity-settled share-based payment transactions	201	11.4	Measurement subsequent to initial recognition	283
8.3	Recognition	201	11.5	The cost model	283
8.4	Equity-settled share-based payment transactions	202	11.6	The revaluation model	289
8.5	Vesting	204	11.7	Choosing between the cost model and the revaluation model	299
8.6	Treatment of a reload feature	207			

18.3 A controversial standard	518	22 Consolidation: intragroup transactions	605
18.4 Identifying operating segments	520	Introduction	606
18.5 Identifying reportable segments	522	22.1 Rationale for adjusting for intragroup transactions	606
18.6 Applying the definition of reportable segments	524	22.2 Transfers of inventory	607
18.7 Disclosure	524	22.3 Intragroup services	613
18.8 Applying the disclosures in practice	527	22.4 Intragroup dividends	614
18.9 Results of the post-implementation review of IFRS 8	531	22.5 Intragroup borrowings	616
Summary	532	Summary	617
Discussion questions	532	Discussion questions	625
References	532	Exercises	626
Exercises	532		
Academic perspective	535	23 Consolidation: non-controlling interest	635
		23.1 Non-controlling interest explained	636
19 Other key notes disclosures	537	23.2 Effects of an NCI on the consolidation process	638
Introduction	538	23.3 Calculating the NCI share of equity	644
19.1 Related party disclosures	538	23.4 Adjusting for the effects of intragroup transactions	656
19.2 Earnings per share	543	23.5 Gain on bargain purchase	658
Summary	554	Summary	660
Discussion questions	554	Discussion questions	672
References	555	Exercises	672
Exercises	555		
Academic perspective	557	24 Translation of the financial statements of foreign entities	679
		24.1 Translation of a foreign subsidiary's statements	680
Part 4		24.2 Functional and presentation currencies	680
ECONOMIC ENTITIES	559	24.3 The rationale underlying the functional currency choice	680
20 Consolidation: controlled entities	561	24.4 Identifying the functional currency	683
Introduction	562	24.5 Translation into the functional currency	684
20.1 Consolidated financial statements	562	24.6 Changing the functional currency	689
20.2 Control as the criterion for consolidation	564	24.7 Translation into the presentation currency	689
20.3 Preparation of consolidated financial statements	569	24.8 Consolidating foreign subsidiaries — where local currency is the functional currency	691
20.4 Business combinations and consolidation	570	24.9 Consolidating foreign subsidiaries — where functional currency is that of the parent entity	698
20.5 Disclosure	572	24.10 Net investment in a foreign operation	699
Summary	574	24.11 Disclosure	700
Discussion questions	574	Summary	700
Exercises	575	Discussion questions	701
		References	701
21 Consolidation: wholly owned subsidiaries	577	Exercises	701
21.1 The consolidation process	578	Online chapter C Associates and joint ventures	
21.2 Consolidation worksheets	579	Online chapter D Joint arrangements	
21.3 The acquisition analysis: determining goodwill or bargain purchase	580		
21.4 Worksheet entries at the acquisition date	583	Glossary	707
21.5 Worksheet entries subsequent to the acquisition date	588	Index	717
21.6 Revaluations in the records of the subsidiary at acquisition date	595		
21.7 Disclosure	595		
Summary	598		
Discussion questions	598		
Exercises	598		

Part 1

Conceptual Framework











1

The IASB and its *Conceptual Framework*



LEARNING OBJECTIVES

After studying this chapter, you should be able to:

-  1 describe the organisational structure of the key players in setting International Financial Reporting Standards (IFRS® Standards)
-  2 describe the purpose of a conceptual framework — who uses it and why
-  3 explain the qualitative characteristics that make information in financial statements useful
-  4 discuss the going concern assumption underlying the preparation of financial statements
-  5 define the basic elements in financial statements — assets, liabilities, equity, income and expenses
-  6 explain the principles for recognising the elements of financial statements
-  7 distinguish between alternative bases for measuring the elements of financial statements
-  8 outline concepts of capital.