

Making Everything Easier!™

IFRS

FOR

DUMMIES®

Learn to:

- Find your way around the key standards
- Understand where IFRS apply
- Prepare for adopting IFRS for the first time
- Produce IFRS-friendly financial statements

Steve Collings

*Audit and Technical Director,
Leavitt Walmsley Associates Ltd*



IFRS FOR **DUMMIES®**

by Steve Collings

常州大学图书馆
藏书章



WILEY

A John Wiley and Sons, Ltd, Publication

IFRS For Dummies®

Published by
John Wiley & Sons, Ltd
The Atrium
Southern Gate
Chichester
West Sussex
PO19 8SQ
England
www.wiley.com

Copyright © 2012 John Wiley & Sons, Ltd, Chichester, West Sussex, England

Published by John Wiley & Sons, Ltd, Chichester, West Sussex, England

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, scanning or otherwise, except under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency Ltd, Saffron House, 6-10 Kirby Street, London EC1N 8TS, UK, without the permission in writing of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, England, or emailed to permreq@wiley.co.uk, or faxed to (44) 1243 770620.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

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.

British Library Cataloguing in Publication Data: A catalogue record for this book is available from the British Library

ISBN 978-1-119-96308-0 (pbk); ISBN 978-1-119-96652-4 (ebk); ISBN 978-1-119-96653-1 (ebk); ISBN 978-1-119-96654-8 (ebk)

Printed and bound in Great Britain by Bell & Bain Ltd., Glasgow, United Kingdom

10 9 8 7 6 5 4 3 2 1



WILEY

IFRS
FOR
DUMMIES®

About the Author

Steve Collings, FMAAT FCCA, is the audit and technical director at Leavitt Walmsley Associates, a firm of Chartered Certified Accountants based in Sale, Manchester in the United Kingdom. Steve trained and qualified with the firm, for which he is also Senior Statutory Auditor. He qualified with the Association of Accounting Technicians in 2000 and then went on to qualify as an Associate Chartered Certified Accountant (ACCA) in 2005. In 2010, he became a Fellow of the Association of Chartered Certified Accountants (FCCA). Steve also holds the Diploma in IFRS from ACCA which he obtained in 2008, as well as their Certificates in IFRS and Certificates in International Standards on Auditing.

Steve specialises in financial reporting and auditing issues, and has been writing professionally for several years. He is the author of *The Interpretation and Application of International Standards on Auditing* (published by John Wiley & Sons, Ltd. in March 2011) and of other publications on the subjects of UK accounting standards, International Financial Reporting Standards and International Standards on Auditing. He is also the author of several articles which have been published in the various accounting media, primarily *AccountingWEB.co.uk*. Steve also lectures to professional accountants on financial reporting, auditing and Solicitors Accounts Rules.

Steve won *Accounting Technician of the Year* at the British Accountancy Awards in November 2011.

Author's Acknowledgements

Many people believe that writing and producing a book is a one-person project. Believe me, it is anything but! I have been writing about accounting and auditing issues for many years now but writing *IFRS For Dummies* has proved to be one of the biggest (but best) challenges I have faced. My most sincere thanks and gratitude must therefore go to the Commissioning Editor, Claire Ruston, who helped to get this project off the ground. There has not been one instance where I have not enjoyed writing this book, and it has been an absolute pleasure to write.

Every author of a book needs a strong and supportive publishing team behind them and I feel honoured to have people like Steve Edwards (my project editor), Charlie Wilson (my development editor), and Caroline Fox (my technical reviewer) to have worked with during the writing of this book. My heartfelt thanks and gratitude must go to these guys as well as the other guys on the publishing team who have helped to bring this book to market.

The support I have received from my family and friends over the years does not go unnoticed, especially when deadlines are approaching and the pressure kicks in (you all know who you are). My thanks also must go to Les Leavitt, my friend and colleague, who has shown a huge amount of enthusiasm and support for this project and accommodated my deadlines in with work projects.

Finally my thanks go to you, the reader who has picked up this book. I sincerely hope you find it informative, helpful and a good reference guide to the world of IFRS. Keep it close to hand to guide you through complex issues on IFRS and IAS.

Dedications

I am fortunate to know so many influential and special people, both in my personal and professional life, and to name every individual who has influenced my career and writing would be impossible. For every member of my family and each one of my friends (many of whom feature in the illustrative examples in this book), this book is for you. I would also like to dedicate this book to all my peers in the world of financial reporting (particularly Roger Bryant, Lisa Weaver, Clare Finch and Annette Smyth).

Publisher's Acknowledgements

We're proud of this book; please send us your comments at <http://dummies.custhelp.com>. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Vertical Websites

Project Editor: Steve Edwards

Commissioning Editor: Claire Ruston

Assistant Editor: Ben Kemble

Development Editor: Charlie Wilson

Copy Editor and Proofreader: Kim Vernon

Technical Editor: Caroline Fox

Production Manager: Daniel Mersey

Publisher: David Palmer

Cover Photo: © iStock/CGinspiration

Cartoons: Rich Tennant (www.the5thwave.com)

Composition Services

Project Coordinator: Kristie Rees

Layout and Graphics: Claudia Bell,
Corrie Neihaus, Julie Trippetti

Proofreader: Melissa Cossell

Indexer: Sharon Shock

Special Help

Brand Reviewers: Rev Mengle and
Jennifer Bingham

Publishing and Editorial for Consumer Dummies

Kathleen Nebenhaus, Vice President and Executive Publisher

Kristin Ferguson-Wagstaffe, Product Development Director

Ensley Eikenburg, Associate Publisher, Travel

Kelly Regan, Editorial Director, Travel

Publishing for Technology Dummies

Andy Cummings, Vice President and Publisher

Composition Services

Debbie Stailey, Director of Composition Services

Contents at a Glance

Introduction	1
Part I: Concepts and Basic Standards.....	7
Chapter 1: Introducing IFRS.....	9
Chapter 2: Getting to Grips with Some Basic IFRS	27
Chapter 3: Taking the Plunge: Adopting IFRS for the First Time	51
Part II: Looking at the Key Components of Financial Statements	69
Chapter 4: Accounting for Assets	71
Chapter 5: Looking at Assets You Don't See Every Day.....	95
Chapter 6: Accounting for Liabilities.....	117
Chapter 7: Examining Liabilities You Don't See Every Day	141
Chapter 8: Accounting for Revenue.....	161
Chapter 9: Accounting for Equity	179
Part III: Consolidating and Investing.....	201
Chapter 10: Getting Your Head Around the Basics of Consolidation	203
Chapter 11: Getting to Grips with More Complex Consolidation Issues	217
Chapter 12: Tackling Associates	239
Chapter 13: Juggling Joint Ventures	257
Part IV: Disclosing Information in the Financial Statements.....	269
Chapter 14: Reporting Related Parties.....	271
Chapter 15: Skilfully Segmenting Information.....	289
Chapter 16: Easing into Earnings per Share	303
Part V: The Part of Tens	321
Chapter 17: Ten Pitfalls to Avoid	323
Chapter 18: Ten Disclosure Requirements Under IFRS.....	333
Chapter 19: Ten Future Developments in IFRS	343

Part VI: Appendixes	349
Appendix A: Sources of Guidance.....	351
Appendix B: IFRS for SMEs	357
Appendix C: Glossary	361
Index	365

Table of Contents

Introduction 1

About This Book	1
Conventions Used in This Book.....	2
What You're Not to Read	2
Foolish Assumptions.....	2
How This Book Is Organised	3
Part I: Concepts and Basic Standards	3
Part II: Looking at the Key Components of Financial Statements.....	4
Part III: Consolidating and Investing.....	4
Part IV: Disclosing Information in the Financial Statements	4
Part V: The Part of Tens.....	4
Part VI: Appendixes	5
Icons Used in This Book	5
Where to Go from Here.....	6

Part 1: Concepts and Basic Standards 7

Chapter 1: Introducing IFRS9

Creating and Amending the Standards	10
Understanding the Framework	10
Going through the IFRS-setting steps.....	13
Changing the standards	14
Understanding IFRIC.....	14
Spreading IFRS Worldwide	15
Countries that have taken the plunge and adopted IFRS	16
Countries that are planning to take the plunge	16
Dealing With the Numbers: The IFRS Financial Statements.....	17
Presenting the statement of financial position	19
Understanding the statement of comprehensive income	20
Unravelling the statement of changes in equity	22

Chapter 2: Getting to Grips with Some Basic IFRS27

Finding Out Where the Money Has Gone in the Statement of Cash Flows	28
Seeing the importance of the statement of cash flows	28
Preparing the statement of cash flows.....	29
Coming Up with Appropriate Accounting Policies.....	37
Selecting policies best suited to individual circumstances	38
Dealing with transactions and events not covered by an IFRS/IAS.....	39
Knowing how to change accounting policies	39
Understanding estimation techniques	41

Putting Mistakes Right	42
Correcting mistakes in previous years' accounts	42
Disclosing your mistakes in the accounts	43
Dealing With Events After the Reporting Period	44
Adjusting your accounts	44
Dishing out dividends	46
Approving your accounts	47
Considering whether the company is a going concern	48

Chapter 3: Taking the Plunge: Adopting IFRS for the First Time 51

Checking That Your Accounting Policies Fit with IFRS	52
Recognising how IFRS differs from domestic GAAP	52
Changing policies as required	55
Disclosing the accounting policies	56
Preparing and Adjusting Your Opening	
Statement of Financial Position	58
Getting your head around the date of transition	58
Recognising assets and liabilities	59
Reclassifying assets and liabilities	61
Dealing with disclosure issues in the first	
IFRS financial statements	62
Getting Away with Some Exemptions	63
Dealing with retrospective application of IFRS: The exceptions ..	64
Using popular exemptions	64
Seeing the merits of some not-so-popular exemptions	65
Looking at some handy voluntary exemptions	66
Ensuring that Your First Financial Statements Comply with IFRS	67

Part 11: Looking at the Key Components of Financial Statements 69

Chapter 4: Accounting for Assets 71

Defining an Asset	71
When is an asset an asset?	72
The grey area: Contingent assets	73
Understanding Accounting Treatments for Assets	73
Writing off assets as expenses	74
Measuring the cost of your assets	74
Considering agricultural and biological assets	76
Understanding how net realisable value affects assets	77
Offsetting assets against liabilities – can you?	78
Looking at Everyday Assets: Inventories,	
Work-in-Progress and Non-Current Assets	79
Inventories and work-in-progress	79
Intangible non-current assets	83
Tangible non-current assets: Property, plant and	
equipment and investment property	87

Recognising and measuring your property, plant and equipment.....	87
Writing off the cost of PPE.....	90
Selling your PPE.....	91
Knowing when a property is an investment property.....	92
Accounting for and revaluing your investment property in the financial statements.....	93
Chapter 5: Looking at Assets You Don't See Every Day	95
Constructing Your Own Assets.....	96
Placing values on your unfinished non-current assets.....	96
Knowing when property, plant and equipment isn't a non-current asset.....	97
Dealing with interest on loans for non-current assets	98
Writing off the cost of self-constructed non-current assets.....	99
Receiving Grants for Assets	100
Accounting for a grant	101
Offsetting a liability against an asset.....	101
Getting the right accounting treatment for grants	102
Disclosing grants and government assistance.....	104
Repaying the grant – what to show in the financial statements	105
Accounting for Financial Assets	106
Pinning down the definition of a financial asset	106
Looking at the different sorts of financial assets.....	107
Getting rid of financial assets in the financial statements.....	109
Dicing with derivatives.....	110
Dealing with an Impaired Asset	112
Assessing the company's assets for impairment	112
Finding out about fair value.....	113
Considering value in use.....	113
Accounting for goodwill impairment.....	115
Recognising and reversing impairment losses	116
Chapter 6: Accounting for Liabilities	117
Defining a Liability.....	117
Deciding when a liability is a liability.....	118
Looking to the future: future liabilities	119
Recognising a Liability in the Financial Statements.....	120
Knowing how much to account for	120
Classifying current and non-current liabilities	122
Dealing with the disclosures	124
Taking a Close Look at Trade Payables	125
Defining a trade payable	126
Accounting for trade payables.....	126
Recognising a supplier who hasn't invoiced in time.....	128
Exploring Operating and Finance Leases	129
Classifying and accounting for operating leases	129
Classifying and accounting for finance leases.....	130
Looking from the other side of the fence: Lessor accounting	133

Getting to Grips with Income Taxes.....	134
Dealing with tax on your profits in the financial statements	134
Getting into the nitty gritty of deferred tax accounting.....	135
Dealing with the disclosures in the financial statements	139
Chapter 7: Examining Liabilities You Don't See Every Day	141
Considering Provisions and Contingencies	142
Understanding the necessity for a standard for provisioning	142
Knowing when to make a provision and when not to	143
Demystifying the complexities of contingent liabilities.....	143
Dealing with the disclosures in the financial statements	144
Exploring Financial Liabilities	146
Understanding what financial liabilities are all about.....	146
Looking at the classifications of financial liabilities	147
Placing values on financial liabilities.....	148
Getting rid of financial liabilities in the financial statements.....	153
Handling Employee Benefits	154
Dealing with short-term employee benefits	155
Taking a look at defined benefit and defined contribution plans.....	156
Chapter 8: Accounting for Revenue	161
Timing of Revenue.....	162
Coming up with reliable estimates	163
Calculating a reliable estimate of costs	164
Losing money on a contract	164
Deciding on the probability that a sale will occur.....	165
Taking a Close Look at Revenue Recognition Rules	166
Supplying goods.....	166
Selling services.....	171
Dealing with dividend income.....	175
Handling royalty revenue	176
Recognising interest income	177
Chapter 9: Accounting for Equity.....	179
Issuing and Accounting for Share Capital: The Basics	180
Issuing Shares at a Premium	181
Understanding why and how companies issue	
shares at more than their par value	182
Accounting for shares issued at more than their par value.....	183
Dealing with Share-Based Payments	184
Understanding a share-based payment	184
Conquering the calculations in a share-based payment	185
Tackling the deferred taxation issues in a share-based payment....	189
Understanding Retained Earnings	192
Making a loss and paying dividends.....	192
Knowing when to put transactions directly to retained earnings....	194

Revaluing Non-Current Assets	194
Dealing with the revaluation reserve account	195
Offsetting two assets in the same class	197
Moving the revaluation reserve into retained earnings	198

Part III: Consolidating and Investing 201

Chapter 10: Getting Your Head Around the Basics of Consolidation203

Knowing the Objectives of Consolidated Financial Statements	204
Seeing how individual group companies report as one.....	205
Looking at some exemptions.....	206
Working out who has control of a subsidiary, and when	207
Creating Separate Financial Statements	208
Understanding why to bother doing separate financial statements.....	209
Seeing what's in separate financial statements but not consolidated ones	209
Group Accounting: The Fundamentals	210
Eliminating intra-group trading on consolidation	211
Dealing with unrealised group profits at year-end	212
Remembering amounts owed by and to group companies at year-end	213
Dealing with dividends to non-controlling interests	214

Chapter 11: Getting to Grips with More Complex Consolidation Issues217

Disposing of a Subsidiary	218
Selling a subsidiary outright.....	218
Selling off parts of a subsidiary.....	220
Subjecting sale proceeds to contingencies	221
Accounting for Changes in Ownership	223
Keeping control of a subsidiary	223
Losing control of a subsidiary.....	224
Buying more ownership interest	227
Accounting for Goodwill	228
Working out goodwill . . . the new method.....	228
Sticking to the old method of goodwill calculation	230
Comparing the goodwill calculation methods	230
Considering impairment of goodwill.....	231
Dealing with Deemed Disposals.....	232
Accounting for a deemed disposal	233
Accounting for a deemed partial disposal.....	234
Handling Step Acquisitions	235
Defining a step acquisition	236
Accounting for a step acquisition.....	236

Chapter 12: Tackling Associates239

Defining an Associate in IFRS	239
Seeing which entities are associates	240
Looking at exemptions from IAS 28 requirements	240
Understanding Significant Influence	241
Knowing the indicators of significant influence	241
Calling significant influence into question	242
Losing significant influence	243
Using Equity Accounting	244
Knowing the exemptions	244
Bringing the investment on to your statement of financial position	245
Receiving dividends from an associate	246
Dealing with loss-making associates	247
Accounting for the goodwill in your associate	248
Recognising transactions with an associate	249
Knowing what to do when an associate is up for sale	250
Presenting Associates in the Financial Statements	251
Disclosing the correct amount of information for an associate	251
Showing associates in the financial statements	252

Chapter 13: Juggling Joint Ventures257

Understanding a Joint Venture	257
Looking at how IAS 31 defines a joint venture	257
Thinking about why parties may form a joint venture	258
Comparing the definition of a joint venture and control	258
Accounting for Joint Ventures	259
Knowing the three types of joint venture	259
Using the equity accounting method for joint ventures	261
Using proportionate consolidation	262
Considering presentation in the financial statements	266
Keeping Up with New Developments in the Accounting Standard	267
Knowing what's changed and why	267
Looking at how the changes affect companies with joint ventures	267
Knowing when the changes take effect	268

**Part IV: Disclosing Information in the
Financial Statements269****Chapter 14: Reporting Related Parties271**

Understanding Related Parties	272
Knowing why you disclose related party transactions	273
Considering examples of when related party relationships exist	276

Defining control in the context of related parties	277
Defining significant influence in the context of related parties ...	278
Looking at some grey areas – when related parties may not be related parties	279
Establishing who falls under the scope of key management personnel	279
Considering Close Family	280
Knowing when close family become related parties.....	280
Seeing the influence that close family may have on a reporting entity.....	281
Disclosing the dependants of key management personnel	282
Dealing with Post-Employment Benefit Plans	282
Disclosing Related Party Transactions	283
Making full disclosure	283
Disclosing information about transactions with key management.....	284
Terminating staff or directors? What to disclose as related party transactions.....	285
Disclosing short-term employee benefits in the notes	285
Disclosing transactions between group companies.....	286
Chapter 15: Skilfully Segmenting Information	289
Understanding the Basics of Segmental Information.....	289
Defining an operating segment.....	290
Preparing to report about reportable segments	291
Understanding the management approach to reporting segmental information	292
Identifying and Aggregating Reportable Segments	293
Dealing with the easy ones first: single operating segments	293
Tackling more complex reportable segments: aggregating multiple segments.....	293
Looking at the whole step-by-step approach.....	294
Disclosing long-term financial performance.....	294
Looking at some practical examples of segmental reporting	295
Restating Comparative Segments.....	297
Discovering errors and correcting comparative segmental information.....	298
Disclosing information about restated comparative segmental information.....	298
Disclosing Information About Segments in the Financial Statements.....	299
Detailing the measurement basis used for segmental information.....	299
Understanding the reconciliations used in segmental information.....	300

Chapter 16: Easing into Earnings per Share	303
Calculating Basic Earnings per Share	303
Doing the basic calculation	303
Establishing what basic earnings per share means	304
Knowing which profit figure to use for the calculation	304
Calculating basic earnings per share: A practical illustration	305
Understanding Weighted Average Number of Shares	306
Making Rights Issues	308
Getting to grips with the theoretical ex-rights fair value calculations	309
Taking a look at a practical example	310
Boning Up on Bonus Issues	312
Understanding why companies give bonus issues	312
Calculating earnings per share after a bonus issue	313
Making retrospective adjustments	314
Calculating Diluted Earnings per Share	314
Understanding diluted earnings per share	315
Knowing which profit figure to use for the calculation	315
Taking a look at a practical example	316
Presenting Earnings per Share in the Financial Statements	317
Knowing where to present earnings per share	317
Disclosing earnings per share for discontinued areas of the business	318
Discovering the detailed disclosure requirements of IAS 33	318
Taking a look at a practical disclosure illustration	319
 Part V: The Part of Tens	 321
Chapter 17: Ten Pitfalls to Avoid	323
Reporting Incorrect Transactions with Related Parties	324
Treating Accounting Policy Changes Incorrectly	325
Disclosing Inappropriate Accounting Policies	326
Neglecting to Ensure That the Numbers Balance	326
Forgetting to Disclose Items Separately in the Statement of Comprehensive Income	327
Failing to Split Non-Current Liabilities	328
Getting into a Muddle with Deferred Tax Assets	328
Forgetting the Statement of Cash Flows	329
Incorrectly Claiming Audit Exemption	330
Mistaking When to Amortise Goodwill	331