	Parts:		When will be tested?
part 1	Basics of accounting		
		fin vs mgmt accounting	midterm test
		ac cycle	midterm test
		ac documents	midterm test
		double entry	midterm test
		accruals	midterm test
part 2	Conceptual framework		
		role of framework	midterm test
		role of IFRS	midterm test
		fin statements	midterm test
		ac policies, estimates, errors	midterm test
part 3	Assets		
		PPE	midterm test (will be confirm
		Intangible assets	final exam
		Right-to-use asset (lease)	final exam
		Current assets	final exam
part 4	FI		final exam
part 5	Liabilities		
		Provisions	final exam
part 5	Equity		final exam
part 6	Deferred tax		final exam
part 6	FX		final exam

Note: topics for midterm test will be also included into final exam

No. of lecture class	MU week
lecture 1	
	wk1
	wk1
	wk1
	wk1
	wk1
lecture 2, lecture 3	
	wk2
	wk2
	wk2, wk3
	wk3
lecture 4, lecture 5	
ıed later)	wk5
	wk5
	wk6
	wk6
lecture 6, lecture 7	
	wk7
lecture 7	
	wk8
lecture 7, lecture 8	wk9
lecture 8	wk9

Total split of points:

Task	Points
presentation of	20
midterm test	20
final exam	60
total	100
extra points	10
max grade	100 points

Comments:
number of examples required will be confirmed. Topic can be chosen by student BUT must be relevant
will be on Nov 4, 2020. Duration ot test will be confirmed later
will be in January 2021. Date and duration will be confirmed later.

for presentation of additional examples

(A)

to the course. Presentations need to have paper backup (i.e. written version) and will be held at the last

: seminar.

Part I. Basics of accounting

1 fin vs management accounting

Comparison between financial and management accounting Chapte

	Financial Accounting	Management Accounting
Purpose	Record historic transactions	• assist in controlling the busin operations • planning how the business wi develop • making decisions between alternatives
Audience	External parties – particularly shareholders, lenders and regulators	Internal management and owner the organisation
Legal requirements	• prepare financial statements (in accordance with legal requirements) • prepare accounts for tax authorities	• No legal requirement to prep • No set format for presentatio

Comparison between financial and management accounting (cont.) Chapte

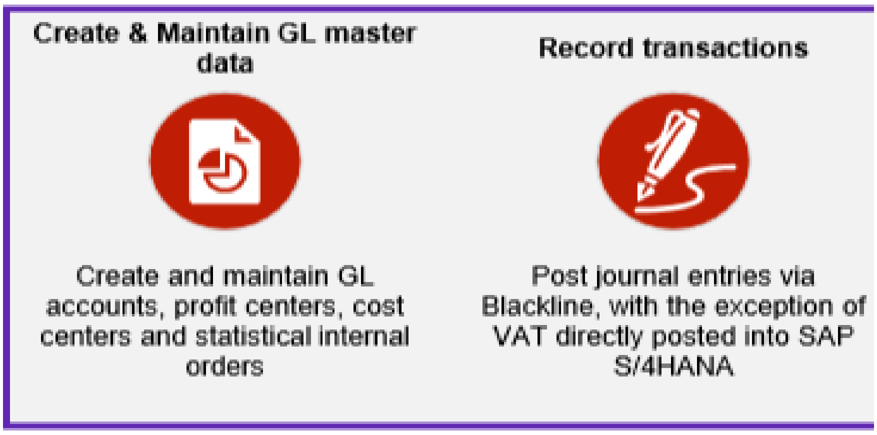
	Financial Accounting	Management Accounting
Format	Must conform to accounting and legal requirements	Presented in such a format as to b easily understood by managers
Perspective	Historic performance (i.e. backwards looking only)	Both future perspective (for planning and decision-making) an historic perspective (for control)
Nature of Information	Almost entirely financial	Both financial and non-financial
Frequency of Preparation	Usually once a year	As often as necessary – daily, weekly preparation or monthly, depending upon the needs of managers.

2 accounting cycle and double entry book keeping

- preparation of fin statements
  - transactions recorded in subledger accounts (e.g.
  - subledger accounts are balanced and closed off in
  - trial balance extracted from GL accounts
  - year-end adjustments made and GL accounts clos
  - trial balance used to prepare financial statements
- books of primary entry (records in subledgers) - are used to update GL ac
  - sales day book
  - purchases day book
  - cash book (cash receipts, cash paymens, petty cas
  - journals
- control accounts (records in general ledger) - are used to prepare trial ba
  - reconciliation (rec)
    - recs - means of checking
    - how to prepare a rec:

suspense accounts (incomplete records)

end-to-end period close includes:



3 accounting documents

Quotation	A written offer to provide goods or services at a particular price. No transaction has taken place yet and therefore nothing is recorded in the accounts.
Sales order	An order note for goods required by a customer.
Purchase order	An order note for goods required from a supplier
Goods received note	A list of goods received from a supplier. Prepared by the recipient business.
Goods despatched note	A list of goods sent to a customer. Prepared by the seller.
Invoice	A demand for payment sent to a customer.
Statement	A document sent to a customer listing all transactions between the business and that customer.
Credit note	A note sent to a customer who returns goods or overpays This reduces the amount owed by that customer.
Debit note	A note sent to a supplier to whom goods have been returned. It is in effect a request for them to issue a credit note.
Remittance advice	A document sent to a supplier alongside any payment sent to them. It details which invoices are being paid.
Receipt	A note to confirm that payment has been received.

Book of prime entry	Transaction type
Sales day book (SDB)	Credit sales
Purchases day book (PDB)	Credit purchases
Sales returns day book (SRDB)	Returns of goods sold on credit
Purchases returns day book (PRDB)	Returns of goods purchased on credit

5 accruals and prepayments

arises when moment of impact on P/L and mome

Cash flow now	Cash flow later

Income statement now		Accrual
Income statement later	Prepayment	

Accrued expense	
	Db
	Cr
Accrued income	
	Db
	Cr
Prepaid expense	
	Db
	Cr
Prepaid income (aka deferred income)	
	Db
	Cr

er 1

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's of

oare

on

er 1

oe

d

customer accounts, vendor accounts)
to control/general ledger (GL) accounts (e.g. debtor account, creditor account etc.)

ed off

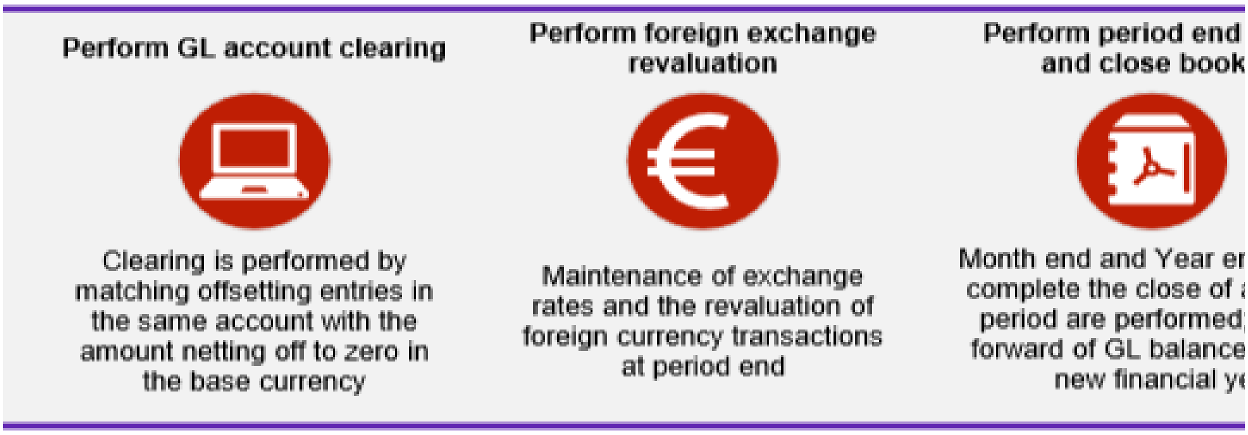
ccounts

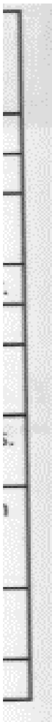
h)

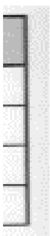
alance

that balancee on the control (GL) account agrees with balance on the ledger account

take breakdowns at transaction level of all records from related subledger accounts
compare total amount from breakdown and GL cummulative balance
if two total amount do not reconcile, investigate the variance

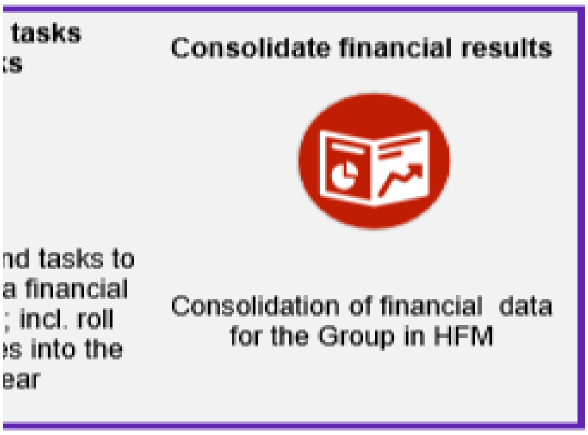






nt of actual cas are not the same:

	release		
Expense (P/L)		Db	Accued expense (B/S)
Accued expense (B/S)		Cr	Invoice received or credit note issu
Accued income (B/S)		Db	Invoice issued or debit note issued
Income (P/L)		Cr	Accued income (B/S)
Prepaid expense (B/S)		Db	Expense (P/L)
Expense (P/L)		Cr	Prepaid expense (B/S)
Income (P/L)		Db	Deferred income (B/S)
Deferred income (B/S)		Cr	Income (P/L)


Consolidate financial results
Consolidation of financial data for the Group in HFM

ued to customer (payable) (B/S)

l to vendor (receivable) (B/S)

0 impact on P/L when actual exper

release of amounts from B/S into I

		Expense				
		accrued		prepaid		
	profit redu	currentliability		profit incre	current asset	profit incre

nse/income is received

P/L

	Income		
accrued		prepaid	
current asset		profit redu	currentliability

Part II. Conceptual framework

1 Conceptual framework (evidence from IFRS)

Role of Conceptual framework

Conceptual framework can be seen as frame for evaluati

Past history of standard setting bodies thoughout the wc

such standards were often not consistent wit

such standards were intenrally not consistent

standards were produced on 'fire fighting' ba

the same theoretical issues were revised mar

Lack of conceptual framework resulted in creation of rul

Aims of conceptual framework are:

being a basis for evaluation of existing accounting practi

promotion of harmonization if accounting standards by r

assist acountants in dealing with accounting transactions

2 IFRS

IFRS - can be seen as common language for financial reporting which

Advantages of adoption of IFRS

IFRS are widely accepted as a set of high-quality and trar

They were produced in cooperation with other internatio

Companies using IFRS have an enhanced status and repu

International Organization for Securities Commissions (IC

Companies that own foreign subsidiaries will find it easie

Companies that use IFRS will find their results are ore ea

Note! Accounting standards alone cannot provide regulatory framev

IFRS themselves

local company law

local securities exchange regulations

EU directives

local GAAP

Structure of IFRS

IFRS Foundation

IFRS Advisory Council

International Accounting Standards Board (IA

IFRS Interpretations Committee (IFRIC)

Standard setting process

setting the agenda - IASB will add projects to its agenda c

project planning - working party is established

development and publication of discussion paper (DP) - i

development and publication of exposure draft (ED) - it i

development and publication of IFRS - when al issues fro

procedures after IFRS is issued - IASB monitors the applic

3 Fin statements

information presented in fin statements - quality characteristics

Information presented in FS should be **useful**

it should be able to influence economic decis

it should be faithful - complete, neutral, free

Usefulness of information presented in FS is enhanced b
comparable
verifiable
provided on timely basis
and in compehesive way
principles/assumptions for preparation of fin statements
going concern - company will continue its business activi
accrual/matching - expenses and incomes should be recc
consistency - methodology for preparation of fin stateme
materiality - correct level of aggregation of transactions a
substance over form - items recorded in fin stataments s
where assets are 'sold' at prices that are grea
when an asset is leased and used by lessee de
in consolidations despite the fact that the par
in case of consignment inventory if risks and r
a sale and repurchase of maturing goods - wh
sale and lease back transaction -
prudence - expenses recorded in fin statements shuld nc
elements of fin statements
asset - resource controlled by the entity as a result of pas
liability - present obligation arising from past events and
equity - residual interest in assets after deducting from th
income - increases in economic benefits in form of enhan
expense - decreases in economic benefits in form of decr
reporting of elements of fin statements
recognition criteria for elements - an item can be recogn
meets the definition of particular element
it is probable that any future economic benef
item's cost or value can be measured reliably
recognition of such items (i.e. assets or liabilit
that is relevant - If the probability
that results in benefits exceeding
measurement basis for elements (i.e. amounts at which
according to methodology how to calculate a
at cost (historical evaluation) - all
current cost - what the
at value (current evaluation) - not
fair value (aka market
info input c
info input c
info input c
value in use (or fulfilm
current cost - it is repla
according to application
carrying amount (book value) - am
recoverable amount - amount hig
revalued amount - amount highe

- types of statements
  - statement of financial position (balance sheet)
    - current/non-current distinction
      - it will be realized/settled within 1:
      - it is held for the purpose of tradin
      - it is part of entity's normal operat
  - statement of P/L ad other comprehensive income (incom
    - other comprehensive income may include
      - movements in revaluation surplus
      - gains and losses on equity instrum
      - FX differences
    - exceptional items
      - certain material income or expens
      - smaller exceptional items are not
  - statement of change in equity
    - reflects changes in components of company's
      - net incomes (profits) or net expen
      - direct contribution or distribution
      - reclasses (transfers) between disf
  - statement of cash flow
    - it highlights the key areas where a business h
    - Good cash management ensures a business h
    - Advantages of cash flow statement
      - cash flow balances are a matter o
      - cash flow balances are objective, (
      - users of fin statements can establ
      - users can identify exactly how cas
      - users can assess the ability of busi
    - Operating cash flow
      - Methods for calculating operating
        - direct - information is (
          - Cash sales
          - Cash receiv
          - Cash purch
          - Cash paid t
          - Cash expen
          - cash wages
        - indirect - information i
          - Profit befor
          - Adjustmen
          - (Increase)/(
          - (Increase)/(
          - Increase/(d

- Investment cash flow
    - (Purchase of non-curre
    - Proceeds from sale of
    - Interest received
    - Dividends received (if i
- Financing cash flow
    - Funds raised - through
    - Borrowings received
    - (Borrowings repaid)
    - (Redemption of issued
    - (finance costs)
    - Dividends paid (if in ca

consolidated financial instruments

- basic terms
  - parent - a company that has a con
  - subsidiary - a company that belon
  - control
    - what is control?
      - one compa
      - it can be ac
      - it is irreleva
  - non-controlling interest (NCI) - a n
  - associate - a company in which an
  - significant influence - when a com
- consolidation adjustments
  - general rules:
    - the legal form here is t
    - fin statements of parer
    - all group companies sh
    - there is a single entity
    - there are some except
      - a parent sh
      - parent's se
  - consolidated statement of financi
    - steps in consolidation
      - cost of inve
      - if parent is
      - assets and
      - share capit
      - retained ea
    - proforma

total assets

total equity

Notes:

Elimination

Provision fo

Cost of inve

consolidated income statement

steps in consolidation

group incor

group expe

dividend in

profit attrib

goodwill re

proforma

Notes:

product	
product	
product	non-direct
product	non-direct
product	non-direct
non-product	
non-product	
non-product	
non-product	
other	
other	
other	
other	
other	

events after the reporting period (i.e. after year-end)

an event after the reporting period is the eve

types of events and their impact on fin staten

adjusting events - provide additior

non-adjusting events - conditions

accounting policy and accounting estimates

accounting policy - a set of rules (methodolog

change in accounting policy shou

change in policy should be caused

Note! When company applies new accountin

accounting estimate - professional judgemen

change in estimate should be alwa

change in estimate should be acco

correction of prior period error

correction of prior period error is

correction should be done restros

on of existing accounting practices and development of new ones. It forms theoretical basis for determ
orld indicates that absence of conceptual framework results in production of accounting standards tha
h each other particularly in questions of prudence vs accruals basis
: and often prioritized effect of transaction on P/L in compariosn with effect on B/S
sis, often reacting on corporate scandals rather than being proactive in determining best pracice
ny times in successive standards (e.g. R&D expenses)
es-based system of accounting according to which atment of all accounting transactions shuld be delt w

ces and development of new ones
reducing the number of permitted alternative accounting treatments
s for which there is not (yet) an accounting standard

n first firat created for EU-member states, but soon received wide-world adoption.

nsparent global standards intented to achieve consistency and comparability across the globe
onally renowned standard setters with aim of achiving consesnsu and global convergence
ntation
OSCO) recognizes IFRS for listing purposes. This makes it easier and cheaper tp raise finance in internati
er to consolidate fin statament of all members of tho group if all subsidiaries use IFRS.
sily compared with those of other companies that use IFRS.
work, particulary since in many countries they (IFRS) do not have legal standing. Thus regulatory framew

SB)

on requests of IASB staff members and practicing accountants

t is not mandatory step, but it is oftenly used, especially in case if project addresses a major issue. DP e
s mandatory step. It is a draft of future standard. Comments on it are collected and analyzed and if req
m ED are resolved, final standard is subject to approval by IASB.
cation of new standard and any areas that may need clarification and addresses these when standard is

fundamental
characteristics

ion of users of such fin statements (**relevance**)
from error and reflect economic substance of the transaction rath **ity**)

y if such info is also

enhancing characteristics

ty in the foreseable future
orded in PL in the period when they actually happened regardless of recipt/issue of invoice or cash pay
ents cannot change fro period to period (otherwise information presented in such statements will not l
and items should be applied
hould be recorded according to their economic substance and never according to their legal form. Exa
ter or less than their fair values, substance is applied. Ofthen it is really a secured loan.
espite the fact that the lessor is still the legal owner until fully paid, the lessee behaves like owner. So ir
rent owns only 51% of subsidiary, the entire subsidiary is consolidated (i.e. 100% of subsidiary's assets
rewards of for example motor vehicle despatched from manufacturer to show-room owner are substa
iere the inventory doesn't leave the premise of the seller and sale is to a bank - it is considered a seure

ot be underestimated and incomes recorded should not be overestimated. This is often called 'assymet

st event and from which future economic benefits are expected (i.e. there are potencial economic ben
settlement of which is certain and will result in (potencial) outflow of resources embodying economic
hem liabilities => equity = net assets
ncements of assets or decreases of liabilities that result in increase in equity other than by controbutio
reases of assets or increases of liabilities that result in decrease in equity other than by distributions to

ized as element of fin statements (i.e. recorded in fin statements as such) if it:

fits associated with such item will inflow or otflow from the entity

ties) provides users of fin statements with information
of the event is low, this may not be the most relevant information. The most relevant information may
the cost of providing that information
elements are recorded in fin statements):
nd economic substance
input info is available but it can be outdated
e asset cost to purchase less any depreciation or amortization.
all input info may be available (thus actuals can be substituted with estimates), but up to date
value) - it is an estimate of what the asset could be sold for (if certain conditions are met). Thus it is exi
of level 1 - quoted price: identical items at active market
of level 2 - observable inputs: similar items at active/inactive market
of level 3 - unobservable inputs: best info available e.g. valuation models
ent value for liabilities) - it is present value, which is an estimate of discounted future cash flow which
acement cost, which is an estimated cost to buy an identical item or construct/produce it at current pri

nount at which item is recorded in evidence
gher of either the asset's **future** value for the company or the amount it can be sold for, minus any tran
er of either the asset's **present** value for the company or the amount it can be sold for, minus any trans

2 months of the reporting date or
g or
ing cycle
ıe statement)

;
ıents classified as financial assets measured at FV through othercomprehensive income

;e items, known as exceptional items, may be listed on the face of income statetemnts before profit fr
disclosed in income statement but instead within notes to accounts, normally the operatingprofit note

; equity due to
ıses (losses) generated during busoness activity of the company
s of equity components by/to business owners
ferent components of equity

ıas generated and spent cash.
ıas sufficient cash to run its day to day operations.

f fact and are not distorted by accounting policies (adjustments, estimates, accruals etc.)
unlike profit which is subjective.
ish how business has generated cash.
h has been spent.
iness to generate cash in the future.

; cash flow
extracted from ledger accounts (not just fin statements), mainly from bank accounts (cash flow picture

ved from credit customers
ases
o credit suppliers
ıses
; and salaries
is extracted from fin statements (cash flow picture is reconciled from fin sataments) => used by extern
re tax
t for non-cash items
depreciation/amortization
loss/(profit) on disposal of non-current assets
finance costs - it needs to be added here because it will be deducted in the part of Financing cash flow
(investment income) - it needs to be dedcuted here because it will be adde back in part of Investing ca
decrease ininventory
decrease in receivables
lecerase) in payables

ent assets)
non-current assets

in cash)

ı issue of financial instruments

financial instruments)

sh)

ıtrolling interest in another company, giving it control of its operations.
gs to another company, which is usually referred to as the parent company. Subsidiary's fin statatmen

ny has power over another when it has the ability to direct that company's business activities, which si
:hieved simply by owning a majority or voting shares or it may come from contractual arrangements
ınt wether a parent company uses its ability to direct business activity of subsidiary, what is important
ninority interest; it is an ownership position wherein a shareholder owns less than 50% of outstanding
ıother company owns a significant portion of voting shares (aka 'significant nterest'), usually 20–50%. I
ıpany holds approximately 20% to 50% of a company's stock, it is considered to have significant influen

:wo separate companies but the economic reality is single entity and that must be reflected in the met
nt and subsidiary used in the consolidation should have the same year end. If subsidiary has different y
ıould have the same accounting policies. This may require adjustments to subsidiary's figures.
concept: all intergoup transactions between the parent and subsidiary should be cancelled out becaus
ions from consolidation:
ıouldn't prepare consolidated fin stataments if it itself is wholly-owned subsidiary
curities are not publicly traded and it is not in the process of issuing secutiries
al position

estment into subsidiary shown in parent's BS is canceleld against subsidiary's share capital and pre-acq
if difference is positive, then goodwill is recognized as intangible asset, which is not amortized but mea
if difference is negative, then goodwill is credited to consolidated income statement.
Note! Inherent (non-purchased) goodwill should never be included into BS
not purchasing 100% of subsidiary, then NCI is recognized
liabilities of parent and subsidiary are combined on line-by-line basis (except group receivables and pa
al presented in BS is only that of parent (because the one of subsidiary wqas already cancelled at prior
ırnings are parent's retained earnings plus subsidiary's post-acquisition retained earnings

			Adjustmen
non-current assets			1 Goodwill a
PPE	100% P + S		

goodwill see adjustments No. 1
current assets
stock 100% P + S
receivables 100% P + S (BUT except intra-group balances) 2 NCI adjustr
bank and c 100% P + S
;
equity
share capit 100% P 3 Consolidate
retained ea see adjustments No. 3
NCI see adjustments No.2
non-current liabilities 100% P + S
current liabilities 100% P + S (BUT except intra-group balances)
/ and liabilities

ı of intra-group balances
group accounts should only show balances with parties outside the group. If intra-group balance exists
Db Group payable
Cr Group receivable
ɔr unrealized profit (PUP)
companies within a group have made sales to one another at a profit, yet the goods traded between s
If there is intra-group sales but all goods have subsequently been sold outside the group i.e. nothing is
If there is intra-group sales and not all goods have subsequently been sold outside the group i.e. some
from P to S - debit Group sale, credit Group COS of such inventory, credit Group inventory
from S to P - debit Group sale, credit Group COS of such inventory, credit Group inventory;
from S to S - debit Selling entity's sale, credit Selling entity's COS of such inventory, credit P
ɛstment
ways how to structure the deal:
to purchase shares in subsidiary for cash
to purhase shares in subsidiary and give them paranet's own sahers in return (known as sh
if share exchange is the case how transaction price is paid, then the cost of investment is determined i
work out number of shares acquired in the subsidiary
calculate how many parent's shares will be issued in return (what is the ration between sha
calculate the value of parent's shares by multiplying by the parent share price at acquisitio

me = parent's income + subsidiary's income (as all income is controlled by the group)
ɪnses = parent's expenses + subsidiary's expenses (as all expenses are ontrolled by the group)
come from subsidiary which is shown in parent's income statement, should be cancelled in consolidate
ɔutable to NCI is calculated as: NCI% * subsidiary's profit after tax adjusted for consolidation purposes
cognized as result of business combination in consolidated balance sheet should be tested for impairm
if full goodwill is impaired - loss is shared between the NCI and the group in the same ratio as subsidia
if proportionate goodwill is impaired - loss is assigned only to the group reservesin group's share on su

Mid-year acquisitions of subsidiary
we must include into consolidated business result only that part of subsidiary's business re

Elimination of intra-group trading

an adjustment shuld be made to reflect intra-group sales revenue: such revenue should be

Db Group sales

Cr Group COS

If there is intra-group sales but all goods have subsequently been sold outside the group i.e

Accounting treatment of associate (equity methond)

investment into associate is initially recognized at cost in the group BS and the carrying am

investor;s share of profit or loss of investee is recognized in the group income statements a

till revenue — Adjusteme

direct COS — transaction margin — Adjusteme

transaction margin

supplier rebates

product WOFs/WONs — non-transaction margin

product returns

product margin

services sold to customers

direct COS — non-product margin

bad debt expense

credit cards commissions

marketing costs — operating expenses before gross margin

distribution costs — Extra line: l

Gross margin

property costs — operating expenses after gross margin

payroll costs

overheads

Extra line: p

Operating profit

Finance costs

Profit before tax

Income tax expense

Profit after tax

Discontinued operations — Extra line: l

Profit for the year

nt that occurs between the accounting year end and the date on which the fin statements are authoriz
nents
nal evidence of conditions that existed before/at year-end date => fin statements need to be adjusted
that did not exist before/at year-end date => fin statements shouldn't be adjusted to include the impa

gies) for fin reporting applied by business
ld be applied retrospectively i.e. adjustment should be done to at least one period (fin year) from the p
by change in environment of the business (external or internal)
g policy for the first time, it is not a change in exisitng policy, but first-time adoption of new one. Thus
t done by accountant when actual amount is not available e.g. duration of useful life of non-current as
ays based on new information which was not available before (i.e. in the moment when original estima
ounted prospectively i.e. starting from the current period

always based on information which was available before (i.e. when original estimate was done or actu
pectively i.e. in the period when the error happened.

ıining how transactions should be measured (historcial value or current value) and reported - i.e. how
t have serios drawbacks:

with by detailed specific rules or requirements. Such system is very prescriptive and inflexible but has t

ional markets.

work of juresdiction may include all of the following:

explains the issue and possible accounting solutions and invites to comment
quired ED is amended and re-exposed.

s revised.

Conceptual framework
IFRS
Fin statements
quality characteristics
underlying assumptior
elements of fin statetn

reporting of elements
types of fin statatment
consolidation of fin sta
events after reporting

ments
be comparable between periods)

mples

n case of such lease - fin lease - lessee is user of leased asset during the assets economic life: lessee cap
are added to parent's assets). Legally the parent may own 51% only but in day-to-day economic reality
ntially with the showroom owner then the showroom owner must treat it as of it is its inventory even t
d loan. Legally title mayhave passed to the bank but linking the two transactions together, it is invento

ric prudence'.

efits)
benfits

n from equity participants. Note: some types of ncome are required tobe directly recognized in equity
equity participants

y be about the potential magnitude of the item, the possible timing and the factors affecting the proba

it value focusing on the values which will be gained from the item. Methogology how it should be dete

is expected to be generated by the asset
ices. It is entry value.

nsaction costs. It is used for comparison with carrying amount in **cases of impairment testing**
action costs. It is used for comparison with carrying amount in **cases of revaluations** (write downs or v

om operations
e.

is actual) =: used by internal users who has access to management accounts

al users who do not have access to management accounts

; otherwise it will be double counted: (1) as per of Profit before tax; (2) as part of Financing cash flow
sh flow' otherwise it will be double counted: (1) as per of Profit before tax; (2) as part of Investing cash

Amount of	Classificati
<20% of ordinary shar	
20-50% of	associate
>50% of or	subsidiary

ts are consolidated with fin statements of the parent.

ignificantly affect investee's returns

is that it has the ability to do so.
shares and has no control over decisions.
n this case, parent company does not consolidate the associate's financial statement
ıce

:hod of consolidation.
/ear end date within 3 months of that of the parent then the fin statements can be used with adjustme

e they took place within the same entity and only transactions with the outside world must be recorde

uisition retained earnings. Any difference between the two offseting amounts (i.e. balancing figure) is r
asured at its historical cost and tested for impairment annualy.

yables)
step against parent's investment into subsidiary)

ts to BS
djustments - **net total** value acquired
investment at cost

Substance of adjusting entries:
price paid for consolidation

NCI at FV at acquisition date　　price paid for consolidation
(Net assets at FV at acquisition date)　　value acquired from consolidation

nents - **total** value
NCI at FV at acquisition date　　amount before consolidation
NCI % in post acquisition reserves of subsidia　　impact of consolidation

ed reserves - **net total** value acquired
100% of reserves of parent at year-end　　amount before consolidation
group % of post acquisition reserves in subsic　　impact of consolidation
(PUP adjustment (P sells to S))　　remove double counting

s between parent and subsidiary then an adjustment should be made in group accounts in order to car

uch companies remain within the group at the reporting date, this creates 'unrealized profit'.
in the inventory at the year-end, there is no PUP
inventories acquired in IC transaction are left is in the inventory of the Group at the year-end, there is

where reversal of Group sale is apportioned between controlling and NCI.
urchasing entity's inventory (at difference between market price and transfer price if transfer price wa

are exchange)
n the following way:

ares subsidiary's share acquired and parent's shares given away)
n

ed income statement (because single entity doesn't pay income to itself)

nent annually.
ry's profit for the year
bsidiary's profit for the year

sult that arose after acquisition i.e. whilest under the control of the parent. If the acquisition occurred deducted from total consolidated revenue. The same should be done for COS: they need to be deduct

ɛ. nothing is in the inventory at the year-end, show only cancellation of intra-group tarding (i.e. cancela

ount is increased/decerased to recognize the investor's share of profit or loss of investee after date of
ıs a single line entry.

nt: less intra-group sales (reversal; if it is vertical IC transaction)
nt: less intra-group purchases (reversal; if it is vertical IC transaction)

ess unralized profit in inventory

ɔlus admin expenses

Db	BS - as getting new resource for the business
Cr	CF statement - as outflow of cash
Db	CF statement - as inflow of cash
Cr	BS - as taking out an existing resource from tl
Cr/Db	P/L - as result on disposal

ess unralized profit in non-current assets ted for issue

to include the impact of such event
ct of such event. EXCEPTION: going concern is the only exception

past.

no retrospective adjustments are needed for this new policy.
set, likelihood of collection of aged debt from customer, expected amount of delivery costs from 3d pa
ate was done)

al was calculated)

transactions are presented and communicated to users of fin statements

he attraction of fin statements being more comparable and consistent.

of information
ıs for preparation of fin statements
nents

of fin statements(recognition and measurement)
ts
ıtements
period

Many standards, such as International Accounting Standard (I.
Liabilities and Contingent Assets, apply a system of asymmetr
outflow of economic benefits would be recognised as a provisi
would only be shown as a contingent asset and merely disclos
Therefore, two sides in the same court case could have differi
the likelihood of the pay-out being identical for either party. Ma
asymmetric prudence as necessary under some accounting st
of the term was required. Whilst this is true, the Board believe:
should not identify asymmetric prudence as a necessary chara
reporting.

ɔitalizes it at cash price, de
the parent can control the
:hough legally they belong
ry of seller.

The 2018 Conceptual Framework states that the concept of pr
asymmetry, such as the need for more persuasive evidence to
than liabilities. It has included a statement that, in financial rep
may sometimes arise as a consequence of requiring the most

(not through P/L first) e.g.

ıbility.

A key change to this is the removal of a 'probability criterion'.
financial reporting standards apply different criterion; for exan
virtually certain and some reasonably possible. This also mea
prohibit the recognition of assets or liabilities with a low proba
economic resources.

rmined:

The first of the measurement bases discussed is historical cost
is unchanged, but the Conceptual Framework now explains tha
financial items held at historical cost should be adjusted over ti
form of depreciation or amortisation). Alternatively, the carrying
that the historical cost is no longer recoverable (impairment). F
cost should reflect subsequent changes such as interest and p
often referred to as amortised cost.

vrite ups)

often referred to as amortised cost.

ı flow

Method of accounting to be applied
cost method. Cost is measured at fair value
equity method of accounting for such investment. Use of equity method is based on assumption that investo
consolidation method of accounting for such investment. Use of consolidation method is based on assumptic

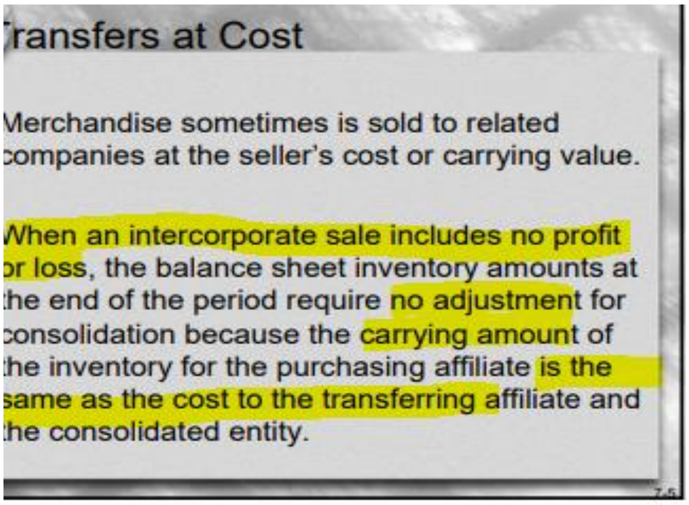
0%	**20%**	**50%**
	investment	
	associate	

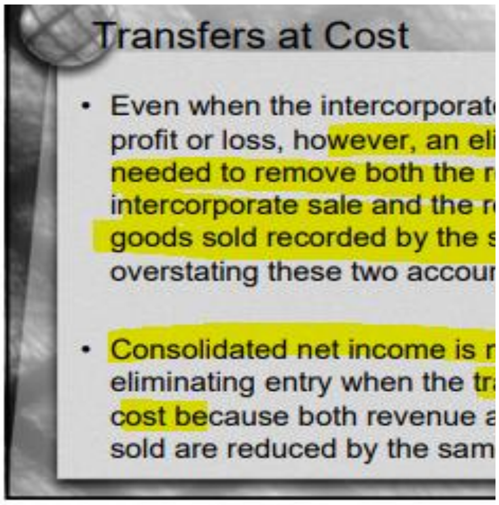
:nt for any significant transactions in the 3 month period. if the period is greater than 3 months, then the draf

:d in the consolidated accounts.

:ecognized as goodwill

https://www.ocf.berkeley.edu/~cchang/pdf%20docs/ch007.pdf





ıcel the respective balance.

PUP and adjustments to IC accounts are needed. The type of adjustment depends on direction of original IC s

s higher i.e. profit) between controlling and NCI.

What is pup in accounting?

The second step here is to identify the provision for u
although we refer to this as a provision, it is not a liab
asset, inventory.

in the middle of the year, we should only include the second half of the subsidiary's result for the year

:ed from total COS.

ıtion of intra-goup sales and COS) but nort PUP.

acquisition.

ıe business

ırty (cost accrual)

AS®) 37, *Provisions, Contingent*
ic prudence. In IAS 37, a probable
ion, whereas a probable inflow
sed in the financial statements.
ng accounting treatments despite
ny respondents highlighted this
tandards and felt that a discussion
s that the Conceptual Framework
acteristic of useful financial

udence does not imply a need for
support the recognition of assets
orting standards, such asymmetry
useful information.

This has been removed as different
nple, some apply probable, some
ans that it will not specifically
ability of an inflow or outflow of

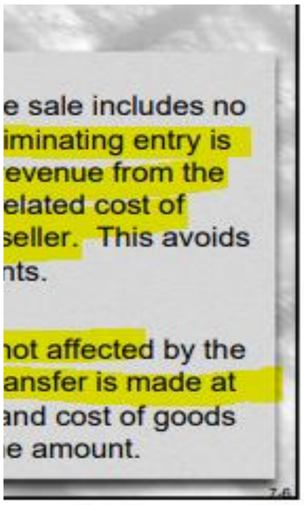
t. The accounting treatment of this
at the carrying amount of non-
me to reflect the usage (in the
amount can be adjusted to reflect
inancial items held at historical
ayments, following the principle

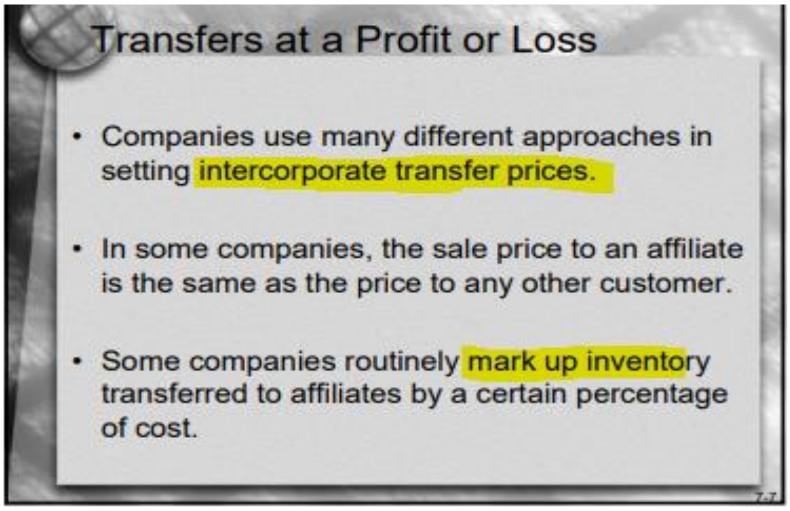
r can exert a significant influence over the investee (purchased company). Two companes - investing compan
on that investor exerts a full control over the investee (purchased company). Two companes - parent company

100%

subsidiary

t fin statements for the subsidiary must be prepared for the purpose of consolidation

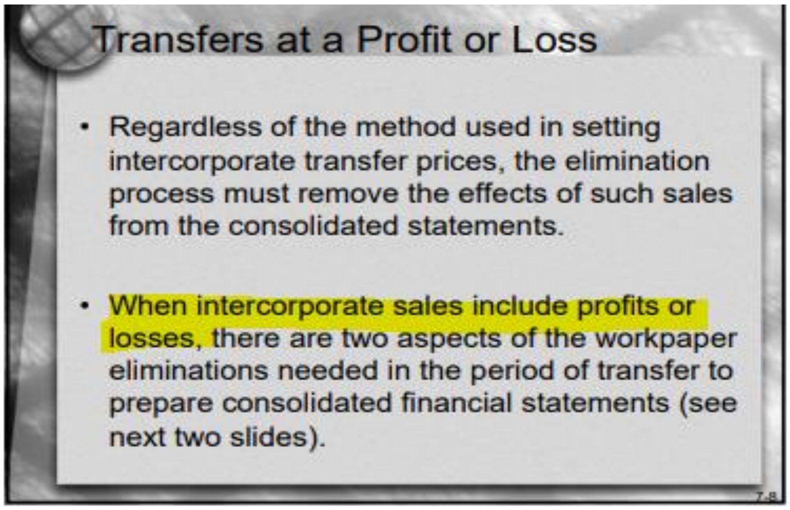


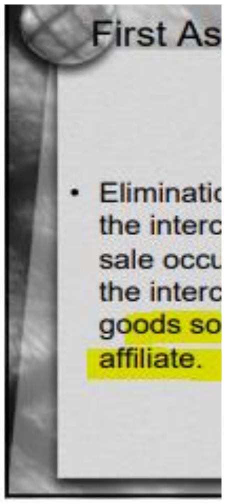


sale of inventory: from P to S (downstream IC transaction), from S to P (upstream IC transaction), from S to S (

nrealised profit (**PUP**). Note
ility but an adjustment to the

y and associate - become together a joint venture
y and subsidiary - become together a group.





(horizontal IC transaction)

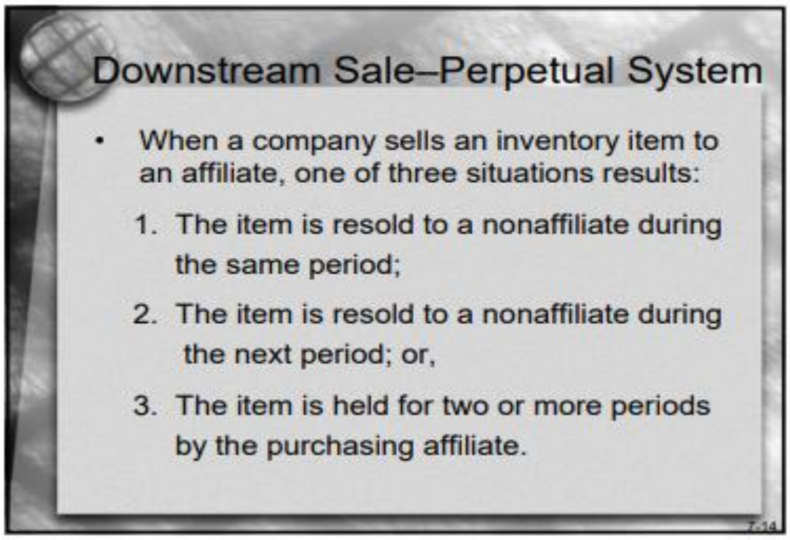
pect: Income Statement Focus

on of the income statement effects of
corporate sale in the period in which the
urs, including the sales revenue from
corporate sale and the related cost of
ld recorded by the transferring

Second Aspect: Balance

- Elimination from the inventory c
sheet of any profit or loss on th
sale that has not been confirme
the inventory to outsiders.

DOWNSTREAM STOCK SALE (from P to S)



Sheet Focus

on the balance
e intercompany
ed by resale of

7-10

1. Profit Realized in Same Period

- Required Elimination Entry:

Sales	$10,000	
Cost of Goods Sold		$10,000

- Note the elimination entry does not effect consolidated net income because sales and cost of goods sold both are reduced by the same amount. [Continued on next slide.]

7-15

2. Profit Realized in Next Period

- When inventory is sold to an affiliate a profit and the inventory is not resold during the same period, appropriate adjustments are needed to prepare consolidated financial statements in the period of the intercompany sale and in each subsequent period until the inventory is sold to a nonaffiliate. [Continued on next slide.]

7-17

3. Inventory Held Two or More Periods

- Companies may carry the cost of inventory purchased from an affiliate for more than one accounting period. For example, the cost of an item may be in a LIFO inventory layer and would be included as part of the inventory balance until the layer is liquidated.

- Prior to liquidation, an eliminating entry is needed in the consolidation workpaper each time consolidated statements are prepared to restate the inventory to its cost to the consolidated entity.

7-19

UPSTREAM

1. Profit Realized in Same Period

- No elimination of intercompany profit is needed because all of the intercompany profit has been realized through resale of the inventory to the external party during the current period.

7-16

2. Profit Realized in Next Period

- By way of illustration, assume that Peerless Products purchases inventory in 20X1 for $7,000 and sells the inventory during the year to Special Foods for $10,000. Thereafter, Special Foods sells the inventory to Nonaffiliated Corporation for $15,000 on January 2, 20X2.
- Required Elimination Entry (20X1):

Sales	$10,000	
Cost of Goods Sold		$7,000
Inventory		$3,000

7-18

3. Inventory Held Two or More Periods

For example, if Special Foods continues to hold the inventory purchased from Peerless Products, the following eliminating entry is needed in the consolidation workpaper each time a consolidated balance sheet is prepared for years following the year of intercompany sale, for as long as the inventory is held:

Retained Earnings, January 1	$3,000	
Inventory		$3,000

Eliminate beginning inventory profit.

7-20

STOCK SALE (from S to P)

HORIZONTAL STOCK SALE (from S

pstream Sale – Perpetual System

/hen an upstream sale of inventory occurs and
ıe inventory is resold by the parent to a
onaffiliate during the same period, all the
liminating entries in the consolidation work
aper are identical to those in the downstream
ase.

7-22

Sale from One S

- Transfers of inventory
  companies that are u
  ownership.
- When one subsidiary
  another subsidiary, th
  identical to those pres
  from a subsidiary to it
- The full amount of an
  profit is eliminated, w
  allocated proportiona
  interests of the sellinç

Jpstream Sale – Perpetual System

Vhen the inventory is not resold to a nonaffiliate
ıefore the end of the period, work paper
liminating entries are different from the
lownstream case only by the apportionment of
he unrealized intercompany profit to both the
ontrolling and noncontrolling interests.

'he elimination of the unrealized intercompany
ırofit must reduce the interests of both
ıwnership groups each period until the profit is
onfirmed by resale to the inventory to a
ıonaffiliated party.

7-23

Lowe

- Invent
  writter
  the lo
  value
  price.

; to S)

;ubsidiary to Another

y often occur between
nder common control or

' sells merchandise to
ıe eliminating entries are
sented earlier for sales
ts parent.

ıy unrealized intercompany
ith the profit elimination
tely against the ownership
g subsidiary.

r of Cost or Market

tory purchased from an affiliate might be
ı down by the purchasing affiliate under
wer-of-cost-or-market rule if the market
is less than the intercompany transfer
[Continued on next slide.]

Lower of Cost or Market

The subsidiary writes the inventory down from $35,000 to its lower market value of $25,000 at the end of the year and records the following entry:

Loss on Decline in Value of Inventory	$10,000	
Inventory		$10,000

Write inventory down to market value.

Part III. Assets

1 PPE - IAS 16 and IFRS for SME section 17

definition

it is held for use in the production or supply of goods or s

it is expected to be used during more than one period (y

recognition - for an item to be recognized as PPE it needs:

to meet definition of PPE

to meet general recognition criteria set by Conceptual fra

derecognition - item of PPE is derecognized from evidence when:

there occur circumstances as the ones stated in Framew

when asset of PPE stopes meeting its definition as asset

purpose of holding an asset stops meeting th

measurement

assets of PPE are intially measured at cost

initial cost includes:

costs which are directly attributab

purchase price

transportation and har

non-refundable purcha

site preparation

installation

professional fees

direct labor

borrowing costs

future dismantling

Note: future dismantling and restoration cost

initial cost excludes:

costs incurred after asset is ready

repair maintenace costs

early settlement discounts

Borrowing costs (IAS 23) as part of initial cost

it is interest and other costs that a

they deal with question of whethe

Borrowing costs must be capitaliz

Commence capitalization of borro

expeniture being incur

borrowing being incurr

work commenced

assets of PPE are subsequently measured through either

cost model - assets are held at historical cost

if cost model is chosen, then asset

Impairment test

PPE should

Impairmen

Reversal of
after asset's impairme
revaluation model - assets are held at revalue
if revaluation model is chosen, the
Revaluation
it must be applied con
assets should be revalu
upwards revaluations a
Db
Db
Cr
downward revaluation
Db
Db
Cr
the revalued amount s
depreciation
it is a systematic allocation of dep
depreciation begins when an asse
when an asset is made of two or r
if depreciation method or rate is a
methods of depreciation:
straight-line
% on cost c
(Cost - resid
reducing balance
% on carryi

CAPEX (capitalization)
any subsequent expenditure on ex
Capitalization should be stopped v
2 Intangible assets - IAS 38 and IFRS for SME section 18
definition
it has identifiable non-monetary form
separable:
is separable = it can be sold as sing
is not separable but arises from co
non-monetary

any asset other than cash or an as
recognition - for an item to be recognized as intangible asset it needs:
to meet definition of intangible asset
to meet general recognition criteria set by Conceptual fra
because of intangible assets have towo comp
because it is impossible to measu
only when initial cost can be meas
research - should be ex
development - should
it is separte
all expendit
it is comme
it is technic
it is overall
there are re
Note: if item is recogni
derecognition - see rules for item of PPE
measurement
intangible assets are intially measured at cost or at fair v
if cost basis is chosen, cost includes all costs i
If fair value basis if chosen, it needs to be revi
identical items are traded
between willing buyers and sellers
with prices available to public
subsequent measurement of intangible assets
chosen model needs to be applied consistent
amortization (is calculated on monthly basis)
if an assset has finite useful lifetim
Impairment test
Goowill, intangible assets with an
Impairment loss on goodwill can r
Busness combinations
all acquisition costs incl. those dir
goodwill and NCI - there are two w
at FV (aka full goodwill
e.g.

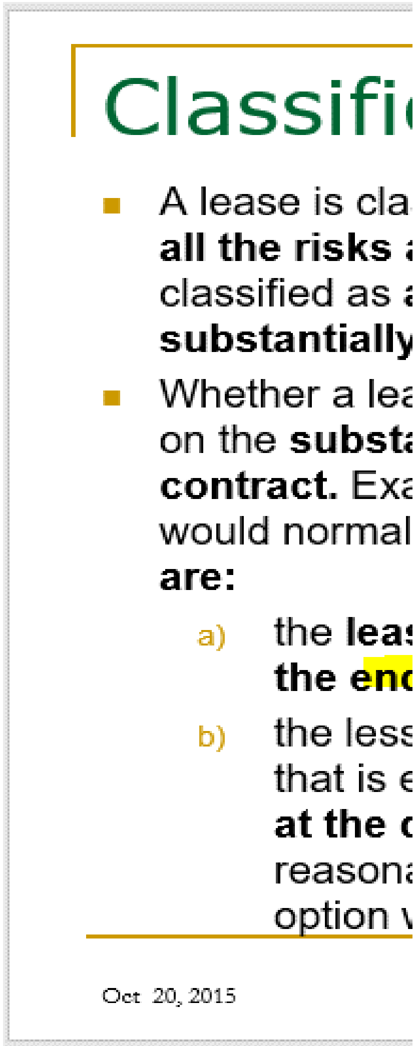
at NCI's proportionate
e.g.

3 Right-to-use asset (lease) - IFRS 16 and IFRS for SME ...

classification of lease

full IFRS: IFRS 16 introduces a single lessee accounting m

IFRS for SME: old approach to classification of lease cont



recognition

A lessee is required to recognise a right-of-use asset repr

The depreciation would usually be on a straight-line basi

In the statement of cash flows, a lessee separates the to

measurement

Assets and liabilities arising from a lease are initially mea

The initial lease asset equals the lease liability in most ca

presentation in BS:

The lease asset is the right to use the underlying asset ar

Balance sheet

PPE or Right-to-use asset	(Financial liability)
(Accumulated deprecition on PPE	Business result i.e. dep
(Bank i.e. as outgoing lease payment)	

lease payments

advance payments (payments at the beginning of the pe

payments in arrears (payments at the end to the period)
4 Stock - IAS 2 and IFRS for SME par. ...
definition
it is property intended for consumption or sale in the orc
recognition - for an item to be recognized as current asset it needs:
to meet definition of current asset
to meet general recognition criteria set by Conceptual fra
dereconition - see rules for PPE
measurement
initially stock is measured at cost
general rule: cost includes all costs incurred i
specific rule for inventories:
costs include:
purchase price
import duties (non-ref
carriage in (delivery in
manufacturing costs
cost of conversion (for
costs exclude
abnormal costs
storage costs
selling costs
carriage out (delivery c
subsequently carrying amount of stock is subsequently e
year-end accounting with valuation of stock i
During the year:
Db Purchases (PL)
Cr Trade payables

continuous accounting with valuation of stocl

During the year:
Db Stock (BS)
Cr Trade payables

Impairment test
Inventories should be tested for ir
internal
evidence o
current per
a commitm
a major los
external
a significan
a significan
Impairment occurs when:

carrying value > recove
recoverabl

5 Impairment of assets

impairment loss is the amount bywhich the carrying amount of asset or ca
objective of impairment testing:
assets are recorded in fin statetemnts at no more than th
any resulting impairment loss is measured and recognize
sufficient informatin is disclosed in fin statements
impairment testing is required:
for all assets when there is an indication of impairment a
annually for certain other assets
goodwill acquired in a business combination
intangible assets with indefinite useful life (tr
intangible assets which are not yet available f
impairment loss arises where:
carrying value > recoverable amount
recoverable amlount is higher of Net seplling
where value in use is present valu
cash-generating unit (CGU)
the value in use of non-current asset should be estimate
when impairment loss is recognized for CGU, fist item wh
accounting for impairment loss
for assets held at historcial cost

Db	P/L
Cr	Non-current asset

for revalued assets

Db	Revaluation surplus (other compr
Db	P/L with any excess impairment
Cr	Non-current asset

reversal of previously recognized impairment loss
reversal of past impairment losses should be recognized

services, for rental to others, or for admin purposes
ear) or during one operating cycle if it is longer than 1 year

amework (i.e measurability and probability of generating of future/potencial economic benefit)

ork for derecognition to happen
of PPE. It happens when
e criteria of using an asset as PPE (e.g. item was consumed within one operating cycle)

ble to getting asset into working condition for its intended use:

ndling
ase taxes and duties

ts are included as part of initial cost only when the company had an obligation to incure these costs and reliable

for use but not being used

of PPE:
an entity incurs in connection with the borrowing of funds
er finance costs incurred in the construction of the building can be capitalized.
ed as part of the cost of asset, if asset is one which necessarily takes a substantial time to get ready for its inten
owing costs when:
rred
red

r cost model or through revaluation model
less accumulated depreciation and impairment losses
t needs to be tested regularly for impairment

be tested for impairment when indicators of impairment exist:
internal
evidence of obsolescence (moral aging) or damage of asset

current period operating loss or net cash outflow from operating activities
a commitment by management to undergo a significant reorganization
a major loss of key employees
external
a significant decline in the market value of an asset during the period
a significant adverse change in the commercial environment in which the entity operates.
t occurs when:
carrying value > recoverable amount
recoverable amlount is higher of Net seplling price (i.e. fair value less costs to sell) and Value in use
previously recognized impairment loss
nt the new carrying amount will be depreciated over asset's remaining useful economic life (i.e. recalculation o
ed amount less accumulated depreciation and impairment losses
en asset needs to be revalued regularly

sistently to all assets in the same class of PPE
ued with sufficient regularity so that their carrying amount is not significantly different from their fair value
are recognized in OCI (i.e. BS, particularly in revaluation reserve)
PPE - difference between valuation and original cost/valuation
Accumulated depreciation
OCI: gain on revaluation aka revaluation reserve
is are recognized in OCI and charged against the revaluation reserve to the extent that is exists in relation to the
Revaluation reserve - to max of original gain
P/L - any residual amount (if balance at revaluation reserve is not enough to cover the amount of calculated lo
PPE - loss on revaluation
should be depreciated over asset's remaining useful economic life

reciable amount of an asset over its useful lifetime
t is available for normal use.
more significant components, each with their own useful economic lifetime, each component is depreciated se
adjusted, the adjustment is made prospectively (i.e. forward looking).

or
dual value) / useful economic life (years)

ng value
carrying value = net book value

xisting assets of PPE should only be capitalized if it imporves an asset's revenue earning capacity i.e. capitalize a
when asset is ready for use or if construction is susspensed.

gle item
ontactual rights

sset to be settled ina fxed amount of cash

amework (i.e measurability and probability of generating of future economic benefit)
ponents - purchased items and internally genaretd items, both general recognition criteria need to be evaluated
re pricisely initial cost of some itmes, they cannot be recognized as assets e.g. internally generated goodwill
sured reliably, items can be recognized => R&D costs
xpensed immediately (i.e. should be recorded as costs in PL)
be capetalized (i.e. recorded as intangible assets in BS) if:
e project
tures are identifiable
ercially viable
cally feasible
profitable
esources available to complete it
ized as development, it nees to be reviewed annually to ensure criteria still met; if not - expense immediately.

value
ncurred in bringing such assets to their present location and condition (see PPE initial costs). If cost basis is cho
iewed every period and amortization of such asset is allowed, Fair value model can be chosen only if ther can b

s (not a single buyer or a single seller)

ly to all assets in the same class of intangible or investment assets and change from one model to another is nc

ne (e.g asset which has infinite useful life is goodwill)

indefinite life and intangible assets that are not yet ready for use are tested for impairment annually (i.e. even
never be reversed. Impairment loss on other assets can be reversed where the recoverable amount has increase

ectly related to acquisition such as professional fees (legal, accounting, valuation etc.) must be expensed.
vays how to measure NCI:
l method)

Consideration paid by Parent	100
NCI	25
FV of net assets	-75
GW	50

share of acquiree's (subsidiary's) net assets (aka proportionate goodwill method)

Consideration paid by Parent	100
Share of net assets acquire at FV	80%
FV of net assets	-60
GW	40

odel and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months,
racts:

cation of leases

ssified as **a finance lease** if it **transfers substantially and rewards incidental to ownership**. A lease is **an operating lease** if it **does not transfer all the risks and rewards incidental to ownership**.

ase is a finance lease or an operating lease depends **ance of the transaction rather than the form of the** amples of situations that individually or in combination ly lead to a lease being classified as **a finance lease**

se transfers ownership of the asset to the lessee **by d of the lease term.**

see has the **option to purchase the asset at a price** expected to be **sufficiently lower than the fair value date the option becomes exercisable** for it to be ably certain, at the inception of the lease, that the will be exercised.

3

esenting its right to use the underlying leased asset and a lease liability representing its obligation to make leas
s.
tal amount of cash paid into principal (presented within financing activities) and interest (presented within eitl

sured on a present value basis.
ses.

d is presented in the statement of financial position either as part of property, plant and equipment or as its o

reciation charge and interest charge for Right-to-se asset

riod): b/f amount of lease liability - payment + interest charge = c/d amount of lease liability

: b/f amount of lease liability + interest charge - payment = c/d amount of lease liability

dinary course of business activity

amework (i.e measurability and probability of generating of future economic benefit)

n bringing such assets to their present location and condition (see PPE initial costs)

undable)
wards)

unfinished products) - direct costs e.g. material and production overheads e.g. factory heat and light

outwards)
stimated by one of the following three approaches depending on the type of accounting applied to company's
n actual amounts - mainly used by sole trader who has detailed listing of all stock with actual unit costs identifi

	At the year-end:
Db	Stock
Cr	Purchases

year-end adjustment is made to purchases - reversal of COS of unsold stock

k through estimates - mainly used by companies which do not have unit costs identified for each item of stock

	At the year-end:
Db	Purchases
Cr	Stock

year-end adjustment is made to stock - disposal of sold stock

npairment when indicators of impairment exist (same like for PPEand intangible assets):

f obsolescence or damage of asset
iod operating loss or net cash outflow from operating activities
ent by management to undergo a significant reorganization
s of key employees

t decline in the market value of an asset during the period
t adverse change in the commercial environment in which the entity operates.

erable amount
e amlount is Net selling price (i.e. fair value less costs to sell and to finish (for WIP))

sh-generating unit exceeds its recoverable amount

heir recoverable amount
ed on a consistent basis

at the reporting date

ademark, perpetual franchise)
for use (development)

price (i.e. fair value less costs to sell) and Value in use
e of future cash flows generated by the asset. Present cash flows should be based on the most recent budgets

d individually where reasonable practicable. Where it is not possible to identify cash flows arising from an indiv
hich is impaired (written off) is goodwill.

ehensive income) to the extent that a revaluation surplus relating to the asset exists

when the recoverable amount of asset (except goodwill) has increased because of a change in economic condi

PPE
Intangible assets (incl. R&D, Goodwill)
Right-to-use
Stock

e measurement is possible

ıded use or sale i.e. it is a quilifying asset.

(present value of future cash inflow generated by this item of PPE)

f depreciaton schedule)

e relevant asset; otherwise downward revaluations are recognized in PL.

ss)

parately. When component is replaced, the cost of replacement part is capitalized.

an extension to a building but not decoration costs.

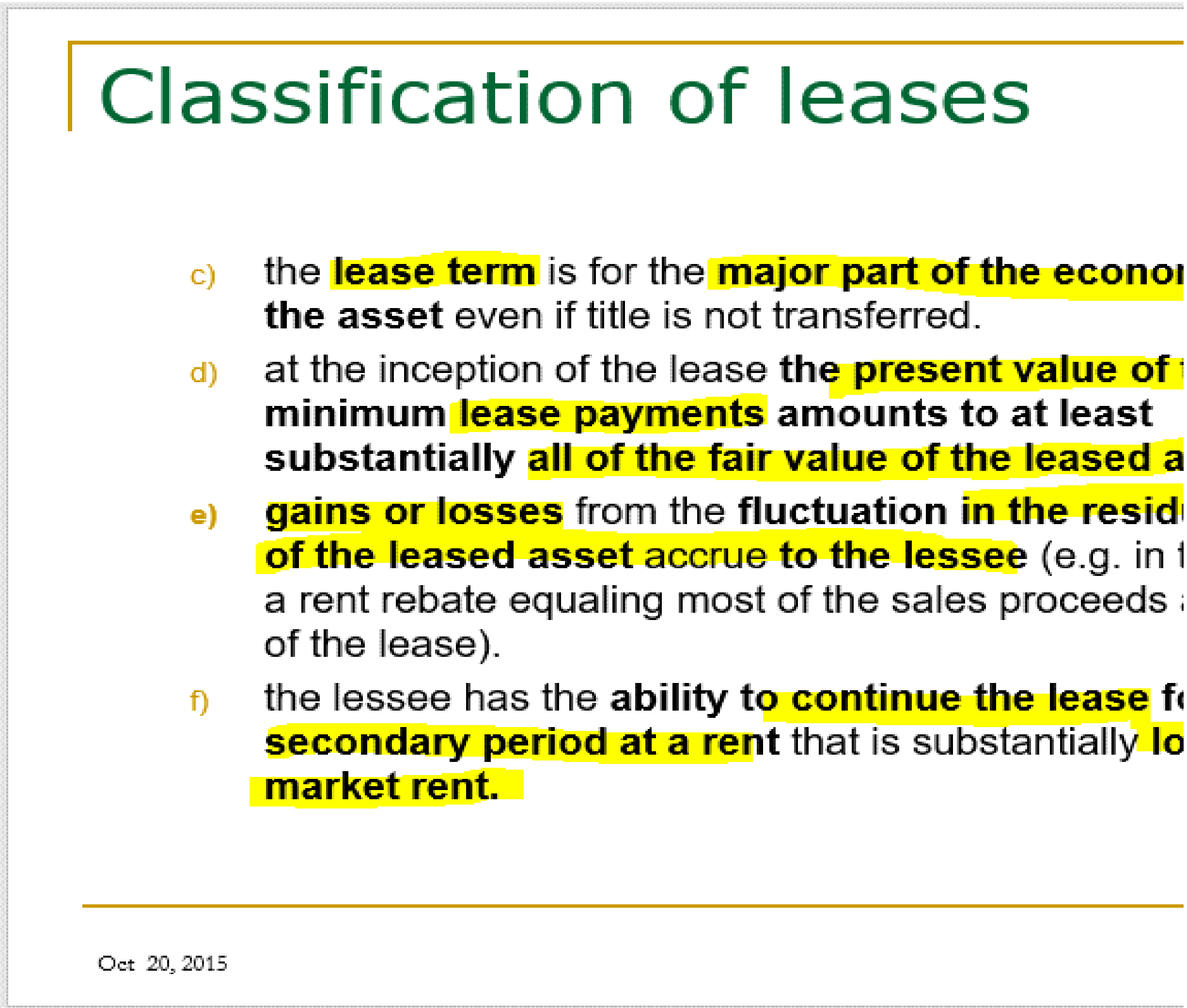
d very carefully for internally generated items:

sen, such assets cannot be revalued.
e made a refernce to active market i.e.:

ot allowed unless it results in more appropriate presentation.

when there are no external or internal indicvators that impairment loss exisis)
ed because of a change in economic conditions or expected use of asset.

unless the underlying asset is of low value.



se payments.

ner operating or financing activities) in accordance with IAS 7.

wn line item.

stock:
ed for each item of stock (small number of units which are not interchangeable)

(high volumes of interchangeable units). Estimates are used instead of actuals. Types of estimates usec and generally for a maximum of 5 years.

'iddual non-current asset, value in use should be calculated at the level of cash-generating unit.

tions or in the intended use of asset

mic life of

the

sset.
ual value
the form of
at the end

or a
wer than

d - weighted average and FIFO (first-in first-out)

Financial instruments - IAS 32, IFRS 9, IAS 36 and IFRS for SME par. 11

- see "Fin insturments - measurement notes" file
- FI is a contract that gives rise to the fin asset of one entity and to the fin liability
- Accounting for fin instruments includes:
  - accounting for fin assets - investments in shares, investments in bon
  - accounting for fin liabilities - long-term loans, bonds issued and trad
  - accounting for equity share capital - shares and options issued
- There are many issues around accounting for fin instruments:
  - classification - accounting for any fin instrument strats with classific
  - measurement
    - see table from Course notes
- fin assets
  - recognition
    - fin assets are any assets that are:
      - cash
      - investments into equity instrument of anothe
      - **contractual right to receive cash** or another a
      - **contractual right** to exachange fin asset or lia
      - contract that will be settled in entity's own ec
  - classification and measurement
    - fin asset is only measured at **amortized cost** if
      - the asset is held within a business model whc
      - fin asset gives rise to cash flows on specified
    - fin asset is only measured at **FVTOCI** if
      - the asset is held within a business model whc
      - fin asset gives rise to cash flows on specified
    - fin assets are measured at **FVTPL** (it is default category fo
      - they do not meet either the business model t
- fin liabilities
  - recognition
    - fin liabilities are any liabilities that are **contractual obliga**
      - **to deliver cash** or another fin asset to anothe
      - to exachange fin asset or liability with anothe
      - than will or may be settled in entity's own eq
  - classification and measurement
    - fin liability is measured at FVTPL if such fin instruments a
    - fin liability is measured at **amortized cost** if fin liability fa
- equity instrument is any contract that evidences a residual interest in the assets
  - when preference shares issues should be classified as debt or as equ

Preference shares

- redeemable → debt
- non-redeemable
  - cummulative
  - non-cumm

debt	equity

/ or equity instrument of another entity. Simpliest example of such contract (i.e. basic fin instrument) is

ıds and trade receivables
le payables

ation (as per list above), especially when it is fin liability - it should be classified either as debt insturme

er entity
asset from another entity
ıbility with another entity **under condition**s that are potencially **favourable**
quity instruments

ose objective is to hold the asset to collect contractual cash flows ('hold to collect' business test) and
dates that are solely payments of principle and interest on principle outstanding ('contractual cash flov

ose objective is achieved by both collecting contractual cash flows and selling fin asset ('hold to collect a
dates that are solely payments of principle and interest on principle outstanding ('contractual cash flov
or fin assets) when
est or contractual cash flow test

ıtion
er entity
er entity under conditions that are potencially **unfavourable**
uity instruments

ıre derivatives (e.g. share options, futures, forwards, interest rate swaps), fin instruments held for tradi
ıils to meet meausrement conditions stated above to be measured at FVTPL (e.g. held to maturity issue
s of an entity after deducting all of its liabilities.
ıity:

ulative

s trade receivable when company sells its goods on credit. Seller has right to receive settlement for the

nt or as equity instrument. This distinction is important as it will directly affect gearing ratio (debt-to-c

v' characteristics test)

and sell' business test)
v' characteristics test)

ing in short-term (repurchase agreements with floating interest rate), any fin instuments designed as F
d debt instruments quoted in an active market, that is, bonds; loans received and trade payables

e supply provided and buyer has liability to provide settlement for supply received at given point of tim

quity) - a key measure that users of fin statements use to assess fin risk of the entity. This distinction w

VTPL on inception (i.e. on initial recognition it is part of a portfolio of identified financial instruments th

e in the future at agreed amount. Most complicated examples (i.e. other fin instruments) contain stru

ill also impact amount business result for the period as fin costs associated with debt will be charged t

hat are managed together and for which there is evidence of a recent actual pattern of short-term prof

Amortised cost is a method of recognising the gross difference between the amoun
recognised, and th
maturity) using th
income" as the eff
"discount", "prin
interest income u

Held to maturity securities are debt securities which the ente
maturity. These are reported at amortized cost.

Trading securities are debt and equity securities held principa
reported at fair value, with unrealized gains and losses include

Available for sale securities include all other debt and equity

Unrealized gains and losses are excluded from earnings and r
shareholders' equity.

Trading securities are current assets. Cash flows from trading ctured products and derivatives.

o P/L ths reducing profit of entity, while dividends paid on shares are an appropriation (distribution) of

fit-taking and embedded derivatives can sufficiently modify the cash flows of the whole liability and are
t initially
erprise has the intent and ability to hold to

ally for selling them in the near term. They are
d in earnings.

securities, and are reported at fair value.

eported in a separate component of

securities are operating cash flows.

profit rather than expense in P/L.

e not clearly closely related to underlying lianility - e.g. conversion option embedded in a convertible bond)

Liabilities - IAS 37 (provisions) and IFRS for SME par. 21
Provisions
provision is recorded in fin statements where
an entity has a present obligation (legal* or constructive
it is probable*** that an outflow of resources embodyin
a reliable estimate can be made of the amount of obliga
Provision is a liability of uncertain timing or amount

Measurement
the best estimate of the expenditure required to settle t
if a large population of items is involved, expected value
where time value of money is material, the amount of pr
Contingencies
Contingent liability
a possible obligation that arises from past events and w
it is a present obligation that arises from past events but
it is not probable that an outflow of resource
the amount of the obligation cannot be meas
Contingent liability is disclosed in notes to fin statement
Contingent asset
Contingent asset is a possible asset that arises from past
Contingent asset is disclosed in notes to fin statements
Warranties (legal obligation)
a mnaufacturer gives warrany at the time of sale topurchasers of itp
Present obligation as result ofpast event - the obligating event is the
A provision should be recognized for the best estimate of the costs
Onerous contract (legal obligation)
An onerous contract is a contract in which the aggregate cost r
Prudence would require that if a future liability is foreseen we shuld
Dr PL
Cr Onerous contract provision
Restructuring
It inclused sale or termination of business, closure or relocation of a
Provision should be recognized if a constructive obligation exists:
detailed formal plan for the restructuring has been ident
valid expectation has been raised in those affected thatit
No obligationb arises for the sale of an operation until the entity is c
Future repairs or refurbishments
some assets require substantial expenditure every few years for ma
Future operating losses
No porvision is allowed fr future operating losses.
Equity - there is no specific IFRS for equity; basic guidance can be found in IAS 1, IAS 8, IAS
recognition
a. shares are issued before receipt of cash or other assets

Share capital	e.g. +50
Receivables for shares	-50

b. cash or other assets have been received before shares are issued

Consideration received (bank) e.g. +50

Advance received for s	e.g. +50

measurement

a. consideration is received within normal business terms

at (FV - transaction costs)

b. receipt of consideration is deferred

at PV

special cases

bonus issue - is an issue of new shares to existing shareholders, in pr

Db Share premium
Cr Share capital

rights issue (option issue) - issue of options to existing shareholders

Db Cash
Cr Option reserve

Db Cash
Cr Share capital
(Cr Share premium) - if even with discount the ne

Db Option reserve
Cr Share capital

share split - division of issued shares of an entity into a greater numb

no double entries are required. A memo entry is normall

treasury shares - an entity's own repurchased shares. By doing this e

Db Share capital
Cr Cash

distributions to shareholders

a. monetary distributions

Db Retained earnings or Share premiu
Cr Cash

b. nonmonetary distributions

Db Retained earnings or Share premiu

Cr PPE - at FV net (i.e. FV - selling cos

convertible debt (bond) - can be eitherredeemed for cash or converted into ord

liability and equity components needs to be separated

principle as debt compoment - needs to be recorded at a

option to convert principle into ordinary shares as equity

Db Cash

Cr Fin liability - convertable bond at I

Cr Equity - embaded conversion opti

	*	legal obliga
	**	constructiv
**) as a result of past event and	***	IAS37 state
g economic benefits will be required to settle the obligation and		
tion		
	Creation of provision	
		Db
		Cr

he present obligation
s ay be used to measure the required provision.
rovision should be discounted to its present value using pre-tax rate. Subsequent unwind of discount is

hose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain fu
it is not recognized because:
s embodying economic benefits will be required to settle the obligation or
sured with sufficient reliability
s unless the related outflow of resources embodying economic benefits is remote.

events and whose existence will be confirmed only by the occurance or non-occurrence of one or mor
unless the related inflow of resources embodying economic benefits is remote.

roducts. Under the terms of the contract for sale the manufacturer undertakes to make good, by repai
e sale of the product with warranty (legal obligation)
of making good under warranty products sold before BS date.

equired to fulfill the agreement is higher than the economic benefit to be obtained from it
recognize it (i.e. provision with uncertain timing)

business, change in management structure, fundamental reorganizations.

ified
t will be carried out by either implementing the plan or announcing it to those affected.
committed to the sale i.e. there is a binding sale agreement.

jor repairs or refurbishments and replacement of major components. Before IAS37 was introduced con

16, IAS 32 and 39; in IFRS for SME par 22

EPS	EAT/Number of shares
diluted EPS	

roportion to their existing shareholding, for no cost or consideration. The company receives absolutely

by using which existing ordinary shareholders can purchase additional ordinary shares with some disc

ew market price of 1 share is still higher than nominal value

ber of shares without any further consideration from the shareholders. By doing this entity reduces ma

y made to reflect the fact that the split has occurred and that the par value has changed proportionally

entity increases market price of its outstanding shares (the share count is permanently reduced, which

um

um
sts)

dinary shares at maturity. Convertible bonds are a type of compound financial instrument with charact

amortized cost as fin liability (i.e. by discounting the future cash flows of the bonds (interest and princip
/ component - needs to be recorded as derivative (equity) i.e. at FVTPL where FV is initially measured a

PV
on as balancing figure

ıtion derives from: a contract, legislation
꞉e obligation derives from entity's actions where: by an established patter of past practice, published pc
꞉s that an event is porbable if the event is more likely to occur. Practically, this means that if and event

	Release of unused provision:		
PL (cost)		Db	BS (liability)
BS (liability)		Cr	PL (cost)

recorded as finance cost in PL.

ıture events not whole within the control of the entity or

꞉e uncertain future events not wholyy within the control of the entity.

ir or replacement, manufacturing defects that become apparent within given time (e.g. 2 years in CZ) fı

BER voucher issued			BER voucher is redeem
Db	PL		Db
Cr	BER vouchers liability		Cr

amount of returned faulty item - proceeds from sale in auction of this faulty ite

npanies used to created provisions for such future repairs but currently as per IAS37 it is forbidden.

no money for it, they're given away free of charge. By doing this entity reduces market price of its out:

ount to the fair value of the share in the future.

arket price of its outstanding shares

/.

causes the remaining shares present in circulation to represent a larger percentage of shareholder owı eristics of both liability and equity.

ɔle) at the rate of a similar debt instrument)
s difference between the present value of the liability component of the convertible bond (as mention

olicies the entity has indicated to other parties that it will accept certain responsibilities
has more than 50% likelihood of occuring, then it is probable.

rom the date of the sale. On past experience it is probable that there will be some claims.

ied by customer	BER voucher is not redeemed by customer => aged voucher => breal		
BER vouchers liability		Db	BER vouchers liability
Stock		Cr	PL

m = net cost

https://www.iasplus.com/en/standards/ias/ia

Some examples of provisions

Circum-stance	Recognise a provi
Restructur-ing by sale of an operation	Only when the entit agreement [IAS 37.
Restructur-ing by closure or reorganisa-tion	Only when a detaile implement the plan decision is insufficie

standing shares. It also can be considered as reward for l

tion	
Warranty	When an obligating warranty claims will
Land conta-mination	A provision is recog clean up, or for con clean up even if the mination and public Examples 2B]
Customer refunds	Recognise a provis event is the sale of of purchase, that a
Offshore oil rig must be removed and sea bed restored	Recognise a provis oil rig as it is constr from the production Example 3]
Abandoned leasehold, four years to run, no re-letting possible	A provision is recog Example 8]
CPA firm must staff training for recent changes in tax law	No provision is reco recognise a liability
Major overhaul or repairs	No provision is reco
Onerous (loss-mak-ing) contract	Recognise a provis
Future operating	No provision is reco

nership, including dividends and profits)

losses	

ed above) and the total proceeds from the issue of such bond. It is residual approach.

kage to PL

as37

isision?
ty is committed to a sale, i.e. there is a binding sale .78]
ed form plan is in place and the entity has started to , or announced its main features to those affected. A Board ent [IAS 37.72, Appendix C, Examples 5A & 5B]

event occurs (sale of product with a warranty and probable
l be made) [Appendix C, Example 1]

gnised as contamination occurs for any legal obligations of
istructive obligations if the company's published policy is to
ere is no legal requirement to do so (past event is the conta-
expectation created by the company's policy) [Appendix C,

ion if the entity's established policy is to give refunds (past
the product together with the customer's expectation, at time
refund would be available) [Appendix C, Example 4]

ion for removal costs arising from the construction of the the
ucted, and add to the cost of the asset. Obligations arising
of oil are recognised as the production occurs [Appendix C,

he company)

gnised for the unavoidable lease payments [Appendix C,

ognised (there is no obligation to provide the training,
if and when the retraining occurs) [Appendix C, Example 7]

=>

ognised (no obligation) [Appendix C, Example 11]

ion [IAS 37.66]

ognised (no liability) [IAS 37.63]