

IFRS Guidebook

2013 Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction	1
What is IFRS?	1
How this Book is Organized	2
How to Use this Book.....	3
Accounting Principles.....	3
Chapter 2 – Presentation of Financial Statements.....	8
Overview of the Financial Statements	8
The Statement of Financial Position	10
The Standard Balance Sheet Format	11
The Common Size Balance Sheet.....	12
How to Construct a Balance Sheet.....	13
Overview of the Statement of Profit or Loss.....	14
Presentation by Nature or Function	16
The Single-Step Income Statement.....	18
The Multi-Step Income Statement	18
The Contribution Margin Income Statement	19
The Multi-Period Income Statement	20
How to Construct the Income Statement.....	21
Overview of the Statement of Changes in Equity.....	22
Income Statement Disclosures.....	23
Chapter 3 – Statement of Cash Flows	28
Overview of the Statement of Cash Flows.....	28
The Direct Method	30
The Indirect Method.....	31
How to Prepare the Statement of Cash Flows	32
Disclosures for the Statement of Cash Flows	34
Chapter 4 – Consolidated and Separate Financial Statements	38
The Control Concept.....	38
Consolidation Accounting.....	41
Separate Financial Statements	42
Chapter 5 – Accounting Policies, Estimate Changes and Errors.....	46
Accounting Policies.....	46
Changes in Accounting Estimates.....	47
Errors	48
Impracticability of Application.....	49
Disclosures for Policies, Estimate Changes, and Errors	49
Accounting Policies.....	49
Changes in Accounting Estimates	50
Errors	50
Chapter 6 – Financial Reporting in Hyperinflationary Economies	53
Overview of Hyperinflationary Reporting	53
Net Monetary Position.....	55
Comparative Information.....	56

Initial Restatement	56
Consolidation Issues	56
Termination of Hyperinflationary Period.....	56
Historical Presentation	57
Hyperinflationary Reporting Disclosures.....	57
Chapter 7 – Earnings per Share.....	60
Basic Earnings per Share	60
Diluted Earnings per Share	61
Disclosure of Earnings per Share.....	65
Chapter 8 – Interim Financial Reporting.....	69
Overview of Interim Financial Reporting.....	69
Content of an Interim Financial Report.....	69
Reduced Information Requirements	70
General Interim Reporting Rule.....	71
Goodwill Impairment Losses	72
Interim Period Restatements.....	72
The Integral View.....	72
Chapter 9 – Operating Segments.....	77
Overview of Segment Reporting.....	77
Segment Disclosure.....	79
Segment Disclosure.....	79
Revenue Disclosure.....	81
Geographic Area Disclosure	81
Chapter 10 – Joint Arrangements.....	85
Overview of Joint Arrangements	85
Financial Statement Presentation of Joint Arrangements.....	88
Chapter 11 – Investments in Associates and Joint Ventures.....	92
Investments in Associates and Joint Ventures.....	92
Significant Influence.....	92
The Equity Method.....	93
Members’ Shares in Cooperative Entities.....	96
Disclosures.....	96
Chapter 12 – Disclosure of Interests in Other Entities.....	100
Overview of Interests in Other Entities	100
Interests in Subsidiaries.....	101
Interests in Joint Arrangements and Associates	101
Interests in Unconsolidated Structured Entities.....	102
Chapter 13 – Inventories	106
Overview of Inventory	107
The Periodic Inventory System	108
The Perpetual Inventory System	109
Inventory Costing.....	110
The First In, First Out Method.....	110

The Last In, First Out Method.....	111
The Weighted Average Method.....	111
Standard Costing.....	112
The Retail Inventory Method.....	113
The Gross Profit Method.....	114
Overhead Allocation.....	115
Net Realizable Value.....	117
Accounting for Obsolete Inventory.....	118
Work in Process Accounting.....	119
Inventory Measurement by Commodity Broker-Traders.....	120
Inventory Disclosures.....	120
Chapter 14 – Property, Plant, and Equipment.....	123
Recognition of Property, Plant and Equipment.....	123
Subsequent Fixed Asset Recognition.....	125
The Cost Model.....	125
The Revaluation Model.....	125
Depreciation.....	127
Straight-Line Method.....	129
Sum-of-the-Years’ Digits Method.....	129
Double-Declining Balance Method.....	130
Depletion Method.....	131
Units of Production Method.....	133
Land Depreciation.....	133
Land Improvement Depreciation.....	133
Depreciation Accounting Entries.....	134
Derecognition of Property, Plant and Equipment.....	135
Compensation for Impaired Assets.....	136
Transfers of Assets from Customers.....	136
Decommissioning Liabilities.....	137
Decommissioning Funds.....	137
Property, Plant and Equipment Disclosures.....	137
Chapter 15 – Intangible Assets.....	141
Overview of Intangible Assets.....	141
Accounting for Intangible Assets.....	142
Intangible Assets Acquired in a Business Combination.....	143
Internally Developed Intangible Assets.....	144
Other Forms of Intangible Asset Acquisition.....	145
Subsequent Intangible Asset Recognition.....	145
The Cost Model.....	145
The Revaluation Model.....	145
Intangible Asset Derecognition.....	147
Web Site Costs.....	147
Additional Intangible Asset Issues.....	148
Intangible Assets Disclosures.....	150
Chapter 16 – Investment Property.....	154
Overview of Investment Property.....	154
Accounting for Investment Property.....	155
Investment Property Transfers.....	157
Investment Property Disposals.....	158

Investment Property Disclosures – Fair Value Model.....	158
Investment Property Disclosures –Cost Model	159
Chapter 17 – Impairment of Assets	162
Overview of Asset Impairment	162
Indications of Impairment.....	162
Timing of the Impairment Test.....	163
Recoverable Amount	164
The Impairment Test.....	166
The Cash-Generating Unit	167
Asset Impairment Reversals	168
Other Impairment Topics.....	170
Corporate Assets	170
Goodwill Allocation to Cash-Generating Units	171
Impairment Testing Efficiencies	171
Asset Impairment Disclosures.....	171
Chapter 18 – Assets Held for Sale and Discontinued Operations.....	176
Accounting for Non-Current Assets Held for Sale	176
Disclosure of Non-Current Assets Held for Sale	179
Disclosure of Discontinued Operations.....	179
Chapter 19 – Provisions, Contingent Liabilities and Contingent Assets	184
Overview of Provisions	184
Accounting for Provisions.....	186
The Provision for Restructuring.....	187
Accounting for Contingent Liabilities.....	188
Accounting for Contingent Assets	189
Accounting for Reimbursements	189
Disclosure of Provisions and Contingent Items.....	189
Chapter 20 – Revenue	194
Overview of Revenue.....	194
The Sale of Goods.....	195
The Sale of Services.....	195
Interest, Royalties, and Dividends	196
The Agency Relationship	197
Gross and Net Revenue.....	197
Swaps	197
Multiple Element Arrangements	197
Customer Loyalty Programs.....	198
Barter Transactions Involving Advertising.....	198
Additional Recognition Situations	199
Revenue Disclosures.....	199
Chapter 21 – Employee Benefits and Retirement Plans	203
Short-term Employee Benefits	203
Post-Employment Benefits.....	205
Defined Contribution Plans	206
Defined Benefit Plans	206
Projected Unit Credit Method	208

Attribution of Benefits to Periods of Service.....	208
Actuarial Assumptions.....	209
Past Service Cost	210
Gains and Losses on Settlement.....	211
Measurement of Plan Assets	211
Defined Benefit Costs	211
Termination Benefits.....	211
Defined Contribution Plan Disclosures	212
Defined Benefit Plan Disclosures	212
Defined Benefit Plan Financial Statements.....	214
Chapter 22 – Share-based Payment	218
Overview of Share-based Payments	218
Share-based Payments Settled with Equity.....	219
Share-based Payments Settled with Cash	223
Share-based Payments with Cash Alternatives	224
Counterparty Has Choice of Settlement	224
Issuer Has Choice of Settlement	224
Share-based Payment Disclosures	225
Chapter 23 – Income Taxes.....	229
The Tax Base Concept	229
Current Tax Liabilities and Assets	230
Deferred Tax Liabilities and Assets	230
Taxable Temporary Differences	231
Deductible Temporary Differences	232
Unused Tax Losses and Tax Credits.....	234
Reassessment of Unrecognized Deferred Tax Assets	234
Investments in Other Entities	234
Tax Rates.....	234
Current and Deferred Tax Recognition.....	235
Changes in Tax Status.....	236
Income Tax Presentation	236
Income Tax Disclosures.....	237
Chapter 24 – Business Combinations	241
The Acquisition Method	241
Identification of a Business Combination	241
Identify the Acquirer.....	242
Determine the Acquisition Date	242
Recognize Assets, Liabilities, and Non-controlling Interests.....	242
Recognize Goodwill or a Bargain Purchase Gain	244
Additional Acquisition Issues.....	245
Reverse Acquisitions	246
Subsequent Measurement.....	247
Business Combination Disclosures	248
Chapter 25 – Financial Instruments.....	254
Measurement of Financial Assets and Liabilities	255
Initial Measurement.....	255
Subsequent Measurement	256
Reclassification.....	258

Embedded Derivatives	258
Gains and Losses	259
Dividends and Interest	259
Hedging	259
Hedging Instruments	260
Hedged Items	260
Accounting for Hedges	260
Financial Asset and Liability Derecognition	263
Financial Asset Derecognition	263
Financial Liability Derecognition	265
Servicing Assets and Liabilities	265
Valuation of Replacement Financial Asset	265
Collateral	265
Financial Instrument Presentation	266
Financial Instrument Disclosures	266
Chapter 26 – Fair Value Measurement	274
Overview of Fair Value	274
General Concepts	274
Measurement Issues	275
Initial Recognition	275
Measurement of Non-Financial Assets	275
Measurement of Liabilities and Equity	276
Measurement of a Group of Financial Assets and Liabilities	277
Valuation Methods	277
Fair Value Disclosures	279
Chapter 27 – Effects of Changes in Foreign Exchange Rates	283
Foreign Exchange Transactions	283
Financial Statement Translation	284
Determination of Functional Currency	284
Translation of Financial Statements	285
Hyperinflationary Effects	288
Derecognition of a Foreign Entity Investment	288
Foreign Currency Disclosures	288
Chapter 28 – Borrowing Costs	291
Overview of Borrowing Costs	291
Borrowing Cost Disclosures	295
Chapter 29 – Leases	298
Types of Leases	298
Lease Accounting by the Lessee	300
Finance Leases	300
Operating Leases	301
Lease Accounting by the Lessor	301
Financing Leases	301
Operating Leases	302
Sale and Leaseback Transactions	303
Determining whether an Arrangement Contains a Lease	303

Evaluating the Substance of Lease Transactions	303
Operating Lease Incentives	304
Lease Disclosures by the Lessee	305
Lease Disclosures by the Lessor	305
Other Disclosures	306
Chapter 30 – Related Party Disclosures	309
Overview of Related Parties	309
Related Party Disclosures	310
Chapter 31 – Events after the Reporting Period	313
Overview of Events after the Reporting Period	313
The Going Concern Issue	314
Disclosure of Events after the Reporting Period	314
Chapter 32 – Insurance Contracts	318
Overview of Insurance Contracts	318
Reporting Issues	319
Liability Adequacy Test	319
Reinsurance Impairment	320
Accounting Policy Changes	320
Acquired Contracts	321
Discretionary Participation Features	321
Disclosure of Insurance Contracts	321
Chapter 33 – Agriculture	325
Accounting for Agriculture	325
Agriculture Disclosures	326
Chapter 34 – Construction Contracts	330
Accounting for Construction Contracts	330
Contract Revenue	331
Contract Costs	332
Revenue and Cost Recognition	332
Loss Recognition	334
Agreements for the Construction of Real Estate	334
Construction Contract Disclosures	335
Chapter 35 – Government Grants	339
Accounting for Government Grants	339
Government Grant Presentation	341
Government Grant Disclosures	341
Chapter 36 – Mineral Resources	345
Accounting for Mineral Resources	345
Accounting for Stripping Costs	346
Mineral Resources Presentation	347
Mineral Resources Disclosures	347

Chapter 37 – Service Concessions	350
Overview of Service Concessions	350
Service Concession Disclosures	351
Chapter 38 – Other Topics	355
Liabilities from Waste Electrical and Electronic Equipment	355
Hedges of a Net Investment in a Foreign Operation	355
Distributions of Non-cash Assets to Owners.....	357
Extinguishing Financial Liabilities with Equity Instruments	357
Glossary	360
Index	368