

IFRS Guidebook

2014 Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction	1
Learning Objectives	1
Introduction.....	1
What is IFRS?	1
How This Book is Organized.....	2
How to Use This Book	3
Accounting Principles.....	3
Summary.....	4
Review Questions.....	5
Review Answers	6
 Chapter 2 – Presentation of Financial Statements.....	 7
Learning Objectives	7
Introduction.....	7
Overview of the Financial Statements	7
The Statement of Financial Position	8
The Standard Balance Sheet Format	10
The Common Size Balance Sheet.....	11
How to Construct a Balance Sheet.....	11
Overview of the Statement of Profit or Loss.....	13
Presentation by Nature or Function	14
The Single-Step Income Statement.....	16
The Multi-Step Income Statement.....	17
The Contribution Margin Income Statement	17
The Multi-Period Income Statement	18
How to Construct the Income Statement.....	19
Overview of the Statement of Changes in Equity.....	20
Income Statement Disclosures.....	21
Summary.....	23
Review Questions.....	24
Review Answers	25
 Chapter 3 – Statement of Cash Flows	 26
Learning Objectives	26
Introduction.....	26
Overview of the Statement of Cash Flows	26
The Direct Method	28
The Indirect Method.....	29
How to Prepare the Statement of Cash Flows	30
Disclosures for the Statement of Cash Flows	31
Summary.....	32
Review Questions.....	33
Review Answers	34
 Chapter 4 – Consolidated and Separate Financial Statements	 35
Learning Objectives	35
Introduction.....	35
The Control Concept.....	35
Consolidation Accounting.....	37
Separate Financial Statements	39
Summary.....	39
Review Questions.....	41
Review Answers	42

Table of Contents

Chapter 5 – Accounting Policies, Estimate Changes and Errors	43
Learning Objectives	43
Introduction.....	43
Accounting Policies.....	43
Changes in Accounting Estimates.....	44
Errors	44
Impracticability of Application.....	45
Disclosures for Policies, Estimate Changes, and Errors	46
Accounting Policies.....	46
Changes in Accounting Estimates.....	46
Errors	46
Summary.....	47
Review Questions.....	48
Review Answers	49
Chapter 6 – Financial Reporting in Hyperinflationary Economies	50
Learning Objectives	50
Introduction.....	50
Overview of Hyperinflationary Reporting	50
Net Monetary Position.....	52
Comparative Information.....	53
Initial Restatement	53
Consolidation Issues.....	53
Termination of Hyperinflationary Period.....	53
Historical Presentation	53
Hyperinflationary Reporting Disclosures.....	53
Summary.....	54
Review Questions.....	55
Review Answers	56
Chapter 7 – Earnings per Share.....	57
Learning Objectives	57
Introduction.....	57
Basic Earnings per Share	57
Diluted Earnings per Share	58
Disclosure of Earnings per Share.....	61
Summary.....	62
Review Questions.....	63
Review Answers	64
Chapter 8 – Interim Financial Reporting.....	65
Learning Objectives	65
Introduction.....	65
Overview of Interim Financial Reporting.....	65
Content of an Interim Financial Report	65
Reduced Information Requirements	66
General Interim Reporting Rule.....	67
Goodwill Impairment Losses	68
Interim Period Restatements	68
The Integral View.....	68
Summary.....	70
Review Questions.....	71
Review Answers	72
Chapter 9 – Operating Segments.....	73
Learning Objectives	73
Introduction.....	73

Table of Contents

Overview of Segment Reporting.....	73
Segment Disclosure.....	75
Segment Disclosure.....	75
Revenue Disclosure.....	77
Geographic Area Disclosure	77
Summary.....	78
Review Questions.....	79
Review Answers	80
Chapter 10 – Joint Arrangements.....	81
Learning Objectives	81
Introduction.....	81
Overview of Joint Arrangements	81
Financial Statement Presentation of Joint Arrangements.....	83
Summary.....	84
Review Questions.....	85
Review Answers	86
Chapter 11 – Investments in Associates and Joint Ventures.....	87
Learning Objectives	87
Introduction.....	87
Investments in Associates and Joint Ventures.....	87
Significant Influence	87
The Equity Method.....	88
Members' Shares in Cooperative Entities.....	90
Disclosures.....	91
Summary.....	91
Review Questions.....	92
Review Answers	93
Chapter 12 – Disclosure of Interests in Other Entities.....	94
Learning Objectives	94
Introduction.....	94
Overview of Interests in Other Entities	94
Interests in Subsidiaries.....	94
Interests in Joint Arrangements and Associates	95
Interests in Unconsolidated Structured Entities.....	96
Summary.....	97
Review Questions.....	98
Review Answers	99
Chapter 13 – Inventories	100
Learning Objectives	100
Introduction.....	100
Overview of Inventory	100
The Periodic Inventory System	102
The Perpetual Inventory System	102
Inventory Costing.....	103
The First In, First Out Method.....	103
The Last In, First Out Method.....	104
The Weighted Average Method.....	104
Standard Costing	105
The Retail Inventory Method	107
The Gross Profit Method	107
Overhead Allocation	108
Net Realizable Value	111
Accounting for Obsolete Inventory	111

Table of Contents

Work in Process Accounting	112
Inventory Measurement by Commodity Broker-Traders.....	113
Inventory Disclosures.....	113
Summary.....	113
Review Questions.....	114
Review Answers	115
Chapter 14 – Property, Plant, and Equipment.....	116
Learning Objectives	116
Introduction.....	116
Recognition of Property, Plant and Equipment	116
Subsequent Fixed Asset Recognition.....	118
The Cost Model	118
The Revaluation Model	118
Depreciation	120
Straight-Line Method.....	121
Sum-of-the-Years' Digits Method.....	122
Double-Declining Balance Method	123
Depletion Method.....	124
Units of Production Method	125
Land Depreciation.....	126
Land Improvement Depreciation	126
Depreciation Accounting Entries	126
Derecognition of Property, Plant and Equipment	127
Compensation for Impaired Assets	128
Transfers of Assets from Customers	128
Decommissioning Liabilities	129
Decommissioning Funds.....	129
Property, Plant and Equipment Disclosures.....	130
Summary.....	130
Review Questions.....	131
Review Answers	132
Chapter 15 – Intangible Assets	133
Learning Objectives	133
Introduction.....	133
Overview of Intangible Assets	133
Accounting for Intangible Assets	134
Intangible Assets Acquired in a Business Combination.....	135
Internally Developed Intangible Assets.....	136
Other Forms of Intangible Asset Acquisition.....	137
Subsequent Intangible Asset Recognition	137
The Cost Model	137
The Revaluation Model	137
Intangible Asset Derecognition.....	138
Web Site Costs.....	139
Additional Intangible Asset Issues.....	140
Intangible Asset Disclosures	141
Summary.....	142
Review Questions.....	143
Review Answers	144
Chapter 16 – Investment Property	145
Learning Objectives	145
Introduction.....	145
Overview of Investment Property	145
Accounting for Investment Property	146

Table of Contents

Investment Property Transfers	148
Investment Property Disposals	149
Investment Property Disclosures—Fair Value Model	149
Investment Property Disclosures—Cost Model	150
Summary	150
Review Questions	151
Review Answers	152
Chapter 17 – Impairment of Assets	153
Learning Objectives	153
Introduction	153
Overview of Asset Impairment	153
Indications of Impairment	153
Timing of the Impairment Test	154
Recoverable Amount	154
The Impairment Test	156
The Cash-Generating Unit	157
Asset Impairment Reversals	159
Other Impairment Topics	161
Corporate Assets	161
Goodwill Allocation to Cash-Generating Units	161
Impairment Testing Efficiencies	162
Asset Impairment Disclosures	162
Summary	163
Review Questions	165
Review Answers	166
Chapter 18 – Assets Held for Sale and Discontinued Operations	167
Learning Objectives	167
Introduction	167
Accounting for Non-Current Assets Held for Sale	167
Disclosure of Non-Current Assets Held for Sale	169
Disclosure of Discontinued Operations	170
Summary	171
Review Questions	172
Review Answers	173
Chapter 19 – Provisions, Contingent Liabilities and Contingent Assets	174
Learning Objectives	174
Introduction	174
Overview of Provisions	174
Accounting for Provisions	175
The Provision for Restructuring	177
Accounting for Contingent Liabilities	178
Accounting for Contingent Assets	178
Accounting for Reimbursements	178
Disclosure of Provisions and Contingent Items	179
Summary	180
Review Questions	181
Review Answers	182
Chapter 20 – Revenue	183
Learning Objectives	183
Introduction	183
Overview of Revenue	183
The Sale of Goods	184
The Sale of Services	184

Table of Contents

Interest, Royalties, and Dividends	185
The Agency Relationship	185
Gross and Net Revenue.....	186
Swaps	186
Multiple Element Arrangements	186
Customer Loyalty Programs.....	186
Barter Transactions Involving Advertising.....	187
Additional Recognition Situations	188
Revenue Disclosures	188
Summary.....	188
Review Questions.....	190
Review Answers	191
Chapter 21 – Employee Benefits and Retirement Plans	192
Learning Objectives	192
Introduction.....	192
Short-Term Employee Benefits	192
Post-Employment Benefits.....	194
Defined Contribution Plans	195
Defined Benefit Plans	195
Projected Unit Credit Method	196
Attribution of Benefits to Periods of Service.....	197
Actuarial Assumptions.....	198
Past Service Cost	198
Gains and Losses on Settlement.....	199
Measurement of Plan Assets	199
Defined Benefit Costs	199
Termination Benefits.....	199
Defined Contribution Plan Disclosures	200
Defined Benefit Plan Disclosures	200
Defined Benefit Plan Financial Statements.....	202
Summary.....	203
Review Questions.....	204
Review Answers	205
Chapter 22 – Share-based Payment	206
Learning Objectives	206
Introduction.....	206
Overview of Share-Based Payments.....	206
Share-Based Payments Settled with Equity.....	206
Share-Based Payments Settled with Cash	211
Share-Based Payments with Cash Alternatives.....	211
Counterparty Has Choice of Settlement	211
Issuer Has Choice of Settlement	212
Share-Based Payment Disclosures	212
Summary.....	213
Review Questions.....	214
Review Answers	215
Chapter 23 – Income Taxes.....	216
Learning Objectives	216
Introduction.....	216
The Tax Base Concept	216
Current Tax Liabilities and Assets	217
Deferred Tax Liabilities and Assets	217
Taxable Temporary Differences	217
Deductible Temporary Differences	219

Table of Contents

Unused Tax Losses and Tax Credits.....	220
Reassessment of Unrecognized Deferred Tax Assets	220
Investments in Other Entities	220
Tax Rates	221
Current and Deferred Tax Recognition.....	222
Changes in Tax Status.....	222
Income Tax Presentation	223
Income Tax Disclosures.....	223
Summary	225
Review Questions.....	226
Review Answers	227
Chapter 24 – Business Combinations	228
Learning Objectives	228
Introduction.....	228
The Acquisition Method	228
Identification of a Business Combination	228
Identify the Acquirer	228
Determine the Acquisition Date	229
Recognize Assets, Liabilities, and Non-controlling Interests.....	229
Recognize Goodwill or a Bargain Purchase Gain	230
Additional Acquisition Issues.....	232
Reverse Acquisitions	233
Subsequent Measurement.....	234
Business Combination Disclosures	234
Summary.....	237
Review Questions.....	238
Review Answers	239
Chapter 25 – Financial Instruments.....	240
Learning Objectives	240
Introduction.....	240
Measurement of Financial Assets and Liabilities	240
Initial Measurement.....	240
Subsequent Measurement	241
Reclassification.....	243
Embedded Derivatives	243
Gains and Losses	244
Dividends and Interest	244
Hedging	244
Hedging Instruments.....	245
Hedged Items	245
Accounting for Hedges.....	245
Financial Asset and Liability Derecognition	249
Financial Asset Derecognition.....	249
Financial Liability Derecognition	250
Servicing Assets and Liabilities	250
Valuation of Replacement Financial Asset.....	250
Collateral	251
Financial Instrument Presentation	251
Financial Instrument Disclosures.....	251
Summary	256
Review Questions	257
Review Answers	258
Chapter 26 – Fair Value Measurement.....	259
Learning Objectives	259

Table of Contents

Introduction.....	259
Overview of Fair Value.....	259
General Concepts.....	259
Measurement Issues.....	260
Initial Recognition	260
Measurement of Non-Financial Assets	260
Measurement of Liabilities and Equity	261
Measurement of a Group of Financial Assets and Liabilities	261
Valuation Methods	262
Fair Value Disclosures	263
Summary.....	265
Review Questions.....	266
Review Answers	267
Chapter 27 – Effects of Changes in Foreign Exchange Rates.....	268
Learning Objectives	268
Introduction.....	268
Foreign Exchange Transactions.....	268
Financial Statement Translation.....	269
Determination of Functional Currency	269
Translation of Financial Statements	270
Hyperinflationary Effects	272
Derecognition of a Foreign Entity Investment	272
Foreign Currency Disclosures	273
Summary.....	273
Review Questions.....	274
Review Answers	275
Chapter 28 – Borrowing Costs.....	276
Learning Objectives	276
Introduction.....	276
Overview of Borrowing Costs.....	276
Borrowing Cost Disclosures	279
Summary.....	280
Review Questions.....	281
Review Answers	282
Chapter 29 – Leases.....	283
Learning Objectives	283
Introduction.....	283
Types of Leases	283
Lease Accounting by the Lessee.....	284
Finance Leases	284
Operating Leases	285
Lease Accounting by the Lessor	286
Financing Leases.....	286
Operating Leases	287
Sale and Leaseback Transactions	287
Determining whether an Arrangement Contains a Lease.....	287
Evaluating the Substance of Lease Transactions	288
Operating Lease Incentives	289
Lease Disclosures by the Lessee	289
Lease Disclosures by the Lessor.....	290
Other Disclosures	290
Summary.....	290
Review Questions.....	291
Review Answers	292

Table of Contents

Chapter 30 – Related Party Disclosures.....	293
Learning Objectives	293
Introduction.....	293
Overview of Related Parties.....	293
Related Party Disclosures	293
Summary.....	294
Review Questions.....	295
Review Answers	296
Chapter 31 – Events after the Reporting Period.....	297
Learning Objectives	297
Introduction.....	297
Overview of Events after the Reporting Period	297
The Going Concern Issue	298
Disclosure of Events after the Reporting Period	298
Summary.....	298
Review Questions.....	299
Review Answers	300
Chapter 32 – Insurance Contracts	301
Learning Objectives	301
Introduction.....	301
Overview of Insurance Contracts	301
Reporting Issues.....	302
Liability Adequacy Test.....	302
Reinsurance Impairment.....	302
Accounting Policy Changes.....	303
Acquired Contracts	303
Discretionary Participation Features.....	304
Disclosure of Insurance Contracts.....	304
Summary.....	305
Review Questions.....	306
Review Answers	307
Chapter 33 – Agriculture	308
Learning Objectives	308
Introduction.....	308
Agriculture Disclosures	309
Summary.....	310
Review Questions.....	311
Review Answers	312
Chapter 34 – Construction Contracts	313
Learning Objectives	313
Introduction.....	313
Accounting for Construction Contracts	313
Contract Revenue.....	313
Contract Costs.....	314
Revenue and Cost Recognition.....	315
Loss Recognition	317
Agreements for the Construction of Real Estate.....	317
Construction Contract Disclosures	318
Summary.....	318
Review Questions.....	319
Review Answers	320

Table of Contents

Chapter 35 – Government Grants	321
Learning Objectives	321
Introduction.....	321
Accounting for Government Grants	321
Government Grant Presentation.....	323
Government Grant Disclosures	323
Summary.....	323
Review Questions.....	324
Review Answers	325
Chapter 36 – Mineral Resources	326
Learning Objectives	326
Introduction.....	326
Accounting for Mineral Resources.....	326
Accounting for Stripping Costs	327
Mineral Resources Presentation	327
Mineral Resources Disclosures	328
Summary.....	328
Review Questions.....	329
Review Answers	330
Chapter 37 – Service Concessions.....	331
Learning Objectives	331
Introduction.....	331
Overview of Service Concessions	331
Service Concession Disclosures	332
Summary.....	333
Review Questions.....	334
Review Answers	335
Chapter 38 – Other Topics	336
Learning Objectives	336
Introduction.....	336
Liabilities from Waste Electrical and Electronic Equipment	336
Hedges of a Net Investment in a Foreign Operation	336
Distributions of Non-cash Assets to Owners.....	338
Extinguishing Financial Liabilities with Equity Instruments	338
Review Questions.....	339
Review Answers	340
Glossary.....	341
Index	349