

IFRS Guidebook

2015 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.....	4
How to Use This Book	4
Accounting Principles.....	5
Summary.....	6
Review Questions.....	7
Review Answers	8
 Chapter 2 – Presentation of Financial Statements.....	 9
Learning Objectives	9
Introduction.....	9
Overview of the Financial Statements	9
The Statement of Financial Position.....	10
The Standard Balance Sheet Format	12
The Common Size Balance Sheet.....	13
How to Construct a Balance Sheet.....	13
Overview of the Statement of Profit or Loss.....	15
Presentation by Nature or Function	16
The Single-Step Income Statement.....	18
The Multi-Step Income Statement.....	19
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
Summary.....	25
Review Questions.....	26
Review Answers	27
 Chapter 3 – Statement of Cash Flows	 28
Learning Objectives	28
Introduction.....	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	33
Summary.....	34
Review Questions.....	35
Review Answers	36
 Chapter 4 – Consolidated and Separate Financial Statements	 37
Learning Objectives	37
Introduction.....	37
The Control Concept.....	37
Consolidation Accounting.....	39
Separate Financial Statements	41
Summary.....	41
Review Questions.....	42
Review Answers	43

Table of Contents

Chapter 5 – Accounting Policies, Estimate Changes and Errors	44
Learning Objectives	44
Introduction.....	44
Accounting Policies.....	44
Changes in Accounting Estimates.....	45
Errors	45
Impracticability of Application.....	46
Disclosures for Policies, Estimate Changes, and Errors	46
Accounting Policies.....	47
Changes in Accounting Estimates.....	47
Errors	47
Summary.....	48
Review Questions.....	49
Review Answers	50
Chapter 6 – Financial Reporting in Hyperinflationary Economies	51
Learning Objectives	51
Introduction.....	51
Overview of Hyperinflationary Reporting	51
Net Monetary Position.....	53
Comparative Information.....	54
Initial Restatement	54
Consolidation Issues.....	54
Termination of Hyperinflationary Period.....	54
Historical Presentation	54
Hyperinflationary Reporting Disclosures.....	54
Summary.....	55
Review Questions.....	56
Review Answers	57
Chapter 7 – Earnings per Share.....	58
Learning Objectives	58
Introduction.....	58
Basic Earnings per Share	58
Diluted Earnings per Share	59
Disclosure of Earnings per Share.....	62
Summary.....	63
Review Questions.....	64
Review Answers	65
Chapter 8 – Interim Financial Reporting.....	66
Learning Objectives	66
Introduction.....	66
Overview of Interim Financial Reporting.....	66
Content of an Interim Financial Report	66
Reduced Information Requirements	67
General Interim Reporting Rule.....	68
Goodwill Impairment Losses	69
Interim Period Restatements	69
The Integral View.....	69
Summary.....	71
Review Questions.....	72
Review Answers	73
Chapter 9 – Operating Segments.....	74
Learning Objectives	74
Introduction.....	74

Table of Contents

Overview of Segment Reporting.....	74
Segment Disclosure.....	76
Segment Disclosure.....	76
Revenue Disclosure.....	78
Geographic Area Disclosure	78
Summary.....	79
Review Questions.....	80
Review Answers	81
Chapter 10 – Joint Arrangements.....	82
Learning Objectives	82
Introduction.....	82
Overview of Joint Arrangements	82
Financial Statement Presentation of Joint Arrangements.....	84
Summary.....	85
Review Questions.....	86
Review Answers	87
Chapter 11 – Investments in Associates and Joint Ventures.....	88
Learning Objectives	88
Introduction.....	88
Investments in Associates and Joint Ventures.....	88
Significant Influence	88
The Equity Method.....	89
Members' Shares in Cooperative Entities.....	91
Disclosures.....	92
Summary.....	92
Review Questions.....	93
Review Answers	94
Chapter 12 – Disclosure of Interests in Other Entities.....	95
Learning Objectives	95
Introduction.....	95
Overview of Interests in Other Entities	95
Interests in Subsidiaries.....	95
Interests in Joint Arrangements and Associates	96
Interests in Unconsolidated Structured Entities.....	97
Summary.....	98
Review Questions.....	99
Review Answers	100
Chapter 13 – Inventories	101
Learning Objectives	101
Introduction.....	101
Overview of Inventory	101
The Periodic Inventory System	103
The Perpetual Inventory System	103
Inventory Costing.....	104
The First In, First Out Method.....	104
The Last In, First Out Method.....	105
The Weighted Average Method.....	105
Standard Costing	106
The Retail Inventory Method	108
The Gross Profit Method	108
Overhead Allocation	109
Net Realizable Value	112
Accounting for Obsolete Inventory	112

Table of Contents

Work in Process Accounting	113
Inventory Measurement by Commodity Broker-Traders.....	113
Inventory Disclosures.....	114
Summary.....	114
Review Questions.....	115
Review Answers	116
Chapter 14 – Property, Plant, and Equipment.....	117
Learning Objectives	117
Introduction.....	117
Recognition of Property, Plant and Equipment	117
Subsequent Fixed Asset Recognition.....	119
The Cost Model	119
The Revaluation Model	119
Depreciation	121
Straight-Line Method.....	122
Sum-of-the-Years' Digits Method.....	123
Double-Declining Balance Method	124
Depletion Method.....	125
Units of Production Method	126
Land Depreciation.....	127
Land Improvement Depreciation	127
Depreciation Accounting Entries	127
Derecognition of Property, Plant and Equipment	128
Compensation for Impaired Assets	129
Transfers of Assets from Customers	129
Decommissioning Liabilities	130
Decommissioning Funds.....	130
Property, Plant and Equipment Disclosures.....	131
Summary.....	131
Review Questions.....	132
Review Answers	133
Chapter 15 – Intangible Assets	134
Learning Objectives	134
Introduction.....	134
Overview of Intangible Assets	134
Accounting for Intangible Assets	135
Intangible Assets Acquired in a Business Combination.....	136
Internally Developed Intangible Assets.....	137
Other Forms of Intangible Asset Acquisition.....	137
Subsequent Intangible Asset Recognition	138
The Cost Model	138
The Revaluation Model	138
Intangible Asset Derecognition.....	139
Web Site Costs.....	140
Additional Intangible Asset Issues.....	141
Intangible Asset Disclosures	142
Summary.....	143
Review Questions.....	144
Review Answers	145
Chapter 16 – Investment Property	146
Learning Objectives	146
Introduction.....	146
Overview of Investment Property	146
Accounting for Investment Property	147

Table of Contents

Investment Property Transfers	149
Investment Property Disposals	150
Investment Property Disclosures—Fair Value Model	150
Investment Property Disclosures—Cost Model	151
Summary	151
Review Questions	152
Review Answers	153
Chapter 17 – Impairment of Assets	154
Learning Objectives	154
Introduction	154
Overview of Asset Impairment	154
Indications of Impairment	154
Timing of the Impairment Test	155
Recoverable Amount	155
The Impairment Test	157
The Cash-Generating Unit	158
Asset Impairment Reversals	160
Other Impairment Topics	162
Corporate Assets	162
Goodwill Allocation to Cash-Generating Units	162
Impairment Testing Efficiencies	163
Asset Impairment Disclosures	163
Summary	164
Review Questions	166
Review Answers	167
Chapter 18 – Assets Held for Sale and Discontinued Operations.....	168
Learning Objectives	168
Introduction	168
Accounting for Noncurrent Assets Held for Sale	168
Disclosure of Noncurrent Assets Held for Sale	170
Disclosure of Discontinued Operations	171
Summary	172
Review Questions	173
Review Answers	174
Chapter 19 – Provisions, Contingent Liabilities and Contingent Assets	175
Learning Objectives	175
Introduction	175
Overview of Provisions	175
Accounting for Provisions	176
The Provision for Restructuring	178
Accounting for Contingent Liabilities	179
Accounting for Contingent Assets	179
Accounting for Reimbursements	179
Disclosure of Provisions and Contingent Items	180
Summary	181
Review Questions	182
Review Answers	183
Chapter 20 – Revenue	184
Learning Objectives	184
Introduction	184
Overview of Revenue	184
The Sale of Goods	185
The Sale of Services	185

Table of Contents

Interest, Royalties, and Dividends	186
The Agency Relationship	186
Gross and Net Revenue.....	187
Swaps	187
Multiple Element Arrangements	187
Customer Loyalty Programs.....	187
Barter Transactions Involving Advertising.....	188
Additional Recognition Situations	189
Revenue Disclosures	189
Summary.....	189
Review Questions.....	191
Review Answers	192
Chapter 21 – Employee Benefits and Retirement Plans	193
Learning Objectives	193
Introduction.....	193
Short-Term Employee Benefits	193
Post-Employment Benefits.....	195
Defined Contribution Plans	196
Defined Benefit Plans	196
Projected Unit Credit Method	197
Attribution of Benefits to Periods of Service.....	198
Actuarial Assumptions.....	199
Past Service Cost	199
Gains and Losses on Settlement.....	200
Measurement of Plan Assets	200
Defined Benefit Costs	200
Termination Benefits.....	200
Defined Contribution Plan Disclosures	201
Defined Benefit Plan Disclosures	201
Defined Benefit Plan Financial Statements.....	203
Summary.....	204
Review Questions.....	205
Review Answers	206
Chapter 22 – Share-based Payment	207
Learning Objectives	207
Introduction.....	207
Overview of Share-Based Payments.....	207
Share-Based Payments Settled with Equity.....	207
Share-Based Payments Settled with Cash	212
Share-Based Payments with Cash Alternatives.....	212
Counterparty Has Choice of Settlement	212
Issuer Has Choice of Settlement	213
Share-Based Payment Disclosures	213
Summary.....	214
Review Questions.....	215
Review Answers	216
Chapter 23 – Income Taxes.....	217
Learning Objectives	217
Introduction.....	217
The Tax Base Concept	217
Current Tax Liabilities and Assets	218
Deferred Tax Liabilities and Assets	218
Taxable Temporary Differences	218
Deductible Temporary Differences	220

Table of Contents

Unused Tax Losses and Tax Credits.....	221
Reassessment of Unrecognized Deferred Tax Assets	221
Investments in Other Entities	221
Tax Rates	222
Current and Deferred Tax Recognition.....	223
Changes in Tax Status.....	223
Income Tax Presentation	224
Income Tax Disclosures.....	224
Summary	226
Review Questions.....	227
Review Answers	228
Chapter 24 – Business Combinations	229
Learning Objectives	229
Introduction.....	229
The Acquisition Method	229
Identification of a Business Combination	229
Identify the Acquirer	229
Determine the Acquisition Date	230
Recognize Assets, Liabilities, and Noncontrolling Interests.....	230
Recognize Goodwill or a Bargain Purchase Gain	231
Additional Acquisition Issues.....	233
Reverse Acquisitions	234
Subsequent Measurement.....	235
Business Combination Disclosures	235
Summary.....	238
Review Questions.....	239
Review Answers	240
Chapter 25 – Financial Instruments.....	241
Learning Objectives	241
Introduction.....	241
Measurement of Financial Assets and Liabilities	241
Initial Measurement.....	241
Subsequent Measurement	242
Reclassification.....	244
Embedded Derivatives	244
Gains and Losses	245
Dividends and Interest	245
Hedging	245
Hedging Instruments.....	246
Hedged Items	246
Accounting for Hedges.....	246
Financial Asset and Liability Derecognition	250
Financial Asset Derecognition	250
Financial Liability Derecognition	251
Servicing Assets and Liabilities	251
Valuation of Replacement Financial Asset.....	251
Collateral	252
Financial Instrument Presentation	252
Financial Instrument Disclosures.....	252
Summary.....	257
Review Questions.....	258
Review Answers	259
Chapter 26 – Fair Value Measurement.....	260
Learning Objectives	260

Table of Contents

Introduction.....	260
Overview of Fair Value.....	260
General Concepts.....	260
Measurement Issues.....	261
Initial Recognition	261
Measurement of Nonfinancial Assets	261
Measurement of Liabilities and Equity	262
Measurement of a Group of Financial Assets and Liabilities	262
Valuation Methods	263
Fair Value Disclosures	264
Summary.....	266
Review Questions.....	267
Review Answers	268
Chapter 27 – Effects of Changes in Foreign Exchange Rates.....	269
Learning Objectives	269
Introduction.....	269
Foreign Exchange Transactions.....	269
Financial Statement Translation.....	270
Determination of Functional Currency	270
Translation of Financial Statements	271
Hyperinflationary Effects	273
Derecognition of a Foreign Entity Investment	273
Foreign Currency Disclosures	274
Summary.....	274
Review Questions.....	275
Review Answers	276
Chapter 28 – Borrowing Costs.....	277
Learning Objectives	277
Introduction.....	277
Overview of Borrowing Costs.....	277
Borrowing Cost Disclosures	280
Summary.....	281
Review Questions.....	282
Review Answers	283
Chapter 29 – Leases.....	284
Learning Objectives	284
Introduction.....	284
Types of Leases	284
Lease Accounting by the Lessee.....	285
Finance Leases	285
Operating Leases	286
Lease Accounting by the Lessor	287
Financing Leases.....	287
Operating Leases	288
Sale and Leaseback Transactions	288
Determining whether an Arrangement Contains a Lease.....	288
Evaluating the Substance of Lease Transactions	289
Operating Lease Incentives	290
Lease Disclosures by the Lessee	290
Lease Disclosures by the Lessor.....	291
Other Disclosures	291
Summary.....	291
Review Questions.....	292
Review Answers	293

Table of Contents

Chapter 30 – Related Party Disclosures.....	294
Learning Objectives	294
Introduction.....	294
Overview of Related Parties.....	294
Related Party Disclosures	294
Summary.....	295
Review Questions.....	296
Review Answers	297
Chapter 31 – Events after the Reporting Period.....	298
Learning Objectives	298
Introduction.....	298
Overview of Events after the Reporting Period	298
The Going Concern Issue	299
Disclosure of Events after the Reporting Period	299
Summary.....	299
Review Questions.....	300
Review Answers	301
Chapter 32 – Insurance Contracts	302
Learning Objectives	302
Introduction.....	302
Overview of Insurance Contracts	302
Reporting Issues.....	303
Liability Adequacy Test.....	303
Reinsurance Impairment.....	303
Accounting Policy Changes.....	304
Acquired Contracts	304
Discretionary Participation Features.....	305
Disclosure of Insurance Contracts.....	305
Summary.....	306
Review Questions.....	307
Review Answers	308
Chapter 33 – Agriculture	309
Learning Objectives	309
Introduction.....	309
Agriculture Disclosures	310
Summary.....	311
Review Questions.....	312
Review Answers	313
Chapter 34 – Construction Contracts	314
Learning Objectives	314
Introduction.....	314
Accounting for Construction Contracts	314
Contract Revenue.....	314
Contract Costs.....	315
Revenue and Cost Recognition.....	316
Loss Recognition	318
Agreements for the Construction of Real Estate.....	318
Construction Contract Disclosures	319
Summary.....	319
Review Questions.....	320
Review Answers	321

Table of Contents

Chapter 35 – Government Grants	322
Learning Objectives	322
Introduction.....	322
Accounting for Government Grants	322
Government Grant Presentation.....	324
Government Grant Disclosures	324
Summary.....	324
Review Questions.....	325
Review Answers	326
Chapter 36 – Mineral Resources	327
Learning Objectives	327
Introduction.....	327
Accounting for Mineral Resources.....	327
Accounting for Stripping Costs	328
Mineral Resources Presentation	328
Mineral Resources Disclosures	329
Summary.....	329
Review Questions.....	330
Review Answers	331
Chapter 37 – Service Concessions.....	332
Learning Objectives	332
Introduction.....	332
Overview of Service Concessions	332
Service Concession Disclosures	333
Summary.....	334
Review Questions.....	335
Review Answers	336
Chapter 38 – Other Topics	337
Learning Objectives	337
Introduction.....	337
Liabilities from Waste Electrical and Electronic Equipment	337
Hedges of a Net Investment in a Foreign Operation	337
Distributions of Noncash Assets to Owners	339
Extinguishing Financial Liabilities with Equity Instruments	339
Review Questions.....	340
Review Answers	341
Glossary.....	343
Index	351