

IFRS Guidebook

2022 Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction	1
Learning Objectives	1
Introduction.....	1
What is IFRS?	1
The IFRS Conceptual Framework	2
How This Book is Organized	5
How to Use This Book	5
Accounting Principles.....	5
Summary	7
Review Questions.....	8
Review Answers	9
Chapter 2 – Presentation of Financial Statements.....	11
Learning Objectives	11
Introduction.....	11
IFRS Source Documents	11
Overview of the Financial Statements	11
The Statement of Financial Position	12
The Standard Balance Sheet Format	14
The Common Size Balance Sheet	15
How to Construct a Balance Sheet.....	16
Overview of the Statement of Profit or Loss.....	17
Presentation by Nature or Function.....	18
The Single-Step Income Statement.....	20
The Multi-Step Income Statement	21
The Contribution Margin Income Statement	21
The Multi-Period Income Statement	22
How to Construct the Income Statement	23
Overview of the Statement of Changes in Equity.....	24
Income Statement Disclosures.....	25
Summary	27
Review Questions.....	28
Review Answers	29
Chapter 3 – Statement of Cash Flows	31
Learning Objectives	31
Introduction.....	31
IFRS Source Documents	31
Overview of the Statement of Cash Flows	31
The Direct Method	33
The Indirect Method.....	34
How to Prepare the Statement of Cash Flows	35
Disclosures for the Statement of Cash Flows	36
Summary.....	37
Review Questions.....	38
Review Answers	39
Chapter 4 – Consolidated and Separate Financial Statements	41
Learning Objectives	41
Introduction.....	41
IFRS Source Documents	41
The Control Concept.....	41
Consolidation Accounting.....	44
Separate Financial Statements	45

Table of Contents

Summary	46
Review Questions	47
Review Answers	48
Chapter 5 – Accounting Policies, Estimate Changes and Errors	49
Learning Objectives	49
Introduction.....	49
IFRS Source Documents	49
Accounting Policies.....	49
Changes in Accounting Estimates.....	50
Errors	50
Impracticability of Application	51
Disclosures for Policies, Estimate Changes, and Errors	51
Accounting Policies.....	51
Changes in Accounting Estimates.....	52
Errors	52
Summary	52
Review Questions.....	53
Review Answers	54
Chapter 6 – Financial Reporting in Hyperinflationary Economies	55
Learning Objectives	55
Introduction.....	55
IFRS Source Documents	55
Overview of Hyperinflationary Reporting	55
Net Monetary Position.....	57
Comparative Information.....	58
Initial Restatement.....	58
Consolidation Issues.....	58
Termination of Hyperinflationary Period.....	58
Historical Presentation	58
Hyperinflationary Reporting Disclosures.....	58
Summary.....	59
Review Questions.....	60
Review Answers	61
Chapter 7 – Earnings per Share.....	63
Learning Objectives	63
Introduction.....	63
IFRS Source Documents	63
Basic Earnings per Share	63
Diluted Earnings per Share.....	64
Disclosure of Earnings per Share.....	67
Summary	68
Review Questions.....	69
Review Answers	70
Chapter 8 – Interim Financial Reporting.....	71
Learning Objectives	71
Introduction.....	71
IFRS Source Documents	71
Overview of Interim Financial Reporting.....	71
Content of an Interim Financial Report.....	71
Reduced Information Requirements.....	72
General Interim Reporting Rule.....	73
Goodwill Impairment Losses	74
Interim Period Restatements.....	74
The Integral View.....	74

Table of Contents

Summary	76
Review Questions	77
Review Answers	78
Chapter 9 – Operating Segments	79
Learning Objectives	79
Introduction	79
IFRS Source Documents	79
Overview of Segment Reporting	79
Segment Disclosure	81
Segment Disclosure	81
Revenue Disclosure	83
Geographic Area Disclosure	83
Summary	84
Review Questions	85
Review Answers	86
Chapter 10 – Joint Arrangements	87
Learning Objectives	87
Introduction	87
IFRS Source Documents	87
Overview of Joint Arrangements	87
Financial Statement Presentation of Joint Arrangements	90
Summary	90
Review Questions	91
Review Answers	92
Chapter 11 – Investments in Associates and Joint Ventures	93
Learning Objectives	93
Introduction	93
IFRS Source Documents	93
Investments in Associates and Joint Ventures	93
Significant Influence	93
The Equity Method	94
Members' Shares in Cooperative Entities	97
Disclosures	97
Summary	97
Review Questions	98
Review Answers	99
Chapter 12 – Disclosure of Interests in Other Entities	101
Learning Objectives	101
Introduction	101
IFRS Source Documents	101
Overview of Interests in Other Entities	101
Interests in Subsidiaries	101
Interests in Joint Arrangements and Associates	102
Interests in Unconsolidated Structured Entities	103
Summary	104
Review Questions	105
Review Answers	106
Chapter 13 – Inventories	107
Learning Objectives	107
Introduction	107
IFRS Source Documents	107
Overview of Inventory	107
The Periodic Inventory System	109

Table of Contents

The Perpetual Inventory System	110
Inventory Costing	110
The First In, First Out Method	110
The Last In, First Out Method	111
The Weighted Average Method	112
Standard Costing	113
The Retail Inventory Method	114
The Gross Profit Method	115
Overhead Allocation	116
Net Realizable Value	118
Accounting for Obsolete Inventory	118
Work in Process Accounting	119
Inventory Measurement by Commodity Broker-Traders	120
Inventory Disclosures	120
Summary	120
Review Questions	121
Review Answers	122
Chapter 14 – Property, Plant and Equipment	123
Learning Objectives	123
Introduction	123
IFRS Source Documents	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	128
Sum-of-the-Years' Digits Method	129
Double-Declining Balance Method	129
Depletion Method	131
Units of Production Method	132
Land Depreciation	132
Land Improvement Depreciation	133
Depreciation Accounting Entries	133
Derecognition of Property, Plant and Equipment	134
Compensation for Impaired Assets	135
Decommissioning Liabilities	135
Decommissioning Funds	136
Property, Plant and Equipment Disclosures	136
Summary	137
Review Questions	138
Review Answers	139
Chapter 15 – Intangible Assets	141
Learning Objectives	141
Introduction	141
IFRS Source Documents	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	144
Subsequent Intangible Asset Recognition	145
The Cost Model	145
The Revaluation Model	145
Intangible Asset Derecognition	146

Table of Contents

Website Costs	147
Additional Intangible Asset Issues	148
Intangible Asset Disclosures	149
Summary	150
Review Questions	151
Review Answers	152
Chapter 16 – Investment Property	153
Learning Objectives	153
Introduction.....	153
IFRS Source Documents	153
Overview of Investment Property	153
Accounting for Investment Property.....	154
Investment Property Transfers	156
Investment Property Disposals.....	156
Investment Property Disclosures – Fair Value Model.....	157
Investment Property Disclosures – Cost Model	157
Summary	158
Review Questions.....	159
Review Answers	160
Chapter 17 – Impairment of Assets	161
Learning Objectives	161
Introduction.....	161
IFRS Source Documents	161
Overview of Asset Impairment	161
Indications of Impairment.....	161
Timing of the Impairment Test.....	162
Recoverable Amount	162
The Impairment Test.....	164
The Cash-Generating Unit	165
Asset Impairment Reversals	167
Other Impairment Topics.....	169
Corporate Assets	169
Goodwill Allocation to Cash-Generating Units	169
Impairment Testing Efficiencies.....	169
Asset Impairment Disclosures	170
Summary	171
Review Questions.....	172
Review Answers	173
Chapter 18 – Assets Held for Sale and Discontinued Operations.....	175
Learning Objectives	175
Introduction.....	175
IFRS Source Documents	175
Accounting for Non-Current Assets Held for Sale	175
Disclosure of Non-Current Assets Held for Sale	177
Disclosure of Discontinued Operations.....	178
Summary	179
Review Questions.....	180
Review Answers	181
Chapter 19 – Provisions, Contingent Liabilities and Contingent Assets	183
Learning Objectives	183
Introduction.....	183
IFRS Source Documents	183
Overview of Provisions	183
Accounting for Provisions.....	184

Table of Contents

The Provision for Restructuring	186
Accounting for Contingent Liabilities	187
Accounting for Contingent Assets	187
Accounting for Reimbursements	187
Accounting for Levies	188
Disclosure of Provisions and Contingent Items	188
Summary	189
Review Questions	190
Review Answers	191
Chapter 20 – Revenue Recognition	193
Learning Objectives	193
Introduction	193
IFRS Source Documents	193
The Nature of a Customer	193
Steps in Revenue Recognition	193
Step One: Link Contract to Customer	194
Step Two: Note Performance Obligations	196
Step Three: Determine Prices	197
Step Four: Allocate Prices to Obligations	203
Step Five: Recognize Revenue	206
Consistency	210
Contract Modifications	210
Treatment as Separate Contract	210
Treatment as Continuing Contract	211
Entitlement to Payment	212
Bill-and-Hold Arrangements	213
Consideration Received from a Supplier	214
Customer Acceptance	215
Customer Options for Additional Purchases	216
Licensing	217
Non-Refundable Upfront Fees	218
Principal versus Agent	219
Repurchase Agreements	220
Unexercised Rights of Customers	221
Warranties	222
Contract-Related Costs	223
Costs to Obtain a Contract	223
Costs to Fulfill a Contract	223
Amortization of Costs	224
Impairment of Costs	224
Exclusions	225
Revenue Disclosures	225
Summary	228
Review Questions	229
Review Answers	231
Chapter 21 – Employee Benefits and Retirement Plans	233
Learning Objectives	233
Introduction	233
IFRS Source Documents	233
Short-Term Employee Benefits	233
Post-Employment Benefits	235
Defined Contribution Plans	236
Defined Benefit Plans	236
Projected Unit Credit Method	237
Attribution of Benefits to Periods of Service	238

Table of Contents

Actuarial Assumptions	239
Past Service Cost	239
Gains and Losses on Settlement.....	240
Measurement of Plan Assets	240
Defined Benefit Costs	240
Termination Benefits	240
Defined Contribution Plan Disclosures	241
Defined Benefit Plan Disclosures	241
Defined Benefit Plan Financial Statements.....	243
Summary	244
Review Questions.....	245
Review Answers	246
Chapter 22 – Share-Based Payment	247
Learning Objectives	247
Introduction.....	247
IFRS Source Documents	247
Overview of Share-Based Payments.....	247
Share-Based Payments Settled with Equity.....	247
Share-Based Payments Settled with Cash	251
Share-Based Payments with Cash Alternatives.....	252
Counterparty Has Choice of Settlement	252
Issuer Has Choice of Settlement	253
Share-Based Payment Disclosures	253
Summary	254
Review Questions	255
Review Answers	256
Chapter 23 – Income Taxes.....	257
Learning Objectives	257
Introduction.....	257
IFRS Source Documents	257
The Tax Base Concept	257
Current Tax Liabilities and Assets	258
Deferred Tax Liabilities and Assets	258
Taxable Temporary Differences	258
Deductible Temporary Differences	260
Unused Tax Losses and Tax Credits.....	261
Reassessment of Unrecognized Deferred Tax Assets	261
Investments in Other Entities	261
Tax Rates.....	262
Current and Deferred Tax Recognition.....	262
Uncertainty over Income Tax Treatment.....	263
Changes in Tax Status.....	264
Income Tax Presentation	264
Income Tax Disclosures.....	264
Summary	266
Review Questions	267
Review Answers	268
Chapter 24 – Business Combinations	269
Learning Objectives	269
Introduction.....	269
IFRS Source Documents	269
The Acquisition Method.....	269
Identification of a Business Combination	269
Identify the Acquirer	269

Table of Contents

Determine the Acquisition Date	270
Recognize Assets, Liabilities, and Non-Controlling Interests.....	270
Recognize Goodwill or a Bargain Purchase Gain	271
Additional Acquisition Issues.....	273
Reverse Acquisitions	274
Subsequent Measurement.....	275
Business Combination Disclosures	275
Summary.....	278
Review Questions.....	279
Review Answers	280
Chapter 25 – Financial Instruments.....	281
Learning Objectives	281
Introduction.....	281
IFRS Source Documents	281
Measurement of Financial Assets and Liabilities	281
Initial Measurement	281
Subsequent Measurement	283
Expected Credit Losses	284
Impairment	284
Reclassification.....	285
Embedded Derivatives.....	286
Gains and Losses	286
Dividends and Interest	286
Hedging.....	287
Hedging Instruments.....	287
Hedged Items	287
Accounting for Hedges.....	288
Financial Asset and Liability Derecognition.....	291
Financial Asset Derecognition.....	291
Financial Liability Derecognition.....	292
Servicing Assets and Liabilities	292
Valuation of Replacement Financial Asset.....	293
Collateral	293
Financial Instrument Presentation	293
Financial Instrument Disclosures.....	293
Summary.....	299
Review Questions.....	300
Review Answers	301
Chapter 26 – Fair Value Measurement.....	303
Learning Objectives	303
Introduction.....	303
IFRS Source Documents	303
Overview of Fair Value.....	303
General Concepts.....	303
Measurement Issues.....	304
Initial Recognition	304
Measurement of Non-Financial Assets	304
Measurement of Liabilities and Equity	305
Measurement of a Group of Financial Assets and Liabilities	305
Valuation Methods	306
Fair Value Disclosures	307
Summary.....	309
Review Questions.....	310
Review Answers	311

Table of Contents

Chapter 27 – Effects of Changes in Foreign Exchange Rates.....	313
Learning Objectives	313
Introduction.....	313
IFRS Source Documents	313
Foreign Exchange Transactions.....	313
Financial Statement Translation.....	314
Determination of Functional Currency	314
Translation of Financial Statements	315
Hyperinflationary Effects	317
Derecognition of a Foreign Entity Investment	317
Foreign Currency Disclosures	318
Summary	318
Review Questions.....	319
Review Answers	320
Chapter 28 – Borrowing Costs.....	321
Learning Objectives	321
Introduction.....	321
IFRS Source Documents	321
Overview of Borrowing Costs	321
Borrowing Cost Disclosures	324
Summary	325
Review Questions.....	326
Review Answers	327
Chapter 29 – Leases	329
Learning Objectives	329
Introduction.....	329
IFRS Source Documents	329
The Nature of a Lease	329
Lease Components (Lessee)	331
Lease Components (Lessor)	332
The Lease Term	333
Lease Accounting by the Lessee.....	333
Lease Recognition	333
Initial Lease Measurement.....	334
Subsequent Lease Measurement – Assets	334
Subsequent Lease Measurement – Liabilities.....	335
Lease Modifications	335
Lease Accounting by the Lessor	336
Financing Leases.....	336
Operating Leases	338
Sale and Leaseback Transactions	338
Presentation of Lease Information.....	339
Lessee Presentations	339
Lessor Presentations	339
Lease Disclosures by the Lessee	339
Lease Disclosures by the Lessor.....	340
Summary.....	341
Review Questions.....	342
Review Answers	343
Chapter 30 – Related Party Disclosures.....	345
Learning Objectives	345
Introduction.....	345
IFRS Source Documents	345
Overview of Related Parties.....	345

Table of Contents

Related Party Disclosures	345
Summary	346
Review Questions	347
Review Answers	348
Chapter 31 – Events after the Reporting Period.....	349
Learning Objectives	349
Introduction.....	349
IFRS Source Documents	349
Overview of Events after the Reporting Period	349
The Going Concern Issue	350
Disclosure of Events after the Reporting Period	350
Summary	350
Review Questions	351
Review Answers	352
Chapter 32 – Insurance Contracts	353
Learning Objectives	353
Introduction.....	353
IFRS Source Documents	353
Insurance Contract Aggregation.....	353
Initial Recognition of Insurance Contracts	354
Initial Measurement of Insurance Contracts.....	354
Estimated Future Cash Flows	355
Discount Rates Used	355
Risk Adjustment for Non-Financial Risk.....	355
Contractual Service Margin	355
Subsequent Measurement of Insurance Contracts	356
Modification of Insurance Contracts	357
Derecognition of Insurance Contracts	357
Accounting Policy Changes.....	358
Presentation of Insurance Contract Information.....	358
Disclosures.....	358
Summary	360
Review Questions	361
Review Answers	362
Chapter 33 – Agriculture	363
Learning Objectives	363
Introduction.....	363
IFRS Source Documents	363
Accounting for Agriculture	363
Bearer Plants.....	364
Agriculture Disclosures	364
Summary	365
Review Questions	366
Review Answers	367
Chapter 34 – Government Grants	369
Learning Objectives	369
Introduction.....	369
IFRS Source Documents	369
Accounting for Government Grants	369
Government Grant Presentation.....	371
Government Grant Disclosures	371
Summary	371
Review Questions	372
Review Answers	373

Table of Contents

Chapter 35 – Regulatory Deferral Accounts	375
Learning Objectives	375
Introduction.....	375
IFRS Source Documents	375
Accounting for Regulatory Deferral Accounts	375
Regulatory Deferral Account Presentation.....	375
Regulatory Deferral Account Disclosures	376
Summary.....	377
Review Questions.....	378
Review Answers	379
Chapter 36 – Mineral Resources	381
Learning Objectives	381
Introduction.....	381
IFRS Source Documents	381
Accounting for Mineral Resources.....	381
Accounting for Stripping Costs	382
Mineral Resources Presentation	382
Mineral Resources Disclosures	383
Summary.....	383
Review Questions.....	384
Review Answers	385
Chapter 37 – Service Concessions	387
Learning Objectives	387
Introduction.....	387
IFRS Source Documents	387
Overview of Service Concessions	387
Service Concession Disclosures	388
Summary.....	389
Review Questions.....	390
Review Answers	391
Chapter 38 – Other Topics	393
Learning Objectives	393
Introduction.....	393
IFRS Source Documents	393
Liabilities from Waste Electrical and Electronic Equipment	393
Hedges of a Net Investment in a Foreign Operation	393
Distributions of Noncash Assets to Owners	395
Extinguishing Financial Liabilities with Equity Instruments	395
Review Questions.....	396
Review Answers	397
Glossary	399
Index	407