IFRS Foundation and IAAER IFRS Teaching Workshop

IFRS Curriculum Development & Teaching Resources

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Approaches to teaching IFRS

- Schipper: Ideas for Teaching IFRSs
  - http://www.iasb.org/NR/rdonlyres/4F3A44D2-F6AB-4F36-84C3-0032B08870D9/0/France_draft2.pdf
- Pacter and Zeff: IFRS Is Here And What To Do About It
  - http://www.iasplus.com/resource/0808aaa-ifrs-is-here.pdf

Recommendation

- Start IFRS coverage in principles (introductory) accounting & include in all financial reporting (& finance) classes
  - Should not be a one man/woman show
  - Need department buy in
  - IFRS is the global norm
  - For countries not adopting IFRS, accounting students need to be bi-lingual

Elements of teaching IFRS reviewed today

- Teach understanding of *Framework*
  - on IASB website (http://www.ifrs.org/IFRSs/IFRS.htm)
  - with extensive cross-referencing and other annotations in eIFRS
- Teach foundational economic concepts
- Teach current requirements
- Teach how to make judgments
- Prepare students for global world
- Adopt global perspective

– What resources are available to help educators achieve above?

Some starting points

- http://www.iasplus.com/resource/ifrsresources.pdf
  - Paul Pacter's list on iasplus (last update 23 February 2010)
- BDO IFRS Resource Centre
  - http://www.bdo.com/ifrs/
- GT Faculty Connection – resource website
  - http://faculty.gtexperience.com
- KPMG Faculty Portal
  - https://www.amr.kpmg.com/facultyportal/
- Deloitte IFRS University Consortium & iasplus
  - www.deloitte.com/us/ifrs/consortium
  - http://www.iasplus.com
- Ernst & Young IFRS website
  - www.ey.com/ifrs

E&Y Academic Resource Center (EYARC)

- Curriculum modules include a user guide, lecture notes, slides, examples, homework problems, illustrative disclosures, behind the scenes (**conceptual classroom discussion tools**), case studies and international spotlights (cases focused on research and opinion sharing regarding current business issues and accounting standard-setting developments)

- **Emphasis on conceptual content to better develop critical thinking skills and judgment**

- Contact/more info: EYARC Program Director, Catherine Banks, at catherine.banks@ey.com

IASB project summaries
easily incorporated into existing classes

- www.iasb.org
  - TEACH IASB AGENDA INCLUDING **FRAMEWORK**
    - Examples of IASB 'Snapshots'
      - Defined benefit pension plans
        - » http://www.ifrs.org/NR/rdonlyres/944C6CFC-1EC1-4796-BA560BCF590E9329/0/SnapshotAmendstoIAS19new.pdf
      - Presentation of items of OCI
        - » http://www.ifrs.org/NR/rdonlyres/7C43E643-B2D3-447B-9854-C0E0C0F3A01E/0/SnapshotEDOCI.pdf

Pair snapshots with IASB webcasts

- Go to IASB work plan
  - http://www.ifrs.orgCurrent+Projects/IASB+Projects/IASB+Work+Plan.htm
- Select an exposure draft – leases
  - http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Leases.htm
- Have students read the snapshot
  - http://www.ifrs.org/NR/rdonlyres/FBE30248-225B-48AF-AAE5-96494D83A978/0/LeasesSnapShot0810.pdf
- View the webcast announcing the exposure draft
  - http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Webcast+Recordings+and+Q+and+A/Webcast+Recordings+and+Q+and+A.htm
- Consider comment letters on the exposure draft – and consider the basis for conclusions
  - http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/ed10/cl/cl.htm
  - http://www.ifrs.org/NR/rdonlyres/165478E5-02A8-4E19-A502-7B1CA48D495B/0/EDLeasesBasis0810.pdf
- Add a large firm webcast to get a practice perspective
  - http://webcast.ey.com/thoughtcenter/default.aspx?seriesunid=%7B0bacc43a-86f7-496d-9e5a-0d93f6d501a2%7D

Pair snapshots with IASB webcasts

- Go to IASB work plan
  - http://www.ifrs.orgCurrent+Projects/IASB+Projects/IASB+Work+Plan.htm
- Select an exposure draft – revenue recognition
  - http://www.ifrs.org/Current+Projects/IASB+Projects/Revenue+Recognition/Revenue+Recognition.htm
- Have students read the snapshot
  - http://www.ifrs.org/NR/rdonlyres/74E37A73-0A4D-447F-A8DF-3574002B7406/0/SnapshotRevCon.pdf
- View the webcast announcing the exposure draft
- Consider comment letters on the exposure draft – and consider the basis for conclusions
  - http://www.ifrs.org/Current+Projects/IASB+Projects/Revenue+Recognition/ed0610/Exposure+draft.htm
  - http://www.ifrs.org/NR/rdonlyres/74EDB059-C251-495E-9CE3-B5D221CCC7BA/0/EDRevRecogBC0610.pdf
  - Stress that the Framework is the vocabulary of the Board
- Have students write a comment letter using the language of the Framework

IAAER & eIFRS

Teach framework & current requirements

- IAAER membership includes free academic access to eIFRS. Annual IAAER membership
  - $US25 faculty
  - $US20 student
  - Special university rates start at $US150 (for 10 faculty)
  - Membership forms available at www.iaaer.org
    - Full cost of eIFRS for one user 200 UK pounds
  - eIFRS includes - ***A Guide Through IFRS***
    - Full text of standards & interpretations
    - Extensive cross-referencing and other annotations
    - Basis for conclusions & dissenting opinions

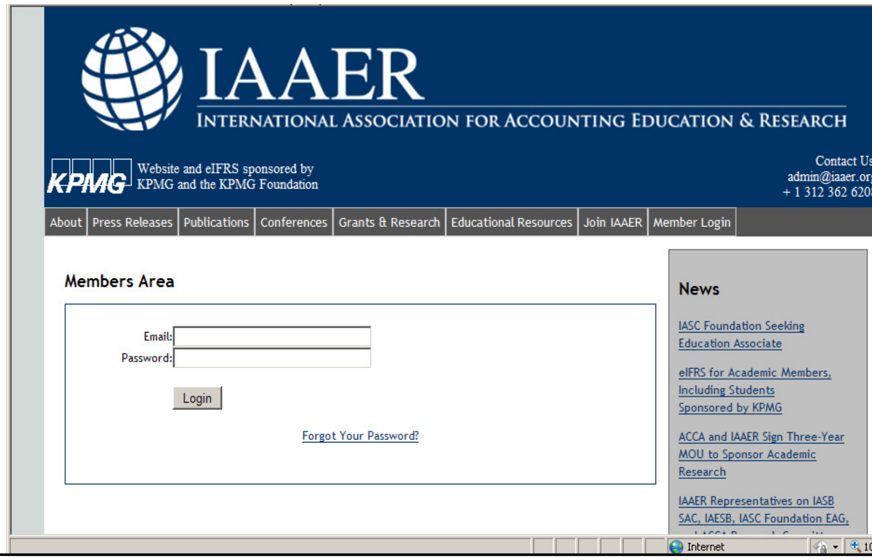
IAAER

International Association for Accounting Education & Research

KPMG

IAAER member log in

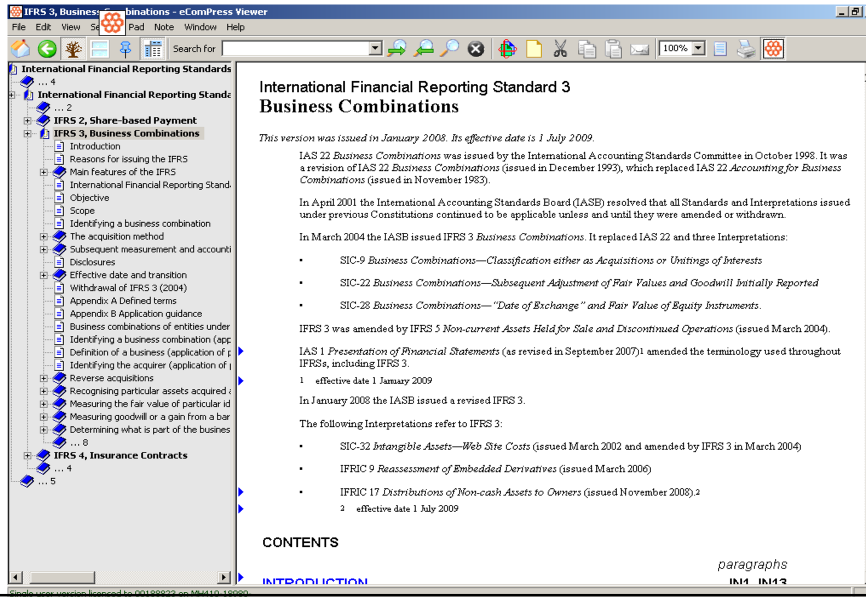
eIFRS access for academics & students only



A Guide Through IFRSs

Constitution, Framework, IFRSs, etc.

IFRS 3



International Financial Reporting Standard 3
Business Combinations

This version was issued in January 2008. Its effective date is 1 July 2009.

IAS 22 *Business Combinations* was issued by the International Accounting Standards Committee in October 1998. It was a revision of IAS 22 *Business Combinations* (issued in December 1993), which replaced IAS 22 *Accounting for Business Combinations* (issued in November 1983).

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In March 2004 the IASB issued IFRS 3 *Business Combinations*. It replaced IAS 22 and three Interpretations:

- SIC-9 *Business Combinations—Classification either as Acquisitions or Unitings of Interests*
- SIC-22 *Business Combinations—Subsequent Adjustment of Fair Values and Goodwill Initially Reported*
- SIC-28 *Business Combinations—"Date of Exchange" and Fair Value of Equity Instruments*.

IFRS 3 was amended by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004).

IAS 1 *Presentation of Financial Statements* (as revised in September 2007)[1] amended the terminology used throughout IFRSs, including IFRS 3.

1 effective date 1 January 2009

In January 2008 the IASB issued a revised IFRS 3.

The following Interpretations refer to IFRS 3:

- SIC-32 *Intangible Assets—Web Site Costs* (issued March 2002 and amended by IFRS 3 in March 2004)
- IFRIC 9 *Reassessment of Embedded Derivatives* (issued March 2006)
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (issued November 2008).[2]

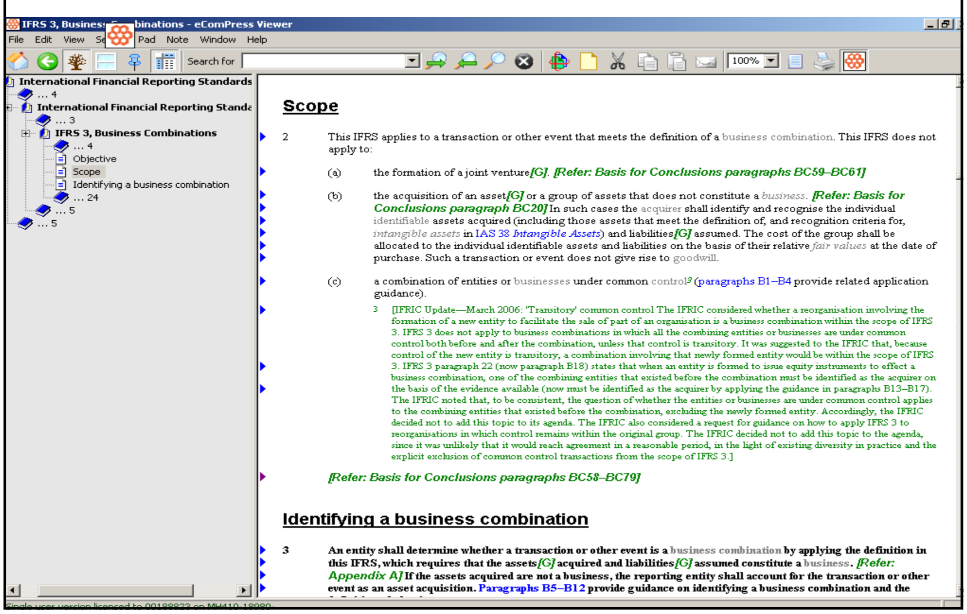
2 effective date 1 July 2009

CONTENTS

paragraphs

INTRODUCTION IN1–IN13

Interpretations Update



Scope

2 This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:

(a) the formation of a joint venture *[G]*. *[Refer: Basis for Conclusions paragraphs BC59–BC61]*

(b) the acquisition of an asset *[G]* or a group of assets that does not constitute a *business*. *[Refer: Basis for Conclusions paragraph BC20]* In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, *intangible assets* in IAS 38 *Intangible Assets*) and liabilities *[G]* assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative *fair values* at the date of purchase. Such a transaction or event does not give rise to goodwill.

(c) a combination of entities or businesses under common control[3] (paragraphs B1–B4 provide related application guidance).

3 [IFRIC Update—March 2006: 'Transitory' common control The IFRIC considered whether a reorganisation involving the formation of a new entity to facilitate the sale of part of an organisation is a business combination within the scope of IFRS 3. IFRS 3 does not apply to business combinations in which all the combining entities or businesses are under common control both before and after the combination, unless that control is transitory. It was suggested to the IFRIC that, because control of the new entity is transitory, a combination involving that newly formed entity would be within the scope of IFRS 3. IFRS 3 paragraph 22 (now paragraph B18) states that when an entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination must be identified as the acquirer on the basis of the evidence available (now must be identified as the acquirer by applying the guidance in paragraphs B13–B17). The IFRIC noted that, to be consistent, the question of whether the entities or businesses are under common control applies to the combining entities that existed before the combination, excluding the newly formed entity. Accordingly, the IFRIC decided not to add this topic to its agenda. The IFRIC also considered a request for guidance on how to apply IFRS 3 to reorganisations in which control remains within the original group. The IFRIC decided not to add this topic to the agenda, since it was unlikely that it would reach agreement in a reasonable period, in the light of existing diversity in practice and the explicit exclusion of common control transactions from the scope of IFRS 3.]

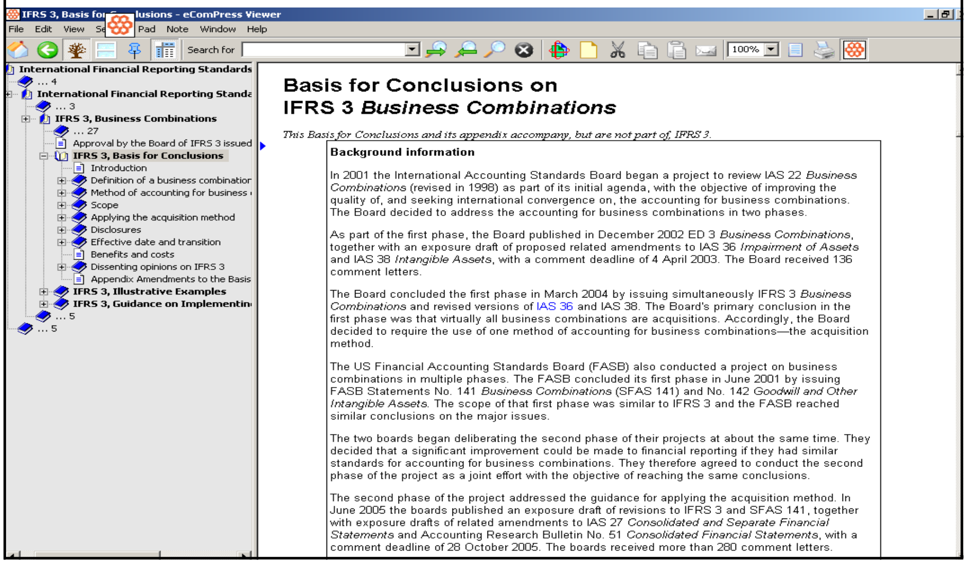
[Refer: Basis for Conclusions paragraphs BC58–BC79]

Identifying a business combination

3 **An entity shall determine whether a transaction or other event is a business combination by applying the definition in this IFRS, which requires that the assets *[G]* acquired and liabilities *[G]* assumed constitute a business. *[Refer: Appendix A]* If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs B5–B12 provide guidance on identifying a business combination and the**

Basis for Conclusions

<u>not</u> included in free versions of IFRS



Basis for Conclusions on IFRS 3 *Business Combinations*

This Basis for Conclusions and its appendix accompany, but are not part of, IFRS 3.

Background information

In 2001 the International Accounting Standards Board began a project to review IAS 22 *Business Combinations* (revised in 1998) as part of its initial agenda, with the objective of improving the quality of, and seeking international convergence on, the accounting for business combinations. The Board decided to address the accounting for business combinations in two phases.

As part of the first phase, the Board published in December 2002 ED 3 *Business Combinations*, together with an exposure draft of proposed related amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*, with a comment deadline of 4 April 2003. The Board received 136 comment letters.

The Board concluded the first phase in March 2004 by issuing simultaneously IFRS 3 *Business Combinations* and revised versions of IAS 36 and IAS 38. The Board's primary conclusion in the first phase was that virtually all business combinations are acquisitions. Accordingly, the Board decided to require the use of one method of accounting for business combinations—the acquisition method.

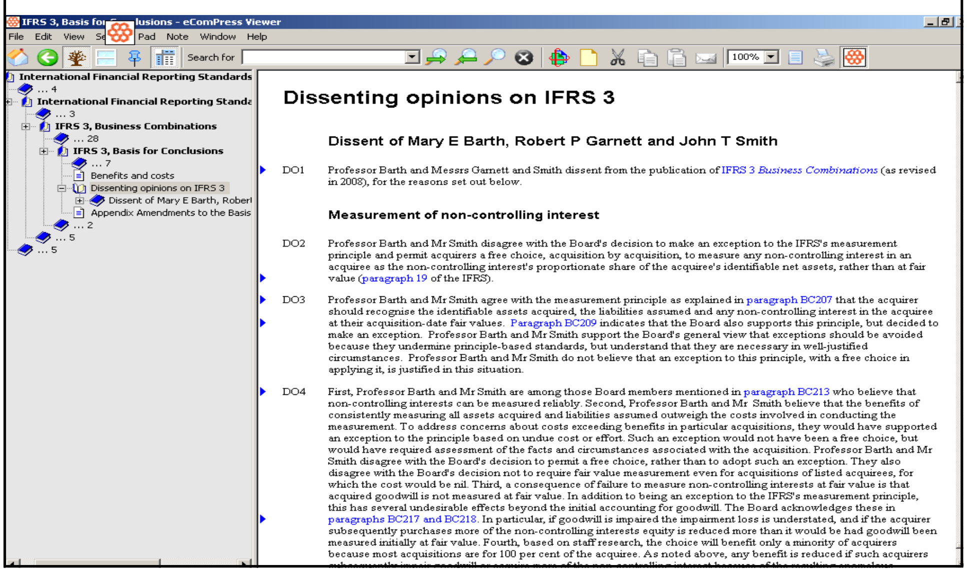
The US Financial Accounting Standards Board (FASB) also conducted a project on business combinations in multiple phases. The FASB concluded its first phase in June 2001 by issuing FASB Statements No. 141 *Business Combinations* (SFAS 141) and No. 142 *Goodwill and Other Intangible Assets*. The scope of that first phase was similar to IFRS 3 and the FASB reached similar conclusions on the major issues.

The two boards began deliberating the second phase of their projects at about the same time. They decided that a significant improvement could be made to financial reporting if they had similar standards for accounting for business combinations. They therefore agreed to conduct the second phase of the project as a joint effort with the objective of reaching the same conclusions.

The second phase of the project addressed the guidance for applying the acquisition method. In June 2005 the boards published an exposure draft of revisions to IFRS 3 and SFAS 141, together with exposure drafts of related amendments to IAS 27 *Consolidated and Separate Financial Statements* and Accounting Research Bulletin No. 51 *Consolidated Financial Statements*, with a comment deadline of 28 October 2005. The boards received more than 280 comment letters.

Dissenting opinions

students need to appreciate limitations of current standards



Dissenting opinions on IFRS 3

Dissent of Mary E Barth, Robert P Garnett and John T Smith

DO1 Professor Barth and Messrs Garnett and Smith dissent from the publication of IFRS 3 *Business Combinations* (as revised in 2008), for the reasons set out below.

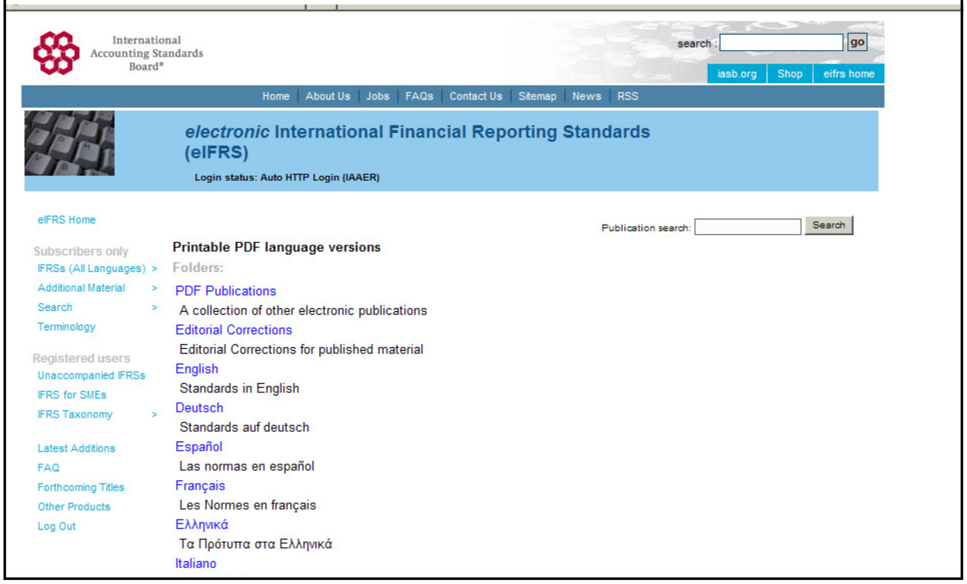
Measurement of non-controlling interest

DO2 Professor Barth and Mr Smith disagree with the Board's decision to make an exception to the IFRS's measurement principle and permit acquirers a free choice, acquisition by acquisition, to measure any non-controlling interest in an acquiree as the non-controlling interest's proportionate share of the acquiree's identifiable net assets, rather than at fair value (paragraph 19 of the IFRS).

DO3 Professor Barth and Mr Smith agree with the measurement principle as explained in paragraph BC207 that the acquirer should recognise the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair values. Paragraph BC209 indicates that the Board also supports this principle, but decided to make an exception. Professor Barth and Mr Smith support the Board's general view that exceptions should be avoided because they undermine principle-based standards, but understand that they are necessary in well-justified circumstances. Professor Barth and Mr Smith do not believe that an exception to this principle, with a free choice in applying it, is justified in this situation.

DO4 First, Professor Barth and Mr Smith are among those Board members mentioned in paragraph BC213 who believe that non-controlling interests can be measured reliably. Second, Professor Barth and Mr Smith believe that the benefits of consistently measuring all assets acquired and liabilities assumed outweigh the costs involved in conducting the measurement. To address concerns about costs exceeding benefits in particular acquisitions, they would have supported an exception to the principle based on undue cost or effort. Such an exception would not have been a free choice, but would have required assessment of the facts and circumstances associated with the acquisition. Professor Barth and Mr Smith disagree with the Board's decision to permit a free choice, rather than to adopt such an exception. They also disagree with the Board's decision not to require fair value measurement even for acquisitions of listed acquirees, for which the cost would be nil. Third, a consequence of failure to measure non-controlling interests at fair value is that acquired goodwill is not measured at fair value. In addition to being an exception to the IFRS's measurement principle, this has several undesirable effects beyond the initial accounting for goodwill. The Board acknowledges these in paragraphs BC217 and BC218. In particular, if goodwill is impaired the impairment loss is understated, and if the acquirer subsequently purchases more of the non-controlling interests equity is reduced more than it would be had goodwill been measured initially at fair value. Fourth, based on staff research, the choice will benefit only a minority of acquirers because most acquisitions are for 100 per cent of the acquiree. As noted above, any benefit is reduced if such acquirers

eIFRS in several languages



Free IFRS access on EU website

- IFRS in every official language of EU
  - Under heading: IAS / IFRS Standards and Interpretations
  - Includes (as adopted by EU):
    - International Accounting Standards (IAS)
    - International Financial Reporting Standards (IFRS) and related interpretations (SIC/IFRIC)
    - Information on temporary carve-out from IAS 39 and fair value/financial crisis debate
  - At http://ec.europa.eu/internal_market/accounting/ias/index_en.htm
    - 'ro' link for Romanian
    - 'fr' link for French
    - 'en' link for English

Free IFRS access on IASB website

http://www.ifrs.org/IFRSs/IFRS.htm

- Access unaccompanied IFRSs
  - IFRS Foundation provides free access to current year's consolidated unaccompanied IFRSs (i.e. core standards, without implementation guidance & basis for conclusions) in English and IFRS for SMEs. However, access to full set of standards, including guidance & basis for conclusions, requires eIFRS subscription.

Earn IFRS Certificate from ICAEW & 3 Hours College Credit

UD Department of Accounting offers, at graduate & undergraduate level, a class that includes completion of ICAEW IFRS Learning & Assessment Program

UD Department of Accounting an ICAEW **Approved Partner in Learning**

UD School of Business & Accounting Program fully accredited by AACSB

- ICAEW designed IFRS learning & assessment program "for those looking to demonstrate their competence in IFRS or enhance their career prospects as an IFRS specialist. The programme has been developed by IFRS specialists…"
- Aims of ICAEW IFRS learning program include:
  - "broad knowledge and understanding of financial reporting across all international financial reporting standards, the ability to apply principles, concepts and knowledge from IFRS in simple business situations, understanding of financial information produced under IFRS"
- For more information contact donna.street@notes.udayton.edu or teresa.wehmeyer@notes.udayton.edu

UD Course Description: International Accounting - IFRS Certificate and Research

- A comprehensive study of International Financial Reporting Standards (IFRS). Students will complete the Institute of Chartered Accountants in England and Wales' (ICAEW) IFRS learning and assessment program and upon successful completion earn an IFRS certificate. The ICAEW program is an e-learning program. The course also includes preparation of research paper(s) addressing contemporary topics in international financial reporting. A **significant tuition discount** is available for students **not** pursuing a degree at the University of Dayton. In addition to tuition, a course fee (of approximately £320) applies to cover ICAEW charges for the IFRS textbook, access to the e-learning modules, and assessment test.
- Prerequisite: Intermediate Financial Accounting II required, Advanced Financial Reporting strongly recommended, and permission of instructor.

Other items on Paul's list

- AICPA's www.ifrs.com
  - IFRS news clips
  - http://ifrs.com/updates/aicpa/IFRS_news_stories.html

- http://www.iasplus.com (Deloitte)
  - TREMENDOUS, TIMELY UPDATES
    - Go to place for updates – worldwide coverage
  - Includes Deloitte IFRS e-learning (free downloads)
    - Independent study with quizzes provided
      - Easy add-on to Intermediate Accounting, etc

- *Issues in Accounting Education* 22(4) Nov **2007**
  - 17 international accounting cases
  - Special issue by International Accounting Section of AAA
    - EDUCATORS NEED MORE CASE STUDIES
    - IAAER WORKING ON IT!!!! STAY TUNED!

Teach how to make judgments

Mike Wells' model of types of judgments

- **Pervasive issues**
  - Going concern
  - Materiality
  - Related disclosures
- **Applying most IFRSs**
  - Presentation and disclosure
  - Classification
  - Recognition
  - De-recognition
  - Measurement

Pervasive issues: Going concern

- **Concept**
  - Framework (paragraph 23)
  - Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future …
- **Rule**
  - IAS 1 (paragraph 25)
  - An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so
- **Judgment**
  - **According to practicing auditors, consideration of a company's ability to continue as a going concern is particularly challenging in the current environment**

Going concern

- Assessing whether the going concern assumption is appropriate **management considers all available information about the future** …
- Degree of consideration depends on the facts in each case
  - Management may need to consider a wide range of factors relating to **current and expected profitability, debt repayment schedules and potential sources of replacement financing** …

Going concern teaching suggestions

- Integrate financial reporting judgments with auditing those judgments
  - IAASB Staff Audit Practice Alert (January 2009) *Audit Considerations in Respect of Going Concern in the Current Economic Environment*
  - *http://web.ifac.org/download/IAASB_Staff_Audit_Practice_Alerts_2009_01.pdf*

Going concern teaching suggestions

- Use real world examples and case studies
  - From annual reports including a discussion of the adequacy of the disclosures, if any
    - Austrian Airlines – going concern
      - http://www.austrianairlines.co.at/NR/rdonlyres/2D8769E0-889D-461F-AEEB-BE49A26CE80C/0/KonzernGB08englischs.pdf
    - Bradford and Bingley (credit crisis bank bail out)
      - http://corporate.bbg.co.uk/en/~/media/Files/B/Bradford-And-Bingley-Corporate/pdf/results-and-publications/year-2008/ar2008_03_04_09.pdf

Real World Example: Austrian Airlines

Notes to the Financials

- Due to the signing of the contractual agreements on 5.12.2008 to transfer to the Lufthansa Group the shareholding in the Austrian Airlines Group held by the state holding company ÖIAG, the implementation of which depends on several pre-requisites being fulfilled, such as the approval of the EU Commission and the carrying out of measures by the previous majority shareholder ÖIAG and the Lufthansa Group as the new majority shareholder designed to strengthen the liquidity and share capital of the Austrian Airlines Group, the **pre-requisites provide the basis for a positive going concern opinion**, due to the fact that no information is currently available to the management of the company about any circumstances which could forestall or impede the fulfilment of the contractual agreements. Accordingly, the company is operating on the assumption that additional capital resources will be made available to the Austrian Airlines Group upon fulfilment of the contractual agreements. …

CESR Enforcement Decisions
Teach how to make IFRS **judgments**

- 16 Dec. 2009 – 7th extract from EECS's database of enforcement decisions
  - http://www.cesr-eu.org/popup2.php?id=6341
- 26 Aug. 2009 - 6th extract from EECS's database of enforcement decisions
  - http://www.cesr.eu/popup2.php?id=5936
- 24 Mar. 2009 - 5th extract from EECS's database of enforcement decisions
  - http://www.cesr.eu/popup2.php?id=5647
- 23 Dec. 2008 - 4th extract from EECS's database of enforcement decisions
  - http://www.cesr.eu/popup2.php?id=5439
- 19 May. 2008 - 3rd extract from EECS's database of enforcement decisions
  - http://www.cesr-eu.org/popup2.php?id=5053
- 17 Dec. 2007- 2nd extract from EECS's database of enforcement decisions
  - http://www.cesr-eu.org/data/document/07_630.pdf
- 16 Apr. 2007 - Extract from EECS's database of enforcement decisions

http://www.cmvm.pt/NR/rdonlyres/542657CE-77E4-47A2-BF28-2A18F392C8C7/7866/07_120.pdf

ALSO AT
http://www.cysec.gov.cy/publiccompanies_newsletters_3_en.aspx

Business Combinations

- **Concept**

  Statement of financial position should reflect entity's assets and liabilities, i.e., economic resources controlled by the entity and claims to those resources

  Principle

  Acquirer is entity that obtains control of acquiree

  Rule

  Assess control based on **indicators**

  Judgment

  Does acquirer control acquiree?

CESR Database
assessing 'control'

- Decision ref.EECS/1209-15: Identification of the acquirer in a business combination
- Decision ref.EECS/1209-16: Identifying the acquirer in a business combination
- Decision ref.EECS/0209-04 Control
- Decision ref.EECS/0209-05: Business Combinations, reverse acquisitions

Example: Classification judgments
Debt equity classification
CESR Database

- Decision ref.EECS/1208-08: Classification of financial instruments
- Description of the issuer's accounting treatment
  - Issuer is a finance conglomerate that, as a bond issuer, prepared its first IFRS financial statements for the year ended 31 December 2007. The issuer has an operating subsidiary B which has a series of A-shares which have voting rights. The issuer owns 70% of A-shares and the rest are held by external shareholders. Under a shareholders' agreement, entity **B is obliged to pay an annual dividend of 5%. The dividend** payment is **cumulative even if entity B does not have sufficient distributable funds at the time the payment is due.** In the issuer's consolidated opening IFRS balance sheet as of 1 January 2006, and in the interim financial statement for 2007, the A-shares of entity B were **classified as equity instruments.** As the issuer consolidates entity B in its financial statements as a subsidiary and the 30% of A-shares owned by external parties were reported as a minority interest.
- Enforcer found that the classification of the A-shares as equity instruments in the issuer's consolidated opening IFRS balance sheet and interim financial statement of 2007 did **not comply with IAS 32.**

Teach how to make IFRS **judgments**

- Most requirements in IFRSs require judgment to apply
  => Students need to learn to make judgments
- Students need to **understand IFRSs**, not simply memorize their requirements, to understand the intent of the principle
- **Basis for Conclusions can be instructive**
  - **Explains IASB's reasoning for selecting principles and rules**
  - **Describes rejected alternatives and explains why they were rejected**

  - CESR agrees!

Segment reporting judgment
CESR Database

- Decision ref.EECS/1209-07: Segmental reporting

- Description of accounting treatment
  - Issuer, whose shares are listed and traded on an unregulated market, early applied IFRS 8 'Operating Segments' in its December 2007 financial statements as part of its transition to IFRS. **The accounts did not disclose certain information required by IFRS 8, on the grounds of commercial sensitivity.** The omitted information included the segmental analysis of revenues from external customers; the operating segments responsible for revenue from major customers, and the measure of profit or loss reported to the chief operating decision maker.

Auditor's & CESR's position

- Auditors' opinion **qualified** on basis of disagreement in relation to non-compliance with IFRS 8

Enforcement decision

- Enforcer found that accounts did not comply in all respects with requirements of IFRS 8.

Rationale for enforcement decision

- When challenged, issuer argued making **specific disclosures required by IFRS 8 might affect its competitive position**. Enforcer noted IFRS 8 does not provide a 'competitive harm' exemption. **… Basis for Conclusions** explains IASB concluded such an exemption would be inappropriate because it would provide a means for broad non-compliance
- Remember eIFRS!
  - Free versions of IFRS do not include basis for conclusions & dissenting opinions

Judgment and principles based standards

- A shift to less rules-based principles will increase the need for judgment:“A principle-based standard relies on judgments. Disclosure of the choices made and the rationale for these choices would be essential. If in doubt about how to deal with a particular issue, preparers and auditors should relate back to the core principles. The basis for conclusions (the rationale underlying a particular standard and published with it) should also include, in particular, the question of whether there is only a single view to tackle the economics of the situation. Often there are competing views—is one regarded as more relevant? If so, the reasons for choosing that particular view should be explained in the basis for conclusions and the reasons for rejecting the others clearly outlined.”*

*Sir David Tweedie, Speech before the Subcommittee on Securities, Insurance and Investment of the United States Senate, Washington, D.C., October 24, 2007, p. 10.

Key issues for auditing IFRS judgments

Examples from practicing auditors

- Fair value measurements and accounting estimates, particularly the reasonableness of the methods and assumptions used, including those used by specialist*
- Adequacy of disclosures*
- Consideration of a company's ability to continue as a **going concern, particularly in the current environment**
- Revenues, particularly multiple element revenue arrangements*
- Definition of a component when auditing in accordance with ISA 600

Key issues for auditing IFRS judgments

Examples from practicing auditors

- Definition of Cash Generating Unit. Some industries appear completely 'disparate' in terms of the level at which impairment will be measured.
- Lease classification - although this will go away based on the direction of the IASB discussion paper.
- Debt versus equity classification of some preference shares*
- Concept of control*
- Share-based payments and discretion clauses*
  - *See CESR enforcement database

IFRS for SMEs

- Free training material
  - http://www.iasb.org/IFRS+for+SMEs/Training+material.htm
- Each module includes:
- Introduction — overview of module, including:
  - Learning objectives — description of capabilities & competences that learner should attain by successfully completing module.
  - IFRS for SMEs & material that accompanies, but does not form part of, IFRS.
  - Overview of requirements of the section ie brief technical summary.
- Requirements —full text of the section of the IFRS for SMEs with added notes & worked examples. Notes & examples designed to clarify & illustrate requirements.
- **Significant estimates & other judgments — discussion of significant estimates & other judgments in accounting for transactions & events in accordance with that section of IFRS for SMEs**
- Comparison with full IFRSs — summary of main differences between this section of IFRS for SMEs & corresponding full IFRS.
- **Test your knowledge — collection of multiple-choice questions (with answers) designed to test learner's knowledge of requirements of this section of IFRS for SMEs .**
- **Apply your knowledge — collection of case studies (with solutions) designed to develop learner's ability to account for transactions & events in accordance with this section of IFRS for SMEs.**

MC questions

- Inventories must be measured at:
  - (a) cost
  - (b) the lower of cost and estimated selling price less costs to complete and sell
  - (c) the lower of cost and fair value less costs to complete and sell

- On 25 March 20X4 the entity discovered that, as a result of a computational error, depreciation expense for the year ended 31 December 20X3 is overstated by CU29,000. The entity's 31 December 20X3 financial statements were authorized for issue on 1 April 20X4. The entity must:
  - (a) correct its 31 December 20X3 financial statements before issuing them.
  - (b) reduce depreciation for the year ended 31 December 20X4 by CU29,000 (ie prospective allocation—a change in accounting estimate).
  - (c) restate (correct) the depreciation expense reported for the year ended 31 December 20X3 in the comparative figures of its 20X4 financial statements (ie retrospective restatement of a prior period error).

Illustrative 'examples'
biological assets

- Biological assets are living animals & plants capable of biological transformation or harvest into either agricultural produce that is accounted for as inventory or other biological assets. Determining whether an asset is a biological asset or inventory sometimes depends on the purpose for which the asset is held.

Illustrative ‘examples’
biological assets

- A vintner processes grapes harvested from its vineyards into wine in a 3-year maturation cycle. Each year entity sells approximately 20% of the grapes harvested to local retailers in the table grape market. Vintner grows only one variety of grapes.
- Vines are biological assets. Up to point of harvest the vintner’s grapes are not inventory—they are part of the biological assets (vines).
- Irrespective of intended use (ie wine or table grape), at point of harvest the grapes are inventory. On initial recognition as inventory (ie at point of harvest) grapes are recorded at fair value less estimated costs to sell. In this case, cost could be determined with reference to the table grape market in which the entity participates.

Illustrative examples
adjusting events

- An entity gives warranties at time of sale to purchasers of products. On 31 December 20X5 an entity assessed its warranty obligation to be CU100,000.
- Immediately before 31 December 20X5 financial statements were authorized for issue, entity discovered a latent defect in 1 of its lines of products (ie a defect not discoverable by reasonable or customary inspection). As a result of discovery, entity reassessed estimate of its warranty obligation at 31 December 20X5 at CU150,000.
- The event—discovery of latent defect—is an adjusting event after end of reporting period. The condition—latent defect—existed in products sold before 31 December 20X5.

Illustrative examples
adjusting events

- Facts same as previous example. However, latent defect discovered 31 March 20X6, after 31 December 20X5 statements authorized for issue.
- In April 20X6 entity paid CU150,000 to transfer obligation to an independent third party.
- Latent defect not an event after end of the reporting period because it was discovered after 20X5 financial statements authorized for issue. CU100,000 obligation for warranty provision was measured and reported in good faith in entity's 31 December 20X5 annual financial statements. Additional CU50,000 not provided for at 31 December 20X5 is a change in accounting estimate and recognized as an expense in determining P&L for 3-month period ended 31 March 20X6. Thus, it will be included in P&L in 20X6 financial statements.