Applying IFRS® Standards

FIFTH EDITION

Ruth Picker / Leo van der Tas / David Kolitz / Gilad Livne / Janice Loftus
Miriam Koning / Cathrynne Service

EY
Shape the future with confidence

WILEY

APPLYING IFRS® Standards

FIFTH EDITION

APPLYING

IFRS® Standards

FIFTH EDITION

RUTH PICKER
LEO VAN DER TAS
DAVID KOLITZ
GILAD LIVNE
JANICE LOFTUS
MIRIAM KONING
CATHRYNNE SERVICE

WILEY

This edition first published 2025

Registered Offices
John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, USA
John Wiley & Sons Ltd, New Era House, 8 Oldlands Way, Bognor Regis, West Sussex, PO22 9NQ, UK

For details of our global editorial offices, customer services, and more information about Wiley products visit us at www.wiley.com.

Wiley also publishes its books in a variety of electronic formats and by print-on-demand. Some content that appears in standard print versions of this book may not be available in other formats.

Library of Congress Cataloging-in-Publication Data is Available:

ISBN 9781394235933 (Paperback)
ISBN 9781394235926 (ePDF)
ISBN 9781394235919 (ePub)

Cover Design: Wiley
Cover Image: © Dmitry Kovalchuk/Adobe Stock

Set in 9.5/11pt ITC Giovanni Std by Straive, Chennai, India.

FROM THE PROFESSION

EY is delighted to support *Applying IFRS Standards*, fifth edition. With International Financial Reporting Standards (IFRS®) now being mandated, or permitted, for the financial reporting of listed entities in most parts of the world, it has become the global language of accounting. This means that comparing financial statements from companies across the globe has become much easier, increasing transparency and improving decision-making by stakeholders of companies. It also has led to reductions in training costs and greater mobility of accounting staff and professionals across countries. You, as accountancy students and professionals, will benefit greatly from being able to carry your knowledge and experience from country to country without always having to study local accounting standards each time you cross a border.

The business environment and capital markets are developing continuously. Financial reporting needs to adapt with these changes. The International Accounting Standards Board (IASB®) not only introduced new and amended existing standards, but also recognised the growing importance of the impact of climate and other sustainability topics on the financial performance and position of companies. In doing so, it works closely with its sister Board in the IFRS Foundation, the International Sustainability Standards Board (ISSB®) that sets IFRS Sustainability Disclosure Standards®, which we hope will get a similar acceptance as the IFRS Accounting Standards. In this new edition of *Applying IFRS Standards* these developments have been incorporated and illustrated with extracts from recent financial statements.

Applying IFRS Standards aims to help you master the complex world of IFRS Standards; as such, it is truly global in the wealth of insights and examples it provides, as well as extracts from financial statements of companies across the globe. I am sure this book will be instructive not only to those learning about financial reporting standards for the first time, but also to accountancy professionals keeping abreast of developments in IFRS Standards and trying to find their way in applying IFRS Standards to transactions and events.

Now that IFRS Standards have been adopted in most parts of the world, it is important to interpret and apply the standards consistently to make it a truly single global set of accounting standards. I hope and trust this book will help in achieving a common and consistent understanding and application of IFRS Standards.

Michiel van der Lof
Global Leader — Corporate Reporting Services, Global Professional Practice
EY
London

March 2025

BRIEF CONTENTS

CONTENTS

PREFACE

IFRS Accounting Standards have firmly established their role as the global standard for financial reporting, mandated in more than 140 countries, with many other countries adopting the Standards. Over the years, IFRS Accounting Standards have also been the example for national accounting standards. As economic conditions and global markets continue to change in a world of shifting political landscapes, the importance of a stable and widely accepted set of financial reporting standards remains essential, providing a foundation for transparency and consistency in the complexities of today's world.

An understanding of the IFRS Accounting Standards is therefore paramount for all those involved in financial reporting or preparing to attain such a role. It provides not just technical knowledge and in-depth understanding of the financial reporting process, but does so in a global business environment. *Applying IFRS Standards*, fifth edition, has been written to meet the needs of accountancy students and practitioners in understanding the complexities of IFRS Accounting Standards.

This publication is the fifth edition of the book. It has now established itself as a text that is used by academics and practitioners throughout the world. We have welcomed the comments and suggestions received from various people and have tried to ensure that these are reflected in this edition.

What's new in this edition?

The fifth edition incorporates the release of new IFRS Accounting Standards and amendments of existing accounting standards. Some of the more prominent changes made include:

- an update of the chapter on the IASB's Conceptual Framework for Financial Reporting due to its amendment
- a complete rewrite of the chapter on leases following the adoption of IFRS 16 Leases
- a significant update of the chapters on revenue recognition and financial instruments with more illustrative examples and extracts from IFRS financial statements now that IFRS 9 and IFRS 15 have been applied for some years
- expanded scope of the chapter on translation of financial statements to include foreign currency transactions
- a re-ordering of the chapters in section 2 to better align with the structure of the statement of financial position and statement of profit or loss and other comprehensive income
- an update of all other chapters including recent extracts and incorporating IFRIC agenda decisions and smaller changes to the standards.

Also the academic perspectives, to be found at the end of all chapters in the first three parts of the book (i.e. chapters 1 to 19), have been updated. These academic perspectives summarise and highlight certain findings from published research in accounting and other fields that pertain to a chapter's topic. Referring to these perspectives should give the reader a basic understanding of questions that accounting researchers have attempted to address. Note, however, that the academic perspectives do not furnish a comprehensive review of related literature. Rather, they provide a starting point for further reading and exploration of relevant academic research.

Applying IFRS Standards, fifth edition, also comes equipped with discussion questions at the end of each chapter, specifically designed to test the reader's understanding of the content. A wealth of additional learning materials can also be found at www.wiley.com/go/picker5e/student; www.wiley.com/go/picker5e/instructor, including:

- Four additional chapters entitled: Exploration for and evaluation of mineral resources; Agriculture; Associates and joint ventures; Joint arrangements
- Instructor slides
- Testbank
- Exercises
- Solutions manual
- Access to the IFRS Learning Resources

In writing this book, we have endeavoured to ensure that the following common themes flow throughout the text:

- *Accounting standards are underpinned by a conceptual framework*. Accounting standards are not simply a rulebook to be learnt by heart. An understanding of the conceptual basis of accounting, and the rationale behind the principles espoused in particular standards, is crucial to their consistent application in a variety of practical applications.

- *The International Accounting Standards Board (IASB®) IFRS Accounting Standards are principles-based*. Although a specific standard is a stand-alone document, the principles in any standard relate to and are interpreted in conjunction with other standards. To appreciate the application of a specific standard, an understanding of the reasoning within other standards is required. We have endeavoured where applicable to refer to other IFRS Accounting Standards that are connected in principle and application. In particular, extensive references are made to the Basis for Conclusions documents accompanying each standard issued by the IASB. This material, although not integral to the standards, explains the reasoning process used by the IASB and provides indicators of changes in direction being proposed by the IASB.
- *Accounting standards have a practical application*. The end product of the standard-setting process must be applied by accounting practitioners in a variety of organisational structures and practical settings. While a theoretical understanding of a standard is important, practitioners should be able to apply the relevant standard. The author of each chapter has demonstrated the practical application of the accounting standards by providing case studies, examples and journal entries (where relevant). The references to practical situations require the reader to pay close attention to the detailed information discussed, given that such a detailed examination is essential to an understanding of the standards. Having only a broad overview of the basic principles is insufficient.

Writing a book like this is impossible without the help and input from many people. Much of the knowledge and insights reflected in this book have been gained through discussions and debates with many colleagues and with staff associated with the standard-setting bodies, particularly at the IASB. We thank them for sharing their perspectives and experience. We would like to thank the following people in particular. A team of people from EY's Global Corporate Reporting Services team in London, consisting of Angela Covic, Pieter Dekker and Victor Chan, wrote or reviewed individual chapters of the book. Richard Barker from Saïd Business School, Oxford University reviewed the chapters in Part 4. Erik Roelofsen from Rotterdam School of Management, Erasmus University Rotterdam and PwC reviewed the Academic Perspectives. Elisabetta Barone from Brunel Business School updated the testbank. We would also like to thank Natalie Forde from Cardiff Business School and other anonymous reviewers who have provided valuable feedback and recommendations during the development of the fifth edition. In addition, we extend our thanks to the people at Wiley and professional freelancers for their help realising this edition, including Juliet Booker, Steve Hardman, Georgia King, Joyce Poh and Joshua Poole as well as Jennifer Mair and Paul Stringer. Last but not least, writing a book takes huge commitment, and this has left less time for family and friends. We thank them also for their support and understanding.

Finally, in a time when the world, with its increasing sophistication, seems to produce situations and pronouncements that have added complexity, we hope that this book assists in the lifelong learning process that we and the readers of this book are continuously engaged in.

Ruth Picker
Leo van der Tas
David Kolitz
Miriam Koning
Gilad Livne
Janice Loftus
Cathrynne Service

March 2025

ABOUT THE AUTHORS

Ruth Picker

Ruth Picker AM, B.A., F.C.A., FSIA, FCPA, is an experienced finance, accounting, audit, and risk management specialist with many years of international senior executive leadership experience as a Lead Partner in the corporate finance sector. Born and educated in Cape Town, South Africa, where she graduated with a Bachelor of Arts, Ruth then studied to qualify as a Chartered Accountant.

Prior to retiring in June 2021 Ruth had a long corporate relationship with the firm Ernst & Young (EY), where she was most recently the Asia-Pacific Risk Management Leader, a member of the Asia-Pacific Executive and a member of EY's Asia-Pacific Diversity and Inclusion Committee. She also chaired the EY Asia-Pacific Ethics Oversight Group and was one of the leaders of the Asia-Pacific COVID Response Team. She was also a member of EY's Global Risk Management Committee. Prior to that she was EY's Global Leader – International Financial Reporting Standards – based in London. Prior to that she held various senior partner roles within Australia including as an IFRS specialist, Managing Partner of the Melbourne Office and Oceania Leader – Climate Change & Sustainability Services. She has held many voluntary committee positions, both in Australia and internationally. Ruth is a strong advocate for women's leadership, and diversity and inclusion more broadly. In 2020 Ruth was inducted into the Australian Accounting Hall of Fame for services to the accounting profession internationally and in Australia. Ruth is also a published author (including lead author of 'Applying International Financial Reporting Standards' published by Wiley), published songwriter & composer and speaker on topics including accounting, auditing, risk management, ethics, mentoring and leadership. She features as a case study on quiet leadership styles in Megumi Miki's award-winning book 'Quietly Powerful'.

Ruth was appointed a Member of the Order of Australia (AM) in the King's Birthday Honours on 12 June 2023.

Leo van der Tas

Leo van der Tas (PhD, RA) is full professor of financial reporting at Tilburg University, the Netherlands, since 2010 and before that at Erasmus University Rotterdam, the Netherlands.

Leo was the Global Corporate Reporting Services Leader at EY in London until 2022, before which he was the Global IFRS Technical Director at EY in London. In these roles he was responsible for the IFRS policy of EY in the area of IFRS Accounting Standards and IFRS Sustainability Disclosure Standards and the consistency of their application within the EY network. He was senior technical partner at EY in the Netherlands until 2022.

He is a member of the Connectivity Advisory Panel of the European Financial Reporting Advisory Group, tasked with advising on the connectivity between financial reporting and sustainability reporting.

Leo was a member of the International Financial Reporting Interpretations Committee (IFRIC and predecessor Standing Interpretations Committee) of the IASB between 1997 and 2006 and a member of the IFRS Foundation Advisory Council between 2009 and 2013.

Leo has been a member of the Consultative Working Group of the Standing Corporate Reporting Committee of the European Securities and Market Authority (ESMA) in Paris, France, and of the Advisory Committee on Financial Reporting of the Netherlands Authority for the Financial Markets (AFM) in Amsterdam, the Netherlands.

He has published many books and articles in the area of international accounting and is a frequent speaker and teacher on the subject.

He was seconded to the European Commission in Brussels, Belgium, for a period of 2 years to assist in the development of the Commission's policy in the area of European accounting harmonisation.

David Kolitz

David Kolitz, BComm (Natal), BCom (Hons) (SA), MCom (Wits), SFHEA is Senior Lecturer in the Business School at the University of Exeter. He was previously Associate Professor and Assistant Dean in the Faculty of Commerce, Law and Management at the University of the Witwatersrand, Johannesburg. He is an experienced accounting academic and the lead author/co-author of three other books in the area of Financial Accounting.

Gilad Livne

Gilad Livne, PhD, CPA, is a professor of accounting at the School of Business and Management at Queen Mary University of London. Previously Gilad served on the accounting faculty of the London Business

School, Bayes Business School, University of Exeter and University of Bristol. Gilad received his MSc and PhD in accounting at the University of California at Berkeley, and BA (Accounting and Economics) at Tel Aviv University.

Gilad's teaching involves financial statement analysis, international accounting and advanced financial accounting courses. Gilad has taught in Undergraduate, MBA, Executive MBA, and MSc programmes. He has also been invited to teach at other schools and universities, such as EDHEC, HEC Lausanne, HEC Paris, London School of Economics, New Economic School (Moscow) and on various company-specific programmes.

Gilad's research looks into auditor independence, international accounting, fair value accounting and compensation. Gilad currently serves on a number of editorial boards of accounting journals. His research has been published in several journals including *Accounting and Business Research*, *Auditing: A Journal of Practice & Theory*, *European Accounting Review*, *Journal of Banking and Finance*, *Journal of Business Finance and Accounting*, *Journal of Corporate Finance*, *Review of Accounting Studies and The Accounting Review*.

Janice Loftus

Janice Loftus, BBus, MCom (Hons), FCPA, is an associate professor in accounting at the University of Adelaide. Her teaching interests are in the areas of financial accounting and accounting theory, and she has written several study guides for professional and tertiary programs. Janice's research interests are primarily in the area of financial reporting, including recent work on the understandability of accounting standards in collaboration with the Australian Accounting Standards Board. Janice has numerous publications on international financial reporting standards, risk reporting, solvency, earnings management, corporate governance, social and environmental reporting and developments in standard setting in Australian and international journals. Janice is the lead author of *Financial Reporting*, published by Wiley. She is an executive member of the Financial Reporting Interest Group of the Accounting and Finance Association of Australia and New Zealand and a member of the Australian Accounting Standards Board's Academic Advisory Panel. Prior to embarking on an academic career, Janice held several senior accounting positions in Australian and multinational corporations.

Miriam Koning

Miriam Koning, PhD, is associate professor at Rotterdam School of Management, Erasmus University (RSM). Her research addresses international accounting issues, in particular the impact of standards, institutions and intermediaries (financial regulators, standard setters, the business press, auditors and analysts) on corporate disclosure decisions and financial market participants. Her work is published in leading academic journals, including the *Journal of International Business Studies*, *Abacus* and the *International Review of Financial Analysis*. She is an associate member of the Erasmus Research Institute of Management (ERIM).

Miriam is the academic director of the MScBA in Accounting and Financial Management at RSM. She teaches various courses in accounting and financial reporting, at the bachelor and master's level, including the core course in international financial reporting in the master's program. In addition to pre- and post-experience courses at RSM, Miriam designs and teaches courses targeted toward senior level executives and professional audiences. Her educational style can be characterized as a blended approach, combining elements of lecture-based instruction, problem-based learning (PBL), technology-enhanced learning (including flipped classroom models) and in-class, interactive discussions.

Miriam holds an MSc in Economics from the Erasmus School of Economics and a PhD from Rotterdam School of Management. Prior to joining RSM, she worked in international assurance services at Ernst & Young.

Cathrynne Service

Cathrynne Service is a chartered accountant, passionate academic, educationist, independent IFRS consultant and a professional authoress. She has lectured at a variety of prestigious universities, including the University of Queensland, Griffith University and University of KwaZulu-Natal. During this time, she ran a variety of undergraduate and postgraduate programs (some leading to the highly sought-after qualification of "chartered accountant") and served in various positions, such as Head of Financial Accounting and Chairman of Cost and Management Accounting. She was also elected to several posts within the Southern African Accounting Association, which promotes excellence in accounting education and research, including serving as the National Chairman of Financial Accounting.

Cathrynne has authored (as sole, lead and co-author) numerous publications on the application of International Financial Reporting Standards. These are published through international publishers such as Wiley, LexisNexis and Juta and also through professional institutes, such as the Institute of Chartered Accountants of Pakistan, and are used by academics and professionals internationally.

ACRONYMS

AFS	Available-for-sale
AGM	Annual general meeting
ASC	Accounting Standards Codification
BCVR	Business combinations value reserve
CEO	Chief Executive Officer
CGU	Cash-generating unit
CODM	Chief Operating Decision Maker
COO	Chief Operating Officer
DBL(A)	Defined benefit liability (asset)
DBO	Defined benefit obligation
ED	Exposure draft
EFRAG	European Financial Reporting Advisory Group
EPS	Earnings per share
FAS	Financial Accounting Standards
FASB	US Financial Accounting Standards Board
FIFO	First-in, first-out
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GAAP	US Generally Accepted Accounting Principles
IAS®	International Accounting Standards
IASB®	International Accounting Standards Board
IASC	International Accounting Standards Committee, predecessor of the IASB
IDC	Initial direct costs
IFRIC®	International Financial Reporting Interpretations Committee, now the IFRS® Interpretations Committee
IFRS®	International Financial Reporting Standards
IPO	Initial public offering
LIBOR	London Interbank Offered Rate
MLP	Minimum lease payments
NCI	Non-controlling interest
OCI	Other comprehensive income
PV	Present value
R&D	Research and development
ROA	Return on assets
SAC	Standards Advisory Council
SARs	Share appreciation rights
SFAS	US Statement of Financial Accounting Standards
SPPI	Solely payments of principal and interest
TSR	Total shareholder return
US GAAP	see GAAP

APPLYING IFRS® Standards

FIFTH EDITION

Part 1

Conceptual Framework

1 The IASB and its *Conceptual Framework*

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. describe the organisational structure of the key players in setting International Financial Reporting Standards (IFRS® Standards)
2. describe the purpose of a conceptual framework — who uses it and why
3. explain the qualitative characteristics that make information in financial statements useful and the constraint thereon
4. explain the going concern assumption
5. define the basic elements in financial statements — assets, liabilities, equity, income and expenses
6. explain the principles for recognising the elements of financial statements
7. distinguish between alternative bases for measuring the elements of financial statements
8. explain the principles for measuring the elements of financial statements
9. explain the difference between presentation and disclosure and the principles for presenting and disclosing information in the financial statements
10. explain what is meant by a unit of account and in what context it is used
11. outline two concepts of capital and explain the relevance of the term capital maintenance

INTRODUCTION

The purpose of this book is to identify and explain the major concepts and principles of International Financial Reporting Standards (generally referred to as IFRS Standards, or simply IFRSs) and to help you develop skills in applying them in business contexts. You may be familiar with the accounting treatment for various transactions, such as the purchase of inventory. The text will build on that knowledge and consider the principles and techniques required or permitted by IFRS Standards in accounting for a range of transactions, events and circumstances.

This first chapter provides an outline of the International Accounting Standards Board (IASB®) and its role in setting international accounting standards (IFRS Standards). It also explains that the IASB develops those IFRS Standards using certain fundamental concepts and principles, which are set out in the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*). The *Conceptual Framework's* key concepts and principles will also be outlined in this chapter. Interestingly, although the IFRSs are supposed to be built on the concepts and principles contained in the *Conceptual Framework*, it is possible for an IFRS to not reflect these concepts and principles. This situation may arise when an IFRS was developed prior to the current revision of the *Conceptual Framework* (the latest major revision occurred in 2018), and in situations such as these, the requirements of that IFRS take precedence over the *Conceptual Framework*. IFRS Standards are principles-based standards, rather than rules-based standards, even though the volume of guidance under IFRS Standards might suggest otherwise. Since the IFRS Standards are principles-based, we need *professional judgement* when applying them. An example of needing to apply principles rather than rules is the requirement that investment property be measured either using the cost model or fair value model, where this decision is based on the principle that the model chosen should be the one that provides the most useful information to the user. Identifying the most useful information is frequently a subjective task. To assist in this process, the *Conceptual Framework* establishes the qualitative characteristics financial information must have for it to be considered useful. The *Conceptual Framework* also provides definitions and recognition criteria that must be met before including elements in the financial statements and explains a variety of principles, including, for example, the concepts of recognition and derecognition, measurement, presentation and disclosure as well as concepts of capital. These principles are an important source of guidance to standard setters in the development of new IFRS standards referred to as IFRS Standards or simply IFRSs and to preparers of financial statements in the absence of an applicable IFRS standard. Accordingly, study of the *Conceptual Framework* provides a useful foundation to understanding and applying IFRS Standards.

LO1

1.1 THE IFRS FOUNDATION AND THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

The purpose of this section is to provide an understanding of the structure of the IFRS Foundation and how the IASB fits into this structure, and in particular, the IASB's role in the determination of IFRS Standards. Much of this information has been obtained from the website of the IASB, www.ifrs.org. To keep up to date with what the IASB is doing, this website should be regularly visited.

1.1.1 Formation of the IASB

In 1972, at the 10th World Congress of Accountants in Sydney, Australia, a proposal was put forward for the establishment of an International Accounting Standards Committee (IASC). In 1973, the IASC was formed by 16 national professional accountancy bodies from nine countries — Canada, the United Kingdom, the United States, Australia, France, Germany, Japan, the Netherlands and Mexico. By December 1998, the membership of the IASC had expanded and the committee had completed its core set of accounting standards.

However, the IASC was seen as having a number of shortcomings:

- It had weak relationships with national standard setters; this was due in part to the fact that the representatives on the IASC were not representative of the national standard setters but rather of national professional accounting bodies.
- There was a lack of convergence between the IASC standards and those adopted in major countries, even after 25 years of trying.
- The board only functioned on a part-time basis.
- The board lacked resources and technical support.

In 1998, the committee responsible for overseeing the operations of the IASC began a review of the IASC's operations. The results of the review were recommendations that the IASC be replaced with a smaller, full-time International Accounting Standards Board. At the same time, the IASC's Standing Interpretations Committee of the IASC was replaced by the IFRS Interpretations Committee of the IASB (commonly referred to as IFRIC). In 1999, the IASC board approved the constitutional changes necessary for the restructuring of the IASC. A new International Financial Reporting Standards Foundation was established and its trustees appointed. By early 2001, the members of the IASB and the Standards Advisory Council (SAC) were appointed, as were technical staff to assist the IASB.

The IASB initially adopted the International Accounting Standards (IAS® Standards), with some modifications, as issued by the IASC (e.g. IAS 2 *Inventories*). As standards were revised or newly issued by the IASB, they were then called International Financial Reporting Standards (e.g. IFRS 8 *Operating Segments*). This means that the term International Financial Reporting Standards (IFRSs) includes both IFRS Standards and IAS Standards. For the sake of brevity, this chapter will refer to all standards as IFRSs, whether prefixed with 'IFRS' or IAS'.

1.1.2 The IFRS Foundation: purpose and governance

The *IFRS Foundation* has a three-tiered governance structure:

- The International Accounting Standards Board (IASB), together with its IFRS Interpretations Committee (IFRIC), and the International Sustainability Standards Board (ISSB)
- The IFRS Foundation Trustees
- IFRS Foundation Monitoring Board

What these levels do and how they interact is explained below.

- The ***International Accounting Standards Board*** **(IASB)** is an independent standard-setting board. It is this body that publishes the International Financial Reporting Standards (IFRSs).
- The IASB has a committee called the ***IFRS Interpretations Committee*** **(IFRIC)**. This committee reviews newly identified financial reporting issues that are not specifically dealt with in the IFRSs, and issues for which unsatisfactory or conflicting interpretations have emerged or may emerge. The committee endeavours to reach a consensus on appropriate accounting treatment and provides authoritative guidance on the issue concerned. This may take the form of (i) a proposal to the Board to amend a standard; (ii) the issuance of an interpretation of a standard; or (iii) the issuance of an agenda decision explaining why neither is necessary. The latter often implicitly contains guidance on how to apply an IFRS.

  Once approved, or not objected to, by the IASB, the interpretations have equivalent status to standards (IFRSs); that is, although they are technically not standards (IFRSs), they are regarded as forming part of the standards (IFRSs) such that stating that there is compliance with the standards (IFRSs) means that there has been compliance with both the standards issued by the IASB (IFRSs) and any guidance issued by IFRIC. More recently the *IFRS Interpretations Committee* has been asked by the IASB to help with the drafting of minor amendments to standards and with the Annual Improvement Projects. The latter are annual packages of changes to standards that are minor or narrow in scope.
- The ***International Sustainability Standards Board*** (ISSB) was created in 2022, and is the body that will focus on the standard setting for 'sustainability reporting', called IFRS Sustainability Disclosure Standards. Sustainability disclosure standards are not covered in this book. However, the two Boards will work together closely in areas of mutual interest, where uncertainties regarding sustainability may have an impact on financial statements.

  The members of the ISSB, the IASB and IFRIC are appointed and overseen by a geographically and professionally diverse group of trustees, referred to as the ***IFRS Foundation Trustees***. The trustees are publicly accountable to the ***IFRS Foundation Monitoring Board***.
- The trustees appoint an ***IFRS Advisory Council*** (IFRS AC), which provides strategic advice to the IASB, the ISSB, and informs the *IFRS Foundation Trustees*.

  In addition to the IFRSAC, ***other formal advisory bodies*** that provide a means for the IASB to consult and engage with interested parties from a range of backgrounds and geographical areas include:
  - Capital Markets Advisory Committee
  - Emerging Economies Group
  - Global Preparers Forum
  - SME Interpretations Group.

Furthermore, ***working groups*** may be established for major projects to provide the IASB with access to additional expertise as required; for example, the Insurance Working Group was set up when the IASB was developing a standard on accounting for insurance contracts.

Further information about advisory bodies and working groups, including reports and summaries of discussions, can be obtained from the IASB's website.

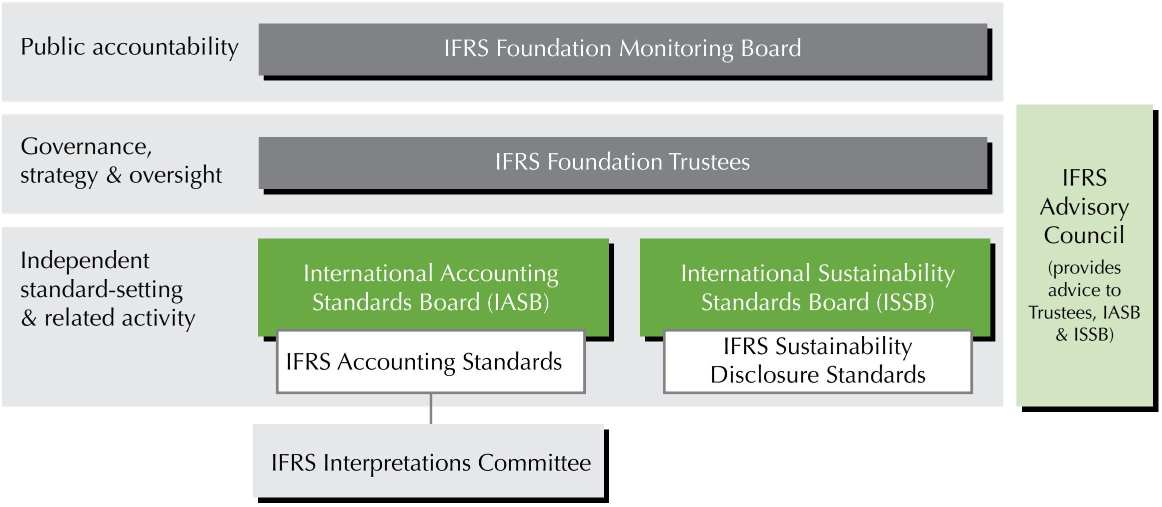

FIGURE 1.1 Institutional structure of international standard setting
Source: IASB (accessed 2024): http://www.ifrs.org/about-us/our-structure.

A pictorial view of the structure of the IFRS Foundation is given in figure 1.1.

1.1.3 The IFRS Foundation: due process

The *IFRS Foundation Trustees* approved the publication of the booklet *IASB and IFRS Interpretations Committee Due Process Handbook* (DP Handbook) in 2020 (available on the IASB's website). This handbook sets out the due process to be followed when, for example, publishing a new or revised IFRS Standard, or an IFRS Interpretation. The requirements laid out in the DP Handbook have been carefully crafted to ensure the development process is 'thorough, inclusive and transparent', which, in turn, ensures that the *IFRS Foundation* is successful in its stated aim of developing high-quality standards that will be accepted and adopted globally.

By way of a brief overview, the DP Handbook sets out:

- 'how the Board determines whether to add a project to its work plan;
- the stages of standard-setting and the types of consultation documents and other materials published by the Board and the Interpretations Committee;
- the minimum consultation requirements, including the duration of consultations;
- the advisory bodies and consultative groups established to provide input to the standard-setting process, and when and how they should be consulted;
- the minimum voting requirements for the Board and the Interpretations Committee to advance proposals or finalise documents at different stages in standard-setting; and
- the procedures followed if a stakeholder complains about the due process'.

Source: 'What is Due Process and Why Does it Matter?' by Alan Beller; on the IFRS website: https://www.ifrs.org/news-and-events/news/2020/08/what-is-the-due-process-and-why-does-it-matter/#:~:text=The%20due%20process%20is%20essential,global%20acceptance%20of%20the%20Standards.

1.1.4 Due process: publishing an IFRS

By way of an example, the summarised process involved in publishing an IFRS Standard (IFRS) is presented below.

1. *Research programme*. This stage of the process involves analysing 'perceived shortcomings' and assessing possible improvements and remedies to these alleged problems. A wide variety of bodies and interested parties are involved in this step (e.g. national and regional accounting standard-setting bodies, other bodies associated therewith, academics and any other interested persons). The involvement of a wide array of bodies is made possible through the use of the Accounting Standards Advisory Forum (ASAF). Evidence of possible problems and their solutions is put forward through documents such as discussion papers, requests for information or research papers. After a process of deliberation and debate, some of these matters will be considered important enough to progress to stage 2, whereas others may

be dismissed as not sufficiently important to require modifications or revisions to existing standards or pronouncements.

2. *Developing a proposal for publication*. After mandatory consultation with the IFRS Trustees, IFRS Advisory Council (IFRSAC) and the Accounting Standards Advisory Forum (ASAF), the project must then be formally added to the IASB's agenda (this is done by a simple majority vote at a public IASB meeting). If the project is considered major, the IASB must then consider whether a consultative group (e.g. involving a group of expert advisors) needs to be established. Proposals must then be developed and debated in public meetings (this involves reviewing papers prepared by the IASB's technical staff and also the possible feedback from any discussion papers). Then, an exposure draft is prepared and published (sometimes with additional supporting materials). This must be done with a press release, requesting public comment.
3. *Redeliberations and finalisation*. After the exposure draft is published (see prior stage 2), there is a mandatory period during which the public is given time to comment (the period depends on what the exposure draft relates to). When this period ends, the IASB must then consider the feedback. Based on feedback received, the IASB must consider whether a revised exposure draft is necessary and whether additional consultation is necessary (or, if significant negative feedback is received, the IASB may need to consider cancelling the entire project). Unless the project is cancelled, the final draft IFRS will need to be prepared for balloting, whereupon the Due Process Oversight Committee (DPOC) needs to be informed that the balloting milestone has been reached (and, if relevant, the DPOC will need to be told why a revised exposure draft was not necessary). The IFRS is published (normally together with an accompanying document called the 'Basis of Conclusions') if the ballot results yield a supermajority of IASB members (this is 8 votes if there are only 13 members, or 9 votes if there are 14 members). If the IFRS was a new standard or had been subject to major amendments, then the publication of the IFRS will be accompanied by other supporting materials, such as a project summary, feedback statements and possibly even podcasts and Q&As.
4. *Post-implementation reviews*. If the IFRS (published in stage 3) was a new standard or arose due to major amendments to a pre-existing standard, then a post-implementation review must be conducted roughly 2.5–3 years after the IFRS became effective (the review may be deferred in certain circumstances). This review may also be performed for other reasons (e.g. changes to the concerns voiced by stakeholders).

Source: Summarised from ifrs.org website — IASB Due Process
https://www.iasplus.com/en/resources/ifrsf/due-process/iasb-due-process

The above is a summary of the Due Process followed by the IASB before publishing IFRS Standards or amendments thereto. A slightly different due process would be followed when publishing an Interpretation or Agenda decision by IFRIC. The detailed Due Process can be found in the Due Process Handbook, which is available on the IFRS Foundation's website (IFRS.Org: https://www.ifrs.org/content/dam/ifrs/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf)

LO2

1.2 THE PURPOSE OF A CONCEPTUAL FRAMEWORK

1.2.1 Overview

The first international 'framework' was adopted in 1989, then superseded by a replacement in 2010, and then largely rewritten in 2018. This latest version is called the *Conceptual Framework for Financial Reporting* (CF). Some fairly significant changes were made in this latest revision, including formalising concepts not previously referred to (e.g. derecognition), clarifying concepts that had previously been interpreted in a variety of ways (e.g. prudence) and completely revising the definitions of the elements and their recognition criteria. Before getting into the details, however, it is important to understand a few important points about this CF.

Firstly, the CF is not an IFRS. Instead, the purpose of the CF is:

- to assist the IASB to develop IFRSs;
- to assist preparers of financial statements to develop their own accounting policies in the event there is no suitable IFRS or the existing IFRS allows for an alternative policy to be developed;
- to assist everyone (e.g. the IASB, the preparers of financial statements and users of financial statements) to understand and interpret the application of IFRSs.

The revised CF consists of eight chapters:

- Chapter 1: The objective of general-purpose financial reporting
- Chapter 2: Qualitative characteristics of useful financial information
- Chapter 3: Financial statements and the reporting entity
- Chapter 4: The elements of financial statements
- Chapter 5: Recognition and derecognition

- Chapter 6: Measurement
- Chapter 7: Presentation and disclosure
- Chapter 8: Concepts of capital and capital maintenance.

Aspects of these eight chapters will be explained in the rest of this chapter.

1.2.2 The objective of general purpose financial reporting

The IASB's *Conceptual Framework* deals only with the objective of general purpose financial reporting; that is, financial reporting intended to meet the information needs common to a range of users who are unable to command the preparation of reports tailored to satisfy their own particular needs. For example, IFRSs are not designed to be used in the preparation of special purpose reports for stakeholders such as tax authorities and banking supervisors, both of which are able to demand this information directly.

Paragraph 1.2 of the *Conceptual Framework* states the objective of general purpose financial reporting:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about (a) buying, selling or holding equity and debt instruments, (b) providing or settling loans and other forms of credit, or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

In order to achieve the objective of general purpose financial reporting (i.e. to provide useful information), the CF specifies certain qualitative characteristics of financial reporting information, defines the elements (assets, liabilities, income, expenses and equity), clarifies the concepts to be used when deciding whether to recognise (and derecognise) them, how to measure them and how to present and disclose them.

LO3

1.3 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

What characteristics should financial information have in order to be included in general purpose financial reporting? The following section discusses both the qualitative characteristics of useful information and the constraint on providing useful information. The qualitative characteristics are divided into fundamental qualitative characteristics and enhancing qualitative characteristics.

1.3.1 Fundamental qualitative characteristics

For financial information to be decision-useful, it must possess two fundamental qualitative characteristics:

- relevance
- faithful representation.

Relevance

Paragraphs 2.6–2.11 of the IASB's *Conceptual Framework* elaborate on the qualitative characteristic of *relevance*.

Information is relevant if:

- it is capable of making a difference in the decisions made by users of financial information.

Information is considered to have the ability to make a difference in a user's decision-making if the information provides predictive value, confirmatory value or both.

- *Predictive value* occurs where the information is useful as an input into the users' decision models and affects their expectations about the future.
- *Confirmatory value* arises where the information provides feedback that confirms or changes past or present expectations based on previous evaluations

Notice that the information needs merely to be *capable* of making a difference. It is not necessary that the information has actually made a difference in the past or will make a difference in the future.

Information about the financial position and past performance is often used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as future dividends and wage payments, future share prices, and the ability of the reporting entity to pay its debts when they fall due. The predictive ability of information may be improved if unusual or infrequent transactions and events are reported separately in the statement of profit or loss and other comprehensive income.

Materiality is not a qualitative characteristic, but is a concept used when assessing the relevance of information. Simply put, if something is *immaterial*, it would be *irrelevant* to the users. Information is *material*