



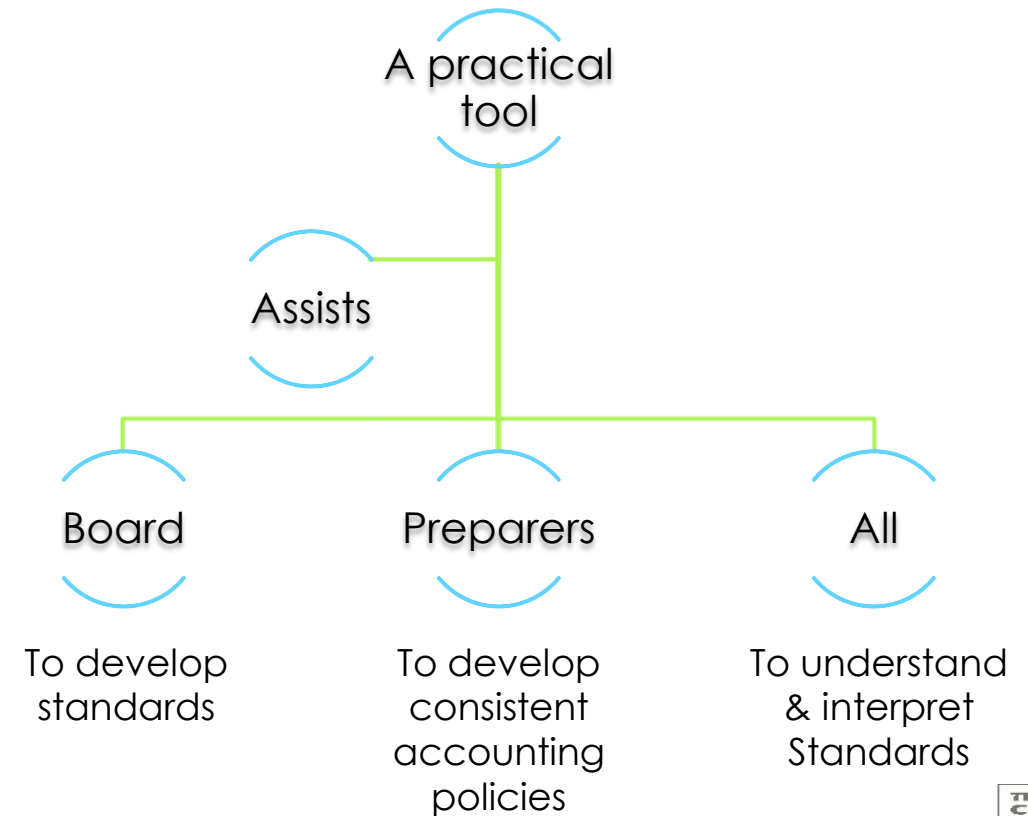
Conceptual Framework for Financial Reporting

**“IASB COMPLETES REVISIONS TO ITS CONCEPTUAL
FRAMEWORK IN MARCH 2018”**

What is the “Conceptual Framework”?

A Framework that:

- ▶ Sets out the fundamental concepts of financial reporting.
- ▶ Guides the board in developing IFRS standards.
- ▶ Helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way.
- ▶ Provides useful information for investors and others.



Timeline

1989



2010



2018

Inception of the framework

Left largely unchanged since then

IASB & FASB jointly started reviewing and revising the framework from 2004 but left incomplete due to slow progress and change in priorities

IASB alone took up the project again in 2012 focusing on topics yet to be covered

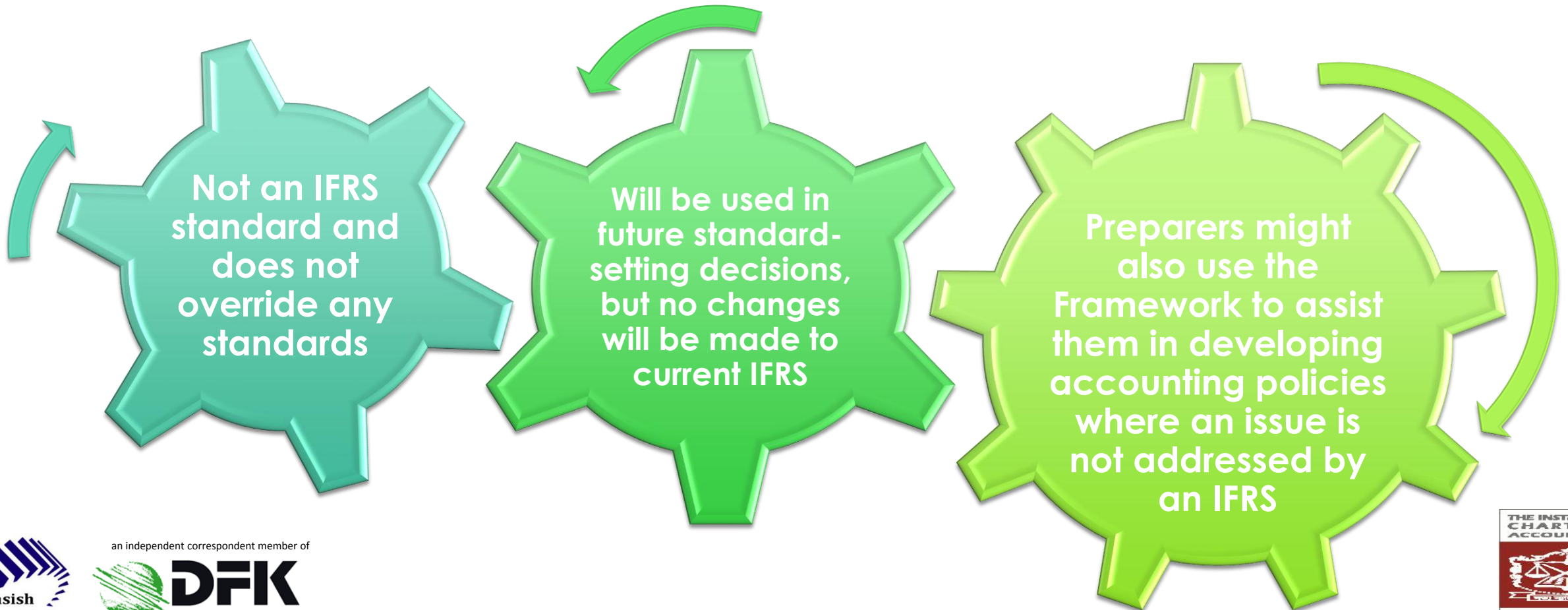
Hans Hoogervorst

- IASB Chairperson

"The revised Conceptual Framework will greatly assist the board when developing IFRS standards. It will also help other stakeholders to better understand the concepts that underpin the standards."



What is the impact and for whom?

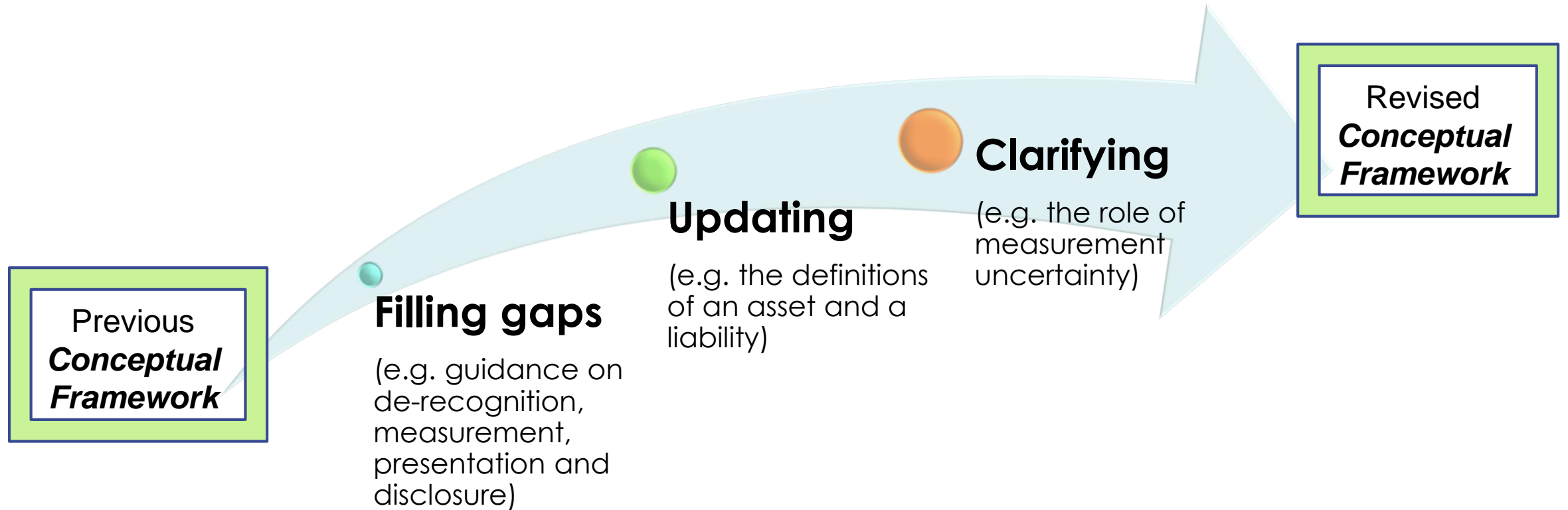


Effective Date

- ▶ It replaces the previous version of the Conceptual Framework issued in 2010, and is effective immediately for the board and the IFRS Interpretations Committee.
- ▶ The revised Conceptual Framework has an effective date of 1 January 2020—with earlier application permitted—for companies that use it to develop accounting policies when no IFRS standard applies to a particular transaction.



Major Improvements

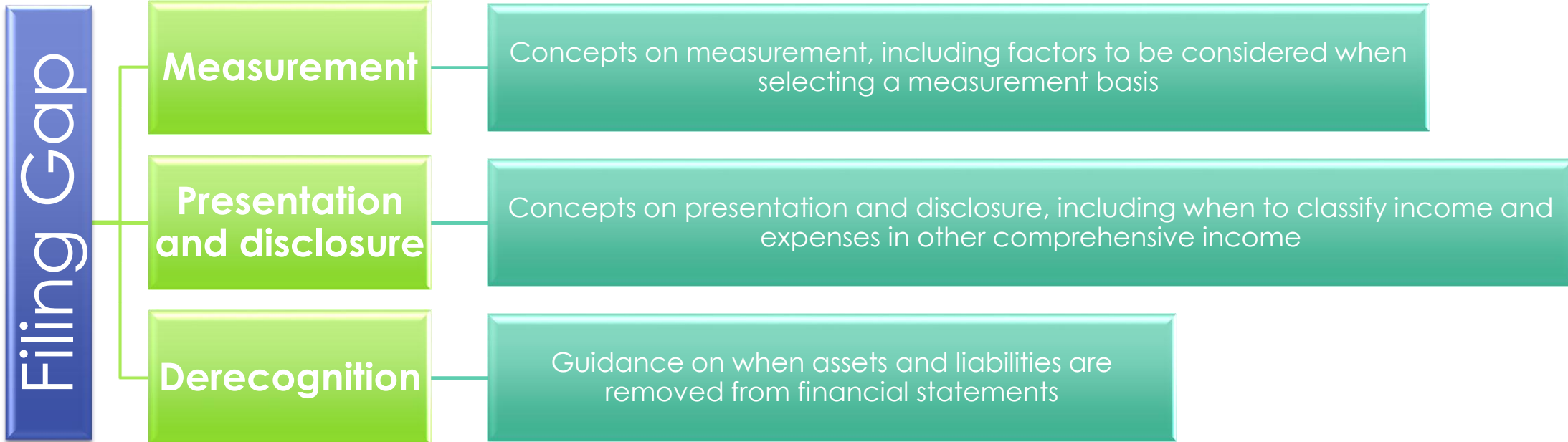


Fundamental Issues Addressed

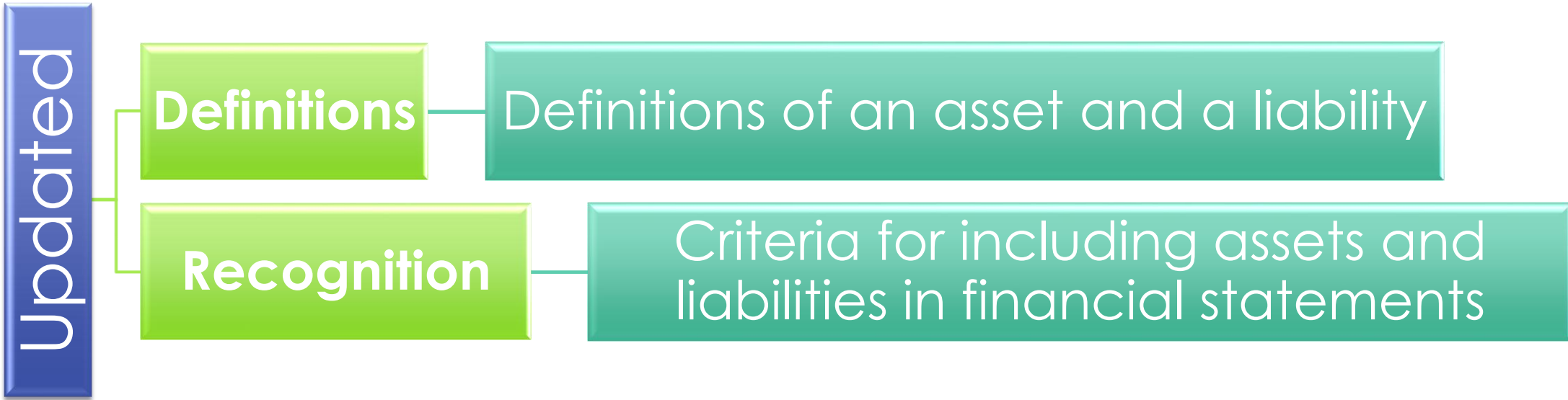
- ▶ What is the objective of financial reporting?
- ▶ What makes financial information useful?
- ▶ What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?



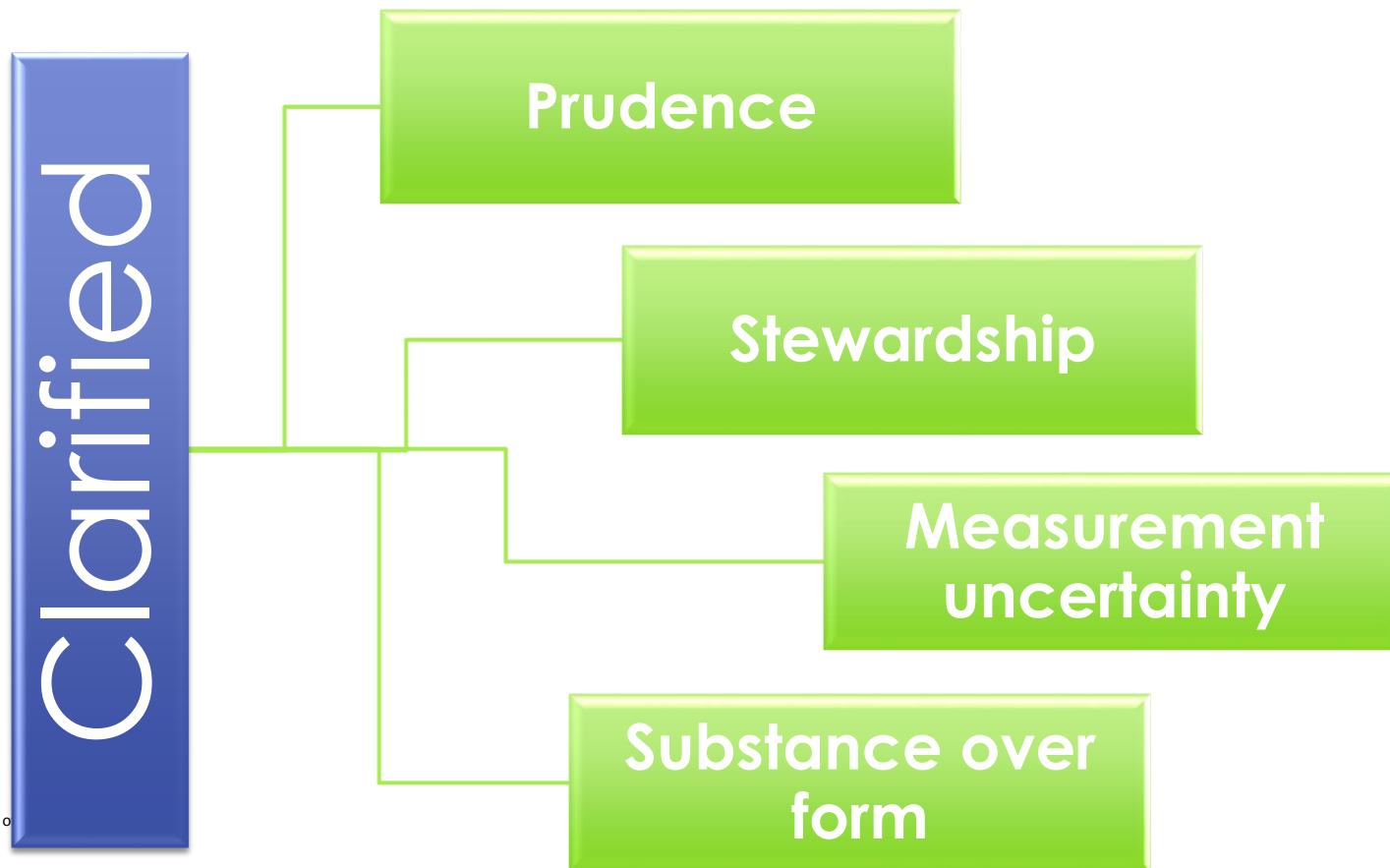
At a Glance



At a Glance



At a Glance



Main aspects of the Conceptual Framework

**Status and
purpose of the
Conceptual
Framework**

**Eight
chapters**

Glossary

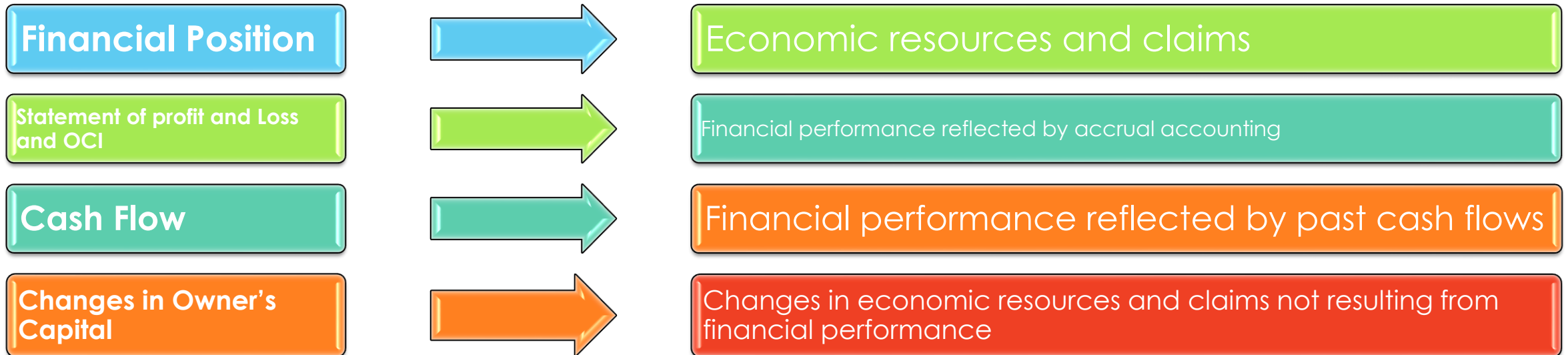
Status & purpose of the Conceptual Framework

The *Conceptual Framework* contributes to the mission of the IFRS Foundation.



Chapter 1 – Objectives of General Purpose Financial Reporting

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:



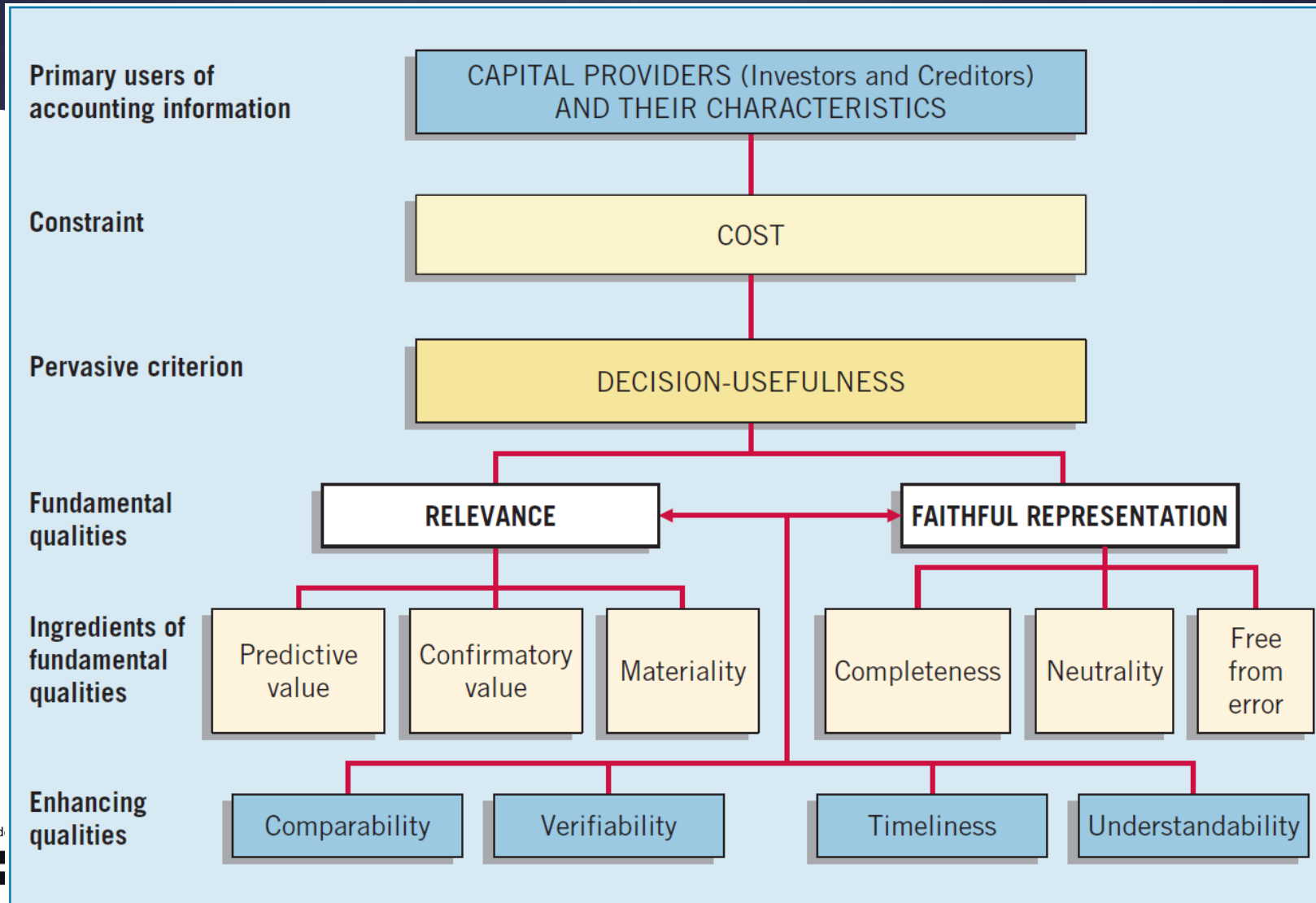
Summary of changes

This chapter was issued in 2010 and went through extensive due process at that time. Therefore, in revising the Conceptual Framework, the Board did not fundamentally reconsider this chapter. However, it clarified why information used in assessing stewardship is needed to achieve the objective of financial reporting.

Chapter 1 – Objectives of General Purpose Financial Reporting



Chapter 2 – Qualitative characteristics of useful financial information



Summary of changes

This chapter was issued in 2010 and went through extensive due process at that time. Therefore, in revising the Conceptual Framework the Board did not fundamentally reconsider this chapter. However, the Board clarified the roles of prudence, measurement uncertainty and substance over form in assessing whether information is useful.

Chapter 3 – Financial statements and the reporting entity

Reporting entity

- an entity that is required, or chooses, to prepare financial statements
- not necessarily a legal entity—could be a portion of an entity or comprise more than one entity

Financial statements

- a particular form of financial reports that provide information about the reporting entity's assets, liabilities, equity, income and expenses

Chapter 3 – Financial statements and the reporting entity

Reporting period

- Prepared for a specific period of time
- To identify and assess changes and trends, comparative information is also provided for at least 1 preceding reporting period
- Possible future transactions and events are also included if it relates to assets & liabilities and is useful to the user

Going concern

- Financial statements prepared with the assumption that the entity is a going concern and will continue to operate for the foreseeable future
- If intention or need exists to cease trading or liquidate, a different basis should be used to prepare the financial statements which should be described in the statements.

Chapter 3 – Financial statements and the reporting entity

Consolidated financial statements

- Provide information about assets, liabilities, equity, income and expenses of both the parent and its subsidiaries as a single reporting entity

Unconsolidated financial statements

- Provide information about assets, liabilities, equity, income and expenses of the parent only

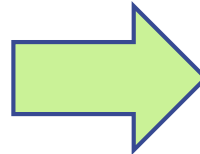
Combined financial statements

- Provide information about assets, liabilities, equity, income and expenses of two or more entities that are not all linked by a parent-subsidary relationship

Chapter 4 – The elements of financial statements

Previous definition of an asset

A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity



Revised definition of an asset

A present economic resource controlled by the entity as a result of past events.

An economic resource is a right that has the potential to produce economic benefits

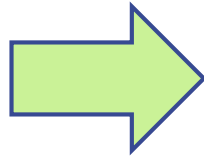
Summary of changes

The definitions of an asset and a liability have been refined and the definitions of income and expenses have been updated only to reflect that refinement.

The definition of equity as the residual interest in the assets of the entity after deducting all its liabilities is unchanged. The Board's research project on Financial Instruments with Characteristics of Equity is exploring the distinction between liabilities and equity.

Chapter 4 – The elements of financial statements

Main changes in the definition of asset



- separate definition of an economic resource—to clarify that an asset is the economic resource, not the ultimate inflow of economic benefits
- deletion of 'expected flow'—it does not need to be certain, or even likely, that economic benefits will arise
- a low probability of economic benefits might affect recognition decisions and the measurement of the asset

Chapter 4 – The elements of financial statements

Main aspects of this definition:

Right: Rights that have the potential to produce economic benefits.

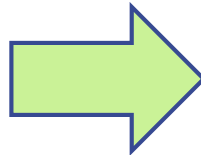
Potential to produce economic benefit: It does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity economic benefits beyond those available to all other parties.

Control: Control links an economic resource to an entity. If one party controls an economic resource, no other party controls that resource.

Chapter 4 – The elements of financial statements

Previous definition of a liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits



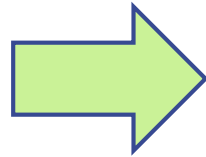
Revised definition of a liability

A present obligation of the entity to transfer an economic resource as a result of past events

An obligation is a duty or responsibility that the entity has no practical ability to avoid

Chapter 4 – The elements of financial statements

Main changes in the definition of liability



- separate definition of an economic resource—to clarify that a liability is the obligation to transfer the economic resource, not the ultimate outflow of economic benefits
- deletion of 'expected flow'—with the same implications as set out above for an asset
- introduction of the 'no practical ability to avoid' criterion to the definition of obligation

If a duty or responsibility arises from the entity's customary practices, published policies of specific statements – the entity has an obligation if it has no practical ability to act in a manner inconsistent with those practices, policies or statements.

If a duty or responsibility is conditional on a particular future action that the entity itself may take – the entity has an obligation if it has no practical ability to avoid taking that action.

Chapter 4 – The elements of financial statements

For a **liability** to exist, all **three** criteria must be satisfied:

- the entity has an obligation;
- the obligation is to transfer an economic resource; and
- the obligation is a present obligation that exists as a result of past events.

Executory contract

An executory contract is a contract that is equally unperformed. It establishes a single asset or liability for the inseparable combined rights and obligations to exchange economic resources.

Chapter 4 – The elements of financial statements

Revised definition of income

Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Revised definition of expenses

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

Unit of account - the right(s) or obligation(s), or group of rights and obligations, to which recognition criteria and measurement concepts are applied

Chapter 5 – Recognition and derecognition

Recognition

The process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of an asset, a liability, equity, income or expenses

Derecognition

The removal of all or part of a recognised asset or liability from an entity's statement of financial position

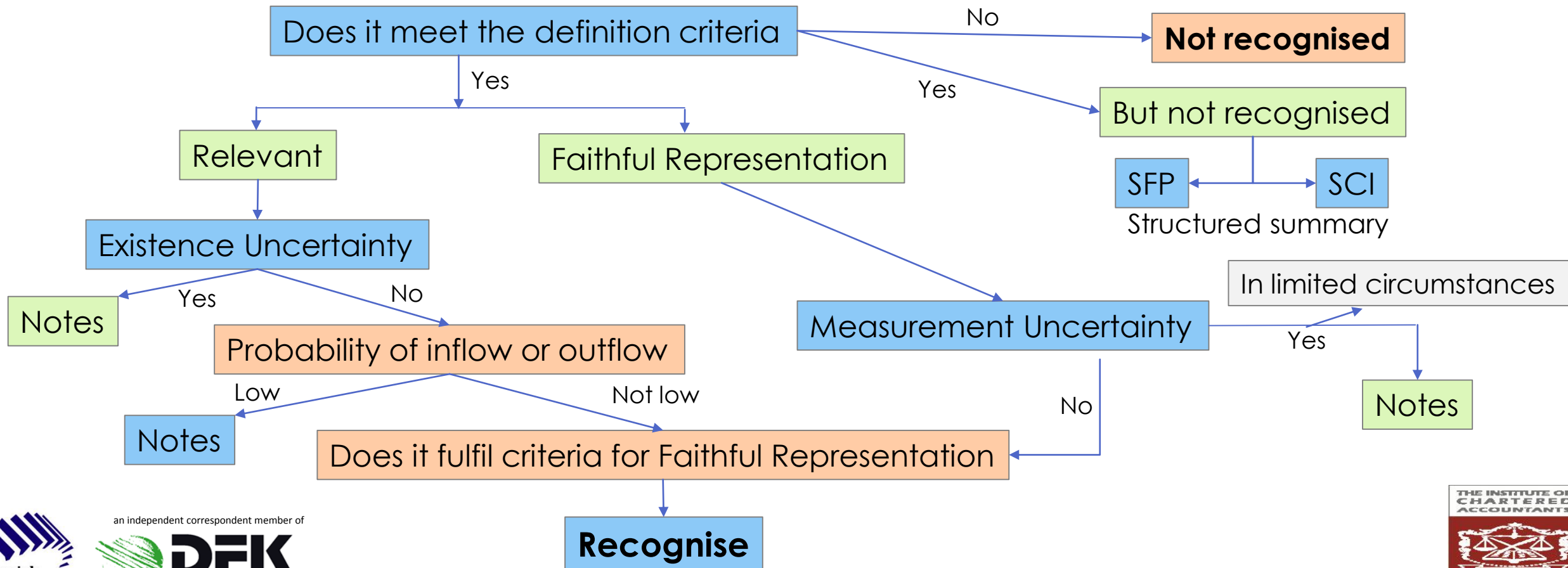
Summary of changes

The previous recognition criteria were that an entity should recognise an item that met the definition of an element if it was probable that economic benefits would flow to the entity and if the item had a cost or value that could be determined reliably.

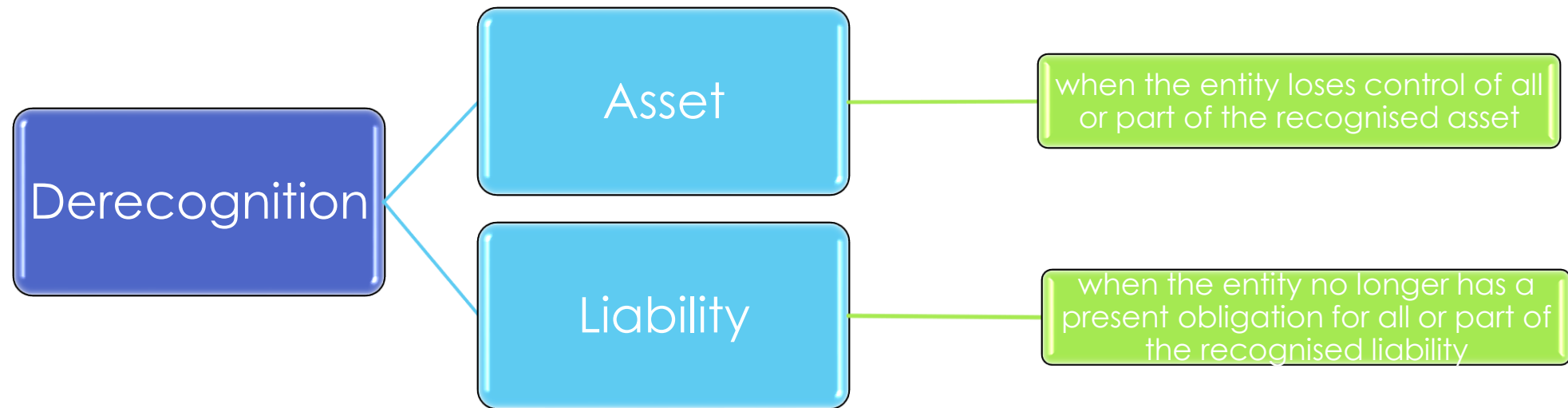
The revised recognition criteria refer explicitly to the qualitative characteristics of useful information.

The Board's aim was to develop a more coherent set of concepts, not to increase or decrease the range of assets and liabilities recognised.

Chapter 5 – Recognition and derecognition



Chapter 5 – Recognition and derecognition



Chapter 6 – Measurement

Measurement Basis

Historical cost measurement bases

- Historical cost provides information derived, at least in part, from the price of the transaction or other event that gave rise to the item being measured
- Historical cost of assets is reduced if they become impaired and historical cost of liabilities is increased if they become onerous
- One way to apply a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost

Current value measurement bases

- Current value provides information updated to reflect conditions at the measurement date
- Current value measurement bases include:
 1. Fair value
 2. Value in use / fulfilment value
 3. Current cost

Summary of changes

The previous version of the *Conceptual Framework* included little guidance on measurement. The revised *Conceptual Framework* describes what information measurement bases provide and explains the factors to consider when selecting a measurement basis.

Chapter 6 – Measurement

Fair Value

- The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date
- Reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows

Value in use (for assets) Fulfilment value (for liabilities)

Reflects entity-specific current expectations about the amount, timing and uncertainty of future cash flows

Current Cost

Reflects the current amount that would be:

1. Paid to acquire an equivalent asset
2. Received to take on an equivalent liability

Chapter 6 – Measurement

Factors to consider in selecting a measurement basis

Relevance

Characteristics of the asset or liability

- the variability of cash flows
- sensitivity of the value to market factors or other risks
- for example, amortised cost cannot provide relevant information about a derivative

Contribution to future cash flows

- whether cash flows are produced directly or indirectly in combination with other economic resources
- the nature of the entity's business activities
- for example, if assets are used in combination to produce goods or services, historical cost can provide relevant information about margins achieved in a period

an independent correspondent member of



Faithful representation

Measurement inconsistency

if financial statements contain measurement inconsistencies (accounting mismatch), those financial statements may not faithfully represent some aspects of the entity's financial position and financial performance

Measurement uncertainty

- does not necessarily prevent the use of a measurement basis that provides relevant information
- but if too high might make it necessary to consider selecting a different measurement basis

Chapter 6 – Measurement

Cost constraint

Cost constrains the selection of a measurement basis, just as it constrains other financial reporting decisions

Chapter 7 – Presentation and disclosure

Effective communication of information in financial statements requires:

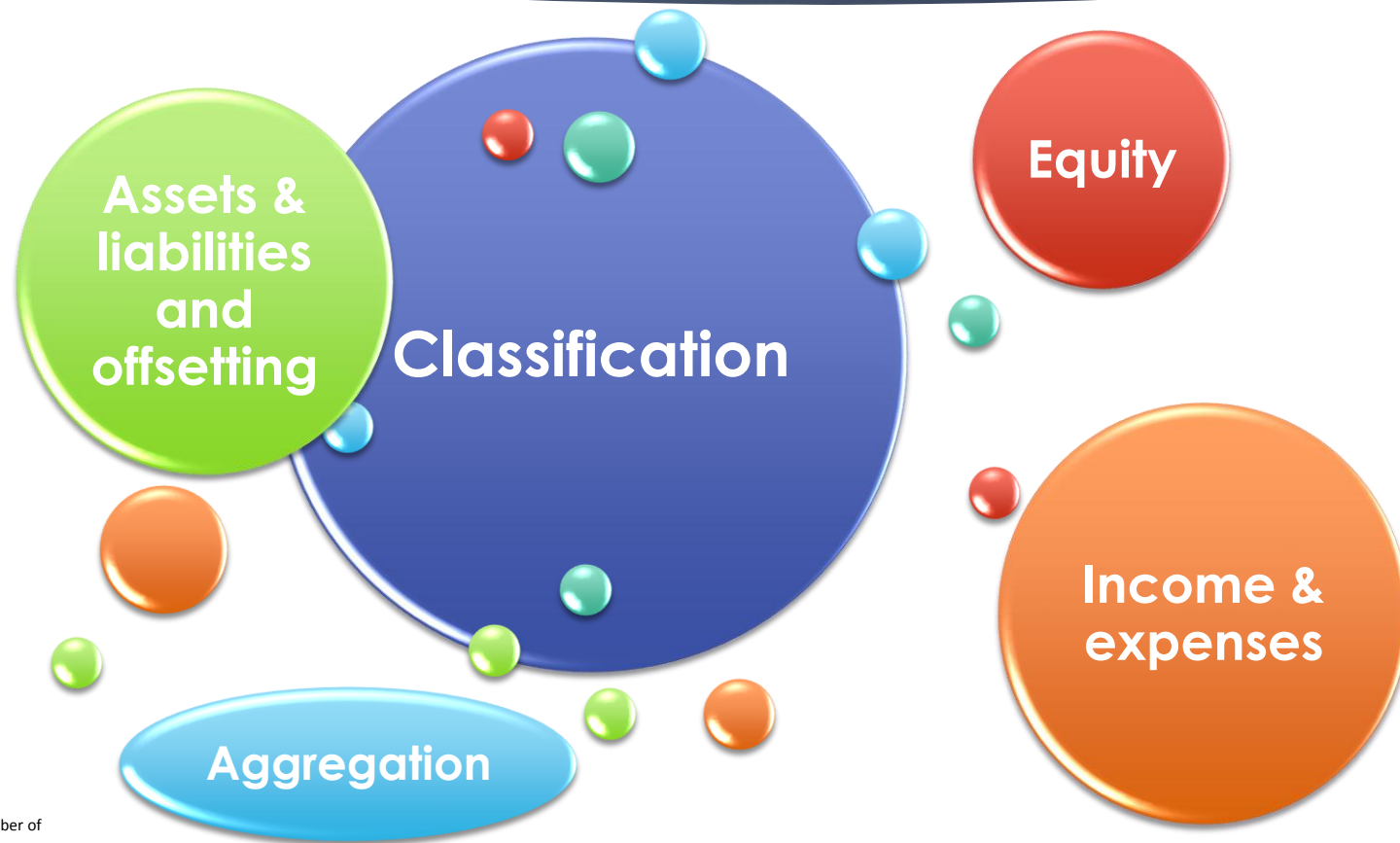
- Focusing on presentation and disclosure objectives and principles rather than focusing on rules;
- Classifying information in a manner that groups similar items and separates dissimilar items; and
- Aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.

Chapter 7 – Presentation and disclosure

When developing presentation and disclosure requirements in Standards a balance is needed between

- Giving entities the flexibility to provide relevant information that faithfully represents the entity's assets, liabilities, equity, income and expenses; and
- Requiring information that is comparable, both from period to period for a reporting entity and in a single reporting period across entities.

Chapter 7 – Presentation and disclosure



Chapter 7 – Presentation and disclosure

The statement of profit or loss

- The statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period
- Profit or loss could be a section of a single statement of financial performance or a separate statement
- The statement(s) of financial performance include(s) a total (subtotal) for profit or loss
- In principle, all income and expenses are classified and included in the statement of profit or loss

Chapter 7 – Presentation and disclosure

Other comprehensive income

- In exceptional circumstances, the Board may decide to exclude from the statement of profit or loss income or expenses arising from a change in current value of an asset or liability and include those income and expenses in other comprehensive income
- The Board may make such a decision when doing so would result in the statement of profit or loss providing more relevant information or a more faithful representation.

Chapter 7 – Presentation and disclosure

Recycling

In principle, income and expenses included in other comprehensive income in one period are recycled to the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information or a more faithful representation

When recycling does not result in the statement of profit or loss providing more relevant information or a more faithful representation, the Board may decide income and expenses included in other comprehensive income are not to be subsequently recycled

Chapter 8 – Concepts of capital and capital maintenance

The content in this chapter was taken over from the existing Conceptual Framework and discusses concepts of capital (financial and physical), concepts of capital maintenance (again financial and physical) and the determination of profit as well as capital maintenance adjustments. The IASB decided that updating the discussion of capital and capital maintenance could have delayed the completion of the framework significantly. The Board might consider revising the description and discussion of capital maintenance in the future if it considers such a revision necessary.

Questions & Discussions



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