ACCA

Strategic Business Reporting (SBR (INT/UK))

Pocket Notes

KAPLAN PUBLISHING

Contents

chapter

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Frameworks

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The Conceptual Framework

Exam focus

The Conceptual Framework is an important topic in SBR. You should expect it to feature in every exam.

Purposes

The key purposes of the Conceptual Framework are to assist:

- the Board when developing new IFRS Standards
- preparers of financial statements when no IFRS Standard applies to a transaction, or when an IFRS Standard offers a choice of accounting policy
- all parties when understanding and interpreting IFRS Standards.

The purpose of financial reporting

The purpose of financial reporting is to provide information to current and potential investors, lenders and other creditors that will enable them to make decisions about providing economic resources to an entity.

User groups need information to assess:

- an entity's potential future cash flows, and
- management's stewardship of the entity's economic resources.

This information is provided in financial statements.

Qualitative characteristics

Key Point

Financial information is only useful if it embodies the fundamental characteristics.

The enhancing characteristics make financial information more useful.

Qualitative characteristics of useful financial information

Fundamental characteristics:

- Relevance
- Faithful representation

Enhancing characteristics:

- Verifiability
- Timeliness
- Understandability
- Comparability

The elements

Definition

The elements are the building blocks of financial statements.

An economic resource is a **'right that has the potential to produce economic benefits'**
(para 4.4).

Asset	**'A present economic resource controlled by an entity as a result of a past event'** (para 4.3).
Liability	**'A present obligation of the entity to transfer an economic resource as a result of a past event'** (para 4.26).
Equity	The residual interest in the net assets of an entity.
Income	Increases in assets or decreases in liabilities that result in an increase to equity (excluding contributions from equity holders).
Expenses	Decreases in assets or increases in liabilities that result in decreases to equity (excluding distributions to equity holders).

Recognition

Items are recognised in financial statements if:

- they meet the definition of an element, and
- recognition provides relevant information, and
- recognition faithfully represents the entity's financial performance and position.

Derecognition

Derecognition from financial statements normally occurs when the entity:

- loses control of the asset, or
- has no present obligation for the liability.

Accounting for derecognition should faithfully represent the changes in an entity's net assets, as well as any assets or liabilities retained. This involves:

- derecognising any transferred, expired or consumed component, and
- recognising a gain or loss on the above, and
- recognising any retained component.

Materiality

Materiality is an important concept in financial reporting, but users and preparers of financial statements require more guidance on how to apply it. The Board has published guidance in a Practice Statement.

Definition

An item is material if omitting, misstating or obscuring it would influence the economic decisions of financial statement users.

Materiality judgements are required throughout the process of preparing financial statements:

Step 1
Identify information that could be material

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Step 2
Assess whether that information is material

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Step 3
Organise the information in draft financial statements

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Step 4
Review the draft financial statements

IFRS 13 *Fair Value Measurement*

Definition

Fair value is defined as '**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**' (IFRS 13, para 9).

Fair value hierarchy

Level 1 inputs

- Quoted prices for identical assets in active markets

Level 2 inputs

- Quoted prices for identical assets in less active markets
- Quoted prices for similar assets in active markets

Level 3 inputs

- Unobservable inputs

Priority is given to level 1 inputs when determining fair value.

Markets

Key Point

IFRS 13 says that fair value should be determined by reference to the principal market.

This is the market with the greatest volume of activity.

If the principal market cannot be determined then fair value should be measured based on the price in the most advantageous market.

Non-financial assets

Non-financial assets include:

- Property, plant and equipment
- Intangible assets

The fair value of a non-financial asset should be based on its **highest and best use.**

Exam focus

Exam Kit questions in this area

- Skizer
- Mehran
- Klancet
- Sitka
- Juan
- Wing
- Evolve