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International
Accounting Standards
Board

This document is provided as a convenience to observers at the World Standard Setters meeting, to assist them in following the discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the World Standard Setters meeting. Paragraph numbers correspond to the paragraph numbers in the staff papers.

INFORMATION FOR OBSERVERS

Meeting: ***World Standard Setters meeting, September 2005, London***

Agenda Paper 3B

Cases for breakout groups on Conceptual Framework — Qualitative Characteristics

Case 1:
Accounting for an Equity Investment

On January 31, 2005, Investor Co. acquires an equity investment at its fair value of 100 (Investor Co. does not have significant influence, or a controlling interest, in the investee). By December 31, 2005 the value of the equity investment has increased to 135.

Issue:

Using the process in Agenda Paper 3A, how should the above information affect Investor Co.'s financial reports at the end of 2005?

Questions to consider:

1. What are the economic phenomena of 2005 that relate to Investor Co.'s investment?

2. Which of these phenomena are relevant to the decisions of Investor Co.'s investors, creditors, etc.?

Consider whether the phenomenon meets the attributes of relevance – i.e., does it have predictive value and /or confirmatory value.

3. How can the phenomena be depicted (in terms of words and perhaps numbers) – consider all alternatives.

4. Which should be depicted in Investor Co.'s financial reports – i.e., which is the most relevant of those depictions?

5. Is the depiction a faithful representation? If a phenomenon needs to be included in a line item of a financial statement (i.e., represented in terms of monetary units), how should it be measured?

   Consider whether the possible depiction meets the attributes of faithful representation – i.e., is it neutral, verifiable and complete.

6. Is the chosen depiction comparable?

7. Is the depiction of the phenomenon, including the display in the financial statements, the measurement and required disclosures in footnotes, understandable?

8. Do the collective benefits of reporting the phenomenon in the manner proposed justify the collective costs of the reporting?

Case 2:
Accounting for a legal obligation of uncertain timing and amount

On January 31, 2005, a class action law suit is filed relating to alleged damages as a result of actions by Risky Business Inc. The amount of claim is for 500,000. At the end of 2005, Risky Business Inc.'s lawyer believes that there no chance that Risky Business Inc. will be found liable for 500,000. However, Risky Business Inc.'s lawyer believes that there is a 50 per cent chance that the claim will be thrown out of court in one-year's time with no cost to Risky Business Inc. and a 50 per cent chance that Risky Business Inc. will be found liable for 100,000 after the courts have deliberated for three years.

Issue:

Using the process in Agenda Paper 3A, how should the above information affect Risky Business Inc.'s financial reports at the end of 2005?

Questions to consider:

1. What are the economic phenomena of 2005 that relate to the lawsuit against Risky Business Inc.?

2. Which of these phenomena are relevant to the decisions of Risky Business Inc.'s investors, creditors, etc.?

   Consider whether the phenomenon meets the attributes of <u>relevance</u> – i.e., does it have predictive value and /or confirmatory value.

3. How can the phenomena be depicted (in terms of words and perhaps numbers) – consider all alternatives.

4. Which should be depicted in Risky Business Inc.'s financial reports – i.e., which is the most relevant of those depictions?

5. Is the depiction a faithful representation? If a phenomenon needs to be included in a line item of a financial statement (i.e., represented in terms of monetary units), how should it be measured?

   Consider whether the possible depiction meets the attributes of <u>faithful</u> <u>representation</u> – i.e., is it neutral, verifiable and complete.

6. Is the chosen depiction <u>comparable</u>?

7. Is the depiction of the phenomenon, including the display in the financial statements, the measurement and required disclosures in footnotes, <u>understandable</u>?

8. Do the collective <u>benefits</u> of reporting the phenomenon in the manner proposed justify the collective <u>costs</u> of the reporting?

Case 3:
Accounting for a Defined Benefit Pension

On January 1, 2005, X Co. adopts a defined benefit pension plan for its employees. The plan provides that any employee who has worked for X Co. at least one full year (12 consecutive months) is entitled to an annual payment upon reaching age 65 or retiring, whichever comes later. The first payment is made the day after reaching 65 or retiring, and subsequent annual payments are made thereafter. The amount of each annual payment is equal to 2% of the retired employee's highest annual salary multiplied by the number of years of employment with X Co. Beginning December 31, 2005, and at the end of each year thereafter, X Co. will deposit with an independent financial trustee an amount equal to 5% of the year's gross employee payroll to defray future payments under the pension.

Issue:

Using the process in Agenda Paper 3A, how should the above information affect X Co.'s financial reports at the end of 2005?

Questions to consider:

1. What are the economic phenomena of 2005 that relate to X Co.'s pension plan?

2. Which of these phenomena are relevant to the decisions of X Co.'s investors, creditors, etc.?

   Consider whether the phenomenon meets the attributes of <u>relevance</u> – i.e., does it have predictive value and /or confirmatory value.

3. How can the phenomena be depicted (in terms of words and perhaps numbers) – consider all alternatives.

4. Which should be depicted in X Co.'s financial reports – i.e., which is the most relevant of those depictions?

5. Is the depiction a faithful representation? If a phenomenon needs to be included in a line item of a financial statement (i.e., represented in terms of monetary units), how should it be measured?

   Consider whether the possible depiction meets the attributes of <u>faithful</u> <u>representation</u> – i.e., is it neutral, verifiable and complete.

6. Is the chosen depiction <u>comparable</u>?

7. Is the depiction of the phenomenon, including the display in the financial statements, the measurement and required disclosures in footnotes, <u>understandable</u>?

8. Do the collective <u>benefits</u> of reporting the phenomenon in the manner proposed justify the collective <u>costs</u> of the reporting?

Case 4:
Accounting for liabilities

At the end of its 2005 fiscal year, Big Spender Co. has a wide range of debt obligations, including debentures, senior discount notes, bank overdrafts, and long-term lease obligations.

Issue:

Using the process in Agenda Paper 3A, what information should be provided about Big Spender Co.'s debt obligations in its financial reports at the end of 2005?

Questions to consider:

1. What are the economic phenomena of 2005 that relate to Big Spender Co.'s debt obligations?

2. Which of these phenomena are relevant to the decisions of Big Spender Co.'s investors, creditors, etc.?

   Consider whether the phenomenon meets the attributes of <u>relevance</u> – i.e., does it have predictive value and /or confirmatory value.

3. How can the phenomena be depicted (in terms of words and perhaps numbers) – consider all alternatives.

4. Which should be depicted in Big Spender Co.'s financial reports – i.e., which is the most relevant of those depictions?

5. Is the depiction a faithful representation? If a phenomenon needs to be included in a line item of a financial statement (i.e., represented in terms of monetary units), how should it be measured?

   Consider whether the possible depiction meets the attributes of <u>faithful</u> <u>representation</u> – i.e., is it neutral, verifiable and complete.

6. Is the chosen depiction <u>comparable</u>?

7. Is the depiction of the phenomenon, including the display in the financial statements, the measurement and required disclosures in footnotes, <u>understandable</u>?

8. Do the collective <u>benefits</u> of reporting the phenomenon in the manner proposed justify the collective <u>costs</u> of the reporting?

9. How can the aggregate of the debt obligations be presented in a manner that is a complete and <u>faithful representation</u>, is <u>comparable</u>, <u>understandable</u> and <u>timely</u>?