

Friday 12 June 2009  
Universidade de São Paulo

Presentation Material

**IFRS Teaching and Research Session  
IAAER – ANPCONT (3<sup>rd</sup>) International  
Accounting Congress**





**IFRS Teaching and Research Session  
IAAER – ANPCONT (3<sup>rd</sup>) International  
Accounting Congress**

12 June 2009 – São Paulo, Brazil

A framework for teaching IFRS


**Michael Wells**

*Director, IFRS Education Initiative*

**IASC Foundation**

June 2009

International Financial Reporting Standards



# Teaching principle-based standards

Sao Paulo, June 2009

Michael Wells, Director of IFRS Education Initiative, IASC Foundation

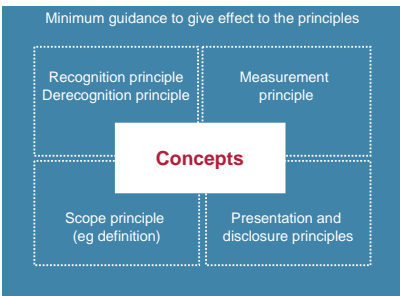
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## Overview

- Principle-based standards
- Structure of IFRSs
- A structure for teaching IFRS

## Structure of a principle-based standard



Minimum guidance to give effect to the principles

Recognition principle  
Derecognition principle

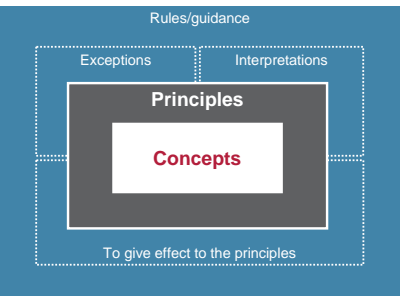
Measurement principle

**Concepts**

Scope principle  
(eg definition)

Presentation and disclosure principles

## Structure of IFRSs



Rules/guidance

Exceptions Interpretations

**Principles**

**Concepts**

To give effect to the principles

## Concepts that underlie IFRSs

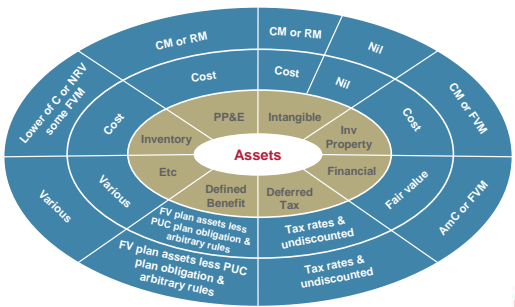
- Objectives of **general purpose financial statements**
- Qualitative characteristics
- Elements
- Recognition and measurement (weak)
- Presentation and disclosure (weak)

**Teaching suggestions:**

- Identify which concepts are robust (and which are not)
- Relate the requirements back to the robust concepts in FW
- Explain reasons when requirements inconsistent with FW
- Debunk myths

## Asset

Classification, recognition and measurement



Assets

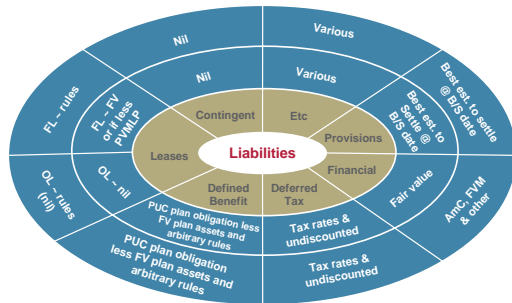
Inventory, PP&E, Intangible, Inv Property, Financial, Etc, Defined Benefit, Deferred Tax, Fair value

Lower of C or NRV, Cost, CM or RM, Nii, Cost, CM or FVM, Various, Various, FV plan assets less PUC plan obligation & arbitrary rules, Tax rates & undiscounted, Fair value, AnC or FVM, Tax rates & undiscounted

## Liability

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Classification, recognition and measurement



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International Financial Reporting Standards

## A structure for teaching IFRSs

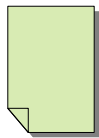
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## From concepts to principles to rules

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Concepts



Principles



Rules

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## From concepts to principles to rules

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### Teaching suggestions:

- build from objective through concepts to principles
- explain how rules give effect to the principles
- explain reasons for exceptions (another type of rule)
- focus on judgements
- test understanding, eg use integrated case studies

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## Example 1 Correcting material prior period error

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- Objective
- Concepts
- Principle – retrospective restatement
- Rules
  - impracticable exception
  - specified disclosures

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## Example 1: Correcting material prior period error continued

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### Teaching suggestions:

- build from objective through concepts to principles and rules
- explain reason for impracticability exception
- explain how specified disclosures give effect to principles
- focus on judgements (eg what is material?)
- test understanding, integrated case study

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### Example 2: Events after the reporting period

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- Objective
- Concepts
- Principles
  - adjusting, if condition existed at end of reporting period
  - non-adjusting, if condition did not exist at end...
- Rules, eg specified disclosures



### Example 2: Events after the reporting period continued

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#### Teaching suggestions:

- build from objective through concepts to principle and rules
- explain how specified disclosures give effect to principles
- focus on judgements, eg material?
- test understanding, eg use an integrated case study



### Example 3: Lease classification

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- Objective
- Concepts
- Lease classification principle
  - capitalise in-substance purchases (finance leases)
  - other leases = executory contracts (operating leases)
- Rules
  - specified disclosures



### Example 3: Lease classification continued

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#### Teaching suggestions:

- explain lease classification principle is weak/inconsistent with the framework
- discuss what a better classification principle could be, eg see DP *Leases*
- focus on judgements, eg classification operating or finance lease
- test understanding, eg use an integrated case study



### Example 4: Business combinations

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- Objective
- Concepts
- Core principle
  - an acquirer of a business
  - recognises the assets acquired and liabilities assumed
  - at their acquisition-date fair values
  - disclose information that enables users to evaluate the nature and financial effects of the acquisition



### Example 4: Business combinations continued

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- Rules
  - exceptions to the recognition principle
  - exceptions to the measurement principle
  - specified disclosures



**Example 4:**  
**Business combinations** continued

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**Teaching suggestions:**

- build from objective through concepts to principle and rules
- recognition—explain reason for removing
  - (i) the probability criterion; and
  - (ii) the explicit reliability of measurement criteria (see Basis for Conclusions on IFRS 3 paragraphs BC125–BC130)
- explain reasons for exceptions to IFRS 3:
  - recognition principle
  - measurement principle(see Basis for Conclusions on IFRS 3)



**Example 4:**  
**Business combinations** continued

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**Teaching suggestions:**

- Focus on judgements, eg:
- identifying a business, measuring fair value in the absence of an active market etc
- Test understanding, eg:
- integrated case studies
  - discuss with reference to the QCs whether uncertainty should enter recognition or measurement (for business combinations and then extend the discussion to other transactions and elements).





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12 June 2009 – São Paulo, Brazil

Teaching IFRS in Brazil: News from the front and some  
research findings

**Alexsandro Broedel Lopes**  
*Professor USP and  
Member IASB's Education Advisory Group*

## Teaching IFRS in Brazil: News from the front and some research findings

**ALEXSANDRO BROEDEL LOPES**  
PROFESSOR USP AND MEMBER IASB'S EDUCATION  
ADVISORY GROUP  
broedel@usp.br

## Scenario

- Teaching of IFRS to undergraduates, MBA students and executive training in Brazil
- Evidence gathered prior to IFRS adoption in Brazil (executives at branches of European companies) and after the convergence process started
- Personal experience

## Historical Background

- During the eighties the Brazilian economy endured a highly inflationary period with little or no capital market activity
- **Recognition**
  - Mostly based on form rather than substance, e.g. leasing
- **Measurement**
  - Dictated by tax norms rather than the product of substantial measurement process, e.g. depreciation of fixed assets
- **Disclosure**
  - Very poor, e.g. "tax returns were calculated according to tax rules"

## New Scenario

- The macroeconomic stabilization of the nineties started a period of "crowding in" with less public deficits and more activities on the real side of the economy
- This new century has watched the upsurge of a unique period of capital market activity in Brazilian history
- This new world created a strong demand for informative accounting reports

## Teaching International Standards in Brazil

- **Two periods**
  - First we had a significant demand to teach US-GAAP in executive programs (Brazil is the third largest ADR issuer in the world)
  - This changed to IFRS and now Brazilian Standards (CPC)
- At the Universidade de São Paulo we had a international accounting course for some time
- **Two very distinct group of students**
  - Seasoned Accountants
  - New students

## Biggest Challenges

- Where are the rules?
- Are you going to give me a table containing the fair value estimates?
- This is something for the economists! I'm an accountant and I cannot provide a number so subjective
- This is going to be a confusion!
- Where is the Brazilian accounting tradition?

### Other side of the story

- This is how accounting should be done!
- Is there are different way to do that?
- Now I understand. Now it makes sense!
- Can I really interpret the facts and give the true picture?

### Teaching

- From real situations to accounting
- Objectives leading to principles
- It's time to think about it!
- Let the students decide and apply judgement
- Interface with other disciplines
- Qualified teachers are in strong demand

### Research

- Strong evidence that Brazilian accounting reports were not informative on the average
- Strong firm-level variation in corporate governance arrangements and on the informativeness of accounting reports
- New evidence suggests that reports are becoming more informative
- Anedoctal evidence suggests that market participants are reacting to IFRS reports in Brazil

### The future

- Brave new world for accountants in Brazil
- Several questions are still unanswered – e.g. the real tax effect of IFRS statements and the essence over form in recent tax decisions
- How IFRS will perform on individual statements
- Strong interface with Brazilian SEC (CVM)
- **“A sea change”**
  - From Shakespeare's *The Tempest*, 1610:



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IFRS resources

**Donna Street**  
*President*  
**IAAER**

## IFRS Resources For Educators Including Portuguese Language Materials

Professor Donna L. Street  
President IAAER  
Mahrt Chair in Accounting  
University of Dayton

## Overview

- English language IFRS teaching resources
- Portuguese language IFRS teaching resources
- Portuguese language IFRS teaching resources specifically developed for Brazil

## English Language Resources

- Recommended starting point - Paul Pacter's IFRS Resources for Educators
- Regularly updated and available at
  - <http://www.iasplus.com/resource/ifrsresources.pdf>

## English Language Resources My Favorites From Paul's List

- *Issues in Accounting Education* 22(4) Nov 2007
  - 17 international accounting cases
  - Special issue by International Accounting Section of AAA
- IASB and FASB project summaries ([www.iasb.org](http://www.iasb.org) and [www.fasb.org](http://www.fasb.org))
  - PLEASE TEACH IASB AGENDA INCLUDING FRAMEWORK
- AICPA's [www.ifrs.com](http://www.ifrs.com)
- <http://www.iasplus.com> (Deloitte)
  - TREMENDOUS UPDATES
    - Go to place for updates – worldwide coverage
  - Includes Deloitte IFRS e-learning (free downloads)
    - Independent study with quizzes provided

## English Language Resources My Favorite From Paul's List

- IAAER membership includes free academic access to eIFRS. Annual IAAER membership
  - \$US25 faculty
  - \$US20 student
  - Special university rates start at \$US150 (for 10 faculty)
- Otherwise 200 UK pounds
- eIFRS includes - *A Guide through IFRS*
  - Full text of standards & interpretations
  - Extensive cross-referencing and other annotations

## English Language Resources My Favorite From Paul's List

- eIFRS includes printable PDF language versions of IFRS in
  - English (2009)
  - German (2008)
  - Spanish (2008)
  - French (2008)
  - Greek (2006)
  - Italian (2008)
  - Dutch (2008)
  - Russian (2006)
  - Slovenian (2007)



## IFRS For SMEs

- IASCF education initiative is developing comprehensive free-to-download training material to support implementation of IFRS for SMEs
- Will be available at <http://www.iasb.org/Education/Resources/Training+material.htm>
- Please note these materials are FORTHCOMING, expected 4<sup>th</sup> Q 2009
- Training materials will include 35 stand-alone training modules - one for each section of IFRS for SMEs



## IFRS For SMEs

- Each module will include:
  - Introduction - overview of module, including:
    - Learning objectives - description of capabilities and competences the learner should attain by successfully completing the module
    - IFRS for SMEs - a description of IFRS for SMEs and the material that accompanies, but does not form part of, the IFRS
    - Introduction to the requirements - overview of the requirements of the section i.e. a technical summary
  - Requirements - full text of the section of the IFRS for SMEs with added notes and worked examples. The notes and examples are designed to clarify and illustrate the requirements



## IFRS For SMEs

- Each module will include (continued):
  - Significant estimates and other judgments - a discussion of significant estimates and other judgments in accounting for transactions and events in accordance with that section of the IFRS for SMEs
  - Comparison with full IFRSs - a high-level summary of the main differences between that section of the IFRS for SMEs and the corresponding full IFRS
  - Test your knowledge - a collection of multiple choice questions designed to test the learner's knowledge of the requirements of the section of the IFRS for SMEs
  - Apply your knowledge - a collection of case studies designed to develop the learner's ability to account for transactions and events in accordance with the section of the IFRS for SMEs




## IFRS For SMEs

- The education initiative has approached the world's development agencies to fund the translation of the IFRS for SMEs into many languages
- Also plans to provide instructors for regional workshops to 'train the trainers' to train others in the use of the training material, particularly in the world's emerging economies



## Free IFRS Materials In Portuguese – 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](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm)
  - 'pt' link for Portuguese
  - 'es' link for Spanish
  - 'en' link for English



## Portuguese Language IFRS Materials: Deloitte (in IASPlus)

- Jurisdictional Updates – Brazil
  - <http://www.iasplus.com/country/brazil.htm>
- Comparisons of IFRSs and national GAAPs
  - <http://www.iasplus.com/americas/ifrsbrazilgaap.pdf>
  - 73 page summary comparison of IFRS and Brazilian standards as of January 2006
- IFRS in your Pocket in Portuguese:
  - <http://www.iasplus.com/americas/pocket2009brazil.pdf>
- Brazil Converging: A Practical Guide to Adopting IFRS:
  - <http://www.iasplus.com/americas/0902brazilpracticalguide.pdf>
- IFRS in the Real Estate Industry in Brazil:
  - <http://www.iasplus.com/americas/0811realestatebrazil.pdf>
- Accounting Standard Updates in Brazil:
  - <http://www.iasplus.com/country/brazil.htm>

## Portuguese Language IFRS Materials: PwC

- PwC - Publicações sobre IFRS
  - <http://www.pwc.com/extweb/pwcpublishations.nsf/docid/44F9A82E5DD5B2A0852574CE00656D8D>
- Includes
  - IFRS Pocket Guide (as of 2009, 82 pages)
  - Conversão para IFRS - Enfrentando o desafio com excelência técnica e confiança
    - Conversion to IFRS - Facing the challenge with confidence and technical excellence
  - IFRS no Brasil (placements)
    - Helps large enterprises overcome the challenge of conversion to IFRS. A series of placements on IFRS in Brazil, focused on industries: Agribusiness, Automotive, Banks, Construction and Real Estate, Mining, Oil and Gas, Paper, Insurance, Technology, Information, Communication and Entertainment, Public Utilities and Retail

## Portuguese Language IFRS Materials: PwC

- Semelhanças e Diferenças IFRS X USGAAP X Práticas Contábeis Adotadas no Brasil
  - Overview of main differences between three sets of standards: IFRS, US GAAP, and accounting practices adopted in Brazil
- Diagnosticando o IFRS na sua Empresa - Vantagens em implementar já as Normas Internacionais de Contabilidade - o Caso Brasileiro
  - IFRS best practices publication
- IFRS- Seguradoras- implicações para a indústria
  - IFRS- Insurance- implications for industry
- Impacto das IFRS na indústria de Real Estate brasileira
  - Impact of IFRS in the industry of Brazilian Real Estate
- IFRS - Semelhanças e diferenças para fundos de investimentos
  - IFRS- Similarities and differences in investment funds
- Semelhanças e diferenças - Uma comparação entre BR GAAP, IFRS, US GAAP e Canadian
  - Similarities and differences- a comparison between Brazilian GAAP, IFRS, US GAAP, and Canadian GAAP.

## For Brazil In English - PwC

- Making the Change to IFRS - Brazil Introduction
  - IFRS is being rapidly embraced by local regulators, accounting professions and markets as the universal language which will set the standard for reporting. Brazilian companies must consider how they will fit into this fast developing global spectrum in the near future

## Portuguese Language IFRS Materials: E&Y

- [http://www.ey.com/SearchResults?query=brazil+and+IFRS&search\\_options=search\\_all](http://www.ey.com/SearchResults?query=brazil+and+IFRS&search_options=search_all)
- Includes
  - Comparação entre normas contábeis internacionais e o US GAAP
    - Comparison between IFRS and US GAAP
  - Publicação "IFRS para presidentes, comitês de auditoria e conselhos de administração e fiscal"
    - Publication "IFRS for presidents, audit committees and boards of directors"

## Portuguese Language IFRS Materials: E&Y

- <http://www.ey.com/BR/pt/Issues/Governance-and-reporting/IFRS>
- Includes
  - IAS 41: Brasil será referência
    - IAS 41: Brazil will be the reference. Because of its agricultural vocation, Brazil should become the standard reference on the application, which deals with accounting for biological assets.
  - IFRS 1: o início da transição
    - Overview of IFRS 1, with emphasis on the most important devices of IFRS 1- First Adoption of International Accounting Standards.
  - Estudo comparativo entre IFRS e normas brasileiras
    - Comparative study between Brazilian standards and IFRS

## Portuguese Language IFRS Materials: KPMG

- <http://www.kpmg.com.br/en/publicacoes.asp?ft=0&fx=0>
- Includes
  - IFRS Hoje
    - First edition discusses implementation of IFRS in Brazil
    - Second edition answers frequently asked questions on conversion to IFRS
  - O Brasil e as Normas Internacionais de Contabilidade (IFRS)
    - Brazil and IFRS – Questions and Answers
  - IFRS – Convergindo para um Padrão Global Desafios e Oportunidades
    - Discusses challenges and opportunities of converging to a global standard



## Portuguese Language IFRS Materials: Grant Thornton

- <http://www.tercogt.com.br/gxpsites/hgcpp001.aspx?8,9,18,O,P,0&AspxAutoDetectCookieSupport=1>
- Includes
  - Informe
    - Monthly publication addressing technical and legal changes in areas of accounting, tax, labor, and welfare
  - Doing Business In Brazil
    - Provides information on taxes, accounting practices, labor legislation, structure of businesses in the country and other aspects related to the environment for investments in Brazil



## **IFRS Resources for Educators**

Prepared by Paul Pacter: [ppacter@iasb.org](mailto:ppacter@iasb.org) and [paupacter@deloitte.com](mailto:paupacter@deloitte.com)  
Updated 5 June 2009

This is a list of some IFRS Resources available to accounting academicians. Most of the Internet resources are available without charge (purchased access is indicated).

This document (with active hyperlinks) may be downloaded from:

<http://www.iasplus.com/resource/ifrsresources.pdf>

**Important:** This list is provided for your convenience only. Neither the IASB nor Deloitte has reviewed or approved the contents of any of the information sources cited. It is the responsibility of the user to evaluate the content and usefulness of information.

### **BDO SEIDMAN**

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BDO IFRS Resource Centre

<http://www.bdo.com/ifrs/>

### **DELOITTE TOUCHE TOHMATSU**

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#### **Comprehensive IFRS publications**

##### ***iGAAP 2009 – A Guide to IFRS Reporting (Second Edition)***

Written by Phil Barden (writing team leader) and eight other authors from Deloitte. Published Nov. 2008 by Lexis-Nexis, 2,529 pages, ISBN 9780754535836. A practical working manual for applying each IAS and IFRS, with commentary, interpretation, and many illustrative examples. Purchase from

[www.lexisnexis.co.uk/deloitte](http://www.lexisnexis.co.uk/deloitte).

##### ***iGAAP 2008 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained (Fourth Edition)***

By Veronica Poole and Andrew Spooner of Deloitte. Published by LexisNexis, 851 pages, June 2008. Guide for financial instruments accounting under IFRSs, including interpretations, examples, discussions from the IASB and the IFRIC, comparisons of IFRSs with US GAAP for financial instruments, and extracts from 2007 annual reports illustrating IFRS 7 *Financial Instruments Disclosures*. Purchase from

[www.lexisnexis.co.uk/deloitte](http://www.lexisnexis.co.uk/deloitte).

#### **Deloitte IFRS website**

<http://www.iasplus.com>

- Nearly 700 HTML web pages
- Over 3,800 downloadable PDF and ZIP files
- Free
- Examples of content:
  - Summaries of Standards and Interpretations
  - Summaries of IASB and IFRIC Agenda Projects
  - IFRSs in your Pocket 2008*
  - IAS Plus newsletters
  - Information about IASB history and structure
  - IFRS model financial statements and presentation and disclosure checklists

IFRS publications and resources  
Use of IFRSs by jurisdiction  
Comparisons of IFRSs and national GAAPs  
Links to 200 IFRS-related websites

## **IFRS eLearning**

<http://www.iasplus.com> then click on light-bulb icon

- Each module is a 4mb to 8mb download. Can install on single PC or network. Each module takes 2-3 hours to complete. Case approach. Quiz at end. Completely free of charge. Must register before first download. Over 2,000,000 modules already downloaded.
- 37 Modules currently available (all updated in 2008 or 2009).

## **ERNST & YOUNG**

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### **Comprehensive IFRS publication**

**Ernst & Young, *International GAAP 2009*.**

Published by John Wiley & Sons, January 2009, 3,792 pages, 43 chapters, in two volumes, ISBN-978-0-470-74003-3. "The essential tool for anyone applying, auditing, interpreting, regulating, studying and teaching international financial reporting. It provides expert interpretation and practical guidance for busy professionals, and includes, in every chapter, detailed analysis of how complex financial reporting problems can be resolved appropriately and effectively." Web page:

<http://as.wiley.com/WileyCDA/Section/id-310759.html>

### **Ernst & Young IFRS website**

[www.ey.com/ifrs](http://www.ey.com/ifrs)

Includes:

- *IFRS Outlook* Monthly Newsletter (formerly called *Global EYE on IFRSs*)  
[http://www.ey.com/global/content.nsf/International/Assurance - IAS - Tools and Resources](http://www.ey.com/global/content.nsf/International/Assurance_-_IAS_-_Tools_and_Resources)
- IFRS Library Online:  
[http://www.ey.com/global/content.nsf/International/Dynamic\\_Library\\_Results?OpenDocument&&Site=International&T\\_Topic=IFRS](http://www.ey.com/global/content.nsf/International/Dynamic_Library_Results?OpenDocument&&Site=International&T_Topic=IFRS)
- Model IFRS financial statements:
- Tools and resources

### **Ernst & Young Academic Resource Center**

New – launch expected September 2008. Information:

[http://www.ey.com/global/content.nsf/US/About Ernst Young - Supporting Our People - Academic Resource Center](http://www.ey.com/global/content.nsf/US/About_Ernst_Young_-_Supporting_Our_People_-_Academic_Resource_Center)

## **GRANT THORNTON**

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### **International Financial Reporting Standards Resource Center**

[www.grantthornton.com/portal/site/gtcom/menuitem.91c078ed5c0ef4ca80cd8710033841ca/?vgnnextoid=bb444cfadd5d3110VgnVCM1000003a8314acRCRD](http://www.grantthornton.com/portal/site/gtcom/menuitem.91c078ed5c0ef4ca80cd8710033841ca/?vgnnextoid=bb444cfadd5d3110VgnVCM1000003a8314acRCRD)

Includes a range of publications such as:

- IFRS Top 20 Tracker (May 2008) 20 leading IFRS disclosure and accounting issues
- Comparison between U.S. GAAP and International Financial Reporting Standards

**Faculty Connection – resource website:**

<http://faculty.gtexperience.com>

## **KPMG**

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**KPMG IFRS Institute**

<http://www.kpmgifrsinstitute.com/>

**KPMG Faculty Portal**

<http://www.kpmgfacultyportal.com>

- IFRS resources as well as US GAAP

**KPMG International Financial Reporting Group website**

<http://www.kpmgifrg.com>

**IFRS Publications Library**

<http://www.kpmgifrg.com/pubs/index.cfm>

Includes:

- Interpretive guidance
- *IFRS In Brief* newsletter
- Revolving Issues newsletter
- Disclosure checklists
- GAAP comparisons
- Illustrative financial statements

## **PRICEWATERHOUSECOOPERS**

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**PWC IFRS reporting website**

<http://www.pwcglobal.com/ifrs>

Includes:

- *IFRS News* (monthly newsletter)
- *IFRS Pocket guide 2008*
- IFRS illustrative financial statements
- IFRS publications
- IFRS eLearning (purchase)
- *Applying IFRSs* (purchase via Comperio license)

**PWC 'IFRS Ready' toolkit for educators**

- [www.pwc.com/faculty](http://www.pwc.com/faculty)
- Video explaining IFRS
- Interactive financial statements
- Slides, speaker notes, and questions an educator can use in intro or intermediate

**PWC IFRS Blog**

<http://pwc.blogs.com/ifrs/>

## Interactive IFRS Financial Statements

[http://www.knowledgelaunch.com/interactive\\_ifrs/](http://www.knowledgelaunch.com/interactive_ifrs/)

## **US SECURITIES AND EXCHANGE COMMISSION**

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### SEC Global Accounting Standards Page

<http://www.sec.gov/spotlight/ifrsroadmap.htm>

- Roadmap, speeches, proposed and final rulemaking and releases, concept releases, staff review of IFRS financial statements

## **AMERICAN ACCOUNTING ASSOCIATION**

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*Issues in Accounting Education*. Special Issue: Cases in International Accounting

<http://aaahq.org/pubs/issues.htm>

- This joint initiative of the American Accounting Association and its International Accounting Section includes 17 cases spanning a variety of topics and placement in the curriculum. Most can be utilized in more than one course, and several of the cases have a common theme. See Volume 22, Number 4 (November 2007) of *Issues* (available by subscription)

## **AMERICAN INSTITUTE OF CPAs**

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### Proposal to add IFRSs to US CPA Exam

[http://www.cpa-exam.org/cpa/exposure\\_draft.html](http://www.cpa-exam.org/cpa/exposure_draft.html)

### New IFRS website

<http://www.ifrs.com>

### Free monthly IFRS newsletter called *IFRS Report*

<http://www.smartbrief.com/ifrs/?campaign=1008Trial>

## **CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS**

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### IFRS transition page

[http://www.cica.ca/index.cfm?ci\\_id=39166&la\\_id=1](http://www.cica.ca/index.cfm?ci_id=39166&la_id=1)

## **EUROPEAN COMMISSION**

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### Accounting – general

[http://ec.europa.eu/internal\\_market/accounting/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/index_en.htm)

### Accounting News

[http://ec.europa.eu/internal\\_market/accounting/news/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/news/index_en.htm)

## Use of IFRSs in the European Union

[http://ec.europa.eu/internal\\_market/accounting/ias\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias_en.htm)

## EU Directives relating to accounting

[http://ec.europa.eu/internal\\_market/accounting/officialdocs\\_en.htm](http://ec.europa.eu/internal_market/accounting/officialdocs_en.htm)

## **INTERNATIONAL ACCOUNTING STANDARDS BOARD**

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### Website

<http://www.iasb.org>

Includes:

- IFRS summaries (English, Spanish, Portuguese):
- Current projects
- Purchase final standards, translations, subscriptions, eIFRS, CD ROMs:

**Important:** Academicians and students can join IAAER (see below) and get eIFRS for US\$25 (students \$20) as compared to US\$400 if purchased from IASB.

Important: IASB has announced that it plans to post

### **Bound Volume of IFRSs (“the IFRS bible”)**

- Published March each year
- All Standards and Interpretations, guidance, bases for conclusions, constitution, etc.
- Roughly 2,700 pages, £60, printed version. Also CD and on-line.

### **Education resources and training material**

<http://www.iasb.org/Education/Resources/Resources.htm>

<http://www.iasb.org/Education/Resources/Training+material.htm>

## **INTERNATIONAL ASSOCIATION FOR ACCOUNTING EDUCATION AND RESEARCH (IAAER)**

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### IAAER website

<http://www.iaaer.org/>

- Very low-cost subscription to eIFRS (from IASB)
- Includes all IFRSs and other educational materials of the IASB \$25 (academician) and \$20 (student) – normal price from IASB \$400

### **Teaching resources page**

<http://www.iaaer.org/resources/>

- Includes links to a number of IFRS resources

## **RECENT TEXTBOOKS (2007 and later)**

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### *Comparative International Accounting*

10th edition. By Christopher Nobes and Robert Parker. Published by Pearson, April 2008, 632 pages, ISBN13: 9780273714767. “Uncovers the conceptual and contextual foundations of the increasingly used International

Financial Reporting Standards (IFRS) and contrasts them with US generally accepted accounting principles (GAAP). Nobes and Parker examine the key issues inherent in the subject, such as transition, harmonization and political lobbying, and the international differences that remain. They also look at the special accounting problems of multinational companies.” Web page:

<http://www.pearsoned.co.uk/Bookshop/detail.asp?item=10000000259866>

***International Corporate Reporting: A Comparative Approach***

4th edition. By Clare Roberts, Pauline Weetman and Paul Gordon. Published by Pearson, April 2008, 704 pages, ISBN13: 9780273714736. “Enables students to analyze the similarities and differences in accounting, reporting and regulation around the world, and to familiarize them with the growing body of research into international accounting practices”. Web page:

<http://www.pearsoned.co.uk/Bookshop/detail.asp?item=10000000259868>

***International Accounting***

6<sup>th</sup> edition. By Frederick D. Choi and Gary K. Meek. Published by Pearson, Nov. 2007, 528 pages, ISBN-13: 9780138133887. “For upper-level undergraduate/graduate courses in International Accounting. Takes a multinational approach, written from a financial reporting perspective to accounting practices, introducing students to the international dimensions of accounting, financial reporting, and financial control in a concise, comprehensive, and student-friendly manner.” Web page:

<http://www.pearsonhighered.com/educator/academic/product/0,3110,0131588141,00.html>

***Wiley IFRS: Practical Implementation Guide and Workbook***

2<sup>nd</sup> edition. By Prof Graham Holt and Abbas Ali Mirza and Magnus Orrell of Deloitte. Published by John Wiley & Sons, May 2008, 474 pages, ISBN: 978-0-470-17022-9. Includes outlines of all IASs/IFRSs, practical insights, cases studies with solutions, illustrations, and multiple-choice questions with solutions. Web page: <http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470170220.html>

***Applying International Financial Reporting Standards***

Enhanced Edition. By Keith Alfredson, Ken Leo, Ruth Picker, Paul Pacter, Jennie Radford, Victoria Wise, February 2007, 1,256 pages, ISBN: 978-0-470-80823-8. “Written to meet the needs of accounting students and practitioners in understanding the complexities of IFRSs and applying the stable platform of standards. It concentrates on those financial reporting standards that are not related to specific industries and that therefore have wide application”. Web page: <http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470808233.html>

## **HISTORIES**

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***Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000***

By Kees Camfferman and Stephen A. Zeff. Published by Oxford University Press, March 2007, 676 pages, ISBN-13: 978-0-19-929629-3. “Examines the history of the IASC from 1973 to 2000, including its foundation, operation, changing membership and leadership, achievements and setbacks, the development of its standards, and its restructuring leading up to the creation of the IASB in 2001.” Telephone orders: +44 (0) 1536 741 727. Web page: <http://www.oup.com/uk/catalogue/?ci=9780199296293>

***The International Accounting Standards Committee: A Political History***

By Robert J. Kirsch. Published by Wolters Kluwer (UK) Ltd., 2006, 463 pages, ISBN 978 1 84140 608 4. order by email: [customerservice@cch.co.uk](mailto:customerservice@cch.co.uk)

## **OTHER RESOURCES**

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*World Accounting Report* [www.i-financial.com/](http://www.i-financial.com/)

- Monthly subscription newsletter covers IFRSs, US GAAP, IASB meeting summaries, and more



**IFRS Teaching and Research Session  
IAAER – ANPCONT (3<sup>rd</sup>) International  
Accounting Congress**

12 June 2009 – São Paulo, Brazil

IFRS research

**Mary Barth**

*Member, IASB and*

*Professor of Accounting, Stanford University*

June 2009

International Financial Reporting Standards



## IFRS Research

Mary Barth  
IASB member and Professor of Accounting, Stanford University

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## How does research inform?

- Helps standard setters:
  - identify issues
  - structure thinking
  - provide evidence
- Unbiased analysis
- Concepts underlying financial reporting are comfortable for academic researchers

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## Research and standard setting

- Accounting standards are public goods and involve externalities
  - Desirability of accounting standards requires specifying social preferences
  - Even with market efficiency, relation to equity prices and returns is not sufficient to determine desirability or effects of particular standards

Operationalise Framework criteria

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## Research and standard setting continued

- Standard setters select rules
- Research informs standard setting
- But, cannot answer:
  - What should the standard be?

Motivating questions differ from research questions.

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## What research topics?

- Technical agenda topics
- Cross-cutting issues

Fair Value	Recognition/Disclosure	Uncertainty/Risk
Relevance/Faithful Representation	Incentives/Judgements	
Liabilities/Equity	User Needs	Costs/Benefits

- Conceptual framework
- Globalization of financial reporting


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## Fair value accounting for liabilities and own credit risk

- Motivating questions
  - Do changes in credit risk affect a liability's fair value?
  - Would net income be misleading if effect were recognized?
- Research questions
  - Is effect of credit risk changes on equity returns mitigated by leverage?
  - How would income differ if fair values of debt were recognized?

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## Fair value accounting for liabilities and own credit risk

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➤ *Is effect of credit risk changes on equity returns mitigated by leverage?*

- Research design
  - Estimate relation between equity returns and change in credit risk interacted with leverage
  - Estimate relation substituting estimate of debt gain or loss for interaction variable
  - Partition change in credit risk into change in expected asset cash flows and risk



## Fair value accounting for liabilities and own credit risk

8

- Findings and interpretation
  - Equity returns less negative (positive) when credit risk increases (decreases) with more leverage
  - Most credit risk levels, even lowest
  - Attributable to asset cash flow and risk changes
- => Equity holders gain (lose) when credit risk increases (decreases) because of debt



## Fair value accounting for liabilities and own credit risk

9

➤ *How would income differ if fair values of debt were recognized?*

- Research design
  - Invert Merton (1974) model to obtain estimates of asset and liability values
  - Restate net income to reflect all changes in fair values and only changes in debt fair values



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## Fair value accounting for liabilities and own credit risk

10

- Findings and interpretation
  - All value changes: decreases income for downgrade firms, opposite for upgrade
  - Only debt value changes: increases income for downgrade firms, opposite for upgrade
  - Recognised asset write-downs exceed debt value gains for most firms
- => Concerns about anomalous effects not unwarranted – but not pervasive



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## Revenue

11

- What is revenue?
- When should we recognise revenue?
  - Changes in assets and liabilities alone or with “earnings process” override?
  - Triggering events? Bundled offerings?
- How should we measure performance obligations?
  - Fair value?
  - Allocated customer consideration?



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## Liabilities and equity

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- How should we define liabilities and equity?
- Can we reliably measure debt and equity components of hybrid instruments?
- Should we retain sharp distinction between debt and equity?
- What are implications for income statement?



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## Consolidations

13

- What are features of control?
- What are features of equity?
- SPEs: How to aggregate and measure different risks? Which ones?
- What information do investors need about separate entities?



## Leases

14

- Contractual rights and obligations?
- Executory contracts?
- Gross versus net: assets and income?
- Fair values, again
- Liabilities and equity, again
- Revenue recognition, again



## Insurance contracts

15

- How should we measure insurance liabilities?
- Fair values, again
- Revenue recognition, again
- Liabilities and equity, again



## Financial statement presentation

16

- Purpose of income statement?
- Disaggregation criteria? Matrix?
- Operating, financing, and investing?
- Statement of comprehensive income?
- Recycling?
- Direct cash flow statement?
- What information do users need?



## Conceptual framework

17

- Objective of financial reporting?
- Qualitative characteristics?
- Elements definitions?
- Effects of uncertainty?
- Measurement?
- Reporting entity?
- Unit of account?



## Concluding remarks

18

- Do research!! We need your help!
- Look for opportunities
  - KPMG sponsored research
  - FASB research initiative
- Share your thoughts and knowledge
- Respond to due process documents
- Research has a central role to play in shaping global financial reporting!



**IFRS Teaching and Research Session  
IAAER – ANPCONT (3<sup>rd</sup>) International  
Accounting Congress**

12 June 2009 – São Paulo, Brazil

IFRS – myths, mysteries and misconceptions

**Mike Wells**

*Director, IFRS Education Initiative*

**IASC Foundation**

June 2009

International Financial Reporting Standards

**IFRS**  
Myths, mysteries and misconceptions

Michael Wells, Director of IFRS Education Initiative, IASC Foundation

Sao Paulo, June 2009

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**Overview**

- Conceptual Framework
- Materiality
- Presentation
- Disclosure
- Measurement

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**Conceptual Framework**

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**Status**

**M1: Framework = IFRSs constitution**

- Debunk:
  - Framework never overrides an IFRS (FW.2)
  - in absence of an IFRS, Framework in hierarchy for developing an accounting policy (IAS 8.11(b))

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**Objective of GPFS**

**M2: Objective = for tax return**

- Debunk:
  - tax is driven by fiscal considerations
  - objective GPFS = to provide information about the financial position, performance and changes in financial position of an entity that is useful to ... in making economic decisions. (FW.12)

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**User needs**

**M3: Financial statements are designed to meet all the needs of all users**

- Debunk:
  - financial statements focus on the common needs of most users (FW.12)
  - target audience is present and potential capital providers
  - information that is decision-useful to capital providers may also be useful to other users (ED Ch1.OB2)

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## Reliability

7

### M4: Reliability = precise

- Debunk:
  - Reliability = faithful representation, substance over form, neutrality, completeness... (FW.31–38)



## Matching

8

### M5: Matching is an underlying assumption

- Debunk:
  - underlying assumptions = going concern and accrual basis (FW.22 and 23)
  - accrual basis = recognise elements when they satisfy definition and recognition criteria (IAS 1.28)
  - other elements defined with reference to assets and liabilities (FW.49 and 70)



## Matching continued

9

### M6: Matching is a qualitative characteristic (QC)

- Debunk:
  - QCs = understandability, relevance, reliability and comparability (FW.24–42)



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Materiality

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## Material

11

Omissions or misstatements of items are material if they *could*, individually or collectively, influence economic decisions that users make on the basis of the financial statements.



## Size and nature

12

### M1: Materiality is based on size alone

- Debunk:
  - materiality depends on size and nature of the omission or misstatement judged in the surrounding circumstances (IASs 1.7 & 8.5)
  - size, nature or both could be the determining factor (IASs 1.7 & 8.5)



## Recognition and measurement

13

### M2: Must account for immaterial items

- Debunk – breach IFRSs if:
  - material errors, or
  - ‘immaterial’ departures from IFRSs are made intentionally to achieve a particular presentation (IAS 8.8)



## Disclosure

14

### M3: Must disclose immaterial items

- Debunk:
  - need not provide a specific disclosure required by an IFRS if the information is not material (IAS 1.31)
  - recognised immaterial dissimilar items are aggregated (IAS 1.29)



## Presentation



## Fair presentation override (FPO)

16

### M1: FPO allows flexibility in when to report gains and losses

- Debunk:
  - in virtually all circumstances fair presentation is achieved by compliance with applicable IFRSs with additional disclosures (IAS 1.17)
  - FPO applies only in extremely rare circumstances ... compliance so misleading ... conflict with the objective of financial statements (IAS 1.19)



## Disclosure



## Disclosure override

18

### M1: Disclosure can rectify inappropriate accounting policies

- Debunk:
  - inappropriate accounting policies are not rectified by disclosure (IAS 1.18)



## Judgements—applying policies

19

### M2: Judgements in applying accounting policies are not disclosed

- Debunk:
  - estimates aside, disclose the judgements made in applying accounting policies that have the most significant effect on the amounts recognised (IAS 1.122)
  - examples:
    - i. transfer of risks and rewards (derecognition of financial assets and revenue recognition)
    - ii. control or significantly influence
    - iii. present obligation—provision or contingent liability

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## Estimation uncertainty

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### M3: Sources of estimation uncertainty are not disclosed

- Debunk:
  - General requirement: disclose information about major sources of estimation uncertainty (IAS 1.125)
  - Requirements in specific IFRSs, eg IAS 19, IAS 37 etc

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## Estimation uncertainty continued

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- Examples include:
  - i. defined benefit plans—assets (levels 2 & 3) and liabilities (actuarial assumptions)
  - ii. provisions—layoff amount to 3<sup>rd</sup> party or risk adjusted discounted cash flows
  - iii. recoverable amount—value in use (cash flows and discount rate) and fair value less costs to sell (levels 2 and 3)
  - iv. depreciation—method, residual value, useful life

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# Measurement

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## Cost model

23

### M1: IFRSs has two measurement bases—cost and fair value

- Debunk:
  - IFRSs contains many different measurements
  - Framework is poor on measurement
    - it lists a number of measurement techniques (rather than measurement bases)
    - it does not explain when each measurement should be applied
    - is not very helpful (on measurement) therefore a joint project with the FASB to rewrite the measurement part of the Framework

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## Cost model

24

### M2: No significant estimates

- Debunk:
  - PPE: useful life, depreciation method, residual value (IAS 16)
  - impairments: value in use and fair value (no active market) less costs to sell (IAS 36)

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**M3: Never recognise day 1 gains**

- Debunk:
  - sale of goods with a warranty and follow practice of measuring warranty obligation at best estimate to settle without profit margin (IASs 18 and 37)



**M4: cost model = most useful information**

- Debunk:
  - some rights and obligations would not be recorded, eg derivatives
  - comparability?
    - identical instruments, different carrying amounts (same entity and different entities)
  - decision-usefulness?
    - carrying amount unrelated to current value but today's economic decisions require relevant information



**M5: FV is always less verifiable than cost**

- Debunk:
  - active market
  - what is cost?
    - overheads?
    - estimates for depreciation
    - etc



**M6: Counterintuitive that worsening in own credit rating results in decreased liabilities**

- Debunk:
  - basic finance: greater default risk increases the discount rate that the market would apply to the entity's debt
  - overall probable that market capitalisation and value of net assets declines:
    - recorded assets may require impairment
    - unrecorded decline in value of unrecorded net assets



Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

