

International Financial Reporting Standards



Conceptual Framework: Definition of an asset

Agenda paper 9A

Education session – January 2013

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

- What we will cover today
 - Elements – Asset definition
 - Elements – Liability definition
 - Recognition and derecognition
 - Presentation – OCI
- We will not cover:
 - Equity/liability boundary (December ED session)
 - Income and expense definitions

Currently defined

- Definition of an asset [of an entity]:
 - a **resource controlled** by the entity
 - as a result of **past events**
 - from which **future economic benefits** are **expected** to flow to the entity

Problems with existing definition

- Expected to flow to the entity:
 - Risk of confusing resource with resulting inflows
 - Is this a probability threshold? If so, why? And how does it interact with recognition criteria?
- Past event:
 - Is it necessary?
 - Is it sufficient?
- What is a resource?

Expected to flow to the entity

- Problem: asset is the resource, not the ultimate outcome
- Examples:
 - option to buy an asset
 - lottery ticket
 - pharmaceutical R&D

An resource is **capable** of producing economic benefits.

- Problem:
 - Necessary?
 - Sufficient?
- Focus should be on whether the asset exists now
 - Clarify that past event is only an indicator
 - See recognition/derecognition slides for cases in which there is uncertainty whether the asset exists

Focus definition on whether the asset exists (now).

- Problem:
 - not always easy to identify the resource
- Clarify types of resources:
 - Enforceable contractual, or other legal, rights eg:
 - receivables
 - rights to receive other assets, eg options, forwards, rights to receive goods or services
 - enforceable rights over physical assets, eg ownership of a physical asset, right to use a physical asset, or residual value of a leased asset
 - enforceable intellectual property (eg registered patents)
 - Other types of resources eg:
 - know-how (and other intangible assets) if not available to other parties
 - goodwill?

Clarify types of resources.

- Problem: is a physical asset divisible?
 - Is a physical asset a bundle of rights (ie right to use, transfer (sell), pledge, legal title)?
- Example:
 - Leases (right to use)
 - Owned asset (right to use, sell, pledge, legal title)

A physical asset is represented by a bundle of rights.

An asset is a present economic resource.

- The asset is the resource, and not the ultimate inflow (eg options, lottery ticket)
- Present:
 - the asset exists
 - past event as an indicator that the asset has arisen

- Economic resource:
 - scarce (public good is not scarce)
 - capable of producing future cash inflows or services to the party that controls it
- Control → part of recognition criteria