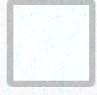

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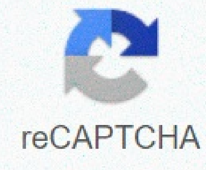

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Conceptual framework for financial reporting 2018 (the framework) published

The Conceptual Framework for the Financial Reporting (let's title it only Framework) is a basic document that sets goals and the concepts for general purpose financial reporting. His predecessor, Framework for the preparation and presentation of the financial statements was issued in 1989. Then in 2010, IASB published the new document, Conceptual Framework for the Financial Reporting, but it was a little unfinished as a few concepts and chapters were missing. The latest and completed Framework published in 2018 consists of 8 chapters and in this article, I want to sum it up. Is the Framework equivalent to the Standard? Please let me make one point clear: Framework is NOT a standard itself. So if you want to decide on the financial reporting of certain transactions, you should look at the appropriate standard – IFRS or IAS. Special for you! Have you already checked the IFRS Kit? It is a complete IFRS learning package with more than 40 hours of private video tutorials, over 140 IFRS case studies solved in Excel included more than 180 pages of handouts and many bonuses. If you take action today and subscribe to the IFRS Kit, you get it at discounts! Click here to check it! Sometimes it may even happen that the rules in that IFRS or IAS standard will be contrary to what the Framework says. In this case, you need to apply the default, not the Framework. When should you apply the Framework? In most cases, when there are no specific rules for your transaction and you need to develop your accounting policies, you will look at the Framework as you cannot deviate from its basics and definitions. Chapter 1: The purpose of general purpose financial reporting The main purpose of general purpose financial reports is to provide the financial information on the reporting site that is useful for existing and potential: Investors, Lenders and Other creditors to help them make various decisions (e.g. about dealing with debt or equity instruments of a reporting entity). Chapter 1 is NOT about the financial statements itself – it is described in Chapter 3. Instead, Chapter 1 describes more general purpose reports that must contain the following information on the reporting entity: Economic resources and claims (this refers to the financial position); The changes in economic resources and demands due to entity's financial performance and from other opportunities. Chapter 1 places emphasis on run-up accounting to reflect the financial performance of an entity. This means that the events in the reports must be reflected in the periods when the effect of transactions occurs, iespite the related cash flows. However, the information on previous cash flows is very important to manage's ability to evaluate. Chapter 2: Qualitative Properties useful financial information In this Chapter describes the Framework 2 types of characteristics for financial information to be useful: Fundamental and improvement. Fundamental qualitative properties Relevance: capable of making a difference in users' decisions. The financial information is relevant when it has predictive value, affirmative value or both. Materiality is closely related to relevance. Faithful representation: The information is represented faithfully when it is complete, neutral and free from errors. Improvement of qualitative properties Comparability: Information should be comparable between different entities or periods; Verifiability: Independent and expert observers are able to verify the information; Timeliness: Information is available on time to influence the decisions of users; Understandability: Information will be classified, clear and consistently presented. Chapter 3: Financial Statements and the Financial Statements of Reporting The financial statements must provide the useful information on the reporting entity: In the statement of financial position, by acknowledging assets, liabilities, equity in the statements of financial performance by acknowledging in other countries by offering and revealing information on recognised and unrecognized assets, liabilities, equity, revenue and expenses, their nature and associated risks; Cash flows; Contributions of and distributions to equity holders, and Methods, assumptions, judgment use, and their changes. . Financial statements are always prepared for a specified period, or the reporting period. Normally the financial statements are prepared for the continuation of assumption. This means that an entity will continue to operate for the foreseeable future (usually 12 months after the reporting date). Special for you! Have you already checked the IFRS Kit? It is a complete IFRS learning package with more than 40 hours of private video tutorials, over 140 IFRS case studies solved in Excel included more than 180 pages of handouts and many bonuses. If you take action today and subscribe to the IFRS Kit, you get it at discounts! Click here to check it! In the same way - what if an entity can't be present if going concerns? For example, when the winding is accepted within 12 months? Learn what to do here. Reporting entity This was introduced in 2018. Although the term reporting entity has been used throughout IFRS for some time, the Framework introduced it and only officially made it in 2018. Reporting entity is an entity that must or choose to prepare the financial statements. This could be: A single entity – for example one company; A portion of an entity - for example a section of one company; More than one entities – for example a parent and its subsidiaries reporting as a group. As a we have some types of financial statements: Consolidated: a parent and subsidiaries report as a single reporting entity; Unconsolidated: e.g. A parent alone offers reports, or Combined: e.g. reporting entity consists of two or more entities not linked to parent subsidiary relationships. Chapter 4: Elements of the financial statements This chapter deals extensively with the definitions of individual elements of the financial statements. There are five basic elements: Asset = a current economic resource controlled by the entity due to previous events; Liability = a current obligation of the entity to transfer an economic resource due to previous events; Equity = the remaining interest in the assets of the entity after the deduction of all its obligations; Revenue = increases in assets or decreases in liabilities resulting in increases in equity, except contributions from equity holders; Expenses = decreases in assets or increases in liabilities resulting in decreases in equity, except extensions to equity holders; The Framework then discusses every aspect of these definitions and provides wide guidance on how to decide which element you have to do. Chapter 5: Recognition and unrescription This chapter discusses the recognition and untechnological process. Recognition simply means, recognition means including an element of financial statements in the financial statements. In other words, if you decide on recognition, you decide on OR to show this item in the financial statements. Recognition process connects the elements in the financial statements according to the following formula: Please let me emphasize here that not all items listed on the definition of one of the elements listed above are recognised in the financial statements. The Framework requires the elements to only recognise when recognising useful information – relevant to faithful representation. Then the Framework discusses the relevance, faithful representation, cost restrictions and other aspects in a detail. Uncoteration Unpreception means removing an asset or liability from the statement of financial position and usually occurs when the item no longer complies with the definition of an asset or liability. Again, the Framework discusses the exploration in greater detail. Chapter 6: Measurement measurement means in which amount to recognise asset, liability, piece of equity, income or expenses in your financial statements. Thus, you should choose the measurement base, or the method of quantifying monetary amount for elements in the financial statements. The Framework discusses two basic mement base: Historical cost - this mechanism is based on the transaction price at the time of recognising the element; Current value – it measures the element updated to reflect the conditions on the measurement date. various methods of methods Included: Fair value; Value in use; Current costs. Each of this mement base is discussed in greater detail. The Framework then gives guidance on how to choose the appropriate meching base and what factors to consider (especially relevance and faithful representation). What I find personally really helpful is leading the meager of equity. The issue here is that the equity is defined as residual after the deduction of liabilities of assets and therefore total carrying amount of equity is not measured directly. Instead, it is exactly measured by the formula: Total carrying amount of all assets, less Total carrying amount of all liabilities. The Framework points out that it may be appropriate to directly measure certain components of equity (e.g. share capital), but it is not possible to measure the total equity directly. Chapter 7: Presentation and disclosure The main purpose of presentation and disclosures is to provide an effective communication tool in the financial statements. Effective communication of information in the financial statements requires: Focus on goals and principles of presentation and disclosure, not on the rules; Group similar items and separate dishes even items; Total information, but does not provide unnecessary detail or the opposite – excessive combination to produce the information. The Framework discusses classification of assets, liabilities, equity, income and expenses in greater detail with the description of offset, combination, distinction between profit or loss and other comprehensive income and other related areas. Chapter 8: Concepts of capital and capital maintenance This chapter is carried forward from previous versions of Framework, so there is nothing new here. Soon let me repetition. The Framework explains two concepts of capital: Financial capital – it is synonymous with the net assets or equity of the entity. Under the financial maintenance concept, the profit is only earned when the amount of net assets at the end of the period is greater than the amount of net assets in the beginning, after excluding contributions from and expands to equity holders. Special for you! Have you already checked the IFRS Kit? It is a complete IFRS learning package with more than 40 hours of private video tutorials, over 140 IFRS case studies solved in Excel included more than 180 pages of handouts and many bonuses. If you take action today and subscribe to the IFRS Kit, you get it at discounts! Click here to check it! The financial capital interview can be measured either in Nominal monetary units, or units of constant purchasing power. Physical capital – this is the productive capacity of the entity based on, for example, units of output per day. Here the profit is earned if physical productive capacity increases during the period, after the exclusion of movements with Containers. The main difference between these concepts is how the entity treats the effects of changes in prices in assets and liabilities. You can watch a video with the summary of the Conceptual Framework here: Any comments or questions? Please leave me a message below. Thank you! You!

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