



Conceptual Framework

Elements of financial statements—
definitions and recognition

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

Before we start...

- You can download the slides by clicking on the button below the slides window
- This webinar is a recording (it is not live), so we are unable to take any questions
- The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation

Conceptual Framework webinar schedule

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Previously-recorded webinars

17 / 06 Overview of Conceptual Framework Exposure Draft

This webinar

06 / 08 Chapters 4 and 5—the elements of financial statements: definitions and recognition

Future webinars

13 / 08 Chapter 4—a closer look at liabilities and executory contracts

20 / 08 Chapter 6—measurement

27 / 08 Chapter 7—classification of income and expenses (profit or loss vs. OCI)

03 / 09 Chapter 5—derecognition of assets and liabilities

10 / 09 Chapter 3—the reporting entity

17 / 09 Chapters 1 and 2—objectives and qualitative characteristics

24 / 09 Possible implications of the proposals—with provisions and contingent liabilities case study

The elements of financial statements

- Information is provided in the statement of financial position about:
 - Assets
 - Liabilities
 - Equity
- Information is provided in the statement of financial performance about:
 - Income
 - Expense

Definitions

Definitions of assets and liabilities

	Existing definitions	Exposure Draft
<i>Asset (of an entity)</i>	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	A present economic resource controlled by the entity as a result of past events.
<i>Liability (of an entity)</i>	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	A present obligation of the entity to transfer an economic resource as a result of past events.
<i>Economic resource</i>	<i>Not defined</i>	A right that has the potential to produce economic benefits.

- An economic resource is a **right** that has the potential to produce economic benefits
- Rights may take the following forms:

Rights established by contract, legislation or similar means, such as:

- Rights arising from financial instruments
- Rights over physical objects such as PP&E
- Rights to benefit from the stand-ready obligations of other parties
- Rights to receive goods and services

Rights arising from constructive obligations of another party

Other rights not available to other parties (eg know-how)

- Goods or services (eg employee services) that are received and immediately consumed are momentarily rights

Liabilities – present obligation

An entity has a present obligation to transfer an economic resource if both:

1. the entity has no practical ability to avoid the transfer; and
2. the obligation has arisen from past events, ie the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation.

For example:

- if the transfer is legally enforceable, or
- if action necessary to avoid the transfer would:
 - cause significant business disruption; or
 - have economic consequences significantly more adverse than the transfer itself.

- No amendments to existing definitions at this time
- No guidance on how to distinguish liabilities from equity instruments
- Explore in a research project how to distinguish liabilities from equity, including whether to amend the definitions of liability and equity

Definitions of income and expenses

	Existing definitions	Exposure Draft
<i>Income</i>	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.	Increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from holders of equity claims.
<i>Expenses</i>	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.	Decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Recognition

Recognition is the process of capturing an asset or a liability for inclusion in the financial statements

Changes are needed because:

- Probability criterion viewed as inappropriate for some assets and liabilities.
- ‘Reliability’ is not one of the qualitative characteristics.

Existing criteria

- Item meets definition of asset or liability.
- **Probable** that any future economic benefit associated with asset or liability will flow to or from entity.
- Asset or liability has a cost or value that can be measured **reliably**.

Exposure Draft proposals

- Failure to recognise assets and liabilities makes financial statements less complete and can exclude useful information.
- But recognition of some items does not provide useful information.
- Recognition requirements may need to vary between Standards.
- An entity should recognise an asset or liability if doing so provides:
 - relevant information;
 - a faithful representation; and
 - benefits that exceed costs.

Recognition might not provide relevant information if:

- it is uncertain whether an asset or liability exists.
- there is only a low probability that an inflow or outflow of economic benefits will result.
- all available measures of the liability have a high level of measurement uncertainty.

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Further information

- Exposure Draft *Conceptual Framework for Financial Reporting*
<http://go.ifrs.org/ED-CF-May2015>
- Conceptual Framework website
<http://go.ifrs.org/Conceptual-Framework>
- Submit a comment letter
http://go.ifrs.org/comment_CF
- Snapshot
<http://go.ifrs.org/CFSnapshot2015>
- Register for email alerts
<http://eifrs.ifrs.org/eifrs/Register>