



UNIVERSITÀ
DEGLI STUDI
DI BERGAMO

Dipartimento
di Scienze Aziendali

Conceptual Framework IASB

International and Advanced Accounting
179009-ENG

Master Degree in
ACCOUNTING, GOVERNANCE AND
SUSTAINABILITY

RELATORE

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Bergamo

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2026-2027

Objectives of the Conceptual Framework

The objective of the *Conceptual Framework for Financial Reporting* is to: [SP1.1]

- ✓ **Assist the IASB (Board) to develop IFRS Standards** that are based on consistent concepts;
- ✓ **Assist preparers to develop consistent accounting policies** when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and
- ✓ **Assist all parties to understand and interpret the Standards.**

The *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any Standard or any requirement in a Standard. [SP1.2]



Framework and concepts

The *Conceptual Framework* **was recently issued (2018)**
(*the previous one, dating back to 1989, then updated in 2010,*
was simply called the 'Framework')
and it was developed in such a way that
it could be **applied to different accounting systems**
and **different concepts of capital and capital maintenance.**

Framework and concepts

The *Conceptual Framework* as approved in March 2018 is structured as follows:

Contents, status and purpose of the Conceptual Framework

Chapter 1 – *The Objective of General Purpose Financial Reporting*

Chapter 2 – *Qualitative characteristics of useful financial information*

Chapter 3 – *Financial Statements and the Reporting Entity*

Chapter 4 – *The Elements of Financial Statements*

Chapter 5 – *Recognition and Derecognition*

Chapter 6 – *Measurement*

Chapter 7 – *Presentation and Disclosure*

Chapter 8 – *Concepts of Capital and Capital Maintenance*

Appendix – *Defined Terms*



Framework and concepts

In detail it is structured as follows:

Chapter 1 – *The Objective of General Purpose Financial Reporting*

- 1.1 INTRODUCTION
- 1.2 OBJECTIVE, USEFULNESS AND LIMITATIONS OF GENERAL PURPOSE FINANCIAL REPORTING
- 1.12 INFORMATION ABOUT A REPORTING ENTITY'S ECONOMIC RESOURCES, CLAIMS AGAINST THE ENTITY AND CHANGES IN RESOURCES AND CLAIMS
- 1.13 Economic resources and claims
- 1.15 Changes in economic resources and claims
- 1.17 Financial performance reflected by accrual accounting
- 1.20 Financial performance reflected by past cash flows
- 1.21 Changes in economic resources and claims not resulting from financial performance
- 1.22 INFORMATION ABOUT USE OF THE ENTITY'S ECONOMIC RESOURCES



Framework and concepts

Chapter 2 – *Qualitative characteristics of useful financial information*

- 2.1 INTRODUCTION
- 2.4 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION
- 2.5 Fundamental qualitative characteristics
 - 2.6 Relevance
 - 2.11 Materiality
 - 2.12 Faithful representation
 - 2.20 Applying the fundamental qualitative characteristics
- 2.23 Enhancing qualitative characteristics
 - 2.24 Comparability
 - 2.30 Verifiability
 - 2.33 Timeliness
 - 2.34 Understandability
 - 2.37 Applying the enhancing qualitative characteristics
- 2.39 THE COST CONSTRAINT ON USEFUL FINANCIAL REPORTING



Framework and concepts

Chapter 3 – *Financial statements and the reporting entity*

3.1 FINANCIAL STATEMENTS

3.2 Objective and scope of financial statements

3.4 Reporting period

3.8 Perspective adopted in financial statements

3.9 Going concern assumption

3.10 THE REPORTING ENTITY

3.15 Consolidated and unconsolidated financial statements



Framework and concepts

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- 4.3 DEFINITION OF AN ASSET
- 4.6 Right
 - 4.14 Potential to produce economic benefits
 - 4.19 Control
- 4.26 DEFINITION OF A LIABILITY
- 4.28 Obligation
 - 4.36 Transfer of an economic resource
 - 4.42 Present obligation as a result of past events
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 - 4.48 Unit of account
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Framework and concepts

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5.6 RECOGNITION CRITERIA

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5.14 Existence uncertainty

5.15 Low probability of an inflow or outflow of economic benefits

5.18 Faithful representation

5.19 Measurement uncertainty

5.24 Other factors

5.26 DERECOGNITION



Framework and concepts

Chapter 6 – *Measurement*

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- 6.4 MEASUREMENT BASES
 - 6.4 Historical cost
 - 6.10 Current value
 - 6.12 Fair value
 - 6.17 Value in use and fulfilment value
 - 6.21 Current cost
- 6.23 INFORMATION PROVIDED BY PARTICULAR MEASUREMENT BASES
 - 6.24 Historical cost
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 - 6.37 Value in use and fulfilment value
 - 6.40 Current cost
- 6.43 FACTORS TO CONSIDER WHEN SELECTING A MEASUREMENT BASIS



Framework and concepts

Chapter 6 – *Measurement* – (Continued)

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 - 6.50 Characteristics of the asset or liability
 - 6.54 Contribution of the future cash flows
- 6.58 Faithful representation
- 6.63 Enhancing qualitative characteristics and the cost constraint
 - 6.69 Historical cost
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- 6.77 Factors specific to initial measurement
- 6.83 More than one measurement basis
- 6.87 MEASUREMENT OF EQUITY
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Framework and concepts

Chapter 7 – *Presentation and disclosure*

- 7.1 PRESENTATION AND DISCLOSURE AS COMMUNICATION TOOLS
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- 7.7 CLASSIFICATION
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Framework and concepts

Chapter 8 – *Concepts of capital and capital maintenance*

8.1 CONCEPTS OF CAPITAL

8.3 CONCEPTS OF CAPITAL MAINTENANCE AND THE DETERMINATION OF PROFIT

8.10 CAPITAL MAINTENANCE ADJUSTMENTS



Purpose of the Conceptual Framework

The *Conceptual Framework* provides the foundation for Standards that: [SP1.5]

- a) **contribute to transparency by enhancing the international comparability and quality of financial information**, enabling investors and other market participants to make informed economic decisions.
- b) **strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money**. Standards based on the Conceptual Framework provide information needed to hold management to account. As a source of globally comparable information, those Standards are also of vital importance to regulators around the world.
- c) **contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation**. For businesses, the use of a single, trusted accounting language derived from Standards based on the Conceptual Framework lowers the cost of capital and reduces international reporting costs.

Users of financial statements need information to help them verify management's *stewardship*.



Chapter 1

The objective of general purpose financial reporting

The objective of general purpose financial reporting is to **provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.**

Those decisions involve decisions about: [1.2]

- a) buying, selling or holding equity and debt instruments;*
- b) providing or settling loans and other forms of credit; or*
- c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.*

Chapter 1

The objective of general purpose financial reporting

*Investors', lenders', and other creditors' expectations about returns depend on their assessment of the **amount**, **timing** and **uncertainty** of (the prospects for) **future net cash inflows** to the entity and on their **assessment of management's stewardship** of the entity's economic resources. [1.3]*

Existing and potential investors, lenders and other creditors need information to help them make those assessments.

Users of financial statements and their information needs

Framework working theories

Prevalence of investors information needs.

Consequences

Focusing the model on expected cash flows and about the financial position of the entity.

Chapter 2

Qualitative characteristics of useful financial information

Fundamental qualitative characteristics

Relevance

- ✓ information is **relevant** if it is capable of making a difference to the decisions made by users
- ✓ financial information is capable of making a difference in decisions if it has predictive value or confirmatory value

Faithful representation

- ✓ information must **faithfully represent** the substance of what it purports to represent
- ✓ a faithful representation is, to the maximum extent possible, *complete, neutral and free from error*
- ✓ a faithful representation is affected by level of measurement uncertainty

Enhancing qualitative characteristics

Comparability

Verifiability

Timeliness

Understandability

- ✓ these four qualitative characteristics *enhance the usefulness of information*
- ✓ but they cannot make non-useful information useful

Cost constraint

- ✓ the benefit of providing the information needs to justify the cost of providing and using the information

Chapter 2

Qualitative characteristics of useful financial information

The qualitative characteristics of useful financial information apply to: [2.3]

- **financial information** provided in **financial statements**, as well as to financial information provided in **other ways**;
- **cost**, which is a **pervasive constraint** on the reporting entity's ability to provide useful financial information.

However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information.

If financial information is to be useful, **it must be relevant and faithfully represent what it purports to represent.** [2.4]

The usefulness of financial information is enhanced if it is:



Chapter 2

Qualitative characteristics of useful financial information

The fundamental qualitative characteristics are

relevance and faithful representation. [2.5]

Relevance

In order to be useful, information **must be relevant to its purpose, which is economic decision making**. This requires **predictions of future cash flows** by the investors, which can be based partly on relevant past and present information in statements such as the balance sheet and income statement.

Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. [2.6]

Connected with this is the concept of **materiality**, which implies that **insignificant items should not be given the same emphasis** as significant items.

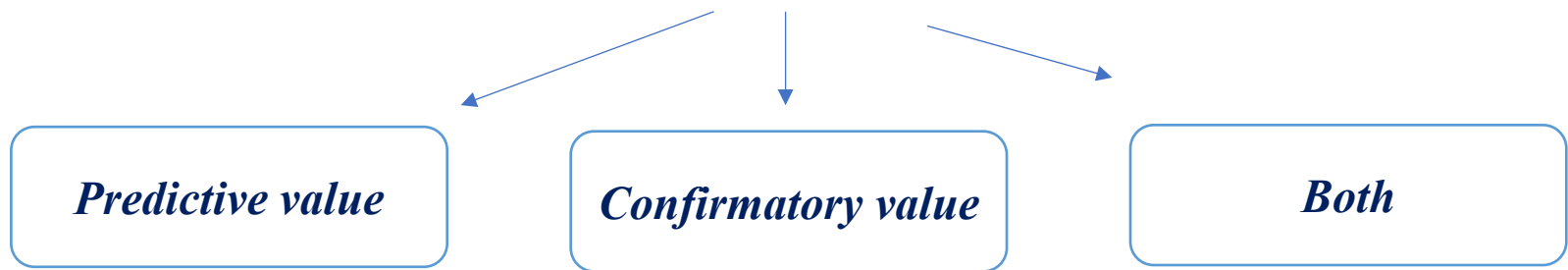


Chapter 2

Qualitative characteristics of useful financial information

Relevance

Financial information is capable of making a difference in decisions
if it has: [2.7]



Qualitative characteristics of useful financial information

Relevance

Financial information has *predictive value* if it can be used as *input* to processes employed by users to predict future outcomes.

Financial information need not to be a prediction or forecast to have predictive value.

Financial information with predictive value is employed by users in making their own predictions. [2.8]

Chapter 2

Qualitative characteristics of useful financial information

Relevance

Financial information has ***confirmatory value*** if it provides *feedback* about (confirms or changes) previous evaluations. [2.9]

The *predictive value* and *confirmatory value* of financial information **are interrelated**.

Information that has predictive value often also has confirmatory value.

For example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year that were made in past years. The results of these comparisons can help a user to correct and improve the processes that were used to make those previous predictions. [2.10]

Chapter 2

Qualitative characteristics of useful financial information

Materiality

Information is ***material*** if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, **materiality is an *entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.***

Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. [2.11]

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

The readers of financial statements **should not be misled by the contents of the statements**. Transactions, assets and liabilities should be shown in such a way as to represent as well as possible what underlies them.

For example, a balance sheet should not show an item under the heading 'assets' unless it meets the definition of an asset.

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

In the **2010 Conceptual Framework**, ***substance over form*** was not considered a separate component of faithful representation because the Board concluded that it would be redundant.

Faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form.

Representing a legal form that differs from the economic substance of the underlying economic phenomenon could not result in a faithful representation. [BC2.32]

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

In developing the **2018 Conceptual Framework**, the Board noted that some stakeholders had inferred **that the 2010 deletion of the reference to *substance over form* meant that the Board was no longer committed to depicting the substance of an economic phenomenon.**

The Board did not intend to imply such a change.

Accordingly, to avoid any further misunderstandings and to highlight the Board's intention, ***the Board reinstated in paragraph 2.12 of the 2018 Conceptual Framework an explicit reference to the need to faithfully represent the substance of an economic phenomenon.***

The Board explained further how to provide a faithful representation of the substance of contractual rights and contractual obligations in paragraphs 4.59–4.62 of the 2018 *Conceptual Framework*. [BC2.33]



Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

Substance of the phenomena that it purports to represent. **If the substance of an economic phenomenon and its legal form are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.** [2.12]



All terms in a contract – whether explicit or implicit – are considered unless they have no substance. [4.60]

Terms that have no substance are disregarded. A term has no substance if it has no discernible effect on the economics of the contract. Terms that have no substance could include, for example: terms that bind neither party; or rights, including options, that the holder will not have the practical ability to exercise in any circumstances. [4.61]

A group or series of contracts may achieve or be designed to achieve an overall commercial effect. To report the substance of such contracts, *it may be necessary to treat rights and obligations arising from that group or series of contracts as a single unit of account.* [4.62]

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

It is sometimes expressed as showing the economic substance of transactions rather than their legal form.

To take an example, suppose that an entity signs a lease that commits it to paying rentals to use a machine for the whole of the expected life of the machine.

This is very similar to borrowing money and buying a machine, in the sense that the enterprise has control over the operational use of the asset and has an obligation to pay money. The legal form is that the entity does not own the machine or have any outstanding unpaid debt owing, but the economic substance is that it has an asset and a liability.

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

The role of the *substance over form* principle in IAS/IFRS is particularly **pervasive**, so as to attract the entire regulatory system to itself, permeating the general and particular provisions:

- *greater focus on likely future financial flows;*
- *greater focus on economic availability* – in **terms of resource control** (previously in terms of risks and benefits).

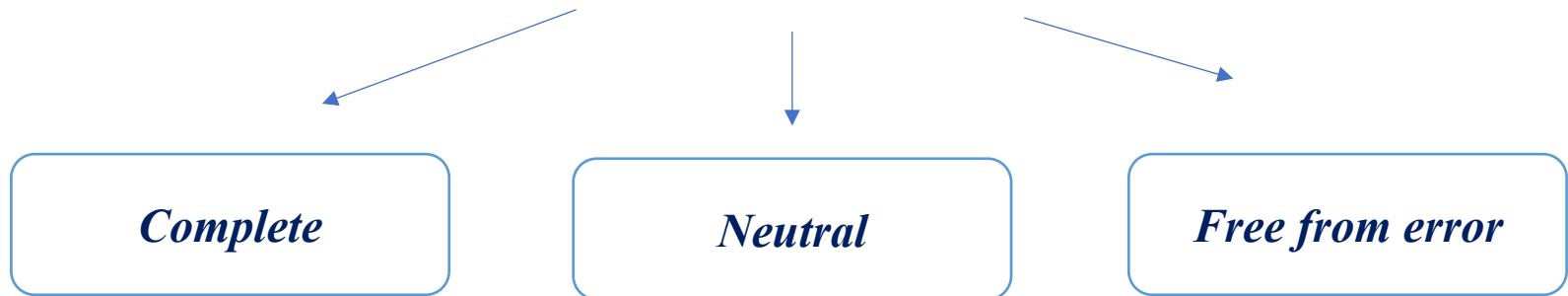
It is from this availability that those flows then descend. Through a representation of this availability according to a more purely economic logic, it is considered possible to achieve a more reliable estimate of the expected flows.

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

To be a perfectly faithful representation, a depiction would have three characteristics: [2.13]



Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

Completeness

Information needs to be as complete as possible within the constraints of materiality.

Any important omissions would cause the financial statements to be misleading.

However, the regulators (the standard setters in the case of the IASB) should bear in mind that some demands for information may be too costly to an entity. The benefits of information should outweigh the costs of producing it.



Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

Completeness

A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, **a complete depiction of a group of assets** would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, historical cost or fair value).

For some items, a complete depiction *may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.*

[2.14]

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

Neutrality

A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.

Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions. [2.15]



Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

Free from error

Faithful representation does not mean accurate in all respects.

Free from error means:

- *there are **no errors or omissions in the description** of the phenomenon;*
- *and **the process used** to produce the reported information has been selected and applied with no errors in the process.*

For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, **a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.** [2.18]

Chapter 2

Qualitative characteristics of useful financial information

Faithful representation

When monetary amounts in financial reports cannot be observed directly and must instead be estimated, **measurement uncertainty** arises. The use of **reasonable estimates is an essential part of the preparation of financial information** and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. **Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.**
[2.19]

However, in some cases the most relevant information may have such a level of uncertainty in the measurement, that the most useful information is slightly less relevant information, but subject to more limited uncertainty in the measurement.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Comparability

Financial information is unlikely to be relevant unless it **can be compared across periods and across companies.**

This requires **as much consistency as possible** in the use of **methods of measuring and presenting** numbers;

it requires also that any **changes in these methods should be disclosed.**

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Comparability

Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. [2.25]

Consistency, although related to comparability, is not the same. *Comparability is the goal, consistency helps to achieve that goal. [2.26]*

Information can be comparable:

- ***over time***, with reference to the financial statement data of the same company to carry out analyses of economic, financial and capital trends;
- ***in space***, between financial statements of different companies.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Comparability

The following corollaries derive from the principle of comparability:

- **consistency of the criteria** for evaluating and representing operations over time and space;
- **information on any change in these criteria** and their effects on the financial statements, indicating the effects of these changes also on previous periods (*referral to IAS 8*).

Note: *The change or modification of accounting standards by the IASB cannot constitute an obstacle to comparability.*



Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Verifiability

This means that different observers should be able to come to approximately the same view about whether or not a faithful representation is being given by the information. So, **information must be capable of being checked in various ways.**

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. **Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.** Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified. [2.30]

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Verifiability

Verification
can be
direct or indirect:
[2.31]

Direct verification means *verifying an amount or other representation through direct observation, for example, by counting cash.*

Indirect verification means *checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology.*

An example is **verifying** the carrying amount of inventory by checking the inputs (quantities and costs) and **recalculating** the ending inventory using the same cost flow assumption (for example, using the first-in, first-out method).

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Verifiability

It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information. [2.32]

Note: in relation to accounting estimates in uncertain situations, verifiability refers to the completeness of the information on prospective evolution considered at the time of making the estimate.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Timeliness

Relevance is increased if **information is up to date**. This raises a common problem that there may be an **inconsistency between concepts**. For example, the need to ensure **reliability of information may slow down its publication**.

The regulators of financial reporting in many countries **set time limits** for the publication of financial statements and require reporting more than once a year.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Timeliness

Timeliness means **having information available to decision-makers in time to be capable of influencing their decisions**. Generally, the older the information is the less useful it is.

However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends. [2.33]

There is a *trade-off* between *availability and reliability* of information. **Accurate but late information can be useless**, as well as information that is too timely, but poorly curated can be unreliable and therefore useless to recipients.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Understandability

Clearly, information cannot be relevant unless it can be understood. However, in a complex world, information may have to be complex to achieve a fair presentation. The rule-makers and preparers assume that the important users are educated and intelligent.

Financial reports are **prepared for users who have a reasonable knowledge** of business and economic activities and who review and analyse the information diligently. **At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.** [2.36]

The complexity of financial statements issues, if relevant to user decision-making, cannot justify the omission of information: Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, *those reports would be incomplete and therefore possibly misleading.* [2.35]



Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Understandability

Classifying, characterising and presenting information clearly and concisely makes it understandable. [2.34]

Understandability mainly relates to:

- to the **expositive form** of the **quantitative accounts**
- and to the **quality of the information** contained in the **notes to the financial statements**.

Chapter 2

Qualitative characteristics of useful financial information

Enhancing characteristics

Prudence or conservatism: now deleted from the Framework

The most famous bias in accounting is **prudence, or, conservatism**.

Full-blown conservatism can still be found in some countries in order to protect certain users from the risk of making financial statements look too good, particularly given the excessive optimism of some businesspeople.

Attention!

Unlike the classical Doctrinal and Italian approach within the Civil Code, prudence is not an element of the financial statements, but it is only included among the qualitative characteristics of financial statements' information as a subpoint of reliability, without reference to the principle of evaluative asymmetry.

Chapter 2

Qualitative characteristics of useful financial information

The cost constraint on useful financial reporting

General Rule: *the cost of information in relation to the benefit of the users of financial statements must be justified (evaluation process for each individual type of information).*

In applying the cost constraint, the Board assesses **whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information.**

Because of the **inherent subjectivity**, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. **Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.** [2.42-2.43]

Chapter 2

Qualitative characteristics of useful financial information *The cost constraint on useful financial reporting*

Cost is a pervasive constraint on the information that can be provided by financial reporting.

Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

[2.39]

Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, *but users ultimately bear those costs in the form of reduced returns.*

Users of financial information also incur costs of analyzing and interpreting the information provided. **If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.** [2.40]



Chapter 2

Qualitative characteristics of useful financial information

The cost constraint on useful financial reporting

Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence.

This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole.

An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant. [2.41]

Financial statements and the reporting entity

Objective and scope of financial statements

The objective of financial statements is **to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements** *in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.* [3.2]

That information is provided:

- *in the statement of financial position, by recognising assets, liabilities and equity;*
- *in the statement(s) of financial performance, by recognising income and expenses;*
and
- *in other statements and notes.* [3.3]

Financial statements and the reporting entity

Reporting period

Financial statements are prepared **for a specified period of time** (*reporting period*) and provide information about:

- a) assets and liabilities – including unrecognised assets and liabilities – and equity that existed at the end of the reporting period, or during the reporting period; and
- b) income and expenses for the reporting period. [3.4]

To help users of financial statements to identify and assess changes and trends, financial statements **also provide comparative information for at least one preceding reporting period**. [3.5]

Financial statements and the reporting entity

Reporting period

Information about possible future transactions and other possible future events (*forward-looking information*) is included in financial statements if it: [3.6]

- a) relates to the entity's assets or liabilities – including unrecognised assets or liabilities – or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and
- b) is useful to users of financial statements.

Financial statements and the reporting entity

Going concern assumption

Financial statements provide information about transactions and other events viewed **from the perspective of the reporting entity as a whole**, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors. [3.8]

Financial statements are normally prepared **on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future**.

Hence, it is assumed that **the entity has neither the intention nor the need to enter liquidation or to cease trading**.

If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used. [3.9]

Financial statements and the reporting entity

The reporting entity

A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. **A reporting entity is not necessarily a legal entity.**
[3.10]

Determining the appropriate boundary of a reporting entity can be difficult if the reporting entity:

- *is not a legal entity; and*
- *does not comprise only legal entities linked by a parent-subsidiary relationship.*

In such cases, determining the boundary of the reporting entity is driven by the information needs of the primary users of the reporting entity's financial statements.
[3.13-3.14]

Financial statements and the reporting entity

Consolidated and unconsolidated financial statements

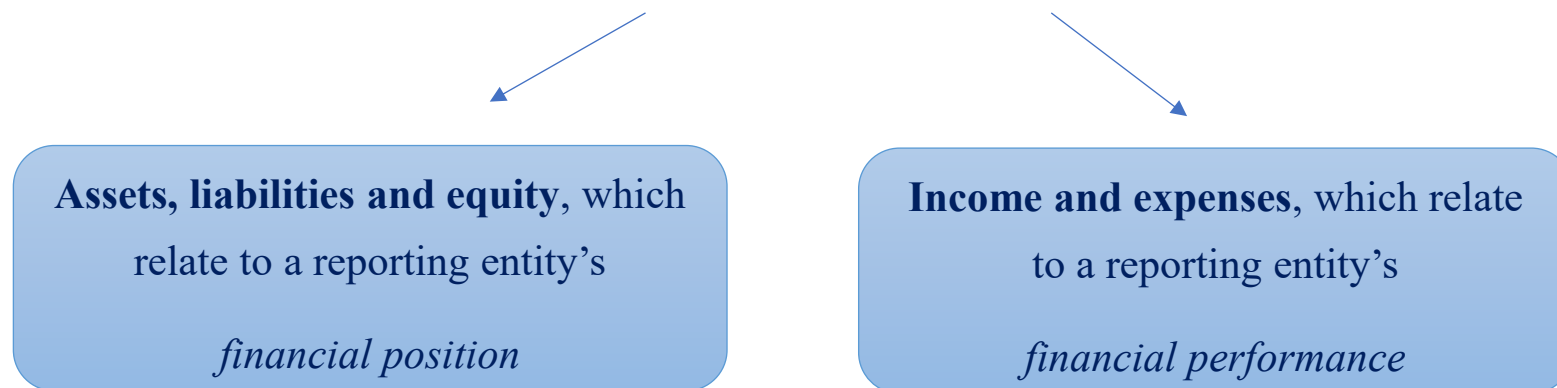
Information provided in **unconsolidated financial statements is typically not sufficient to meet the information needs** of existing and potential investors, lenders and other creditors of the parent.

Accordingly, when consolidated financial statements are required, unconsolidated financial statements cannot serve as a substitute for consolidated financial statements.

Nevertheless, a parent may be required, or choose, to prepare unconsolidated financial statements in addition to consolidated financial statements. [3.18]

The elements of financial statements

The elements of financial statements defined in the Conceptual Framework are:



Those elements are linked to the economic resources, claims and changes in economic resources and claims discussed in Chapter 1. [4.1-4.2]

The elements of financial statements

Asset

An asset is *a present economic resource controlled by the entity as a result of past events.* [4.3]



An economic resource is a right that has the potential to produce economic benefits. [4.4]

This section discusses three aspects of those definitions:

- *right;*
- *potential to produce economic benefits; and*
- *control.* [4.5]

The elements of financial statements

Asset

Right

Rights that have the potential to produce economic benefits take many forms, including:

[4.6]

a) rights that **correspond to an obligation of another party**, for example:

- rights to receive cash.
- rights to receive goods or services.
- rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource.
- rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs.



The elements of financial statements

Asset

Right

b) rights that **do not correspond to an obligation of another party**, for example:

- rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.
- rights to use intellectual property.

Many rights are established **by contract, legislation or similar means**. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. [4.7]

The elements of financial statements

Asset

Potential to produce economic benefits

An economic resource is a right that has the potential to produce economic benefits. For that potential to exist, *it does not need to be certain, or even likely, that the right will produce economic benefits.* It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity economic benefits beyond those available to all other parties. [4.14]

A right can meet the definition of an economic resource, and hence can be an asset, even if the probability that it will produce economic benefits is low. Nevertheless, that low probability might affect decisions about what information to provide about the asset and how to provide that information, including decisions about whether the asset is recognised and how it is measured. [4.15]

The elements of financial statements

Asset

Potential to produce economic benefits

An economic resource could produce economic benefits for an entity **by entitling or enabling it to do, for example, one or more of the following:** [4.16]

- a) *receive contractual cash flows or another economic resource;*
- b) *exchange economic resources with another party on favourable terms;*
- c) *produce cash inflows or avoid cash outflows by, for example:*
 - using the economic resource either individually or in combination with other economic resources to produce goods or provide services;
 - using the economic resource to enhance the value of other economic resources; or
 - leasing the economic resource to another party;
- d) *receive cash or other economic resources by selling the economic resource; or*
- e) *extinguish liabilities by transferring the economic resource.*

The elements of financial statements

Asset

Control

Control links an economic resource to an entity.

Assessing whether control exists helps to identify the economic resource for which the entity accounts.

For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. **In such cases, the entity's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.** [4.19]

The elements of financial statements

Asset

Control

An entity controls an economic resource if it **has the present ability to direct the use of the economic resource** and obtain the economic benefits that may flow from it. **Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it.** It follows that, if one party controls an economic resource, no other party controls that resource. [4.20]

An entity has the present ability to direct the use of an economic resource *if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.* [4.21]

The elements of financial statements

Liability

A liability is a present obligation of the entity to transfer an economic resource as a result of past events. [4.26]

For a liability to exist, three criteria must all be satisfied: [4.27]

- the entity **has an obligation**;
- the obligation is **to transfer an economic resource**; and
- the obligation is a **present obligation that exists as a result of past events**.

The elements of financial statements

Liability

Obligation

An obligation

is a duty or responsibility that an entity has no practical ability to avoid.

An obligation is always owed to another party (or parties).

The other party (or parties) could be a person or another entity, a group of people or other entities, or society at large.

It is not necessary to know the identity of the party (or parties) to whom the obligation is owed. [4.29]

The elements of financial statements

Liability

Transfer of an economic resource

To satisfy this criterion, **the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties).**

For that potential to exist, **it does not need to be certain, or even likely**, that the entity will be required to transfer an economic resource – the transfer may, for example, be required only if a specified uncertain future event occurs. **It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the entity to transfer an economic resource.** [4.37]

An obligation can meet the definition of a liability **even if the probability of a transfer of an economic resource is low. Nevertheless, that low probability might affect decisions about what information to provide** about the liability and how to provide that information, including decisions about whether the liability is recognised and how it is measured. [4.38]

The elements of financial statements

Liability

Transfer of an economic resource

Obligations to transfer an economic resource include, for example: [4.39]

- *obligations to pay cash;*
- *obligations to deliver goods or provide services;*
- *obligations to exchange economic resources with another party on unfavourable terms.*
Such obligations include, for example, a forward contract to sell an economic resource on terms that are currently unfavourable or an option that entitles another party to buy an economic resource from the entity;
- *obligations to transfer an economic resource if a specified uncertain future event occurs;*
- *obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer an economic resource.*

The elements of financial statements

Liability

Present obligation as a result of past events

A present obligation exists as a result of past events only if: [4.43]

- a) the entity has already obtained economic benefits or taken an action; and
- b) as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.



The economic benefits obtained could include, for example, *goods or services*. The action taken could include, for example, *operating a particular business or operating in a particular market*. If economic benefits are obtained, or an action is taken, over time, **the resulting present obligation may accumulate over that time**. [4.44]



If new legislation is enacted, **a present obligation arises only when, as a consequence of obtaining economic benefits or taking an action to which that legislation applies, an entity will or may have to transfer an economic resource that it would not otherwise have had to transfer**. *The enactment of legislation is not in itself sufficient to give an entity a present obligation*. [4.45]

The elements of financial statements

Liability

Present obligation as a result of past events

A present obligation **can exist even if a transfer of economic resources cannot be enforced until some point in the future.**

For example, a contractual liability to pay cash may exist now even if the contract does not require a payment until a future date. Similarly, a contractual obligation for an entity to perform work at a future date may exist now even if the counterparty cannot require the entity to perform the work until that future date. [4.46]

The elements of financial statements

Equity

Equity is the **residual interest** in the assets of the entity after deducting all its liabilities. [4.63]

Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities.

In other words, they are claims against the entity that do not meet the definition of a liability. Such claims may be established by contract, legislation or similar means, and include, to the extent that they do not meet the definition of a liability: [4.64]

- shares of various types, issued by the entity; and
- some obligations of the entity to issue another equity claim.

Nevertheless, the definition of equity **applies to all reporting entities**. [4.67]

The elements of financial statements *Income and Expenses*

Income is represented by *increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.* [4.68]

Expenses are represented by *decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.* [4.69]



It follows from these definitions of income and expenses that **contributions from holders of equity claims are not income, and distributions to holders of equity claims are not expenses.** [4.70]

The elements of financial statements *Income and Expenses*

Income and expenses are the elements of financial statements that relate to an entity's financial performance. [4.71]

Different transactions and other events generate income and expenses with different characteristics.

Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance. [4.72]

Recognition Process

Recognition is the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses.

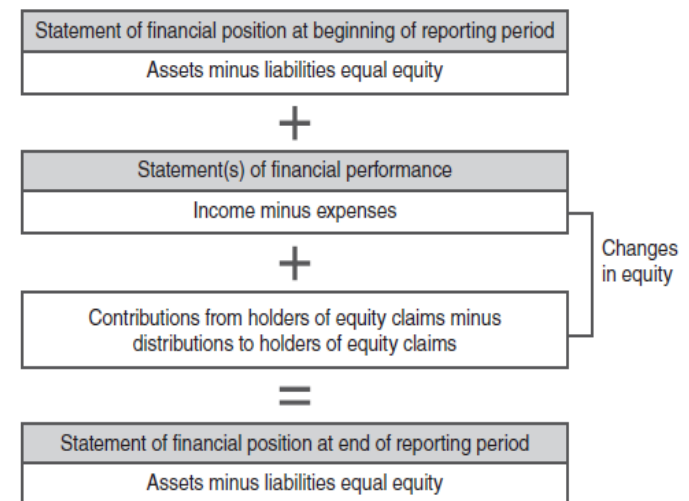
Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement.

The amount at which an asset, a liability or equity is recognised in the statement of financial position is referred to as its ‘*carrying amount*’. [5.1]

Recognition Process

The statement(s) of financial position and statement(s) of financial performance depict an entity's recognised assets, liabilities, equity, income and expenses in **structured summaries that are designed to make financial information comparable and understandable**. An important feature of the structures of those summaries is that the amounts recognised in a statement are included in the totals and, if applicable, subtotals that link the items recognised in the statement. [5.2]

Recognition links the elements, the statement of financial position and the statement(s) of financial performance as follows [5.3]



Derecognition is the removal of all or part of a recognised asset or liability from an entity's statement of financial position. Derecognition normally occurs when that item **no longer meets the definition of an asset or of a liability:** [5.26]

- ***for an asset, derecognition** normally occurs when the entity loses control of all or part of the recognised asset; and*
- ***for a liability, derecognition** normally occurs when the entity no longer has a present obligation for all or part of the recognised liability.*

Accounting requirements for derecognition aim to faithfully represent both:

[5.27]

any assets and liabilities retained after the transaction or other event that led to the derecognition

(including any asset or liability acquired, incurred or created as part of the transaction or other event)

and

the change in the entity's assets and liabilities

as a result of that transaction or other event.

Derecognition

This aims are normally achieved by: [5.28]

- a) **derecognising any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and recognising any resulting income and expenses;**
- b) **continuing to recognise the assets or liabilities retained, referred to as the ‘*retained component*’, if any.** That retained component becomes a unit of account separate from the transferred component. Accordingly, *no income or expenses are recognised on the retained component as a result of the derecognition of the transferred component, unless the derecognition results in a change in the measurement requirements applicable to the retained component; and*



Derecognition

- c) **applying one or more of the following procedures, if that is necessary to achieve one or both of the aims:**
- *presenting any retained component separately in the statement of financial position;*
 - *presenting separately in the statement(s) of financial performance any income and expenses recognised as a result of the derecognition of the transferred component; or*
 - *providing explanatory information.*

Elements recognised in financial statements are quantified in monetary terms.

This requires the selection of a measurement basis.

*A **measurement basis** is an identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.*

Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses. [6.1]

Historical Cost

Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

Unlike current value, historical cost *does not reflect changes in values, except to the extent that those changes relate to impairment of an asset or a liability becoming onerous.* [6.4]

The historical cost of ***an asset*** when it is acquired or created *is the value of the costs incurred in acquiring or creating the asset*, comprising the consideration paid to acquire or create the asset plus transaction costs. [6.5]

The historical cost of ***a liability*** when it is incurred or taken on *is the value of the consideration received to incur or take on the liability minus transaction costs.* [6.5]

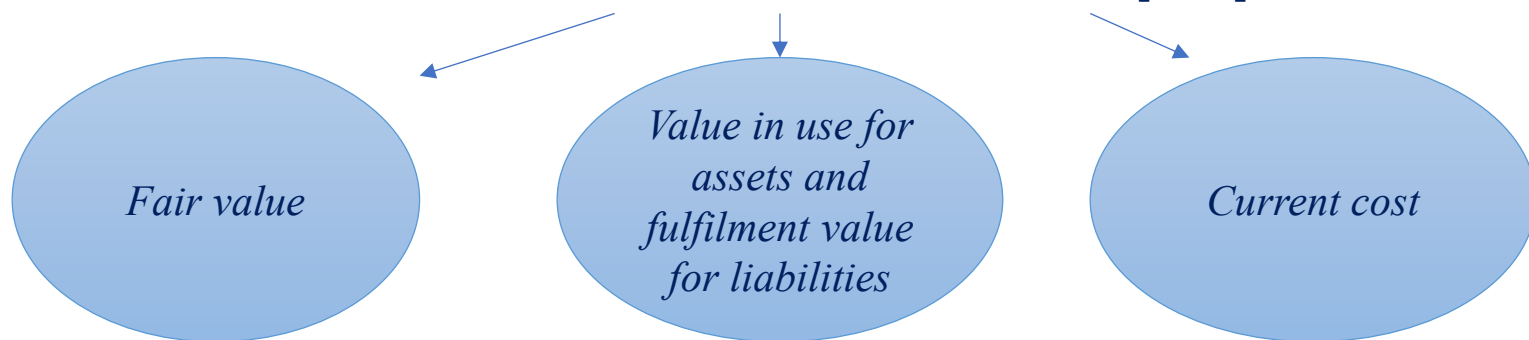
When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms, it may not be possible to identify a cost, or the cost may not provide relevant information about the asset or liability.



In some such cases, a ***current value*** of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost. [6.6]

Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. Because of the updating, current values of assets and liabilities reflect changes, since the previous measurement date, in estimates of cash flows and other factors reflected in those current values. Unlike historical cost, **the current value of an asset or liability is not derived**, even in part, from the price of the transaction or other event that gave rise to the asset or liability. [6.10]

Current value measurement bases include: [6.11]



Fair value

Fair value is **the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.** [6.12]

Fair value **reflects the perspective of market participants** – participants **in a market to which the entity has access.** The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in **their economic best interest.** [6.13]

In some cases, fair value **can be determined directly** by observing prices in an **active market.** In other cases, it is determined indirectly using measurement techniques, for example, *cash-flow-based measurement techniques.* [6.14]

Value in use and fulfilment value

Value in use is the present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal. [6.17]

Fulfilment value is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a **liability**. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability. [6.17]

Value in use and fulfilment value

Because value in use and fulfilment value are based on future cash flows, **they do not include transaction costs incurred on acquiring an asset or taking on a liability.** However, value in use and fulfilment value include the present value of any transaction costs an entity expects to incur on the ultimate disposal of the asset or on fulfilling the liability. [6.18]

Value in use and fulfilment value **reflect entity-specific assumptions rather than assumptions by market participants.** In practice, there may sometimes be little difference between the assumptions that market participants would use and those that an entity itself uses. [6.19]

Value in use and fulfilment value **cannot be observed directly and are determined using cash-flow-based measurement techniques.** [6.20]

Current cost

The current cost of an **asset** is the cost of an equivalent asset at the **measurement date**, comprising the consideration that would be paid at the measurement date **plus** the **transaction costs** that would be incurred at that date.

The current cost of a **liability** is the consideration that would be received for an equivalent liability at the measurement date **minus** the **transaction costs** that would be incurred at that date.

Current cost, like historical cost, is *an entry value*: it reflects prices in the market in which the entity would acquire the asset or would incur the liability. Hence, it is different from **fair value**, value in use and fulfilment value, which are **exit values**.

However, unlike historical cost, **current cost reflects conditions at the measurement date**. [6.21]

Current value

Current cost

In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means.

For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated **by adjusting the current price** of a new asset to reflect the current age and condition of the asset held by the entity. [6.22]

Cash-flow based measurement techniques

Sometimes, a measure cannot be observed directly.

In some such cases, one way to estimate the measure is by *using cash-flow-based measurement techniques*.

Such techniques **are not measurement bases**. They are techniques used in **applying a measurement basis**. Hence, when using such a technique, it is **necessary to identify which measurement basis is used and the extent to which the technique reflects the factors applicable to that measurement basis**. [6.91]



Cash-flow based measurement techniques

For example, if the measurement basis is **fair value**, the applicable factors are: [those described in paragraph 6.14]

- a) **estimates of future cash flows;**
- b) **possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured,** caused by the uncertainty inherent in the cash flows;
- c) **the time value of money;**
- d) **the price for bearing the uncertainty inherent in the cash flows** (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain;
- e) **other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.**

Cash-flow based measurement techniques

Cash-flow-based measurement techniques **can be used in applying a modified measurement basis**, for example, fulfilment value modified to exclude the effect of the possibility that the entity may fail to fulfil a liability (own credit risk).

Modifying measurement bases may sometimes result in information that is more relevant to the users of financial statements or that may be less costly to produce or to understand.

However, modified measurement bases may also be more difficult for users of financial statements to understand.[6.92]

Presentation and Disclosure

Presentation and disclosure as communication tools

A reporting entity communicates information about its assets, liabilities, equity, income and expenses by **presenting and disclosing information in its financial statements**.

[7.1]

Effective communication of information in financial statements **makes that information more relevant and contributes to a faithful representation** of an entity's assets, liabilities, equity, income and expenses. It also enhances the **understandability** and **comparability** of information in financial statements.



Effective communication of information in financial statements requires: [7.2]

- **focusing on presentation and disclosure objectives and principles** rather than focusing on rules;
- classifying information in a manner that **groups similar items** and **separates dissimilar items**; and
- **aggregating information** in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.

Presentation and Disclosure

Presentation and disclosure objectives and principles

To facilitate effective communication of information in financial statements, when developing presentation and disclosure requirements in Standards **a balance is needed between:** [7.4]

- a) **giving entities the flexibility to provide relevant information that faithfully represents the entity's assets, liabilities, equity, income and expenses;** and
- b) **requiring information that is comparable,** *both from period to period for a reporting entity and in a single reporting period across entities.*

Including presentation and disclosure objectives in Standards supports effective communication in financial statements because such objectives help entities to identify useful information and to decide how to communicate that information in the most effective manner. [7.5]

Effective communication in financial statements **is also supported by considering the following principles:** [7.6]

Entity-specific information is more useful than standardized descriptions, sometimes referred to as *'boilerplate'*

and duplication of information in different parts of the financial statements is usually unnecessary and can make financial statements less understandable.

Classification is **the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes**. Such characteristics include – but are not limited to –

- *the **nature** of the item,*
- *its **role** (or **function**) within the business activities conducted by the entity,*
- *and **how it is measured**. [7.7]*

Classifying dissimilar assets, liabilities, equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent. [7.8]

Aggregation

Aggregation is the adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification. [7.20]

Aggregation **makes information more useful by summarising a large volume of detail.** However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation. [7.21]

Different levels of aggregation may be needed in different parts of the financial statements. For example, typically, the statement of financial position and the statement(s) of financial performance provide summarised information and more detailed information is provided in the notes. [7.22]

Concepts of capital

A financial concept of capital is adopted by most entities in preparing their financial statements. [8.1]

- Under a *financial concept of capital*, such as invested money or invested purchasing power, capital is synonymous with the **net assets or equity of the entity**.
- Under a *physical concept of capital*, such as operating capability, capital is regarded as **the productive capacity of the entity based on, for example, units of output per day**.

Concepts of capital and capital maintenance

Concepts of capital

The selection of the appropriate concept of capital by an entity should be based *on the needs of the users of its financial statements*.

Thus, **a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the entity, a physical concept of capital should be used.** The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational. [8.2]

Concepts of capital and capital maintenance

Concepts of capital maintenance and the determination of profit

The concepts of capital give rise to the following concepts of capital maintenance:
[8.3]

Financial capital maintenance

Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.

Physical capital maintenance

Under this concept a profit is earned only if the physical productive capacity (or operating capability) of the entity (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

***Principal difference:* is the treatment of the effects of changes in the prices of assets and liabilities of the entity.**

In general terms, an entity has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is profit. [8.6]

Chapter 8

Concepts of capital and capital maintenance

Concepts of capital maintenance and the determination of profit

The concept of capital maintenance is concerned with **how an entity defines the capital that it seeks to maintain**. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, **profit is the residual amount that remains after expenses** (including capital maintenance adjustments, where appropriate) **have been deducted from income. If expenses exceed income the residual amount is a loss.** [8.4]

The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead, these items are included in equity as capital maintenance adjustments or revaluation reserves. [8.10]

Concepts of capital and capital maintenance

Concepts of capital maintenance and the determination of profit

<i>Physical capital maintenance</i>	<i>Financial capital maintenance</i>
The physical capital maintenance concept requires the adoption of the current cost basis of measurement . [8.5]	The financial capital maintenance concept, however, does not require the use of a particular basis of measurement . Selection of the basis under this concept is dependent on the type of financial capital that the entity is seeking to maintain. [8.5]
Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the entity are viewed as changes in the measurement of the physical productive capacity of the entity ; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit . [8.8]	Under the concept of financial capital maintenance where capital is defined <u>in terms of nominal monetary units</u> , profit represents the increase in nominal money capital over the period . Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits . <i>They may not be recognised as such, however, until the assets are disposed of in an exchange transaction</i> . When the concept of financial capital maintenance is defined <u>in terms of constant purchasing power units</u> , profit represents the increase in invested purchasing power over the period . Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit . <i>The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity</i> . [8.7]

Concepts of capital and capital maintenance

Concepts of capital maintenance and the determination of profit

This Conceptual Framework is applicable to a range of accounting models and provides guidance on preparing and presenting the financial statements constructed under the chosen model.

At the present time, it is not the intention of the Board to prescribe a particular model other than in exceptional circumstances, such as for those entities reporting in the currency of a hyperinflationary economy.

This intention will, however, be reviewed in the light of world developments. [8.9]

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