

2014

IFRS Foundation: Framework-based IFRS Teaching Material

Stage 3– Non-financial assets



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Stage 3: teaching material

The material to support the teaching of accounting for, and the reporting of, certain non-financial assets in accordance with International Financial Reporting Standards (IFRS) at Stage 3 is an integrated case study.

Notes on non-financial assets are not presented for Stage 3 students because it is assumed that the students will have detailed notes on non-financial assets from earlier stages of their studies. Teaching at Stage 3 should focus on enhancing the ability of students to make the estimates and other judgements that are necessary to account for economic phenomena (transactions, conditions and events) in accordance with IFRS. To do so effectively, a teacher could explore, in class discussions, estimates and other judgements about the accounting and reporting of economic phenomena that are unfamiliar to the students. The Open Safari case study presented below is an example of the type of material that could be used to support the Framework-based teaching of assets in accordance with IFRS in Stage 3 classes.

We recommend that the teacher provides a meaningful Framework-based learning experience that contributes to a cohesive understanding of IFRS by:

- (a) initiating the class discussion on the case study with a simple question: what information about particular economic phenomena (transaction, condition or event) in the case study would existing and potential investors, lenders and other creditors find most relevant in making decisions about providing resources to the entity?
- (b) extending that discussion to consider whether the most relevant information is available and can be faithfully represented. If it is not available or cannot be faithfully represented, then consider what information that can be faithfully represented in a cost-beneficial manner would best meet the objective of financial reporting.
- (c) identifying the assets of the entity using the definition of an asset in the *Conceptual Framework*.
- (d) facilitating, for each asset identified, a discussion of the IFRS classification of assets by asking: which Standard (or Standards) applies to the accounting for each of the assets identified? Thereafter, the teacher could facilitate discussion on the accounting and reporting of each asset in accordance with those Standards.
- (e) focusing discussions mostly on those issues that involve significant judgements and estimates, thereby honing the students' ability to make the judgements and estimates that are necessary to apply IFRS.

How to get the most out of the case study

Completing the Open Safari case study will necessarily require students to consider some cross-cutting issues (for example, determining the functional currency of the entity, accounting for business combinations, government grants and foreign currency transactions, and measuring the fair value of non-financial assets and the 'best estimate' of non-financial liabilities). Discussion of the measurement issues in this case study necessarily includes the related discipline of finance. The case study could easily be extended to include more aspects

of managerial accounting and finance by, for example, asking the students to perform financial modelling for the entity.

The case can also be extended to the accounting for income tax, by assuming that the tax laws of a jurisdiction that the students are familiar with apply to the entity. Furthermore, the case could be extended to the multidisciplinary accounting subject of taxation by, for example, asking students to discuss possible tax planning strategies for the entity.

If the IASB is considering changing an IFRS requirement (for example, by publishing a Discussion Paper or Exposure Draft) relevant to the information in the case study, or the IFRS Interpretations Committee (the Interpretations Committee) is considering developing an Interpretation (or has stated why it is not developing an Interpretation) on an issue that is relevant to the case study, the teacher could lead a discussion about the extent to which the principles under development would result in information that better serves the objective of financial reporting.

Similarly, if the students are also studying another reporting framework (for example, the *IFRS for SMEs* or a local GAAP), discussing which reporting framework provides more useful information to potential and existing investors, lenders and other creditors for making decisions about providing resources to the entity strengthens the cohesiveness of the students' understanding of financial reporting.

Finally, by modifying the fact pattern presented in the case study the teacher can further enhance the class discussion. For example, the teacher could facilitate a discussion on leasing by asking the class to consider how their answer to the case would change if the Freelands was leased under a 100 year lease (rather than being purchased by Open Safari).

The case study is also an example of the type of material that could be adapted to test whether students have developed the capability to make the judgements and estimates that are necessary to account for assets in accordance with IFRS.

When class time is limited, discussion can easily be segregated into a number of parts for discussion in separate sessions. For example, the accounting issues associated with each time period of operations (20X0–20X2, 20X3, 20X4, 20X5–20X8, 20X9 and 20Y0–20Y4) or each property (Freelands, Sealands, WoXy Safari's property and the medical institute) could be discussed in separate sessions. Alternatively, using the matrices provided for discussing the case study and working from left to right, the class discussion in the first session could be limited to the first few columns, with discussions in later sessions moving to the next few columns.

Stage 3: reference material

The following materials may be useful as references:

- (a) *Preface to International Financial Reporting Standards*;
- (b) *The Conceptual Framework for Financial Reporting (Conceptual Framework)*;
- (c) International Financial Reporting Standards (Standards), issued by the International Accounting Standards Board (IASB), comprising:
 - (i) International Financial Reporting Standards;
 - (ii) International Accounting Standards;
 - (iii) IFRIC Interpretations; and

- (iv) SIC Interpretations;
- (d) the material that accompanies, but does not form part of, the Standards (for example, the Basis for Conclusions, Illustrative Examples and Implementation Guidance);
- (e) Agenda Decisions of the Interpretations Committee;
- (f) the *IFRS for SMEs*;
- (g) if different from IFRS, local GAAP (especially if local GAAP is based on a similar conceptual framework, for example, US GAAP);
- (h) Discussion Papers and Exposure Drafts issued by the IASB; and
- (i) relevant published regulatory decisions.

Stage 3: class material

- (a) *A Guide through IFRS* (including the full consolidated text of Standards, Interpretations and accompanying documents issued by the IASB with extensive cross-references and other annotations);
- (b) the *IFRS for SMEs* (including the Basis for Conclusions on the *IFRS for SMEs*);
- (c) issues being considered by the Interpretations Committee¹;
- (d) issues being considered by the IASB²;
- (e) relevant published IFRS regulatory decisions;
- (f) relevant IFRS press coverage; and
- (g) case studies (for example, the case study provided below)

Stage 3: case study

Learning objectives

By completing the Open Safari case study, students should enhance their ability to:

- (a) evaluate the IFRS principles and other requirements specified for the accounting and reporting of tangible and intangible assets in the context of the objective of financial reporting as set out in the IASB's *Conceptual Framework*;
- (b) understand the estimates that must be made and the judgements that must be exercised when accounting for, and reporting, tangible and intangible assets in accordance with IFRS; and
- (c) demonstrate an understanding of the interaction between the different Standards that specify accounting for tangible and intangible assets.

¹ The following link should be provided to students: <http://www.ifrs.org/Current-Projects/IFRIC-Projects/Pages/IFRIC-Projects.aspx>.

² The following links should be provided to students: <http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/Pages/IASB-agenda-consultation.aspx> and <http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx>.