Introduction to a Framework-based teaching approach to accounting for liabilities
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A Framework-based teaching approach to accounting for liabilities

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This material has benefited greatly from the feedback and comments from people attending a series of workshops on the Framework-based approach to teaching International Financial Reporting Standards (IFRS Standards) organised by the Foundation and others and from peer reviews by a number of anonymous reviewers.

Introduction

This material has two parts. The aim of the first part of the material is to explain what is meant by Framework-based teaching and why it is important and useful for educators. We demonstrate how a Framework-based approach could be used in the three stages of the learning continuum typically followed by Chartered Accountant (CA)/Certified Public Accountant (CPA) or equivalent stream students and illustrate this by reference to the IFRS requirements for liabilities (predominantly IFRS 9 Financial Instruments, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Sections 11 Basic Financial Instruments and Section 21 Provisions and Contingencies of the IFRS for Small and Medium-sized Entities (SMEs)).

The second part presents teaching materials that could be used by educators of Stages 1, 2 and 3 classes. The aim of the second part is to provide reference material and examples that are relevant for students being taught using a Framework-based teaching approach.

The Stage 1 material comprises summary notes for students from relevant sections of the Conceptual Framework for Financial Reporting (the Conceptual Framework), IFRS 9, IAS 37 (and other applicable standards) and Sections 11 and 21 of the IFRS for SMEs. It also contains examples and discussion questions relating to the identification, recognition, measurement, derecognition and judgement and estimates in accounting for liabilities. The final section of Stage 1 material presents examples of tutorial questions with suggested answers.

The Stage 2 material includes reference material (a reading list for review before class) and other class materials to assist educators with teaching liabilities. It also includes notes for students based on extracts from the Conceptual Framework and the main principles in IFRS 9, IAS 37 (and other standards if applicable) and Sections 11, 21 (and other sections if applicable) of the IFRS for SMEs. The notes include examples and discussion questions relating to the identification, recognition, measurement, derecognition and presentation and disclosure of liabilities. Finally tutorial questions with suggested answers are provided.

1 Stage 1: a student’s first financial reporting course; Stage 2: a financial reporting course mid-way to qualifying as a CA/CPA/equivalent; and Stage 3: a course immediately before qualifying as a CA/CPA/equivalent.
The Stage 3 material is a collection of integrated case studies.

**Part 1 Framework based teaching**

*The Conceptual Framework*

The objective of the *Conceptual Framework* is to “facilitate the consistent and logical formulation of IFRSs” (paragraph 8 of the Preface to IFRS). In other words, the *Conceptual Framework* sets out the agreed concepts on which the International Accounting Standards Board (IASB) bases Standards. Consequently, most IFRS requirements are consistent with the concepts set out therein. However, application of the cost constraint\(^2\) continues to result in IFRS requirements that do not maximise the qualitative characteristics or other main concepts in the *Conceptual Framework*.

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to primary users—existing and potential investors, lenders and other creditors who cannot require the entity to provide information directly to them—in making decisions about providing resources to the entity.\(^3\) Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit (see paragraphs OB2 and OB5 of the *Conceptual Framework*). In order to assess an entity’s prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and stewardship—how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources (see paragraph OB4 of the *Conceptual Framework*).

The main concepts in the *Conceptual Framework* that flow from the objective of general purpose financial reporting include the qualitative characteristics of useful financial information and the definitions of the elements of financial statements. Because these and other aspects of the *Conceptual Framework* flow logically from the objective of general purpose financial reporting, a good understanding of the objective is fundamental to Framework-based teaching. It is vital to focus on the concepts of accounting that underpin the IFRS principles being taught and why particular accounting techniques are used to process the related information before illustrating the mechanics involved in the process itself—such principle-based understanding enables students to cope with previously unseen situations, whereas process-driven learning allows students only to cope with situations with which they are familiar.

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\(^2\) When setting Standards, the IASB assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide that information (paragraph QC38 of the *Conceptual Framework*).

\(^3\) Because these primary users cannot require the reporting entity to provide information directly to them they must rely on general purpose financial reports for much of the information they need (paragraph OB5 of the *Conceptual Framework*). Consequently, they are considered to be the primary users of financial statements.
Framework-based teaching

Framework-based teaching relates the concepts in the Conceptual Framework to the particular IFRS requirements being taught. In other words, Framework-based teaching relates the accounting and reporting of the entity’s economic resources, claims against the entity, and changes in its resources and claims, and other transactions and events, to the objective of financial statements and other main concepts that flow from that objective.

To use Framework-based teaching, students must first be taught the objective of financial reporting and the other main concepts set out in the Conceptual Framework and the economics of a particular transaction or event to be accounted for. Then the class can reflect on what information about the resulting economic resources of the entity or resulting claims against the entity (and changes in those resources and claims) would be useful to existing and potential investors, lenders and other creditors to help them to assess the prospects for future net cash inflows to the entity (i.e., students should relate the economic phenomenon to the objective of financial reporting). Only then are they taught the relevant IFRS requirements. Finally students could also be taught the main principles in IASB discussion papers or proposed standards (exposure drafts) that, if adopted, would replace the current IFRS requirements.

Using a Framework-based approach, teaching is enriched by discussing the extent to which the requirements (or proposed requirements) are consistent with the objective and concepts set out in the Conceptual Framework. Similarly, in jurisdictions in which IFRS co-exist with local general purpose financial reporting standards (local GAAP) that are based on a similar conceptual framework, Framework-based teaching provides an effective and efficient basis for teaching both sets of standards simultaneously.

Because the objective of the Conceptual Framework is to facilitate the consistent and logical formulation of IFRS, adopting a Framework-based approach when teaching IFRS provides students with a cohesive understanding of IFRS. It does so by relating the requirements in IFRS to the objective of IFRS financial information and the concepts that underlie IFRS and inform their development. Furthermore, for some IFRS requirements, IFRS teachers should explain why the IASB concluded that it was cost-beneficial not to maximise the qualitative characteristics or other main concepts in the Conceptual Framework. The IASB’s reasons are usually set out in the Basis for Conclusions that accompanies, but does not form part of, the particular Standard. In some instances, in order for a Standard to be finalised, a compromise must be reached. In such cases, certain IASB members who do not fully agree with the requirements of the Standard as they are written (or who disagree with certain requirements) provide their differing opinions in the form of a Dissenting Opinion to the Standard. It is useful to refer students to such Dissenting Opinions to illustrate further the judgements necessary in the application of the Conceptual Framework in the ‘formulation’ of Standards (for example, see the Dissenting Opinion to IFRS 9 Financial Instruments).

A Framework-based approach to teaching IFRS also allows for similar topics to be taught more effectively and efficiently—similar economic characteristics can be focussed on and differences highlighted.

To a large extent, financial statements that conform to IFRS are based on estimates, judgements and models rather than exact depictions of reality. Because the Conceptual Framework establishes the concepts that underlie those estimates, judgements and models, it provides a basis for the use of judgement in resolving accounting issues. For example, if
there is no explicit IFRS requirement that applies to a transaction, other event or condition, management uses its judgement to develop and apply an accounting policy that results in information that is relevant to the economic decision-making needs of users and reliable\(^4\) (ie resulting in a neutral and faithful representation of the financial position, financial performance and cash flows of the entity reflecting the economic substance of the economic phenomenon) (see paragraph 10 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors). The second level of the hierarchy\(^5\) for applying that judgement requires that management refer to and consider the definitions, recognition criteria and measurement concepts in the Conceptual Framework (see paragraph 11 of IAS 8).\(^6\)

Classes in Stages 1, 2 and 3

For the reasons set out above, Framework-based teaching should also better prepare students to update their IFRS knowledge and competencies continuously in the context of life-long learning.

Framework-based teaching can be used at all levels at which IFRS are taught. However, the number of IFRS requirements covered and extent of integration with other IFRS topics and related disciplines (for example, finance, tax, economics and statistics) would vary depending upon the objectives of the course and the level at which the Standards are taught. Similarly, the teaching objectives regarding IFRS estimates and other judgements would progress from awareness through understanding to competence depending upon the objectives of the course and the level at which the Standards are taught. The table below maps the progression of Framework-based teaching of CA/CPA stream (or equivalent) students at three stages:

Stage 1: a student’s first financial reporting course;

Stage 2: a financial reporting course mid-way to qualifying as a CA/CPA/equivalent; and

Stage 3: a course immediately before qualifying as a CA/CPA/equivalent.

The stages are necessarily broadly defined to take into account the many different approaches to qualifying as CAs and CPAs worldwide. We do not suggest that liabilities are taught as a separate topic on three occasions. Instead, we provide material that can be used at various stages when liabilities are taught and when they are relevant to other topics (for example decommissioning liabilities and property, plant and equipment).

\(^4\) In other words, information is reliable when it is complete, neutral and free from error (see footnote to paragraph 4.38(b) of the Conceptual Framework)


<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reference material:</strong> standards and other pronouncements</td>
<td>Extracts from the Conceptual Framework and basic IFRS principles</td>
<td>The Conceptual Framework, IFRS principles and the full text of IFRS requirements on the topics being taught</td>
</tr>
<tr>
<td><strong>Suggested class material</strong></td>
<td>• reference material (above); • notes (see Part 2 for example of notes for liabilities); and • tutorials (eg see Part 2 for examples of tutorials for liabilities).</td>
<td>• reference material as set out in A Guide through IFRS (use in class and open-book examinations); • IFRS Foundation IFRS for SMEs training modules (free from <a href="http://www.ifrs.org">www.ifrs.org</a>); • IFRS financial statements (free from company websites or university databases or EDGAR online etc); • relevant published regulatory decisions (eg ESMA(^7) decisions—free from ESMA website); • relevant press materials; • notes (see below for example of notes for liabilities); and • tutorials.</td>
</tr>
<tr>
<td><strong>IFRS judgements and estimates</strong></td>
<td>Create awareness of IFRS judgements and estimates. Some ideas: • video/web clips; • class discussions; and • basic tutorials.</td>
<td>Develop understanding of selected IFRS judgements and estimates. Some ideas: • video/web clips; • class discussions; • advanced tutorials; • group competitions; • extracts from published financial statements; • select regulatory decisions; and • select press reports.</td>
</tr>
<tr>
<td><strong>Integration of IFRS topics</strong></td>
<td>Very little, if any.</td>
<td>Moderate.</td>
</tr>
<tr>
<td><strong>Integration with other accounting related disciplines (for example, auditing, finance, tax)</strong></td>
<td>Very little, if any.</td>
<td>Moderate.</td>
</tr>
</tbody>
</table>

\(^7\) ESMA is the European Securities and Markets Authority. See [http://esma.europa.eu/](http://esma.europa.eu/)

\(^8\) EDGAR is the Electronic Data Gathering, Analysis, and Retrieval system, and is available at [http://www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml).
**IFRS and accounting for liabilities**

Because IFRSs are principle-based standards designed for use globally and across all industries they do not include prescriptive rules and industry specific guidance. Consequently, applying IFRS requires the use of estimates and other judgements. This material shows how Framework-based teaching can be used to better prepare students studying IFRS to make the estimates and other judgements that are necessary to account for liabilities in accordance with IFRS and the *IFRS for SMEs*.

The table below maps the progression of learning for CA/CPA stream students learning how to account and report liabilities in accordance with IFRS using a Framework-based teaching approach:

<table>
<thead>
<tr>
<th>Reference material: Standards and other pronouncements</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Extracts from the <em>Conceptual Framework</em>: objective, qualitative characteristics, element definitions, recognition criteria; and</td>
<td>• Conceptual Framework; IFRSs 7, 9 &amp; 15 and IAS 17, 19, 32 &amp; 37 and/or Sections 11, 12, 20–22 and 28 of the <em>IFRS for SMEs</em>; and</td>
<td>• Conceptual Framework; IFRS and the <em>IFRS for SMEs</em> Material that is issued with and accompanies IFRS but does not form part of it—for example, Basis for Conclusions. Main principles in IASB Exposure Drafts and Discussion Papers; and local GAAP.</td>
<td></td>
</tr>
<tr>
<td>• Main principles in IFRS 9 and IAS 37 and/or Sections 11 and 21 of the <em>IFRS for SMEs</em>: definitions of liabilities, financial liabilities, provisions and contingent liabilities; recognition; measurement; derecognition and disclosure.</td>
<td>• Basis for Conclusions on IFRS 9 &amp; 15 and IAS 17, 19, 32 &amp; 37.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| IFRS judgements and estimates | Create awareness of the basic estimates required for provisions (for example, expected value considerations including amount, timing and discount rates) | Facilitate the development of an understanding of the judgements and estimates (for example, see those described in pages 38–40 of Module 21 of the IFRS Foundation training material on the *IFRS for SMEs*) by using: examples, published financial statements, published regulatory decisions and press reports. | Facilitate the development of competence in making IFRS estimates and other judgements by, for example, using case studies that require judgement in making estimates and other judgements, published financial statements, published regulatory decisions and press reports. |

| Integration of IFRS topics | Very little, if any. | Introduction to IFRSs 2, 3, 7, 9 & 13, IASs 1, 8, 10, 12, 16, 18, 21, 32, & 38, IFRIC 14 & 21 and SIC 25. | Significant integration across IFRS. |

| Integration with other accounting related disciplines | Very little, if any. | Some integration with auditing, finance and taxation. | Increased integration with auditing, finance and taxation. |