Stage 3 – Liabilities
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Part 2: teaching material

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Stage 3: teaching material

The material to support the teaching of accounting for, and the reporting of, particular liabilities in accordance with International Financial Reporting Standards (IFRS) at Stage 3 is a collection of integrated case studies.¹

Notes on liabilities are not presented for Stage 3 students because it is assumed that the students will have detailed notes on liabilities 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 collection of case studies presented below provides teachers with examples of the type of material that could be used to support the Framework-based teaching of liabilities in accordance with IFRS in Stage 3 classes.

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

(a) initiating the class discussion on a case study with a simple question: what information about particular economic phenomena (transaction, condition or event) in the case study would primary users—existing and potential investors, lenders and other creditors who cannot demand information directly from the entity—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 liabilities of the entity using the definition of a liability in the Conceptual Framework.

(d) facilitating, for each liability identified, a discussion of the IFRS classification of liabilities by asking: which Standard (or Standards) applies to the accounting for each of the liabilities identified? Thereafter, the teacher could facilitate discussion on the accounting and reporting of each liability in accordance with those Standards.

(e) focusing discussions mostly on issues that involve significant judgements and estimates, thereby honing the students’ abilities to make the judgements and estimates that are necessary to apply IFRS.

¹ Teaching material in this series is also provided separately for Stage 1 (for example, a first financial reporting course for CA/CPA stream, or equivalent, students) and Stage 2 (for example, a course midway to qualify as a CA, CPA or equivalent qualification). The material for each stage of this series should be read within the context of the Introduction to a Framework-based teaching approach to accounting for liabilities that accompanies this series.
The collection of case studies

The BuildItYourself case study

This case study presents ten alternatives that a company is considering to finance the expansion of its operations. The case study builds from simple financing alternatives (simple ‘vanilla’ equity and simple ‘vanilla’ debt financing alternatives) to increasingly complex financial instruments by adding a series of incremental features to the simple financing instruments.

The case study aims to support teachers in:

i. developing the cohesiveness of their students’ understanding of the classification, in accordance with IFRS, of complex financial instruments from the issuer’s perspective; and

ii. developing their students’ abilities to make the judgements necessary to classify and measure financial instruments with characteristic of equity in accordance with IFRS.

The TooBigToFail Bank case study

The context for the TooBigToFail Bank (TBTF) case study is two highly topical issues—rogue trading and the government bailout of financial institutions in the recent financial crisis.

The case study aims to support teachers in:

i. developing their students’ ability to make the judgements necessary to apply integrated knowledge across a range of cross-cutting issues, including:

   i. going concern considerations;
   ii. events after the end of the reporting period; and
   iii. the ‘fair presentation override’

   to the accounting for financial instruments in accordance with IFRS; and

ii. developing the cohesiveness of their students’ understanding of IFRS to ‘see the big picture’ within the context of accounting for an issue that is widely reported on as being a counterintuitive ‘accounting gimmick’.

The Woody case study

This case study explores the accounting for a variety of ‘forward’ contracts in accordance with IFRS.

The case study aims to support teachers in:

i. developing their students’ ability to make the judgements necessary to classify ‘forward contracts’ so as to determine which IFRS applies to such contracts across a range of scenarios; and

ii. developing their students’ ability to make further judgements necessary to apply those IFRS requirements to account for each such contract.
How to get the most out of the case studies

Completing the case studies will necessarily require students to consider some cross-cutting issues. For example, in the TooBigToFail Bank (TBTF) case study students must integrate reporting requirements for going concern considerations, events after the end of the reporting period and the fair presentation override with the accounting for financial instruments in accordance with IFRS.

Discussion of the issues in these case studies necessarily includes the related discipline of finance. For example, before attempting the accounting for the range of liabilities presented, students need to understand the pricing of:

- the range of ‘forward’ contracts in the Woody case study;
- the range of instruments presented as alternative sources of funding in the BuildItYourself case study; and
- the derivatives to which TBTF is a party in the TBTF Bank case study.

The case studies 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 when a range of economic factors change (for example, interest rates and other ‘underlying’ variables).

The case studies 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 cases could be extended to the subject of taxation by, for example, asking students to discuss possible tax planning strategies for the entity (this is possibly most relevant to the ‘structured products’ presented in the BuildItYourself case study).

If the IASB is considering changing an IFRS requirement (for example, by publishing a Discussion Paper or Exposure Draft) that would be relevant to the information in a 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 a 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 studies the teacher can further enhance the class discussion. For example, the teacher could facilitate a discussion of other instruments that BuildItYourself could issue to raise the cash it seeks to expand its operations by asking the class to identify some of those other instruments and to explain how their answer to the case would change if those other instruments were used instead of the ten alternatives presented in the case study.
The case studies are also examples 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 liabilities in accordance with IFRS.

**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 Committee;\(^2\)

(d) issues being considered by the IASB;\(^3\)

(e) relevant published IFRS regulatory decisions;

(f) relevant IFRS press coverage; and

(g) case studies (for examples see the collection case studies provided below).

\(^2\) The following links should be provided to students: [http://www.ifrs.org/Current-Projects/IFRIC-Projects/Pages/IFRIC-activities.aspx](http://www.ifrs.org/Current-Projects/IFRIC-Projects/Pages/IFRIC-activities.aspx)

\(^3\) The following links should be provided to students: [http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx](http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx)
Case study learning objectives

By completing the case studies, students should enhance their ability to:

(a) evaluate the IFRS principles and other requirements specified for the accounting and reporting of liabilities within 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, liabilities in accordance with IFRS; and

(c) demonstrate an understanding of the interaction between some of the different Standards that specify accounting for liabilities.