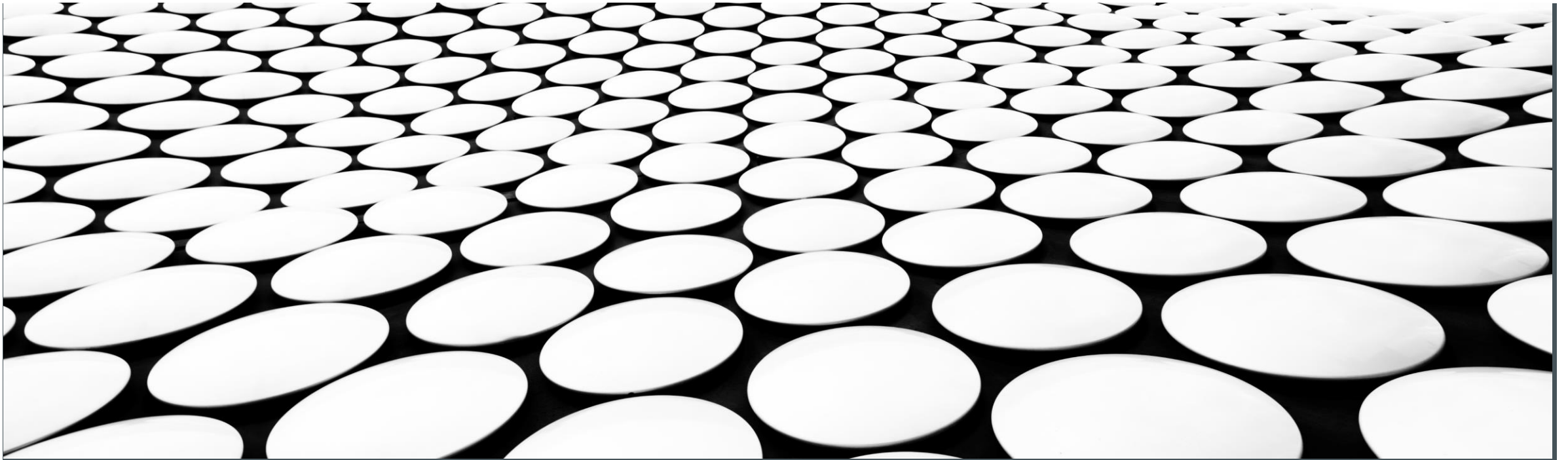

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONCEPTUAL FRAMEWORK

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*





CONCEPTUAL FRAMEWORK

THE CONCEPTUAL FRAMEWORK....

The Framework is not an accounting standard

**The Framework provides the general principles
Upon which the accounting standards themselves
Will be based i.e. the framework is the standard
Of all standards.**

THE CONCEPTUAL FRAMEWORK

Conceptual Framework is the edifice upon which International Financial Reporting Standards are based.

It determines how financial statements are prepared and the information they contain.

RECOGNITION OF ELEMENTS OF FINANCIAL STATEMENTS

Recognition criteria

The process of incorporating an item that meets
The definition of an element and satisfies the following for
recognition

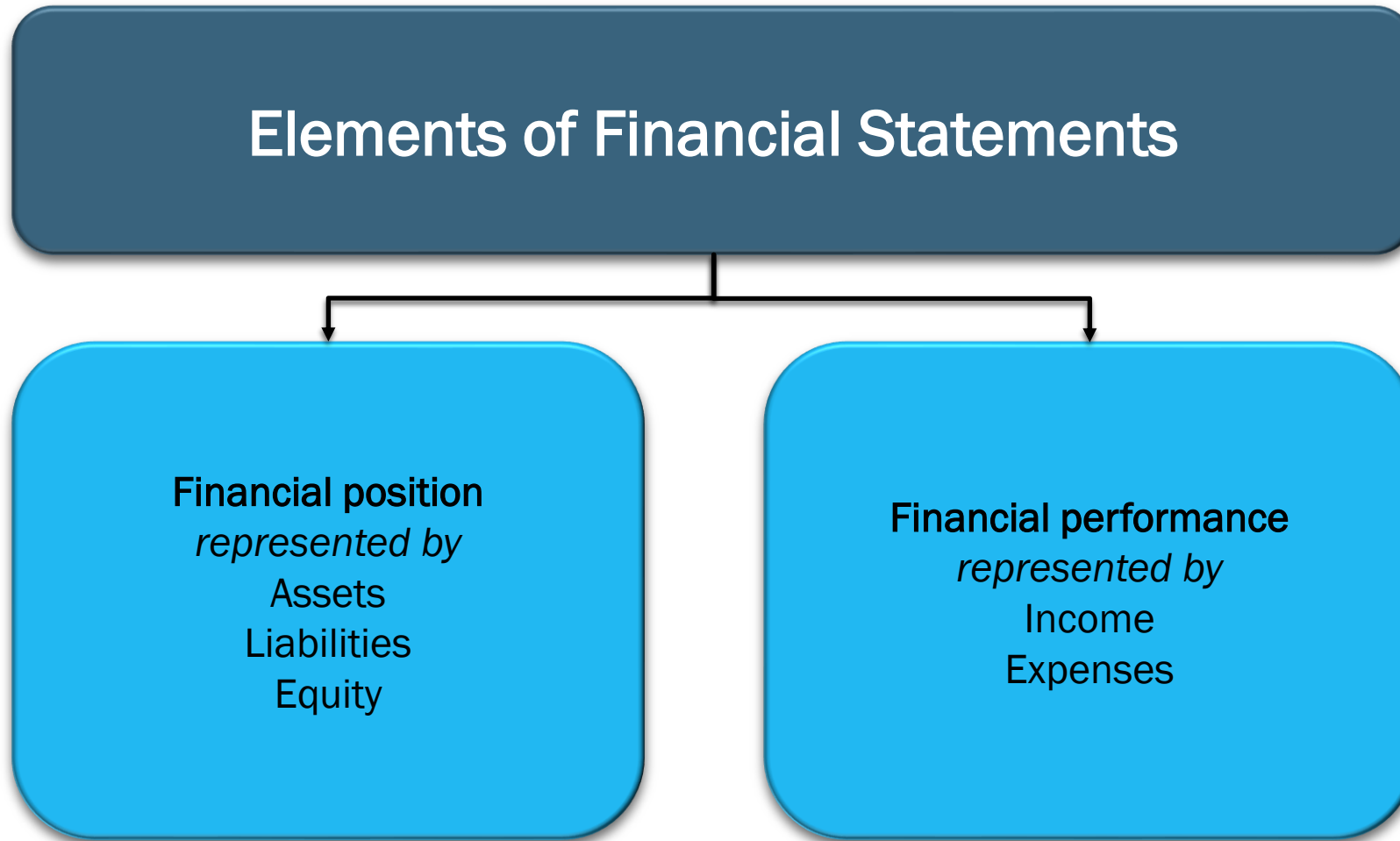
➤ It is probable that any future economic benefit associated with the item will flow to or from the enterprise

Framework

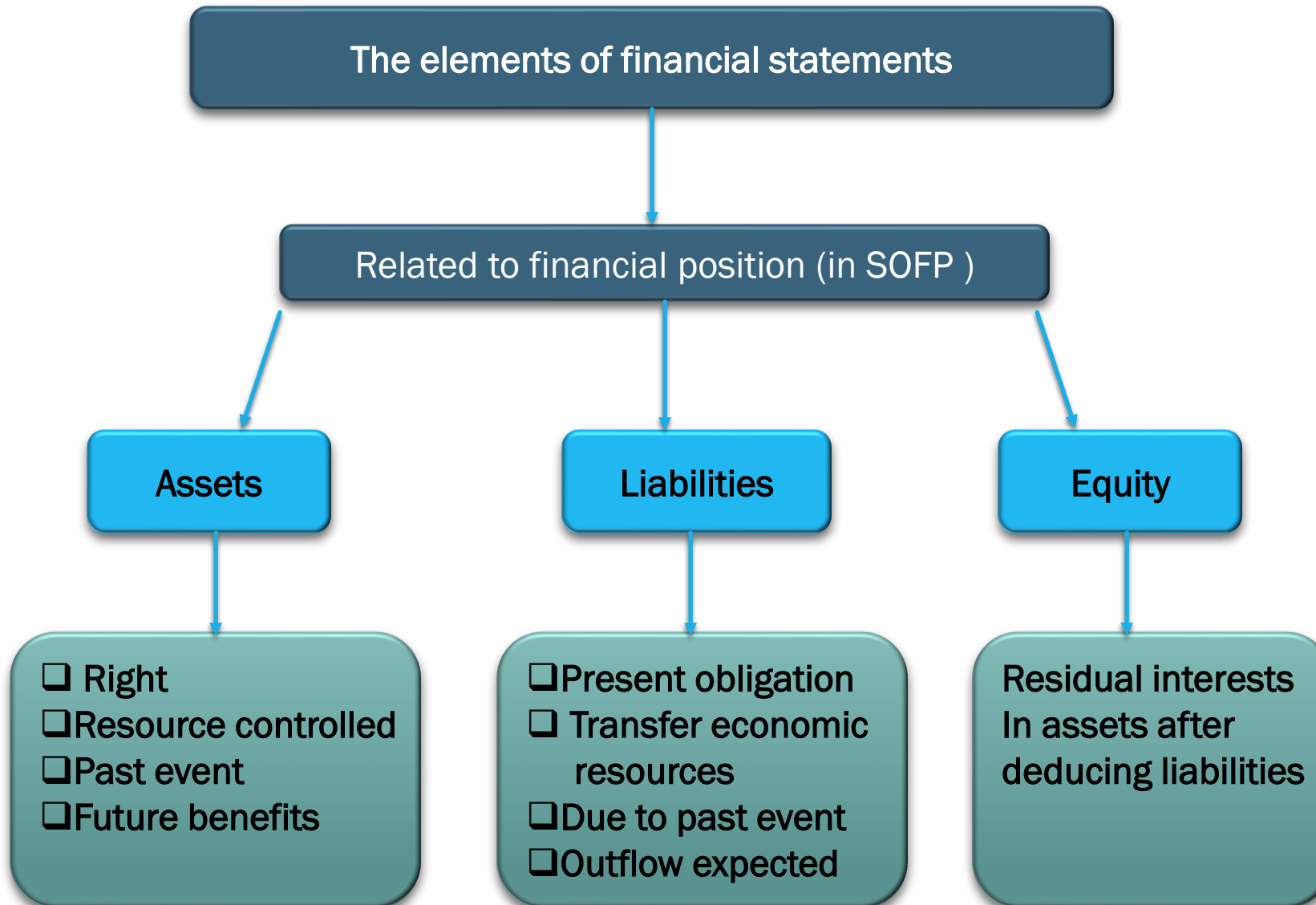
➤ the item has a cost or a value that can be measured with reliability

Framework

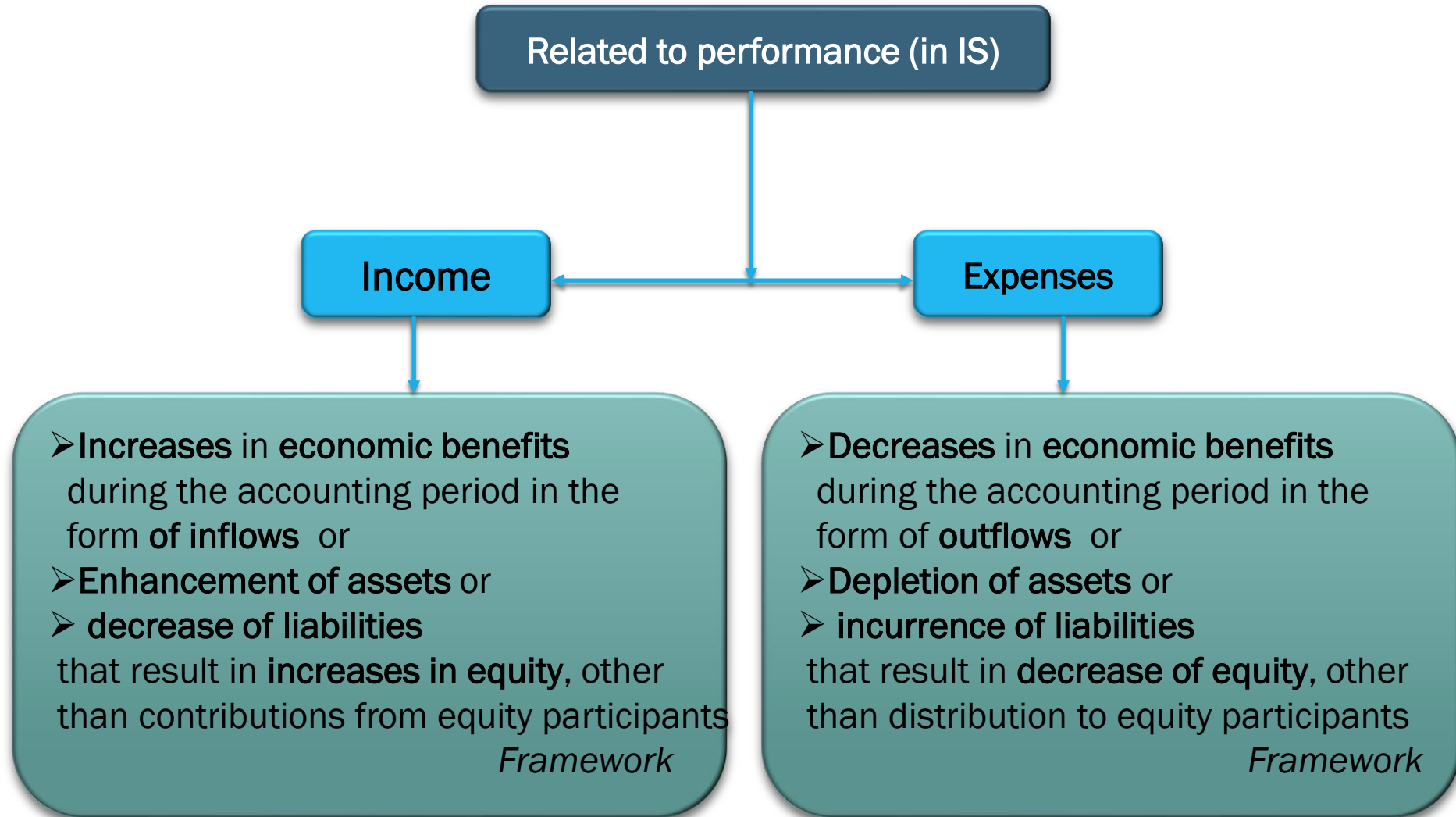
ELEMENTS OF FINANCIAL STATEMENTS



SO WHAT ARE THE ELEMENTS OF FS?



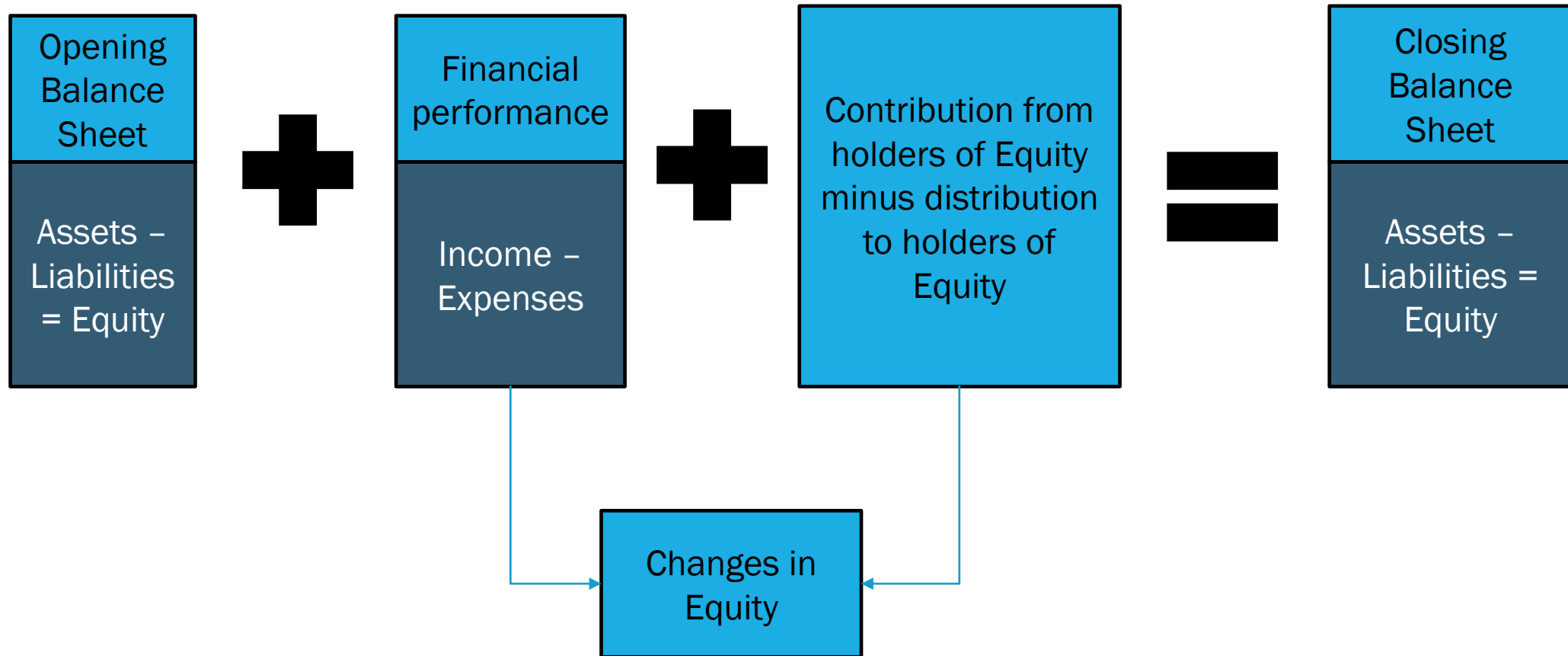
THE ELEMENTS OF FINANCIAL STATEMENTS



RECOGNITION CRITERIA

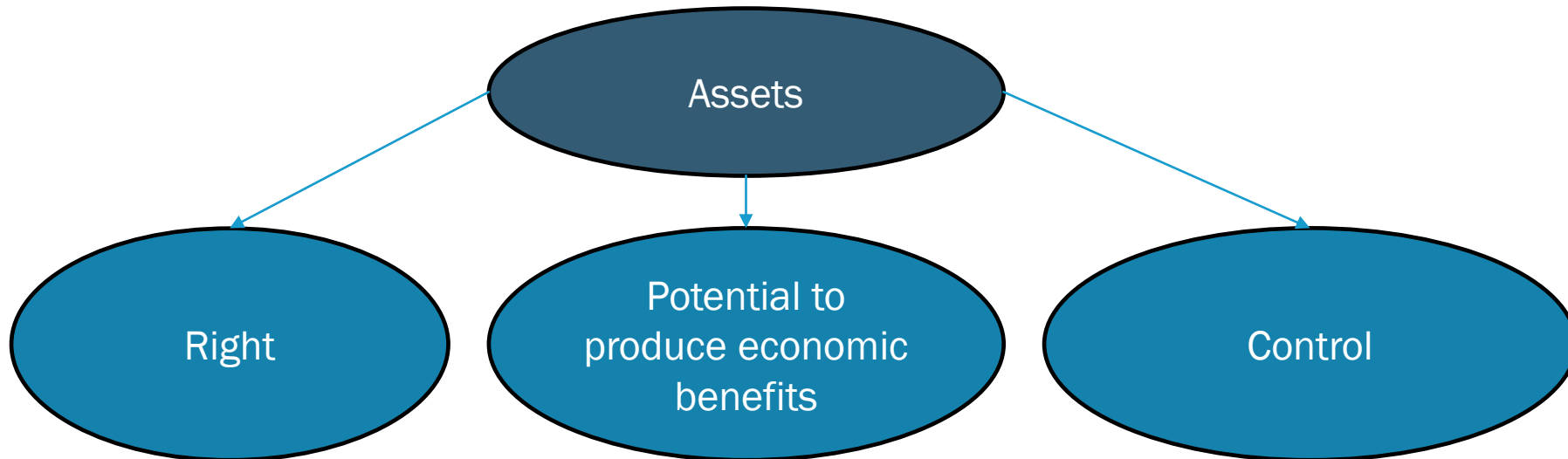
Item	Recognised in	When
Asset	The statement of Financial Position	It is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably
Liability	The statement of Financial Position	It is probable that outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which settlement will take place can be measured reliably
Income	The statement of Comprehensive Income	An increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably
Expenses	The statement of Comprehensive Income	An decrease in future economic benefits related to an decrease in an asset or a increase of a liability has arisen that can be measured reliably

FINANCIAL POSITION AND FINANCIAL PERFORMANCE



ASSETS

An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits – *Framework*



RIGHT

Includes:

(a) Rights that correspond to an obligation of another party,

For example:

(i) rights to receive cash.

(ii) rights to receive goods or services.

(iii) 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.

(iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs.

(b) rights that do not correspond to an obligation of another party,

For example:

(i) 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.

(ii) rights to use intellectual property.

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.

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:

- (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:
 - (i) using the economic resource either individually or in combination with other economic resources to produce goods or provide services,
 - (ii) using the economic resource to enhance the value of other economic resources; or
 - (iii) 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.

CONTROL

Control links an economic resource to an entity.

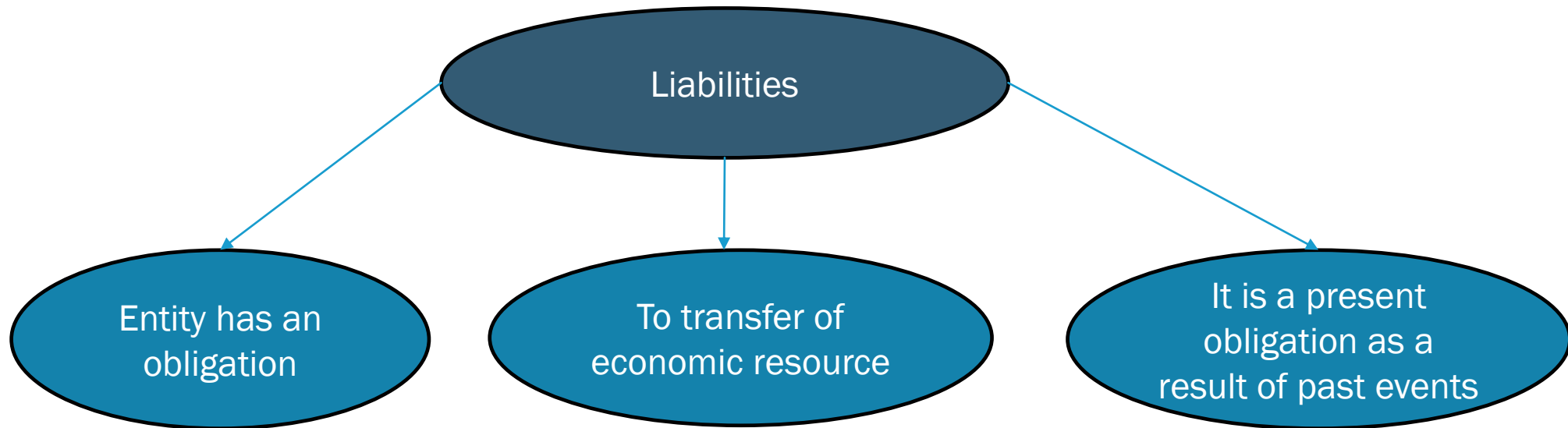
Assessing whether control exists helps to identify the economic resource for which the entity accounts.

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.

LIABILITIES

A liability is a present obligation of the entity to transfer an economic resource as a result of past events – *Framework*.



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.

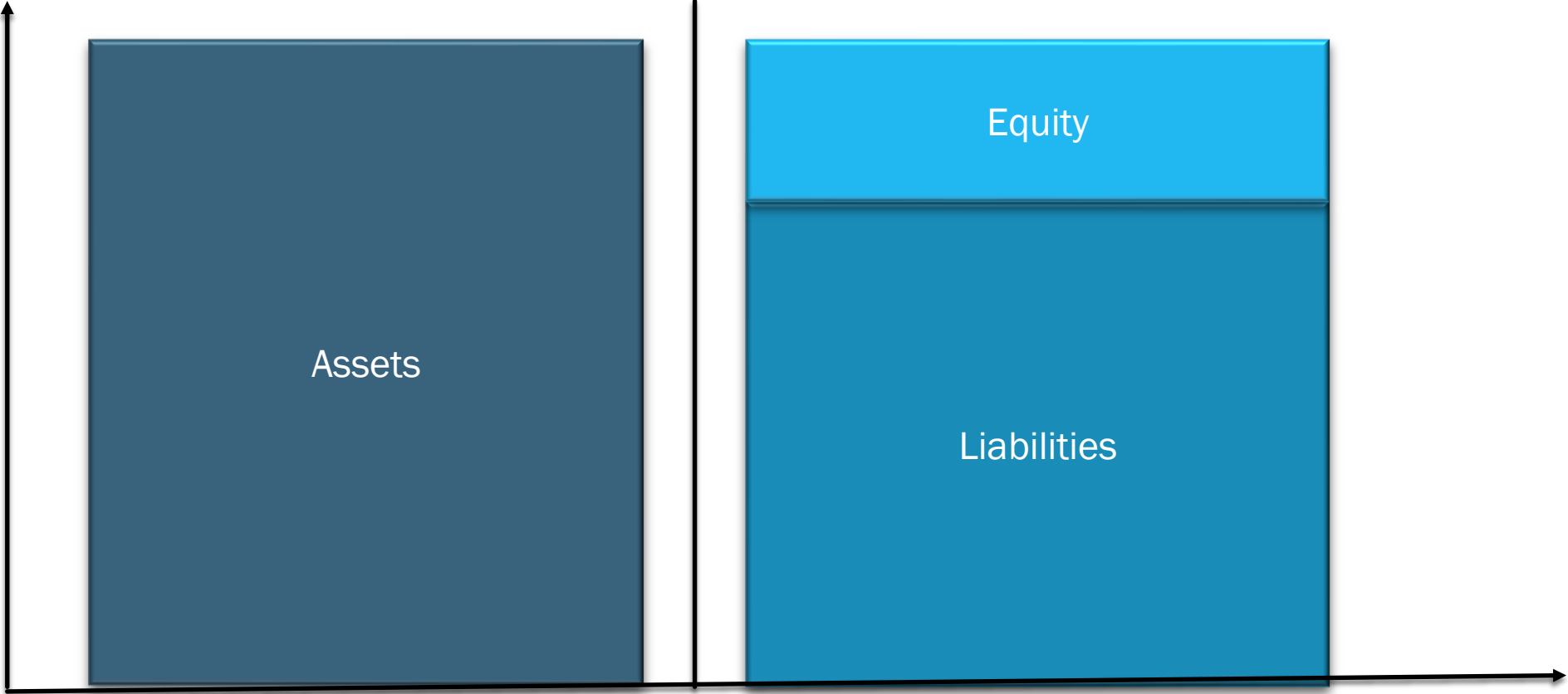
Framework

EQUITY

The residual interest in the assets of the enterprise after deducting all its liabilities – *Framework*.



STATEMENT OF FINANCIAL POSITON – ACCOUNTING EQUATION



STATEMENT OF FINANCIAL POSITION

- This statement represents the financial position which discloses ***short term and long-term solvency***, which is the ability to meet the liability in the short as well as long term.
- ***Solvency*** is the availability of cash over the longer term to meet the financial commitments as they fall due.
- ***Liquidity*** represents the availability of sufficient funds to meet the deposit withdrawals and other financial commitments as they fall due.

STATEMENT OF PROFIT AND LOSS

Depicts the net financial results of the organization represented by income and expenses and would include all items of income and expense in a period in profit or loss.

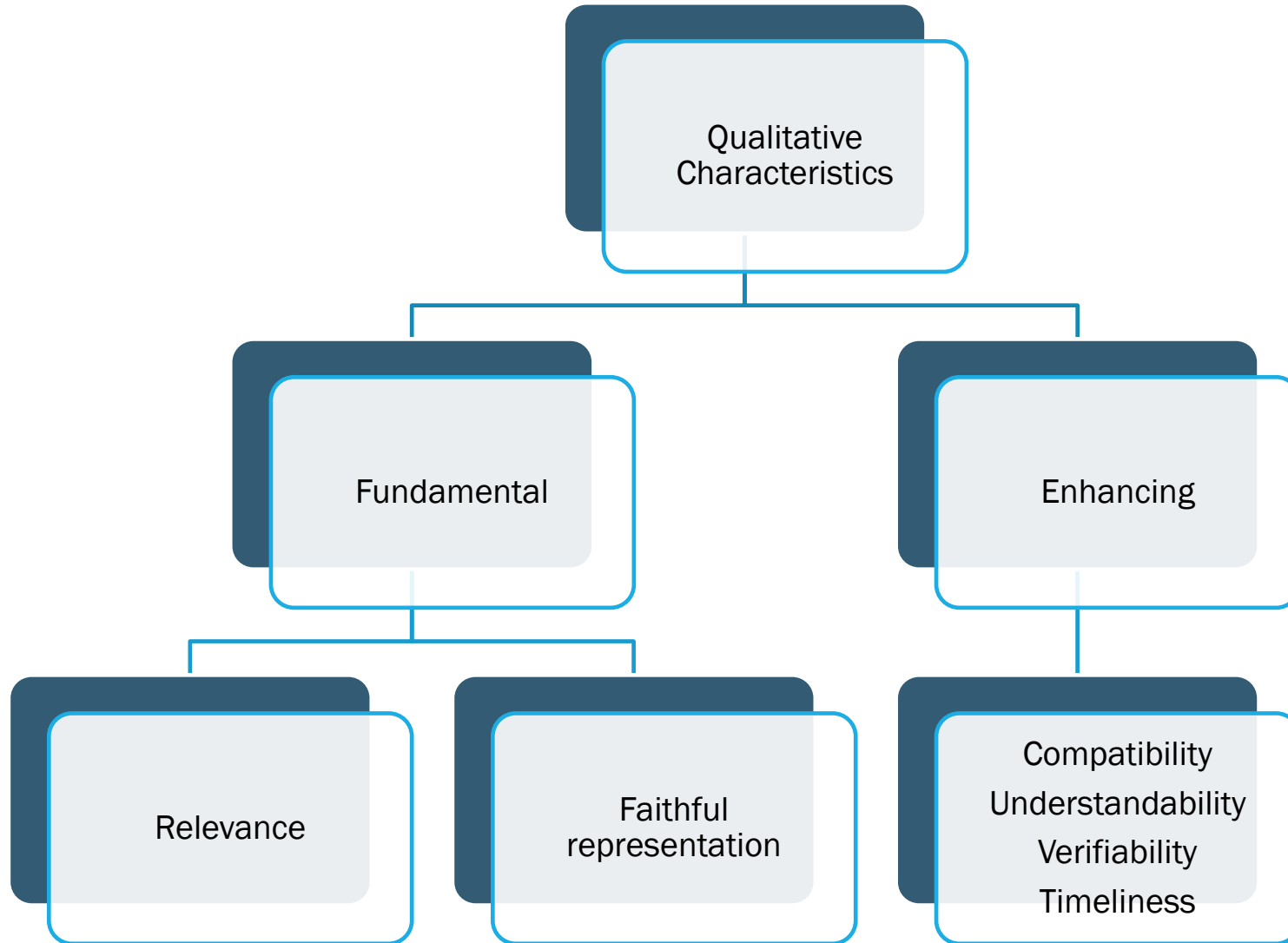
Income

Income is *increases in assets*, or *decreases in liabilities*, that result in *increases in equity*, other than those relating to contributions from holders of equity claims – *Conceptual Framework*

Expenses

Expenses are *decreases in assets*, or *increases in liabilities*, that result in *decreases in equity*, other than those relating to distributions to holders of equity claims – *Conceptual Framework*

QUALITATIVE CHARACTERISTICS





THANK YOU!