Instructor's Manual

International Financial Reporting: A Practical Guide

Seventh edition

Alan Melville

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Preface

As indicated in the preface to *International Financial Reporting*, the main book does not contain solutions for those exercises which are marked with an asterisk. This provides lecturers who have adopted the textbook with a source of problems which may be used for tutorial work and revision. The purpose of this Instructor's Manual is to supply suggested solutions to those exercises and questions.

I should like to remind the reader that, whilst some of the exercises are drawn from the past examination papers of the professional accounting bodies, the answers provided here to those questions are entirely my own responsibility.

Alan Melville
January 2019

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Alan Melville
January 2019

Chapter 1
The regulatory framework

1.8

(a) The objectives of the IASB® are:

(i) to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles; these standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information to make economic decisions;

(ii) to promote the use and rigorous application of those standards;

(iii) in fulfilling objectives (i) and (ii), to take appropriate account of the needs of a range of sizes and types of entities in diverse economic settings;

(iv) to bring about convergence of national accounting standards and international standards.

(b) The *Preface* states that IFRS® Standards and IAS® Standards are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities, whether these are organised in corporate form or in other forms.

(c) The main stages in the IASB due process are:

- identification and review of all the issues associated with the topic concerned
- consideration of the way in which the IASB *Conceptual Framework* applies to these issues
- a study of national accounting requirements in relation to the topic and an exchange of views with national standard-setters
- consultation with the Trustees and the Advisory Council about the advisability of adding this topic to the IASB's agenda
- publication of a discussion document for public comment
- consideration of comments received within the stated comment period
- publication of an exposure draft for public comment
- consideration of comments received within the stated comment period
- approval and publication of the standard.

1.9

(a) The objective of IFRS1 is to ensure that an entity's first financial statements that comply with international standards should contain high-quality information that:

- is transparent for users and comparable for all periods presented
- provides a suitable starting point for accounting under international standards
- can be generated at a cost that does not exceed the benefits to users.

(b) An entity's "first IFRS reporting period" is the reporting period covered by the first IFRS financial statements. The first IFRS financial statements are the first financial statements in which the entity adopts international standards and makes an explicit and unreserved statement of compliance with those standards.

The "date of transition" to international standards is the date at the beginning of the earliest period for which an entity presents comparative information in its first IFRS financial statements.

(c) The company's first IFRS reporting period is the year to 31 October 2020. The earliest period for which comparative figures are presented in the first IFRS financial statements is the year to 31 October 2015. Therefore the date of transition is 1 November 2014. The company must:

(i) prepare an IFRS statement of financial position as at the start of business on 1 November 2014 (i.e. as at the close of business on 31 October 2014)

(ii) use identical accounting policies in this "opening" IFRS statement of financial position and in the financial statements for the year to 31 October 2020 and in the comparative figures provided for the previous five years; these accounting policies must comply with international standards in force for periods ending on 31 October 2020

(iii) provide a reconciliation of equity as reported under previous GAAP with equity reported under international standards, for 31 October 2014 and 31 October 2019

(iv) provide a reconciliation of total comprehensive income as reported under previous GAAP with total comprehensive income as it would have been reported under international standards, for the year to 31 October 2019.

Chapter 2
The IASB conceptual framework

2.7

(a) £1 invested at 7% per annum will become £1 × 1.07 × 1.07 × 1.07 after three years. So the present value on 1 January 2020 of an amount to be received on 1 January 2023 (assuming a discount rate of 7%) is equal to that amount divided by $(1.07)^3$. This is the same as multiplying the amount by a discounting factor (to three decimal places) of 0.816 ($1/1.07^3$).

So the present value of £50,000 to be received on 1 January 2023 is £40,800 (£50,000 × 0.816).

(b) Similarly, the discounting factor over a five-year period is 0.713 ($1/1.07^5$) and so the present value of £100,000 to be received on 1 January 2025 is £71,300 (£100,000 × 0.713).

(c) With a discount rate of 7%, discounting factors for one, two, three and four years are 0.935, 0.873, 0.816 and 0.763 respectively (the calculation of these factors is left to the reader). So the present value of £10,000 to be received on 1 January each year from 2021 to 2024 inclusive is £33,870 (£9,350 + £8,730 + £8,160 + £7,630).

2.8

(a) The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of general purpose financial statements prepared for the benefit of external users. The main purposes of the *Conceptual Framework* are:

- to assist the IASB in the development of international standards based on consistent concepts
- to assist the preparers of financial reports to develop consistent accounting policies when no international standard applies to a particular transaction or event, or when a standard permits a choice of accounting policy
- to assist all parties concerned to understand and interpret the international standards.

If there is a conflict between the *Conceptual Framework* and an international standard, then the standard prevails.

(b) The *Conceptual Framework* states that 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 about providing resources to the entity*".

(c) The primary users of general purpose financial reports are existing and potential investors, lenders and other creditors. Further user groups include employees, customers, governments (and their agencies) and the public. Examples of the types of information that each user group would be seeking from financial reports are given in Chapter 2 of the textbook.

(d) Financial statements are normally prepared on the "going concern" basis. It is assumed that the reporting entity will continue to operate for the foreseeable future and has neither the intention nor the need either to close down or materially reduce the scale of its operations. But if an entity is not a going concern, the financial statements will have to be prepared on a different basis and that basis should be disclosed.

(e) The fundamental qualitative characteristics are relevance and faithful representation. The enhancing characteristics are comparability, verifiability, timeliness and understandability. A full explanation of each characteristic is given in Chapter 2 of the textbook.

(f) Reporting financial information imposes costs and these costs should be justified by the benefits which users obtain from the information. This means that there is a cost constraint on the extent to which financial statements can attain all of the qualitative characteristics that are listed in the *Conceptual Framework*.