

## CONCEPTUAL FRAMEWORK: EDUCATION SESSION ON THE 'REVENUE AND EXPENSES-LED' AND 'ASSETS AND LIABILITIES-LED' MODELS TO FINANCIAL PERFORMANCE

### Objectives of Session

1. The objectives of this session are:
  - to enhance understanding of the 'Revenue and Expenses-led' (R & E-led) and 'Assets and Liabilities-led' (A & L –led) approaches highlighted in the Phase 2 Consultation Paper, *Elements and Recognition in Financial Statements (CP-2)*;

### Approaches to Financial Performance

2. Chapter 4 of CP-2 (paragraphs 4.1-4.27) included an explanation of two different approaches to the measurement of financial performance. The A & L-led approach measures financial performance as the net result of all changes in the entity's resources and obligations during the reporting period. The R & E-led approach measures financial performance as the result of the revenue inflows and expense outflows associated with the operations of the reporting period. These approaches have an impact on the substance of definitions of the elements related to financial performance and financial position and potentially on the number of elements.
3. CP-2 noted that the proponents of both approaches to financial performance support the importance of the statement of financial performance in meeting the objectives of financial reporting, agree that financial performance excludes transactions with owners, and that the two approaches are not directly associated with the selection of particular measurement bases. CP-2 exemplified the impact on financial performance and financial position of the two approaches through two scenarios: (a) an entity in receipt of a capital grant for the financing of a library and (b) an entity that levies and receives property taxes.
4. David Bean and Ken Warren, who, in their national standard-setting capacities, have relied on one or other of approaches, will provide their insights and will respond to queries on practical application of the approaches.
5. It is important to emphasize that the objective of this session is to enhance the understanding of Members, TAs and Staff and thereby put the IPSASB in a better position to evaluate responses to CP-2 later in the year. It is not the intention to deliberate issues and reach conclusions.

**Action Required**

Members, TAs and Staff are encouraged to ask questions to further their understanding of the two approaches to financial performance outlined in CP-2.