

# Elements and Recognition in Financial Statements

Agenda Item 2A

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Toronto, Canada

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## Objectives of session

- (a) To discuss a preliminary analysis of responses to CF–ED2: Elements and recognition in financial statements;
- (b) To obtain preliminary directions for development; and
- (c) To identify issues for further discussion in September.

### Materials Presented:

- 2A.1 Issues paper
- 2A.2 List of respondents/collation with staff views
- 2A.3 Analysis of respondents—region, function & language
- 2A.4 Responses to CF–ED2

## Background

- CF–ED2 issued November 2012
- Consultation period until April 30, 2013
- 40 responses as at May 15, 2013
- Preliminary analysis at this meeting
- Further and fuller analysis at September meeting

## General comments (paragraphs 3-8)

- Relationship with IASB Framework not considered in this session
- Deferred inflows and deferred outflows as elements most controversial issue
- A&L v R&E approaches
- Non-legal binding obligations
- Request for examples in Framework

## **SMC 5 (a)/(b): Deferred inflows and deferred outflows- (paragraphs 9-30)**

- 11 agreed; 3 partially agreed; 25 disagreed
- Those in favor saw need in specific circumstances
- Partially agreed identified need for clarification on use

## **SMC 5 (a)/(b): Deferred inflows and deferred outflows (paragraphs 9-30)(continued)**

Those who disagreed expressed range of views, grouped as follows (from pages 3-5):

- Approach does not reflect economic reality
- Global accounting framework
- Time restriction-expand asset/liability definitions instead?
- Need to clarify perceived problem
- Problem understood but explanation not convincing
- Terms not well understood or used

## **SMC 5(a)/(b): Deferred inflows & deferred outflows (paragraphs 9-30)(continued)**

- Preference for A&L model & presentational approach
- Deferred inflows and deferred outflows vulnerable to misuse in manipulation of outcome against budget
- Define elements and permit optional recognition of deferred inflows/outflows
- Adopt approach similar to OCI

## **SMC 5(a)/(b): Deferred inflows & deferred outflows (paragraphs 9-30)(continued)**

SMC 5(b): restricting definitions to non-exchange (page 6)

- 13 agreed; 10 disagreed
- Contrary to transaction neutral approach
- Principles for restricting to non-exchange unclear



## **SMC 5 (a)/(b):Deferred inflows and deferred outflows (paragraphs 9-30)(continued)**

- Support for Alternative Views (paragraph 25)
- AV of Prof. Mariano D'Amore (AV1-6)
- AV of Ms. Jeanine Poggiolini (AV 7-11)

## SMC 5 (a)/(b):Deferred inflows and deferred outflows (paragraphs 9-30)(continued)

- *Staff preliminary and very tentative view is that because of the complexity and subjectivity associated with the application of separate elements, inflows and outflows of service potential or economic benefits related to specified future reporting periods might be best addressed through presentational approaches. Staff will approach these issues further, including the approaches in the AVs, in the development of agenda papers for the September meeting.(paragraph 26)*

## SMC 5 (a)/(b): Deferred inflows and deferred outflows (paragraphs 9-30)(continued)

Matter for consideration (page 6)

1. The IPSASB is asked to **note** the analysis of responses to SMC 5 (a) and 5 (b), to **consider** staff views, and to **provide a preliminary view** on whether deferred inflows and deferred outflows might be better addressed through presentational approaches rather than as elements.

## SMC 1: Definition of an asset (paragraphs 31-46)

- 20 agreed; 13 partially agreed; 5 disagreed
- Overall approach to definition: broad v narrow
  - Exclude recognition factors from definition
- Control
- Contingent assets
- A resource
- Service potential and economic benefits

## **SMC 1: Definition of an asset (paragraphs 31-46) (continued)**

- Future inflows
- Indicators of control
- Past event
- Unconditional rights
- Executory contracts

## SMC1: Definition of an asset (paragraphs 31-46) (continued)

Matter for consideration (page 10)

2. The IPSASB is asked to **note** the analysis of responses to SMC 1, and to **confirm** whether it agrees with staff views.

## **SMC 2 (a):Definition of a liability & 2 (b) description of non-legal binding obligations (paragraphs 47-62)**

- 19 agreed;10 partially agreed; 9 disagreed
- Legal or non-legal
- Reconsider term non-legal
- Little or no realistic alternative to avoid
- Political and economic coercion
- Provisions
- Contingent liabilities

## **SMC 2(a): Definition of a liability & 2(b) description of non-legal binding obligations (paragraphs 47-62) (continued)**

- Stand-ready obligations
- Past events
- Performance obligations
- Commitments
- Sovereign power



## SMC 2(a): Definition of a liability & 2(b) description of non-legal binding operations (continued)

Matter for consideration (page 13)

3. The IPSASB is asked to **note** the analysis of responses to SMC 2 (a) and 2 (b), and to **confirm** whether it agrees with staff views.

## **SMC 3&4: Definitions of revenue and expenses (paragraphs 63-74)**

- Revenue -10 agreed; 6 partially agreed; 22 disagreed
- Expenses -11 agreed; 4 partially agreed; 23 disagreed
- Many disagreed due to deferred inflows/deferred outflows
- A&L approach

## **SMC 3&4: Definitions of revenue and expenses (paragraphs 63-74) (continued)**

- Expand definitions to encompass revaluations
- Income/gains/losses v revenue/expenses
- Operating expenses v capital expenses
- Sovereign revenue
- Ownership contributions/distributions
- Discussion on financial performance

## SMC 3 & 4: Definitions of revenue and expenses (paragraphs 63-74) (continued)

Matter for consideration (page 16)

4. The IPSASB is asked to **note** the analysis of responses to SMC 3 & 4, and to **confirm** whether it agrees with staff views.

## **SMC 6: Net assets, net financial position, ownership contributions & ownership distributions (paragraphs 75-80)**

6 (a): Terms/descriptions of net assets & net financial position

- 10 agreed; 12 partially agreed; 16 disagreed
- Most opposition to net financial position-if deferred inflows & deferred outflows rejected, term no longer required
- Need to refer to sovereign rights?

## **SMC 6: Net assets, net financial position, ownership contributions & ownership distributions (paragraphs 75-80) (continued)**

6 (b): Define ownership contributions & ownership distributions as elements?

- 21 agreed; 3 partially agreed; 12 disagreed
- Limited relevance to public sector but when it arises use different term
- Expand to split capital/revenue?

## **SMC 6: Net assets, net financial position, ownership contributions & ownership distributions (paragraphs 75-80) (continued)**

### 6 (c): Definition of ownership contributions and ownership distributions

- 16 agreed; 5 partially agreed; 9 disagreed;
- Owners v external parties
- Transfers between public sector entities

## **SMC 6: Net assets, net financial position, ownership contributions & ownership distributions (paragraphs 75-80) (continued)**

6 (d): Ownership interests have not been defined in ED-2. Should ownership interests be defined in ED-2?

- 17 thought they should be defined in ED-2; 15 thought they should not be defined in ED-2; 3 suggested defining concept of ownership interests but out-with elements
- Definition helpful for clarity
- Address at standards level



## SMC 6: Net assets, net financial position, ownership contributions & ownership distributions (paragraphs 75-80) (continued)

Matter for consideration (page 17)

4. The IPSASB is asked to **note** the analysis of responses to SMC 6 (a),(b),(c) and (d),and to **confirm** whether it agrees with staff views.

## SMC 7: Discussion on recognition (paragraphs 81-84)

- 17 agreed; 6 partially agreed; 10 disagreed
- Definition and criteria sought for recognition of each element
- Past event recognition criteria not essential characteristic
- Control recognition criterion not essential characteristic
- Thresholds for existence uncertainty
- General reference to QCs
- Measurement uncertainty in rare circumstances
- Recognition criteria for social benefits?

## SMC 7: Discussion on recognition (paragraphs 81-84) (continued)

Matter for consideration (page 18)

6. The IPSASB is asked to **note** the analysis of responses to SMC7 and to **confirm** whether it agrees with staff views.

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