CHAPTER 1

Financial Reporting and Accounting Standards

ASSIGNMENT CLASSIFICATION TABLE

Topics	Questions	Cases
1. Global markets.	1	
2. Environment of accounting.	2, 3, 4	4, 5, 7
3. Objective of financial reporting.	5, 6, 7, 8, 9, 10	2
4. Standard-setting organizations.	11, 12, 13, 14, 15, 16, 17, 18	1, 3, 6
5. Financial reporting challenges.	19, 20, 21, 22, 23, 24, 25	8, 9, 10
6. Ethical issues.	25	11, 12

ASSIGNMENT CHARACTERISTICS TABLE

Item	Description	Level of Difficulty	Time (minutes)
CA1-1	IFRS and standard-setting.	Simple	5–10
CA1-2	IFRS and standard-setting.	Simple	5–10
CA1-3	Financial reporting and accounting standards.	Simple	15–20
CA1-4	Financial accounting.	Simple	15–20
CA1-5	Need for IASB.	Simple	15–20
CA1-6	IASB role in standard-setting.	Simple	15–20
CA1-7	Accounting numbers and the environment.	Simple	10–15
CA1-8	Politicalization of IFRS.	Complex	15–20
CA1-9	Models for setting IFRS.	Simple	10–15
CA1-10	Economic consequences.	Moderate	10–15
CA1-11	Rule-making Issues.	Complex	20–25
CA1-12	Financial reporting pressures.	Moderate	25–35

ANSWERS TO QUESTIONS

1. World markets are becoming increasingly intertwined. The tremendous variety and volume of both exported and imported goods indicates the extensive involvement in international trade. As a result, the move towards adoption of international financial reporting standards has and will continue in the future.

2. Financial accounting measures, classifies, and summarizes in report form those activities and that information which relate to the enterprise as a whole for use by parties both internal and external to a business enterprise. Managerial accounting also measures, classifies, and summarizes in report form enterprise activities, but the communication is for the use of internal, managerial parties, and relates more to subsystems of the entity. Managerial accounting is management decision oriented and directed more toward product line, division, and profit center reporting.

3. Financial statements generally refer to the four basic financial statements: statement of financial position, statement of comprehensive income, statement of cash flows, and statement of changes in equity. Financial reporting is a broader concept; it includes the basic financial statements and any other means of communicating financial and economic data to interested external parties.

4. If a company's financial performance is measured accurately, fairly, and on a timely basis, the right managers and companies are able to attract investment capital. To provide unreliable and irrelevant information leads to poor capital allocation which adversely affects the securities market.

5. A single set of high quality accounting standards ensures adequate comparability. Investors are able to make better investment decisions if they receive financial information from a U.S. company that is comparable to an international competitor.

6. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in about providing resources to the entity.

7. General-purpose financial statements provide financial reporting information to a wide variety of users. To be cost effective in providing this information, general-purpose financial statements provide at the least cost the most useful information possible.

8. Shareholders, creditors, suppliers, employees, and regulators all use general-purpose financial statements. The primary user group is capital providers (shareholders and creditors).

9. The proprietary perspective is not considered appropriate because this perspective generally does not reflect a realistic view of the financial reporting environment. Instead the entity perspective is adopted which is consistent with the present business environment where most companies engaged in financial reporting have substance separate and distinct from their owners.

10. This statement is not correct. The objective of financial reporting is primarily to provide information to investors interested in assessing the company's ability to generate net cash inflows and management's ability to protect and enhance the capital providers' investments. Financial reporting should help investors assess the amounts, timing and uncertainty of prospective cash inflows.

11. The two organizations involved in international standard-setting are IOSCO (International Organization of Securities Commissions) and the IASB (International Accounting Standards Board.) The IOSCO does not set accounting standards, but ensures that the global markets can operate in an efficient and effective manner. Conversely, the IASB's mission is to develop a single set of high quality, enforceable and global financial reporting standards (IFRSs) for general purpose financial statements.

12. IOSCO is an association of organizations that regulate the world's securities markets. Members are generally the main financial regulators for a given country. IOSCO does not set accounting standards.

13. The mission of the IASB is to develop, in the public interest, a single set of high quality, enforceable global international financial reporting standards (IFRSs) for general-purpose financial statements.

14. The purpose of the Monitoring Board is to establish a link between accounting standard setters and those public authorities (such as IOSCO) that generally oversee accounting standard setters. This board also provides political legitimacy to the overall organization.

15. The IASB preliminary views are based on research and analysis conducted by the IASB staff. IASB exposure drafts are issued after the Board evaluates research and public response to preliminary views. IASB standards are issued after the Board evaluates responses to the exposure draft.

16. IASB International Financial Reporting Standards are financial accounting standards issued by the IASB and are referred to as International Financial Reporting Standards (IFRS). The IFRS Conceptual Framework for Financial Reporting sets forth fundamental objectives and concepts that the Board uses in developing future standards of financial reporting. The intent of the Conceptual Framework is to form a cohesive set of interrelated concepts that will serve as tools for solving existing and emerging problems in a consistent manner.

17. International Financial Reporting Standards are the most authoritative, followed by International Financial Reporting Standard Interpretations then the Conceptual Framework.

18. The International Financial Reporting Standards Interpretations Committee (IFRIC) applies a principles-based approach in providing interpretative guidance. The IFRIC issues interpretations that cover newly identified financial reporting issues not specifically dealt with in IFRS, and issues where conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance.

19. Some major challenges facing the accounting profession relate to the following items:
    <u>Nonfinancial measurement</u>—how to report significant key performance measurements such as customer satisfaction indexes, backlog information and reject rates on goods purchased.
    <u>Forward-looking information</u>—how to report more future oriented information.
    <u>Soft assets</u>—how to report on intangible assets, such as market know-how, market dominance, and well-trained employees.
    <u>Timeliness</u>—how to report more real-time information.

20. The sources of pressure are innumerable, but the most intense and continuous pressure to change or influence the development of IFRS come from individual companies, industry associations, governmental agencies, practicing accountants, academicians, professional accounting organizations, and investing public.

21. Economic consequences means the impact of accounting reports on the wealth positions of issuers and users of financial information and the decision-making behavior resulting from that impact. In other words, accounting information impacts various users in many different ways which leads to wealth transfers among these various groups.

If politics plays an important role in the development of accounting rules, the rules will be subject to manipulation for the purpose of furthering whatever policy prevails at the moment. No matter how well intentioned the rule maker may be, if information is designed to indicate that investing in a particular enterprise involves less risk than it actually does, or is designed to encourage investment in a particular segment of the economy, financial reporting will suffer an irreplaceable loss of credibility.

22. No one particular proposal is expected in answer to this question. The students' proposals, however, should be defensible relative to the following criteria:
(1) The method must be efficient, responsive, and expeditious.
(2) The method must be free of bias and be above or insulated from pressure groups.
(3) The method must command widespread support if it does not have legislative authority.
(4) The method must produce sound yet practical accounting principles or standards.

The students' proposals might take the form of alterations of the existing methodology, an accounting court (as proposed by Leonard Spacek), or governmental device.

23. Concern exists about fraudulent financial reporting because it can undermine the entire financial reporting process. Failure to provide information to users that is accurate can lead to inappropriate allocations of resources in our economy. In addition, failure to detect massive fraud can lead to additional governmental oversight of the accounting profession.

24. The expectations gap is the difference between what people think accountants should be doing and what accountants think they can do. It is a difficult gap to close. The accounting profession recognizes it must play an important role in narrowing this gap. To meet the needs of society, the profession is continuing its efforts in developing accounting standards, such as numerous pronouncements issued by the IASB, to serve as guidelines for recording and processing business transactions in the changing economic environment.

25. Accountants must perceive the moral dimensions of some situations because IFRS does not define or cover all specific features that are to be reported in financial statements. In these instances accountants must choose among alternatives. These accounting choices influence whether particular stakeholders may be harmed or benefited. Moral decision-making involves awareness of potential harm or benefit and taking responsibility for the choices.

TIME AND PURPOSE OF CONCEPTS FOR ANALYSIS

CA 1-1 (Time 5–10 minutes)
Purpose—to provide the student with an opportunity to answer questions about IFRS and standard setting.

CA 1-2 (Time 5–10 minutes)
Purpose—to provide the student with an opportunity to answer questions about IFRS and standard setting.

CA 1-3 (Time 15–20 minutes)
Purpose—to provide the student with an opportunity to answer questions about financial reporting and standard setting.

CA 1-4 (Time 15–20 minutes)
Purpose—to provide the student with an opportunity to distinguish between financial accounting and managerial accounting, identify major financial statements, and differentiate financial statements and financial reporting.

CA 1-5 (Time 15–20 minutes)
Purpose—to provide the student with an opportunity to evaluate the viewpoint of removing mandatory accounting rules and allowing each company to voluntarily disclose the information it desired.

CA 1-6 (Time 15–20 minutes)
Purpose—to provide the student with an opportunity to identify the sponsoring organization of the IASB, the method by which the IASB arrives at a decision, and the types and the purposes of documents issued by the IASB.

CA 1-7 (Time 10–15 minutes)
Purpose—to provide the student with an opportunity to describe how reported accounting numbers might affect an individual's perceptions and actions.

CA 1-8 (Time 15–20 minutes)
Purpose—to provide the student with an opportunity to focus on the types of organizations involved in the rule making process, what impact accounting has on the environment, and the environment's influence on accounting.

CA 1-9 (Time 10–15 minutes)
Purpose—to provide the student with an opportunity to focus on what type of rule-making environment exists. In addition, this CA explores why user groups are interested in the nature of IFRS and why some groups wish to issue their own rules.

CA 1-10 (Time 10–15 minutes)
Purpose—to provide the student with the opportunity to discuss the role of government officials in accounting rule-making.

CA 1-11 (Time 20–25 minutes)
Purpose—to provide the student with an opportunity to consider the ethical dimensions of implementation of a new accounting pronouncement.

CA 1-12 (Time 25–35 minutes)
Purpose—to provide the student with a writing assignment concerning the ethical issues related to meeting earnings targets.

SOLUTIONS TO CONCEPTS FOR ANALYSIS

CA 1-1

1. True.

2. False. Any company claiming compliance with IFRS must comply with all standards and interpretations, including disclosure requirements.

3. False. The IFRS advisory council provides advice and council to the IASB on major policies and technical issues. It is not a governmental body

4. True.

5. False. The IASB has no government mandate and does follow a due process in issuing IFRS.

CA 1-2

1. False. The objective emphasizes an entity perspective.

2. False. The objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers.

3. False. International Accounting Standards were issued by the International Accounting Standards Committee while International Financial Reporting Standards are issued by the IASB. Both have authoritative support.

4. True.

CA 1-3

1. (c); 2. (d); 3. (c); 4. (d); 5. (b); 6. (a); 7. (a); 8. (b); 9. (d); 10. (b).

CA 1-4

(a) Financial accounting is the process that culminates in the preparation of financial reports relative to the enterprise as a whole for use by parties both internal and external to the enterprise. In contrast, managerial accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by the management to plan, evaluate, and control within an organization and to assure appropriate use of, and accountability for, its resources.

(b) The financial statements most frequently provided are the statement of financial position, the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity.

CA 1-4 (Continued)

(c) Financial statements are the principal means through which financial information is communicated to those outside an enterprise. As indicated in (b), there are four major financial statements. However, some financial information is better provided, or can be provided only, by means of financial reporting other than formal financial statements. Financial reporting (other than financial statements and related notes) may take various forms. Examples include the company president's letter or supplementary schedules in the corporate annual reports, prospectuses, reports filed with government agencies, news releases, management's forecasts, and descriptions of an enterprise's social or environmental impact.

CA 1-5

It is not appropriate to abandon mandatory accounting rules and allow each company to voluntarily disclose the type of information it considered important. Without a coherent body of accounting theory and standards, each accountant or enterprise would have to develop its own theory structure and set of practices, and readers of financial statements would have to familiarize themselves with every company's peculiar accounting and reporting practices. As a result, it would be almost impossible to prepare statements that could be compared.

In addition, voluntary disclosure may not be an efficient way of disseminating information. A company is likely to disclose less information if it has the discretion to do so. Thus, the company can reduce its cost of assembling and disseminating information. However, an investor wishing additional information has to pay to receive additional information desired. Different investors may be interested in different types of information. Since the company may not be equipped to provide the requested information, it would have to spend additional resources to fulfill such needs; or the company may refuse to furnish such information if it's too costly to do so. As a result, investors may not get the desired information or they may have to pay a significant amount of money for it. Furthermore, redundancy in gathering and distributing information occurs when different investors ask for the same information at different points in time. To the society as a whole, this would not be an efficient way of utilizing resources.

CA 1-6

(a) The International Financial Reporting Standards Committee Foundation (The Foundation) is the sponsoring organization of the IASB. The Foundation selects the members of the IASB and the Advisory Council, funds their activities, and generally oversees the IASB's activities.

The IASB follows a due process in establishing a typical International Financial Reporting Standard. The following steps are usually taken: (1) A topic or project is identified and placed on the Board's agenda. (2) Research and analysis are conducted by the IASB and a preliminary views document is drafted and released. (3) A public hearing is often held. (4) The Board analyzes and evaluates the public response and issues an exposure draft. (5) The Board studies the exposure draft in relation to the public responses, revises the draft if necessary, gives the revised draft final consideration and votes on issuance of an IFRS. The passage of a new accounting standard in the form of an IASB Standard requires the support of nine of the sixteen Board members.

(b) The IASB issues three major types of pronouncements: International financial reporting standards, conceptual framework for financial reporting, and International financial reporting standards interpretations. Financial reporting standards issued by the IASB are referred to as International Financial Reporting Standards (IFRS).

CA 1-6 (Continued)

The International Accounting Standards Committee (IASB predecessor) issued a document entitled "Framework for the Preparation and Presentation of Financial Statements." This framework sets forth fundamental objectives and concepts that the Board uses in developing future standards of financial reporting. The intent of the document is to form a cohesive set of interrelated concepts, a conceptual framework, that will serve as tools for solving existing and emerging problems in a consistent manner.

Interpretations issued by the International Financial Reporting Standards Interpretations Committee (The Interpretations Committee) are also considered authoritative and cover (1) newly identified financial reporting issues not specifically dealt with in IFRS, and (2) issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance.

The Interpretations Committee can address controversial accounting problems as they arise. It determines whether it can quickly resolve them, or whether to involve the IASB in solving them. The IASB will hopefully work on more pervasive long-term problems, while the Interpretations Committee deals with short-term emerging issues.

CA 1-7

Accounting numbers affect investing decisions. Investors, for example, use the financial statements of different companies to enhance their understanding of each company's financial strength and operating results. Because these statements follow international accounting standards, investors can make meaningful comparisons of different financial statements to assist their investment decisions.

Accounting numbers also influence creditors' decisions. A commercial bank usually looks into a company's financial statements and past credit history before deciding whether to grant a loan and in what amount. The financial statements provide a fair picture of the company's financial strength (for example, short-term liquidity and long-term solvency) and operating performance for the current period and over a period of time. The information is essential for the bank to ensure that the loan is safe and sound.

CA 1-8

(a) Arguments for politicalization of the accounting standard-setting process:

1. Accounting depends in large part on public confidence for its success. Consequently, the critical issues are not solely technical, so all those having a bona fide interest in the output of accounting should have some influence on that output.
2. There are numerous conflicts between the various interest groups. In the face of this, compromise is necessary, particularly since the critical issues in accounting are value judgments, not the type which are solvable, as we have traditionally assumed, using deterministic models. Only in this way (reasonable compromise) will the financial community have confidence in the fairness and objectivity of accounting standard-setting.
3. Over the years, accountants have been unable to establish, on the basis of technical accounting elements, standards which would bring about the desired uniformity and acceptability. This inability itself indicates standard-setting is primarily consensual in nature.
4. The public accounting profession made rules which business enterprises and individuals "had" to follow. For many years, these businesses and individuals had little say as to what the standards would be, in spite of the fact that their economic well-being was influenced to a substantial degree by those standards. It is only natural that they would try to influence or control the factors that determine their economic well-being.

CA 1-8 (Continued)

(b) Arguments against the politicalization of the accounting standard-setting process:

1. Many accountants feel that accounting is primarily technical in nature. Consequently, they feel that substantive, basic research by objective, independent and fair-minded researchers ultimately will result in the best solutions to critical issues, such as the concepts of income and capital, even if it is accepted that there isn't necessarily a single "right" solution.
2. Even if it is accepted that there are no "absolute truths" as far as critical issues are concerned, many feel that professional accountants, taking into account the diverse interests of the various groups using accounting information, are in the best position, because of their independence, education, training, and objectivity, to decide what international financial reporting standards ought to be.
3. The complex situations that arise in the business world require that trained accountants develop the appropriate reporting standards.
4. The use of consensus to develop reporting standards would decrease the professional status of the accountant.
5. This approach would lead to "lobbying" by various parties to influence the establishment of reporting standards.

CA 1-9

(a) Most believe the IASB process is a public private mixed approach. In many respects, the IASB is a quasi-governmental agency in that its pronouncements are required to be followed in some jurisdictions. For example, all public European companies are required to use IASB standards when preparing financial statements. In fact, both the FASB and the IASB believe that IFRS has the best potential to provide a common platform on which companies can report and investors can compare financial information. The purely political approach is used in France and West Germany. The private, professional approach is employed in Australia, Canada, and the United Kingdom.

(b) Publicly reported accounting numbers influence the distribution of scarce resources. Resources are channeled where needed at returns commensurate with perceived risk. Thus, reported accounting numbers have economic effects in that resources are transferred among entities and individuals as a consequence of these numbers. It is not surprising then that individuals affected by these numbers will be extremely interested in any proposed changes in the financial reporting environment.

CA 1-10

President Sarkozy is putting pressure on the IASB to craft fair value standards that favor banks. However, by introducing politics into the standard-setting process will likely lead to the following consequences:

1. Too many alternatives.
2. Lack of clarity that will lead to inconsistent application.
3. Lack of disclosure that reduces transparency.
4. Not comprehensive in scope.

CA 1-10 (Continued)

When the resulting standards have these attributes, they will be of lower quality and the credibility of the standard-setting process will be questioned. At the extreme, market participants will have less confidence in accounting information and capital markets will be less liquid—cost of capital will be higher. Another indication of the problem of government intervention is shown in the accounting standards used by some countries around the world. Completeness and transparency of information needed by investors and creditors is not available in order to meet or achieve other objectives. In the fair value case, the IASB did respond by accelerating its process to develop a new standard, which provided some exceptions to the fair value accounting that benefited some banks and insurance companies.

CA 1-11

(a) Inclusion or omission of information that materially affects net income harms particular stakeholders. Accountants must recognize that their decision to implement (or delay) reporting requirements will have immediate consequences for some stakeholders.

(b) Yes. Because the IASB rule results in a fairer representation, it should be implemented as soon as possible—regardless of its impact on net income.

(c) The accountant's responsibility is to provide financial statements that present fairly the financial condition of the company. By advocating early implementation, Weller fulfills this task.

(d) Potential lenders and investors, who read the financial statements and rely on their fair representation of the financial condition of the company, have the most to gain by early implementation—they would be most directly harmed by deferral of implementation. At the same time, a shareholder who is considering the sale of shares may be harmed by early implementation that lowers net income (and may lower the value of the shares). If employee bonuses are based on the reported income number, the employees could receive lower bonuses with early implementation.

CA 1-12

(a) The ethical issue in this case relates to making questionable entries to meet expected earnings forecasts. As indicated in this chapter, businesses' concentration on "maximizing the bottom line," "facing the challenges of competition," and "stressing short-term results" places accountants in an environment of conflict and pressure.

(b) Given that Normand has pleaded guilty, he certainly acted improperly. Doing the right thing, making the right decision, is not always easy. Right is not always obvious, and the pressures to "bend the rules," "to play the game," "to just ignore it" can be considerable.

(c) No doubt, Normand was in a difficult position. I am sure that he was concerned that if he failed to go along, it would affect his job performance negatively or that he might be terminated. These job pressures, time pressures, peer pressures often lead individuals astray. Can it happen to you? One individual noted that at a seminar on ethics sponsored by the CMA Society of Southern California, attendees were asked if they had ever been pressured to make questionable entries. This individual noted that to the best of his recollection, everybody raised a hand, and more than one had eventually chosen to resign.

(d) Major stakeholders are: (1) Troy Normand, (2) present and potential shareholders and creditors of WorldCom, (3) employees, and (4) family. Recognize that WorldCom is one of the largest bankruptcies in United States history, so many individuals are affected.

FINANCIAL REPORTING PROBLEM

(a) The two organizations involved in international standard-setting are International Organization of Securities Commissions (IOSCO) and the International Accounting Standards Board (IASB).

(b) Different authoritative literature pertaining to methods of recording accounting transactions exists today. Some authoritative literature has received more support from the profession than other literature. The literature that has substantial authoritative support is the one most supported by the profession and should be followed when recording accounting transactions. These standards and procedures are called international financial reporting standards (IFRS).

INTERNATIONAL REPORTING CASE

(a) The International Accounting Standards Board is an independent, privately funded accounting standards setter based in London, UK. The Board is committed to developing, in the public interest, a single set of high quality, enforceable and global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standards setters to achieve convergence in accounting standards around the world.

(b) In summary, the following groups might benefit from the use of International Accounting Standards:

- Investors, investment analysts and stockbrokers: to facilitate international comparisons for investment decisions.
- Credit grantors: for similar reasons to bullet point above.
- Multinational companies: as preparers, investors, appraisers of products or staff, and as movers of staff around the globe; also, as raisers of finance on international markets (this also applies to some companies that are not multinationals).
- Governments: as tax collectors and hosts of multinationals; also interested are securities markets regulators and governmental and non-governmental rule makers.

(c) The fundamental argument against convergence is that, to the extent that international differences in accounting practices result from underlying economic, legal, social, and other environmental factors, convergence may not be justified. Different accounting has grown up to serve the different needs of different users; this might suggest that the existing accounting practice is "correct" for a given nation and should not be changed merely to simplify the work of multinational companies or auditors. There does seem to be strength in this point particularly for smaller companies with no significant multinational activities or connections. To foist upon a small private family company in Luxembourg lavish disclosure requirements and the need to report a "true and fair" view may be an expensive and unnecessary piece of convergence.

INTERNATIONAL REPORTING CASE (Continued)

The most obvious obstacle to convergence is the sheer size and deeprootedness of the differences in accounting. These differences have grown up over the previous century because of differences in users, legal systems, and so on. Thus, the differences are structural rather than cosmetic, and require revolutionary action to remove them.

ACCOUNTING, ANALYSIS AND PRINCIPLES

ACCOUNTING

(a) The requirements will depend on the jurisdiction in which they intend to sell the securities. The International Accounting Standards Board (IASB) issues international financial reporting standards (IFRS) which are used on most foreign exchanges. The IASB standards require companies to prepare a full set of financial statements and related disclosures so investors can evaluate and compare investments.

(b) The two entities that are primarily responsible for establishing IFRS are IOSCO (International Organization of Securities Commissions) and the IASB (International Accounting Standards Board).

The IOSCO does not set accounting standards, but ensures that the global markets can operate in an efficient and effective manner. Conversely, the IASB's mission is to develop a single set of high quality, enforceable and global international financial reporting standards (IFRSs) for general-purpose financial statements.

ANALYSIS

(a) Decision-usefulness involves providing investors interested in financial reporting information that is useful for making decisions.

(b) The financial statements provide information on company performance (statement of comprehensive income), financial position – assets owned and liabilities incurred (statement of financial position) and cash flows (statement of cash flows) and statement of changes in equity. Investors and creditors use this information to form their own expectations about a company's future cash flows. These assessments are the basis of the decision about an investment in the company.

ACCOUNTING, ANALYSIS AND PRINCIPLES (Continued)

PRINCIPLES

The hierarchy of IFRS to determine what recognition, valuation, and disclosure requirements should be used are:

1. **International Financial Reporting Standards;**
2. **International Accounting Standards; and**
3. **Interpretations from the International Financial Reporting Standards Interpretations Committee**

Any company indicating that it is preparing its financial statements in conformity with IFRS must use these standards and interpretations, as appropriate.

PROFESSIONAL RESEARCH

The following responses are drawn from the IFRS Conceptual Framework

(a) **As indicated in the Conceptual Framework for Financial Reporting, “The objective of financial statements 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.**

(b) **According to paragraph 21 of the Conceptual Framework, notes and supplementary schedules serve in this role. For example, they may contain additional information that is relevant to the needs of users about the items in the statement of financial position and statement of comprehensive income (income statement.) They may include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the statement of financial position (such as mineral reserves). Information about geographical and industry segments and the effect on the entity of changing prices may also be provided in the form of supplementary information.**

(c) **As indicated in paragraphs 13 and 14, financial statements prepared to meet the objective of financial reporting meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information. In addition, financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management.**

PROFESSIONAL SIMULATION

(a) The IASB issues three major types of pronouncements:

1. International Financial Reporting Standards;
2. Conceptual Framework for Financial Reporting; and
3. International Financial Reporting Standards Interpretations

IASB standards are financial accounting standards issued by the IASB and are referred to as International Financial Reporting Standards (IFRS). The Conceptual Framework for Financial Reporting sets forth fundamental objective and concepts that the Board uses in developing future conceptual framework is to form a cohesive set of interrelated concepts that will serve as tools for solving existing and emerging problems in a consistent manner.

(b) The hierarchy of IFRS to determine what recognition, valuation, and disclosure requirements should be used are

1. International Financial Reporting Standards;
2. International Accounting Standards; and
3. Interpretations from the International Financial Reporting Standards Interpretations Committee

Any company indicating that it is preparing its financial statements in conformity with IFRS must use all of these standards and interpretations.