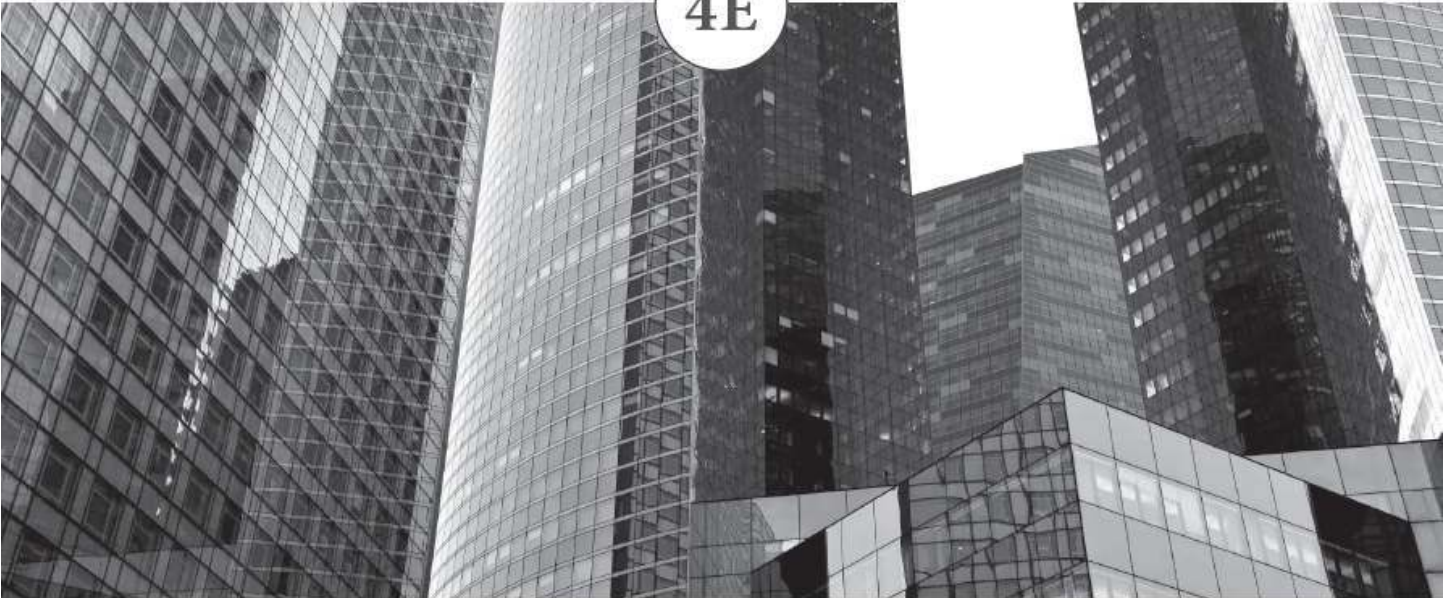

ADVANCED FINANCIAL ACCOUNTING

AN IFRS[®] STANDARDS APPROACH

4E



Pearl TAN | LIM Chu Yeong | KUAH Ee Wen

**Mc
Graw
Hill**

BRIEF CONTENTS



1	Risk Reporting	<i>1</i>
2	Group Reporting I: Concepts and Context	<i>29</i>
3	Group Reporting II: Application of the Acquisition Method under IFRS 3	<i>69</i>
4	Group Reporting III: Accounting for Business Combinations and Non-Controlling Interests under IFRS 3 in Post-Acquisition Periods	<i>159</i>
5	Group Reporting IV: Consolidation under IFRS 10	<i>239</i>
6	Group Reporting V: Equity Accounting under IAS 28 and Joint Arrangements under IFRS 11	<i>327</i>
7	Group Reporting VI: Complex Consolidation Issues	<i>441</i>

8	Accounting for the Effects of Changes in Foreign Exchange Rates	<i>675</i>
9	Financial Instruments	<i>789</i>
10	Accounting for Derivatives and Hedge Accounting	<i>879</i>
11	Accounting for Taxes on Income	<i>979</i>
12	Earnings per Share	<i>1061</i>
13	Share-based Payment	<i>1097</i>
14	Common Control	<i>1143</i>
15	Derivative Contracts on Own Equity	<i>1191</i>



CONTENTS



The Authors vi

Preface viii

1 Risk Reporting 1

Introduction 2

Uncertainty, Risk, and Exposure 2

Risk Analysis and Measurement 3

Risk Reporting 4

Summary Metrics 14

Conclusion 19

Appendix 1A: Relationship between Risk and Value	21
Concept Questions	23
Problems	25
2 Group Reporting I: Concepts and Context	29
Introduction	30
Economic Incentives for the Preparation of Consolidated Information	32
Economic Motives for Entering into Intercorporate Arrangements	34
The Concept of Control	38
Process of Assessing Control	39
Attributes of Control	40
The Concept of Significant Influence	49
Accounting for Business Combinations	51
Consolidation Theories	52
Concept Questions	61
Exercises	63
Cases	65
3 Group Reporting II: Application of the Acquisition Method under IFRS 3	69
Introduction	70
Overview of the Consolidation Process	71
Business Combinations	73
The Acquisition Method	77
Determining the Amount of Consideration Transferred	80
Recognition and Measurement of Identifiable Assets, Liabilities, and Goodwill	84
Conclusion	110
Appendix 3A: Investment Entities	111
Appendix 3B: Illustration of a Reverse Acquisition	116
Appendix 3C: Determining What is Part of the Business Combination Transaction	121
Settlement of Pre-Existing Relationships	123
Remunerating Employees for Future Services	129
Transaction for Payment of Acquisition Costs	143
Questions	146
Case	147
Concept Questions	147
Problems	148
4 Group Reporting III: Accounting for Business Combinations and Non-controlling Interests under IFRS 3 in Post-acquisition Periods	159
Introduction	160

Elimination of Investment in a Subsidiary	160
Effects of Amortization, Depreciation, and Disposal of Undervalued or Overvalued Assets and Liabilities Subsequent to Acquisition	164
Accounting for Non-Controlling Interests Under IFRS 3	165
Goodwill Impairment Tests	202
Conclusion	205
Appendix 4A: Illustrations of Non-controlling Interests Measured as a Proportion of Acquisition-date Identifiable Net Assets	207
Appendix 4B: Accounting for Other Components of Non-Controlling Interests	214
Concept Questions	217
Research Questions	218
Problems	219
5 Group Reporting IV: Consolidation under IFRS 10	239
Elimination of Intragroup Transactions and Balances	240
Elimination of Realized Intragroup Transactions	242
Elimination of Intragroup Balances	246
Adjustment of Unrealized Profit or Loss Arising from Intercompany Transfers	248
Impact on Non-Controlling Interests Arising From Adjustments of Unrealized Profit or Loss	255
Special Considerations for Intercompany Transfers of Fixed Assets	264
Special Accounting Considerations When Intragroup Transfers are Made at a Loss	287
Conclusion	294
Appendix 5A: Examples of Complex Intra-Group Transactions	295
Concept Questions	301
Problems	302
6 Group Reporting V: Equity Accounting under IAS 28 Joint Arrangements under IFRS 11	327
Equity Method Versus Cost Method	328
Equity Method Versus Consolidation	332
An Overview of the Methodology of Equity Accounting	334
Performing an Analytical Check on the Investment in Associate Balance	336
Specific Procedures Relating to the Equity Method	337
Performing an Analytical Check of Consolidated Retained Earnings with Subsidiaries and Associates	349
Special Issues Relating to the Equity Method	375
Accounting for Joint Arrangements	376
Appendix 6A: Sale or Contribution of Assets or Business Between Investor and its Associate	387
Problems	393
7 Group Reporting VI: Complex Consolidation Issues	441
Indirect Ownership Interests	442

Dual Approach to Consolidation of Indirect Non-controlling Interests in Subsidiaries	448
Indirect Holding of Associates	481
Changes in Ownership Interests	488
Business Combination Achieved in Stages	489
Loss of Control	495
Changes in Ownership Interests without Change in Control	500
No Change in Significant Influence	507
Asset Transfers in More Complex Settings	508
Impact of Consolidation and the Cost and Equity Methods on Profit upon the Disposal of Subsidiaries	515
Overview of Consolidated Cash Flow Statements	516
Appendix 7A: Self-Study Illustrations on Complex Consolidation Solutions	525
Appendix 7B: Change in Significant Influence	574
Acquisition of an Associate in Stages	574
Acquisition of Additional Interests in an Associate	583
Loss of Significant Influence	586
Investment in Associate Becomes Subsidiary	586
Partial Disposal of Associate While Maintaining Significant Influence	587
Retained Interest in Former Associate is a Financial Asset	590
Full Disposal of Associate	592
Deemed Acquisition or Disposal of Associates	593
Deemed Acquisitions	593
Deemed Disposals	602

Accounting for Acquisition of Additional or Partial Disposal of Interests in the Separate Financial Statements
606

Appendix 7C: Changes in Ownership Interests for Joint Arrangements 609

Changes in Ownership Interests in Joint Operations 609

Changes in Ownership Interests for Joint Ventures 628

Appendix 7D: Deemed Acquisitions and Business Combinations Achieved Without the Transfer of
Consideration 632

Appendix 7E: Consolidated Cash Flow Statement Involving a Foreign Subsidiary
Problems 642
649

8 Accounting for the Effects of Changes in Foreign Exchange Rates 675

Introduction 676

Types of Foreign Exchange Rate Management Regimes 676

How Exchange Rates are Quoted 677

Spot Rate and Forward Rate 677

Types of Foreign Exchange Rate Exposures 679

Concept of Functional Currency	682
Foreign Currency Transactions of a Stand-alone Entity (IAS 21:20–26)	687
Translation of Foreign Currency Financial Statements	691
Goodwill Arising from the Acquisition of Foreign Subsidiaries	700
Equity Accounting of Foreign Associates	708
Special Issues	712
Evaluation of Translation Approaches	724
Appendix 8A: Remeasurement from a Foreign Currency to the Functional Currency	726
Appendix 8B: Translation Using a Trial Balance Format	732
Appendix 8C: Disposal of Foreign Operations	734
Partial Disposal of Foreign Operations	743
Partial Disposals of Foreign Associates or Joint Arrangements	746
Appendix 8D: Step-by-Step Versus Direct Method of Consolidation and Its Effects on Disposals	752
Concept Questions	758
Exercises	759
Problems	761
9 Financial Instruments: Classification, Recognition and Measurement	789
Introduction	790
Overview of Standards Pertaining to Financial Instruments	791
Scope of IAS 32 and IFRS 9	792
Classification of Financial Instruments	792
Debt Versus Equity	793
Compound Financial Instruments	795
Allocation of Transaction Costs	809
Share Repurchase	809
Recognition	810
Classification of Financial Assets	811
Business Model Test	812
Contractual Cash Flow Characteristics Test	813
Measurement	817
Amortized Cost and Effective Interest Rate Calculation	820
Measurement at Fair Value through Other Comprehensive Income	826
Measurement at Fair Value through Profit or Loss	831
Derecognition	832
Reclassifications Among Categories	836
Impairment of Financial Assets	839
General Approach	841
Measurement of Expected Credit Losses	845

Interaction Between Interest Revenue Computation and Recognition of Expected Credit Losses	847
Simplified Approach	855
Offsetting Financial Assets and Financial Liabilities	855
Disclosures	856
Evaluation of Fair Value as a Basis for the Measurement of Financial Instruments	858
Appendix 9A: Fair Value Measurement	859
Appendix 9B: Loan Loss Accounting	865
Concept Questions	868
Problems	870
10 Accounting for Derivatives and Hedge Accounting	879
Derivative Financial Instruments	880
Accounting for Derivatives	895
Hedging	900
Risks that Qualify for Hedge Accounting	902
Qualifying Hedging Instruments	903
Qualifying Hedged Items	904
Criteria for Hedge Accounting	908
Rebalancing	911
Classification of Hedging Relationships	913
Fair Value Hedge Accounting	913
Accounting for Time Value of Options	916
Accounting for Forward Element of Forwards	919
Cash Flow Hedge Accounting	929
Hedging Against Interest Rate Risk	936
Hedge of a Net Investment in a Foreign Entity	951
Option to Designate a Credit Exposure at FVTPL	955
Own Use Contracts	955
Discontinuation or Termination of Hedge Accounting	956
Hedges Where Hedge Accounting is Not Required	959
Evaluation of Hedge Accounting	959
Concept Questions	961
Exercises	961
Problems	965
11 Accounting for Taxes on Income	979
Introduction	980
Deferred Tax as a Liability and an Asset	982
Tax as an Expense	983

The Asset and Liability Approach for Determining Deferred Tax Liabilities	987
Determining the Cumulative Taxable Temporary Differences of Assets	988
Determining the Cumulative Deductible Temporary Differences of Liabilities	996
Overview of the Application of IAS 12	1002
Reconciliation and Analytical Check on Tax Expense in the Income Statement	1003
Temporary Differences Arising from Initial Recognition of Assets and Liabilities	1014
Assets Carried at Fair Value	1016
Accounting for Unused Tax Losses and Unused Tax Credits	1020
Presentation and Disclosures	1025
Tax Effects of Other Comprehensive Income and Items Taken Directly to Equity	1026
Special Issues	1029
Conclusion	1035
Appendix 11A: Undistributed Profits of Subsidiaries, Branches, Associates, and Joint Arrangements	1036
Appendix 11B: Special Considerations for Compound Financial Instruments	1039
Appendix 11C: Extracts of Annual Report Disclosures	1041
Concept Questions	1046
Problems	1046
12 Earnings per Share	1061
Introduction	1062
Computation of a Weighted Average Number of Shares	1065
Diluted Earnings per Share	1074
Concept Questions	1088
Problems	1088
13 Share-based Payment	1097
Introduction	1098
Equity-settled Share-based Transactions	1100
Cash-settled Share-based Transactions	1112
Share-based Payment Arrangements with a Cash Alternative	1117
Tax Implications of Share-based Payment Transactions	1125
Accounting Issues Relating to Employee Share Options	1127
Appendix 13A: Share-based Payment Transactions Among Group Entities	1129
Appendix 13B: Using Option Valuation Models to Estimate the Fair Value of Share Options	1132
Concept Questions	1135
Exercises	1136
Problems	1137
14 Common Control	1143
Introduction	1144
Common Control Exemption Under IFRS 3	1144
Non-controlling Interests in a Business Combination of Entities Under Common Control	1149
Accounting for Business Combinations under Common Control	1149

Application of Predecessor Method of Accounting	1151
Application of Acquisition Method under IFRS 3	1155

Acquisition of Non-controlling Interests Under Common Control	1155
Financial Statement Presentation	1160
Accounting for Business Combination Under Common Control by the Selling Entity	1165
Business Combinations Under Common Control in the Separate Financial Statements	1166
Group Reorganizations	1169
Utilization of New Company for Corporate Restructurings	1171
Accounting for Group Reorganizations	1173
Utilization of New Company for Spinning off Existing Business	1176
Accounting for Group Restructuring in Separate Financial Statements	1178
Concept Questions	1184
Problems	1185

15 Derivative Contracts on Own Equity 1191

Introduction	1192
Typical Characteristics and Types of Derivatives on Shares Held by Non-Controlling Interests	1192
Accounting for Derivatives Written on Shares Held by Non-Controlling Interests	1196
Accounting When Derivatives Provide Current Access to Returns Associated with Shares Held by Non-Controlling Interests	1200
Accounting When Derivatives do Not Provide Present Access to Returns on the Shares Held by Non-Controlling Interests	1209
Other Issues	1237
Next Step Forward	1240
Concept Questions	1241
Problems	1241

Index 1245