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**MADE  
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**STEVEN M. BRAGG**

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# **IFRS<sup>®</sup> MADE EASY**

Steven M. Bragg



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# ***Preface***

*IFRS Made Easy* is designed to give you answers to the most common accounting questions arising from international financial reporting standards. The accountant, controller, and chief financial officer can learn about such key topics as:

- Revenue recognition rules
- Defined benefit and defined contribution pension plans
- Payments based on an entity's share price
- Deferred tax assets and liabilities
- Cash flow hedges and fair value hedges
- Investments in associates and joint ventures
- Inventory revaluations
- Fair value adjustments for property, plant, and equipment
- Asset impairment
- Contingent liabilities
- The proper structure of financial statements
- Disclosures for related party transactions
- Financial restatements in a hyperinflationary economy
- Operating segment thresholds
- Basic and diluted earnings per share
- Accounting principles in interim reporting periods
- Business combinations
- Restatements caused by accounting errors
- Accounting for assets held for sale
- Foreign currency translation
- Lease accounting by the lessee and lessor

*IFRS Made Easy* is divided into five sections, each dealing with the main categories of IFRS: revenue and expenses,

assets and liabilities, the financial statements, public company financial statements, and broad transactions.

**Part I, Revenue and Expenses** (Chapters 1-4) delves into a variety of revenue and expense topics. These include revenue recognition, employee benefits, share-based payments, and income taxes.

**Part II, Assets and Liabilities** (Chapters 5-12) addresses IFRS for accounting issues related to assets and liabilities. There are separate chapters covering the accounting for financial instruments, interests in joint ventures, investments in associates, inventory, property, and intangible assets. A separate chapter addresses the key issue of asset impairment, and we conclude Part II with a discussion of provisions and contingencies.

**Part III, The Financial Statements** (Chapters 13-17) addresses IFRS for the construction of financial statements. Part III is divided into separate chapters to address the basic form of the financial statements, how to consolidate them, and how to report on special situations. These situations address disclosures, including related-party disclosures and the reporting of events occurring after the reporting period. Finally, Part III covers financial reporting in hyperinflationary economies.

**Part IV, Public Company Reporting** (Chapters 18-20) addresses IFRS that are specific to additional information required to be disclosed by public companies as part of their financial statements. Separate chapters address the reporting of operating segments, earnings per share, and interim reporting.

**Part V, Broad Transactions** (Chapters 21-25) addresses a broad range of accounting transactions. These include business combinations, changes in accounting estimates, discontinued operations, the effects of foreign exchange rate changes, and leases.

Throughout, *IFRS Made Easy* has been structured to give the user a clear understanding of those IFRS topics that the accountant is most likely to encounter on an ongoing basis.

## ***About the Author***

**Steven Bragg, CPA**, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been the two-time President of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

*Accounting and Finance for Your Small Business*

*Accounting Best Practices*

*Accounting Control Best Practices*

*Accounting Policies and Procedures Manual*

*Advanced Accounting Systems*

*Billing and Collections Best Practices*

*Business Ratios and Formulas*

*Controller's Guide to Costing*

*Controller's Guide to Planning and Controlling Operations*

*Controller's Guide: Roles and Responsibilities for the New Controller*

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*Essentials of Payroll*

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*GAAP Guide*

*GAAP Policies and Procedures Manual*

*GAAS Guide*

*IFRS Made Easy*

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# ***Part One***

## ***Revenue and Expenses***

# ***Chapter 1***

## ***Revenue Recognition***

### **Introduction**

Many entities stretch the boundaries of how much revenue they can recognize within an accounting period, since they want to show exceptional revenue growth to their investors and creditors. This tendency has resulted in a number of IFRS rulings regarding the appropriate recognition of revenue. Most such rulings are relatively simple, single-paragraph statements, but others are more complex. The next section deals with the simpler revenue recognition rules, while other, more complex areas are addressed later in separate sections.

### **Revenue Recognition Rules**

This section contains the bulk of all revenue recognition rules under IFRS, in alphabetical order. More complex revenue recognition situations, such as construction projects and customer loyalty programs are dealt with later, in separate sections. The simpler revenue recognition rules are:

- *Admission fees.* The fees generated from artistic performances and other special events are recognized when the event takes place. If the seller is selling subscriptions to a number of events, then it allocates the subscription to each event covered by the subscription, based on the extent to which services are performed at each event.

- *Advance payments.* The buyer may send either full or partial payment to the seller in advance of the delivery of goods. The seller may not yet have the items in inventory, they may still be in the production process, or they will be drop shipped by a third party. Under these circumstances, the seller should not recognize revenue until the goods are delivered to the buyer.
- *Barter exchange.* A transaction does not generate revenue if it involves the exchange of goods or services of a similar nature or value. If the exchange is for dissimilar goods or services, the transaction *does* create revenue; this is measured at the fair value of the goods or services received, as modified by the amount of any cash transferred. If the fair value of received goods or services cannot be reliably measured, then use instead the fair value of the goods or services given up, as modified by the amount of any cash transferred.
- *Bill and hold.* In a bill and hold sale, the buyer requests that delivery be delayed, but accepts billing and takes title to the goods. The seller recognizes revenue when the buyer takes title and the following conditions are satisfied:
  - Normal payment terms apply to the transaction
  - The buyer acknowledges the delayed delivery instructions
  - It is probable that delivery will be made
  - The goods are identified, on hand and ready for deliveryThe seller cannot recognize revenue related to a bill and hold transaction if there is only an intention to acquire or produce the goods

in time for delivery, as opposed to actually being on hand.

- *Cash on delivery terms.* If a seller is selling goods based on cash on delivery terms, then it should recognize revenue when it delivers the goods and collects the cash from the transaction.
- *Deferred payments.* In the event of a deferred cash payment, the fair value of the consideration received may be reduced. When a delayed payment effectively constitutes a financing transaction, recognize revenue as the discounted cash flow of the transaction, using an imputed interest rate that is the more clearly determinable of either a) the prevailing interest rate for a similar transaction by an entity with a similar credit rating; or b) a rate of interest that discounts the transaction to the current cash price of the underlying goods or services.

## Example

Snoring Sofas is offering a year-end deal for its luxury leather sofas, under which customers can either pay €2,000 in cash or a zero-down payment with 24 monthly payments of €100 each, totaling €2,400. Since there is a difference of €400 between the cash price and the extended terms, the zero-down payment deal is essentially comprised of separate financing and sale transactions. For any sale under the zero-down payment plan, Snoring should record a sale of €2,000, which is the amount of consideration attributable to the sofa. The difference between the cash price and the total payment stream is interest revenue, and Snoring should record it under the effective interest method over the two-year payment period.

- *Goods sold.* If goods are sold, then measure revenue at the fair value of the consideration received, taking into account the amount of any trade discounts and volume rebates accepted by the entity. When paid in cash, recognize revenue only for the amount of cash

received or receivable. You can only recognize revenue from the sale of goods when all of the following conditions have been recognized:

- *Benefits assured.* The economic benefits associated with the transaction will flow to the entity.
- *Costs measurable.* The costs related to the transaction can be reliably measured.
- *Ownership relinquished.* The entity no longer retains management control over the goods sold.
- *Revenue measurable.* The amount of revenue to be recognized can be reliably measured.
- *Risks and rewards transferred.* All significant risks and rewards associated with the goods have been transferred to the buyer. This usually coincides with the transfer of legal title or possession to the buyer.
- *Initiation fees.* If an initiation or membership fee only creates a membership condition, then the seller can recognize revenue when there is no significant uncertainty regarding fee collectability. However, if the fee entitles the buyer to services or publications or discounted purchases from the seller during the membership period, then the seller recognizes revenue on a basis that reflects the timing, nature, and value of the benefits provided.
- *Installation fees.* When a seller charges an installation fee associated with a delivery of goods, the seller recognizes revenue in accordance with the stage of completion of the installation. However, if the installation fee is incidental to the sale of goods, then the fee is recognized when the goods are sold.
- *Installment sales.* The buyer may send a series of payments to the seller in exchange for the