Role

User/needs

Requirements

Rank the required (if applicable)

Suggest your time allocation

Framework Summary – Multi- Subject Cases

1. Determine your role and requirements
2. Identify information users and their needs given in the case environment
3. Identify the case issues
4. Identify the CPA standards that will be applied to each issue
5. Consider integration for each issue if required
6. Provide recommendation; consider impact on f/s, covenants etc.

Approaching a Case - Planning

1. Identify Role
2. Identify Users and their strategic objectives
3. Timeline
4. Issues – watch for:
    - something that your are specifically asked to do
    - something that is confusing to a user or the user doesn't know
    - Something that the user says they do not have but you think they need

- Something that a user thinks is correct but has the potential to be incorrect
- A hidden issue that the user should know about

5. Relevant case facts

Accounts

ACCOUNT	INCREASED BY	DECREASED BY
Assets	Debit	Credit
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

CASE

Current ratio = current asset / current liability

ASPE

ASPE 1000 financial statement concepts

Liabilities

.28 Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

.29 Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;

(b) the duty or responsibility obligates the entity leaving it little or no discretion to avoid it; and

(c) the transaction or event obligating the entity has already occurred.

Expenses

.33 Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity's ordinary revenue generating or service delivery activities.

ASPE 3064 goodwill and intangible assets

Development phase

.40 *In accounting for expenditures on internally generated intangible assets during the development phase, an entity shall make an accounting policy choice to either:*

(a) expense such expenditures as incurred; or

(b) capitalize such expenditures as an intangible asset (provided the criteria in paragraph 3064.41 *are met).*

This accounting policy choice shall be applied consistently to expenditures on all internal projects in the development phase. In making this accounting policy choice, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06*(b).*

.41 An intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;

(e) its ability to measure reliably the expenditure attributable to the intangible asset during its development; and

(f) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

INTANGIBLE ASSETS

.09 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licenses, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

.10 Not all the items described in paragraph 3064.09 meet the definition of an intangible asset (i.e., identifiability, control over a resource and existence of future economic benefits). If an item within the scope of this Section does not meet the definition of an intangible asset or goodwill, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred.

.12 *An asset meets the identifiability criterion in the definition of an intangible asset when it:*

(a) is separable (i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

.13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Future economic benefits

.17 The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

ASPE 3400 revenue

RECOGNITION

.04 *Revenue from sales and service transactions shall be recognized when the requirements as to performance set out in paragraphs 3400.05-.06 are satisfied, provided that at the time of performance ultimate collection is reasonably assured.*

.05 *In a transaction involving the sale of goods, performance shall be regarded as having been achieved when the following conditions have been fulfilled:*

(a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and

(b) *reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned.*

.06 In the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. Such performance shall be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract.

.07 Performance would be regarded as being achieved under paragraphs 3400.05-.06 when all of the following criteria have been met:

- (a) *persuasive evidence of an arrangement exists;*
- (b) *delivery has occurred or services have been rendered; and*
- (c) *the sellers' price to the buyer is fixed or determinable.*

.13 Revenue from a transaction involving the sale of goods would be recognized when the seller has transferred to the buyer the significant risks and rewards of ownership of the goods sold. When the seller retains significant risks of ownership, it is normally inappropriate to recognize the transaction as a sale. Examples of a significant risk of ownership being retained by a seller are: when there is a liability for unsatisfactory performance not covered by normal warranty provisions; when the purchaser has the right to rescind the transaction; and when the goods are shipped on consignment.

Record separately:

.11 The recognition criteria in this Section are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. A single sales transaction may involve the delivery or performance of multiple products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an enterprise may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction. In such a case, the two transactions are dealt with together. (Paragraphs 3400.A8-.A12 provide related application guidance.)

Principal (revenue) vs agent (not revenue)

.24 *An enterprise is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an enterprise is acting as a principal include, but are not limited to:*

(a) *the enterprise has the primary responsibility for providing the goods or services to the customer or for fulfilling the order (for example, by being responsible for the acceptability of the products or services ordered or purchased by the customer);*

(b) *the enterprise has inventory risk before or after the customer order, during shipping or on return;*

(c) *the enterprise has latitude in establishing prices, either directly or indirectly (for example, by providing additional goods or services); and*

(d) *the enterprise bears the customer's credit risk for the amount receivable from the customer.*

One feature indicating that an enterprise is acting as an agent is that the amount the enterprise earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Additional features indicating that an enterprise is acting as a principal or as an agent are provided in paragraphs 3400.A38-.A39, respectively.

ASPE 1400 general standards of financial statement presentation

GOING CONCERN

.07 *When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.*

.08 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

DISCLOSURE

.17 *When management is aware, in making its assessment of an entity's ability to continue as a going concern, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed.*

.18 *When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.*

ASPE 3061 property, plant and equipment

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

*(a) **Property, plant and equipment** are identifiable tangible assets that meet all of the following criteria:*

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment;

(ii) have been acquired, constructed or developed with the intention of being used on a continuing basis; and

(iii) are not intended for sale in the ordinary course of business.

Betterment

.14 The cost incurred to enhance the service potential of an item of property, plant and equipment is a betterment. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of an item of property, plant and equipment is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the asset.

Amortization

.16 Amortization shall be recognized in a rational and systematic manner appropriate to the nature of an item of property, plant and equipment with a limited life and its use by the enterprise. The amount of amortization that shall be charged to income is the greater of:

(a) the cost less salvage value over the life of the asset; and

(b) the cost less residual value over the useful life of the asset.

Review of amortization

.21 The amortization method and estimates of the life and useful life of an item of property, plant and equipment shall be reviewed on a regular basis.

.22 Significant events that may indicate a need to revise the amortization method or estimates of the life and useful life of an item of property, plant and equipment include:

(a) a change in the extent the asset is used;

(b) a change in the manner in which the asset is used;

(c) removal of the asset from service for an extended period of time;

(d) *physical damage;*

(e) *significant technological developments;*

(f) *a change in the law, environment, or consumer styles and tastes affecting the period of time over which the asset can be used.*

ASPE 3856 financial instruments

(i) A **financial instrument** is a contract that creates a financial asset for one enterprise and a financial liability or equity instrument of another enterprise.

MEASUREMENT

Initial measurement

(Paragraphs 3856.A7A and 3856.A8K provide related application guidance.)

.06A *Except as specified in this Section, transaction costs shall be recognized in net income in the period incurred.*

Arm's length transactions

.07 *Except as specified in paragraph 3856.09A, when a financial asset is originated or acquired or a financial liability is issued or assumed in an arm's length transaction, an enterprise shall measure it at its fair value adjusted by, in the case of a financial asset or financial liability that will not be measured subsequently at fair value, financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption.* (Paragraphs 3856.A8 and 3856.A9-.A13 provide related application guidance.)

Impairment

.16 *At the end of each reporting period, an enterprise shall assess whether there are any indications that a financial asset, or group of similar financial assets, measured at cost or amortized cost or using the cost method may be impaired. When there is an indication of impairment, an enterprise shall determine whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets.* (Paragraphs 3856.A14-.A21 provide related application guidance.)

ASPE 3031 Inventories

DEFINITIONS

.07 The following terms are used in this Section with the meanings specified:

(a) **Inventories** are assets:

(i) held for sale in the ordinary course of business;

(ii) in the process of production for such sale; or

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

ASPE 3475 disposal of long-lived assets and discontinued operations

DEFINITIONS

(e) A **discontinued operation** is a component of an enterprise that either has been disposed of (by sale, abandonment or spin-off) or is classified as held for sale, and:

- (i) represents a separate major line of business or geographical area of operations;
- (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (iii) is a subsidiary acquired exclusively with a view to resale.

A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.

PRESENTATION

Discontinued operations

(paragraphs 3475.27-.28 deleted)

(paragraph 3475.29 moved and renumbered 3475.32A)

.30 *The results of discontinued operations, less applicable income taxes, shall be reported as a separate element of income for both current and prior periods.*

.31 The results of discontinued operations include any gain or loss recognized in accordance with paragraph 3475.19, and are reported in discontinued operations in the period(s) in which they occur. In accordance with paragraph 3475.16, future losses associated with the operations of a discontinued operation are not accrued.

.32 Adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an enterprise in a prior period are classified separately in the current period in discontinued operations. Examples of circumstances in which those types of adjustments may arise include the following:

- (a) the resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase-price adjustments and indemnification issues with the purchaser;
- (b) the resolution of contingencies that arise from and that are directly related to the operations of the component prior to its disposal, such as environmental and product warranty obligations retained by the seller; and
- (c) the settlement of obligations for employee future benefits (see EMPLOYEE FUTURE BENEFITS, Section 3462), provided that the settlement is directly related to the disposal transaction (i.e., there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an enterprise's control, as permitted by paragraph 3475.09).

ASPE 1582 business combinations

RECOGNIZING AND MEASURING GOODWILL OR A GAIN FROM A BARGAIN PURCHASE

.34 *The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:*

(a) the aggregate of:

(i) the consideration transferred measured in accordance with this Section, which generally requires acquisition-date fair value (see paragraph 1582.39)*;*

(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Section; and

(iii) in a business combination achieved in stages (see paragraphs 1582.43-.44)*, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and*

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Section.

Consideration paid:	$ 2,437,215
Less net assets:	(564,577)
Less: FMV differences	
PPE (1,625,000-1,267,000):	(358,000)
Goodwill	$ 1,514,638

Assurance

<u>CAS 570 going concern</u>

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21-A22)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. *If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22-A23)*

    (a) *Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and*

    (b) *Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.*

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. *If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24-A25)*

IFRS

IFRS 15 revenue from contracts with customers

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Ensure there is satisfaction of performance obligations
- Allocate the transaction price to the performance obligation in the contract
- Recognition revenue when the entity satisfies a performance obligation

Principal versus agent considerations

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

(a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and

(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

Bill-and-hold arrangements

B79 A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. For example, a customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production schedules.

B80 An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when a customer obtains control of that product (see paragraph 38). For some contracts, control is transferred either when the product is delivered to the customer's site or when the product is shipped, depending on the terms of the contract (including delivery and shipping terms). However, for some contracts, a customer may obtain control of a product even though that product remains in an entity's physical possession. In that case, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the customer over the customer's asset.

B81 In addition to applying the requirements in paragraph 38, for a customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);

(b) the product must be identified separately as belonging to the customer;

(c) the product currently must be ready for physical transfer to the customer; and

(d) the entity cannot have the ability to use the product or to direct it to another customer.

B82 If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 22–30 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 73–86.

IAS 38 intangible assets

An intangible asset is an identifiable non monetary asset without physical substance.

12 An asset is identifiable if it either:

(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

17 The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Intangible assets with indefinite useful lives

107 An intangible asset with an indefinite useful life shall not be amortised.

108 In accordance with IAS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount

(a) annually, and

(b) whenever there is an indication that the intangible asset may be impaired.

IAS 16 property, plant and equipment

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Recognition

7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

IFRS 39 financial instruments: recognition and measurement

Financial assets carried at amortised cost

63 If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

IFRS 5 non-current assets held for sale and discontinued operations

Objective

1 The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of *discontinued operations*. In particular, the IFRS requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and *fair value* less *costs to sell*, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

Presentation and disclosure

30 An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

33 An entity shall disclose:

(a) a single amount in the statement of comprehensive income comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

(b) an analysis of the single amount in (a) into:

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by paragraph 81(h) of IAS 12;

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(iv) the related income tax expense as required by paragraph 81(h) of IAS 12

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

Comparability

2.24 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

2.25 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

2.26 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

Assets

4.8 The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.

Recognition of expenses

4.50 Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognized at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this *Conceptual Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

IAS 37 provisions, contingent liabilities and contingent assets

Recognition

Provisions

14 A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

IFRS 3 business combinations

Recognising and measuring goodwill or a gain from a bargain purchase

32 The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value (see paragraph 37);

(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and

(iii) in a business combination achieved in stages (see paragraphs 41 and 42), the acquisition-date fair value of the acquirer's previously held *equity interest* in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS.

IAS 36 impairment of assets

Goodwill

Allocating goodwill to cash-generating units

80 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

(b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation.

90 A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 104.

IAS 19 employee benefits

5 Employee benefits include:

(a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

(iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits, such as the following:

(i) retirement benefits (eg pensions and lump sum payments on retirement); and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) jubilee or other long-service benefits; and

(iii) long-term disability benefits; and

(d) termination benefits.

Definitions

***Termination benefits* are employee benefits provided in exchange for the termination of an employee's employment as a result of either:**

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Recognition

165 An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

167 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

IT ISSUE

- Weakness
- Implication
- Recommendation

ETHICAL ISSUE

- Issue
- Implication
- recommendation

Audit considerations

⚫ Need to determine the amount of the actual operating losses during the subsequent events period in order to evaluate the
Estimate

⚫We will need to obtain evidence of the fair value of RF to determine if there is a potential impairment requiring further investigation

⚫We need to obtain evidence to support the cost of the consulting

contract price
⚫ We need to obtain evidence to
support the cost of the special
termination payments
● We need to determine whether any significant risks exist that support deferral until fiscal 2018.
● We also need to ensure that the accounting for inventory is consistent with the revenue recognition policy

ASSURANCE

AR = IR * CR * DR

Risk
Approach
- Combined
- Substantive

Materiality (do not mention risk)
- Users & bias
    - Elements of the financial statements (assets, liabilities, equity, income, expenses
    - Whether there are items on which the users tend to focus
    - Past history with audits
    - The nature of the entity and the industry
    - The entity's ownership structure and the way it is financed
    - The relative volatility of the benchmark

Procedure
- Risk
    - May record unearned revenue..
    - overstate asset or understate …
- Accounts and assertions
    - CAS 315 A190
- Procedure
    - Nature
    - Timing
    - Extent
    - Verb + object + compare to the general ledger (all the way to financial statement)

<u>assertion</u>
CAS 315
identifying and assessing the risks of material misstatement

The Use of Assertions

A189. In identifying and assessing the risks of material misstatement, the auditor may use the categories of assertions as described in paragraph A190(a)-(b) below or may express them differently provided all aspects described below have been covered. The auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

A190. Assertions used by the auditor in considering the different types of potential misstatements that may occur may fall into the following categories:

(a) Assertions about classes of transactions and events, and related disclosures, for the period under audit:

E.g. revenue

(i) Occurrence — transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.

(ii) Completeness — all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

(iii) Accuracy — amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.

(iv) Cutoff — transactions and events have been recorded in the correct accounting period.

(v) Classification — transactions and events have been recorded in the proper accounts.

(vi) Presentation — transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

(b) Assertions about account balances, and related disclosures, at the period end:

E.g. balance sheet

(i) Existence — assets, liabilities and equity interests exist.

(ii) Rights and obligations — the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

(iii) Completeness — all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

(iv) Accuracy, valuation and allocation — assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.

(v) Classification — assets, liabilities and equity interests have been recorded in the proper accounts.

(vi) Presentation — assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Procedure
CAS 500 audit evidence

*Audit Procedures for Obtaining **Audit Evidence***

***Inspection**: examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.*

***Observation**: looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of controls.*

***External Confirmation**: direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.*

***Recalculation**: checking the mathematical accuracy of documents or records.*

***Reperformance**: auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.*

Analytical Procedures: evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such *investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.*

***Inquiry**: seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.*

Week 3 case

Accounting Issues:

Issue:

boarding fee revenue. PonyUp records the non-refundable fee of $1,000 upon receiving it. When should they record it as revenue and by what amount? (15 mins)

Analysis:

ASPE3400

Recommendation:

Accounts and assertions:

Procedure:

Issue:

Whether or not the $35,000 cost of repairing the barn roof, should be recorded as the cost of the old roof, or recorded as the repairs and maintenance expense? (15 mins)

Analysis:

3061 property, plant and equipment

MEASUREMENT

Cost

.04 *Property, plant and equipment shall be recorded at cost.*

Betterment

.14 The cost incurred to enhance the service potential of an item of property, plant and equipment is a betterment. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of an item of property, plant and equipment is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the asset.

The cost of $35,000 includes the replacing several pieces of the old roof and all shingles. The shingles are high end and carry a 50-year warranty, which enhances the service potential. Since the old roof was already showing the signs of wear and tear, replacing pieces are only considered to be maintenance.

Recommendation:
Capitalize the cost of new shingles as the cost of the roof, while record the cost of replacing several pieces as expense.
Impact on financial statement
No impact on current ratio.

Accounts and assertions:
PP&E
- valuation

Expense
- completeness

Procedure:
Obtain the receipt of the purchase of shingles and replacing other pieces of the roof. Recalculate the cost of PP&E and expense, and compare it with the general ledger.

Issue:
The food, supplies and horses are recorded as inventory. Should all of them be recorded as inventory? (15mins)

Analysis:
3031 Inventory
DEFINITIONS

.07 The following terms are used in this Section with the meanings specified:

(a) **Inventories** are assets:

(i) held for sale in the ordinary course of business; - met horses are available for sale at any time, and there is sale of horse two years ago

(ii) in the process of production for such sale; or

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services. - met since the horses are available for clients to ride.

3061 property, plant and equipment

Recommendation:

Accounts and assertions:

Procedure:

Assurance

- First time audit
- Segregation of duty
- Inexperienced employee