

kieso
weygandt
warfield

team for success



THIRD
EDITION | **Intermediate**
ACCOUNTING

IFRS EDITION

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Financial Reporting and Accounting Standards

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the growing importance of global financial markets and its relation to financial reporting.
2. Explain the objective of financial reporting.
3. Identify the major policy-setting bodies and their role in the standard-setting process.
4. Discuss the challenges facing financial reporting.

PREVIEW OF CHAPTER 1

FINANCIAL REPORTING AND ACCOUNTING STANDARDS

Global Markets

- Financial statements and financial reporting
- Accounting and capital allocation
- High-quality standards

Objective of Financial Reporting

- General-purpose financial statements
- Equity investors and creditors
- Entity perspective
- Decision-usefulness

Standard-Setting Organizations

- International Organization of Securities Commissions (IOSCO)
- International Accounting Standards Board (IASB)
- Hierarchy of IFRS

Financial Reporting Challenges

- IFRS in a political environment
- The expectations gap
- Significant financial reporting issues
- Ethics in the environment of financial accounting
- International convergence
- Conclusion

Intermediate Accounting

IFRS 3rd Edition

Kieso • Weygandt • Warfield

Financial Statements and Financial Reporting

المحافظات الأساسية
Essential characteristics of accounting are:

1. the ^{التعريف} identification, ^{القياس} measurement, and ^{التوصيل} communication of financial information about

2. economic entities to ^{كيان اقتصادي}

[Bank, gov, Customer, investors, lenders]

3. interested parties. ^{الأطراف المعنية} (external)

Financial statement

- ① income
- ② equity
- ③ Balance sheet
- ④ Cash flow

1-4

Financial report
Financial statement

+
other financial information

(تتضمن إنتاجه أو استلامه من قبل)

Global Markets

الكليات الاقتصادية

Economic Entity

Financial Information

Accounting?

Identify and Measure and Communicate

Financial Statements

Statement of Financial Position
Income Statement or Statement of Comprehensive Income
Statement of Cash Flows
Statement of Changes in Equity
Note Disclosures

Additional Information

President's letter
Prospectuses
Reports filed with governmental agencies
News releases
Forecasts
Environmental impact statements
Etc.

المساهمة وتخصيص رأس المال

Accounting and Capital Allocation

الاستخدام الفعال للموارد محدودا كما ان النشاط يزداد

Resources are **limited**. Efficient use of resources often determines whether a business thrives.

تقارير مالية

المستخدم الكالي وطموتة

تخصيص رأس المال

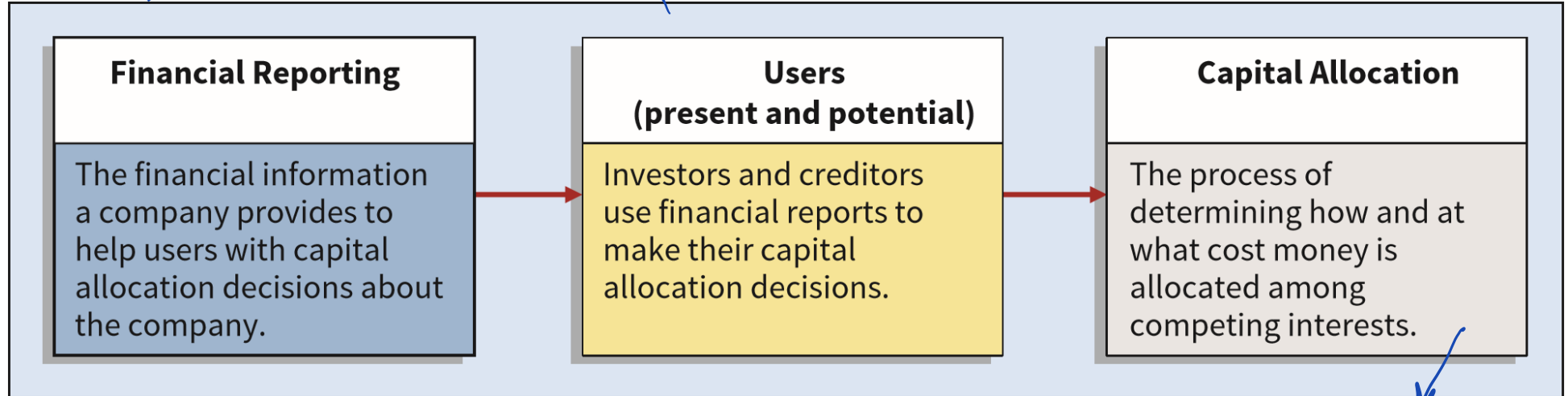


ILLUSTRATION 1.3
Capital Allocation Process

الذين استمر حتى حصل من
العمل كانه بأقل تكلفة

High Quality Standards

معايير الجودة لعالبة
تطلب العولمة مجموعة واحدة من معايير المحاسبة عالية الجودة

Globalization demands a single set of high-quality international accounting standards. Some elements:

1. Single set of high-quality accounting standards established by a single standard-setting body.
مجموعة من معايير المحاسبة عالية الجودة التي وضعتها هيئة واحدة
2. Consistency in application and interpretation.
الاتساق في التطبيق والتفسير
3. Common disclosures.
الأوضاع المشتركة
4. Common high-quality auditing standards and practices.
معايير وممارسات تدقيق مشتركة عالية الجودة
5. Common approach to regulatory review and enforcement.
نهج مشترك للمراجعة
6. Education and training of market participants.
تعليم وتدريب المشاركين

(Continued)

High Quality Standards

Globalization demands a single set of high-quality international accounting standards. Some elements:

7. Common delivery systems (e.g., eXtensible Business Reporting Language—XBRL) *طريقة التبليغ الممتدة*

8. Common approach to corporate governance and legal frameworks around the world.

طريقة شركة لإدارته الأطار التقري حول العالم

Objective of Financial Reporting

الهدف من التقارير المالية

LEARNING OBJECTIVE 2
Explain the objective of financial reporting.

Objective: Provide financial information about the reporting entity that is useful to

تقديم معلومات المفيدة

- ▶ present and potential equity investors,
- ▶ lenders, and
- ▶ other creditors →

المستثمرين الحاليين والمحتملين

المقرضين

دائنين

in making decisions about providing resources to the entity.

للاتخاذ قرار حول امدادنا بالموارد

Objective of Financial Reporting

الهدف العام للقوائم

General-Purpose Financial Statements

- ▶ Provide financial reporting information to a wide variety of users. توفير المعلومات لمجموعة كبيرة من المستخدمين
- ▶ Provide the most useful information possible at the least cost. تقديم معلومه اكثر افاده و اقل تكلفة

Equity Investors and Creditors [External]

- ▶ Investors and creditors are the primary user group.

المستثمرين و الدائنين لهم المستخدمين الرئيسيين

Objective of Financial Reporting

Entity Perspective

الفصل بين شركة و مالكيه

- ▶ Companies viewed as separate and distinct from their owners (shareholders).

Decision-Usefulness

قرارات صئيرة

- ▶ Investors are interested in assessing

المقرضون لا يهتمون بالتقييم

 1. the company's ability to generate net cash inflows and
 2. management's ability to protect and enhance the capital providers' investments.

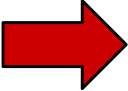
قدره على توليد تدفقات نقدية

قدره على حماية ومسانده قدرته الاستثمارية

Objective of Financial Reporting

Question

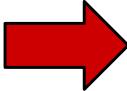
The objective of financial reporting places most emphasis on:

-  a. reporting to capital providers.
- b. reporting on stewardship.
- c. providing specific guidance related to specific needs.
- d. providing information to individuals who are experts in the field.

Objective of Financial Reporting

Question

General-purpose financial statements are prepared primarily for:

- a. internal users.
-  b. external users.
- c. auditors.
- d. government regulators.

Standard-Setting Organizations

LEARNING OBJECTIVE 3
Identify the major policy-setting bodies and their role in the standard-setting process.

لذا ٣ نحل معايير دولية موحدة سميت [IFRS] مسئول عن من إرقابة (IASB)

Main international standard-setting organization:

▶ International Accounting Standards Board (IASB) مجلس المعايير المحاسبية الدولية

- Issues **International Financial Reporting Standards (IFRS)**. إصدار معايير التقارير المالية الدولية

- Standards used on most foreign exchanges. معايير متخذة من معظم البورصات
- IFRS used in over 149 countries. تتخذ ٣ من ١٤٩

- Two organizations that have a role in international standard-setting are the **International Organization of Securities Commissions (IOSCO)** and the IASB.

نظمتها لها دور حولي من وضع المعايير وتطبيق لانتظمة

Standard-Setting Organizations

International Organization of Securities Commissions (IOSCO)

- ▶ Does not set accounting standards. لا تضع معايير محاسبية ولكن تتأكد من تطبيقها
- ▶ Dedicated to ensuring that global markets can operate in an efficient and effective basis. لتأكد من عمل بكفاءة وفعالية
- ▶ Supports the use of IFRS as the single set of international standards in cross-border offerings and listings. تدعم استخدام IFRS كمتبوع واحد من المعايير في العروض عبر الحدود

<http://www.iosco.org/>



IOSCO

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

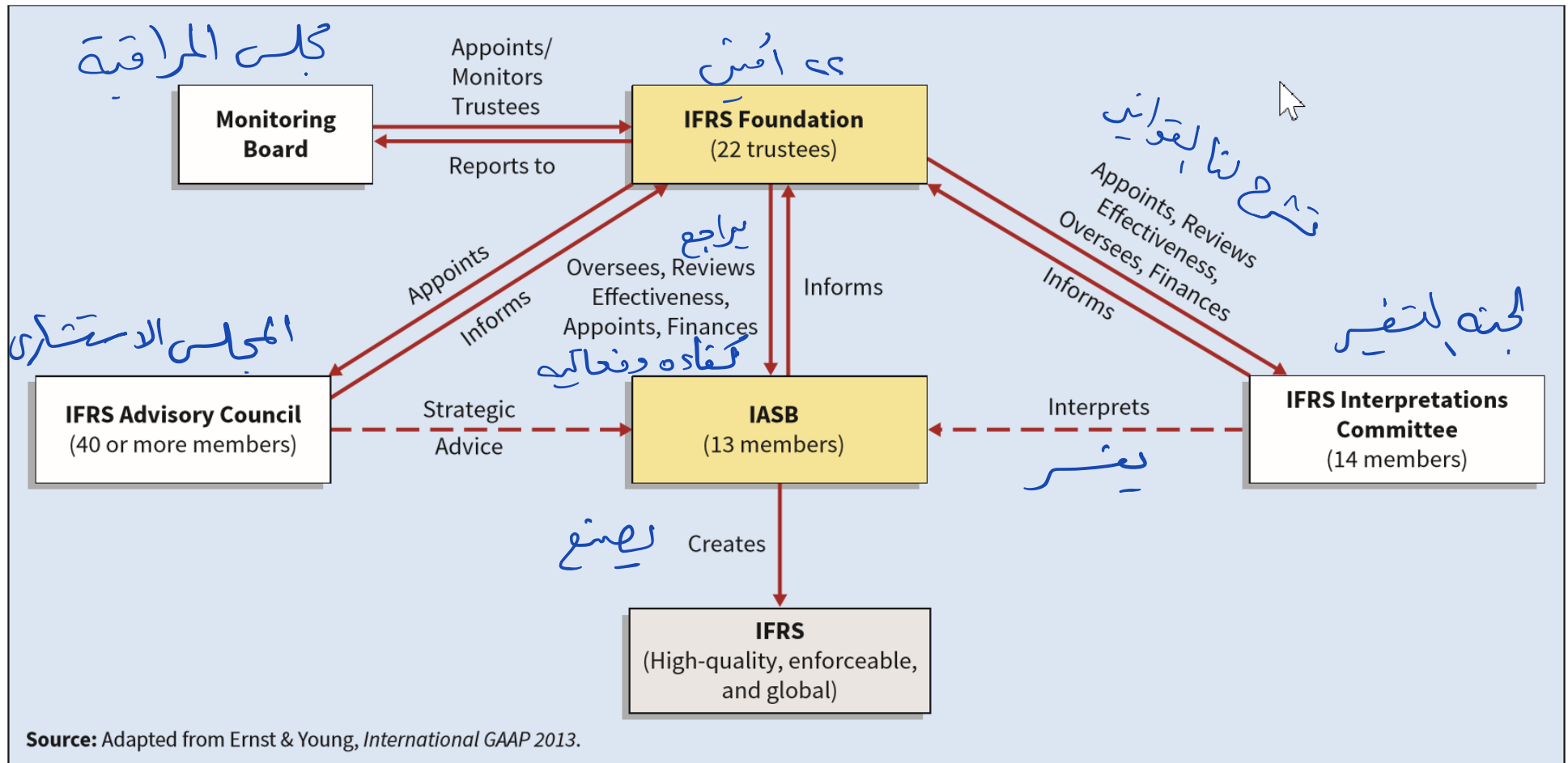
Standard-Setting Organizations

International Accounting Standards Board (IASB)

Composed of four organizations— تتكون من 4 منظمات

- ▶ IFRS Foundation → المؤسسة
- ▶ International Accounting Standards Board (IASB) → مجلس المعايير الدولية
- ▶ IFRS Advisory Council → المجلس الاستشاري
- ▶ IFRS Interpretations Committee → لجنة تفسير

International Accounting Standards Board



Source: Adapted from Ernst & Young, *International GAAP 2013*.

ILLUSTRATION 1.4
International Standard-Setting Structure

Standard-Setting Organizations

Question

IFRS stands for:

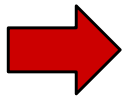
- a. International Federation of Reporting Services.
- b. Independent Financial Reporting Standards.
-  c. International Financial Reporting Standards.
- d. Integrated Financial Reporting Services.

Standard-Setting Organizations

Question

The major key players on the international side are the:

- a. IASB and IFRS Advisory Council.
- b. IOSCO and the U.S. SEC.
- c. London Stock Exchange and International Securities Exchange.
- d. IASB and IOSCO.



Due Process الاجراءات القانونية

عده عناصر

The IASB **due process** has the following elements:

1. Independent standard-setting board; مجلس مستقل لوضع المعايير
2. Thorough and systematic process for developing standards; عملية شاملة ومنهجية للتطوير
3. Engagement with investors, regulators, business leaders, and the global accountancy profession at every stage of the process; and التعامل مع المستثمرين في كل مرحلة من مراحل العملية
4. Collaborative efforts with the worldwide standard-setting community. جهود تعاونية مع وضع المعايير من جميع أنحاء العالم

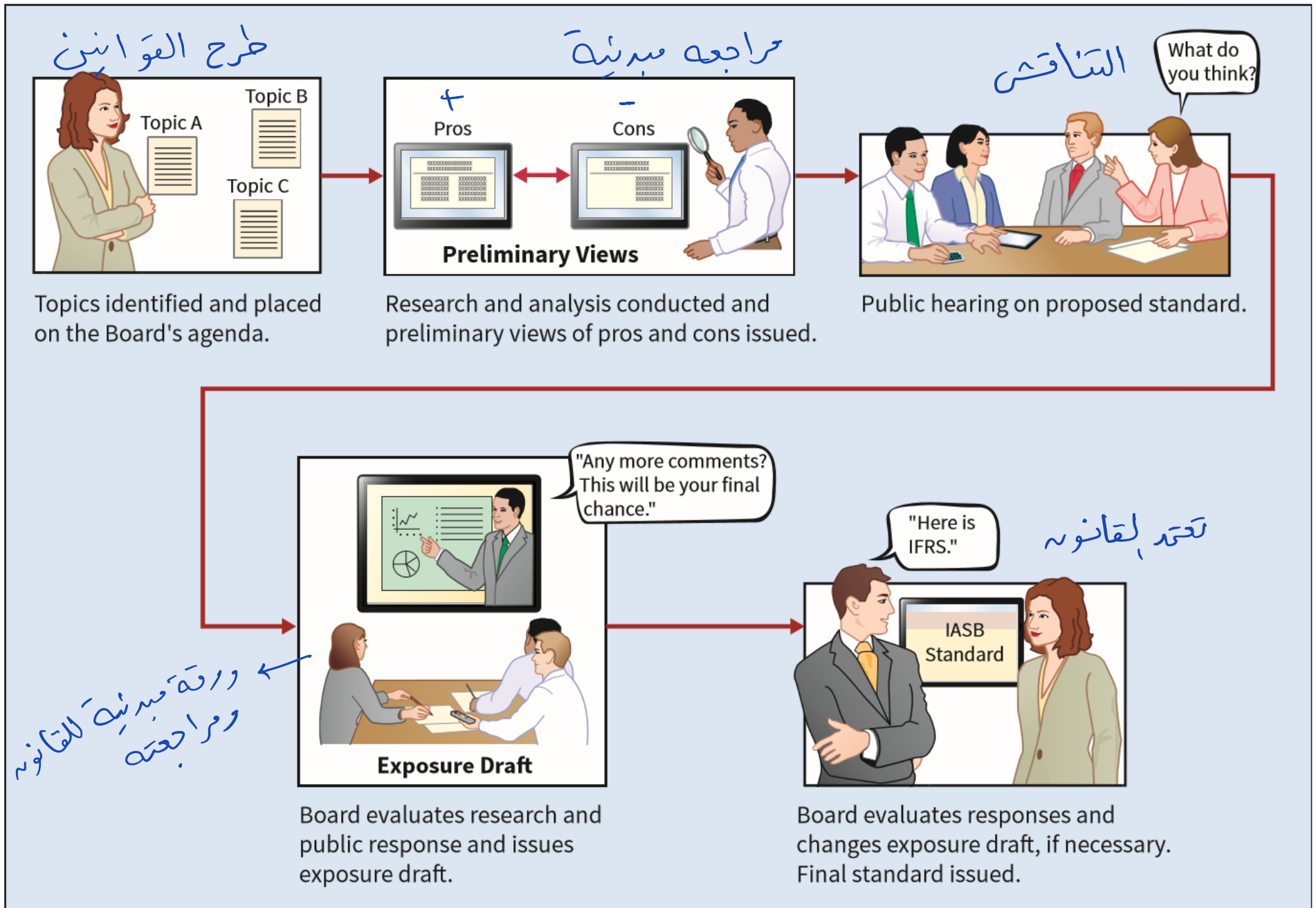


ILLUSTRATION 1.5

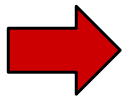
International Standard-Setting Structure

International Accounting Standards Board

Question

Accounting standard-setters use the following process in establishing international standards:

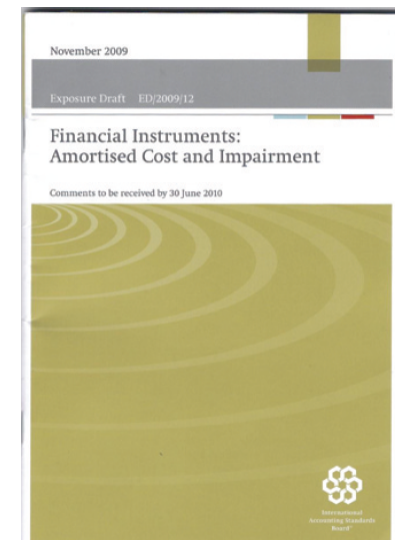
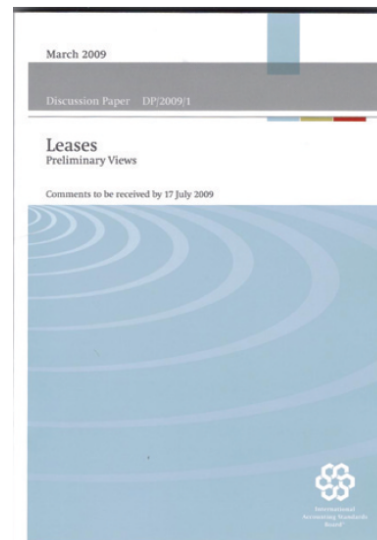
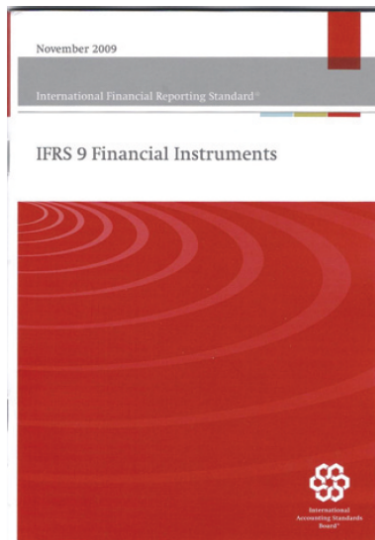
- a. Research, exposure draft, discussion paper, standard.
- b. Discussion paper, research, exposure draft, standard.
- c. Research, preliminary views, discussion paper, standard.
- d. Research, discussion paper, exposure draft, standard.



Types of Pronouncements

النواع المعايير

- ▶ International Financial Reporting Standards. IFRS
- ▶ Conceptual Framework for Financial Reporting. الإطار المفاهيمي
- ▶ International Financial Reporting Standards Interpretations. تفسير IFRS



Standard-Setting Organizations

Hierarchy of IFRS

التسلسل لـ IFRS

Companies first look to:

IFRS < IASB < interpretation

1. International Financial Reporting Standards; International Financial Reporting Standards, International Accounting Standards (issued by the predecessor to the IASB), and IFRS interpretations originated by the IFRS Interpretations Committee (and its predecessor, the IAS Interpretations Committee);
2. The Conceptual Framework for Financial Reporting; and
3. Pronouncements of other standard-setting bodies that use a similar conceptual framework (e.g., U.S. GAAP).

قوانين، أنظمة أخرى

Standard-Setting Organizations

Question

ملونات

IFRS is comprised of:

- a. International Financial Reporting Standards and FASB financial reporting standards.
-  b. International Financial Reporting Standards, International Accounting Standards, and International Accounting Standards Interpretations.
- c. International Accounting Standards and International Accounting Standards Interpretations.
- d. FASB financial reporting standards and International Accounting Standards.

Financial Reporting Challenges

LEARNING OBJECTIVE 4
Discuss the challenges facing financial reporting.

البيئة السياسية

IFRS in a Political Environment

نظرا للعواقب الاقتصادية للعديد من القواعد متوقع ان تحدث تجوي مصالح خاصة عن ردود افعال تجاه القواعد المقترحة

- ▶ Considering the economic consequences of many accounting rules, special interest groups are expected to vocalize their reactions to proposed rules.

- ▶ The Board should not do is issue standards that are primarily politically motivated.

لا ينبغي ان تقوم مجلس الادارة باصدار معايير ذات دوافع سياسية او ضغط سياسي

- ▶ While paying attention to its constituencies, the Board should base IFRS on sound research and a conceptual framework that has its foundation in economic reality.

يجب على مجلس الادارة ان يضع معايير دولية لاعداد التقارير المالية على اساس بحث سليم والاعتماد على الواقع الاقتصادي

IFRS in a Political Environment

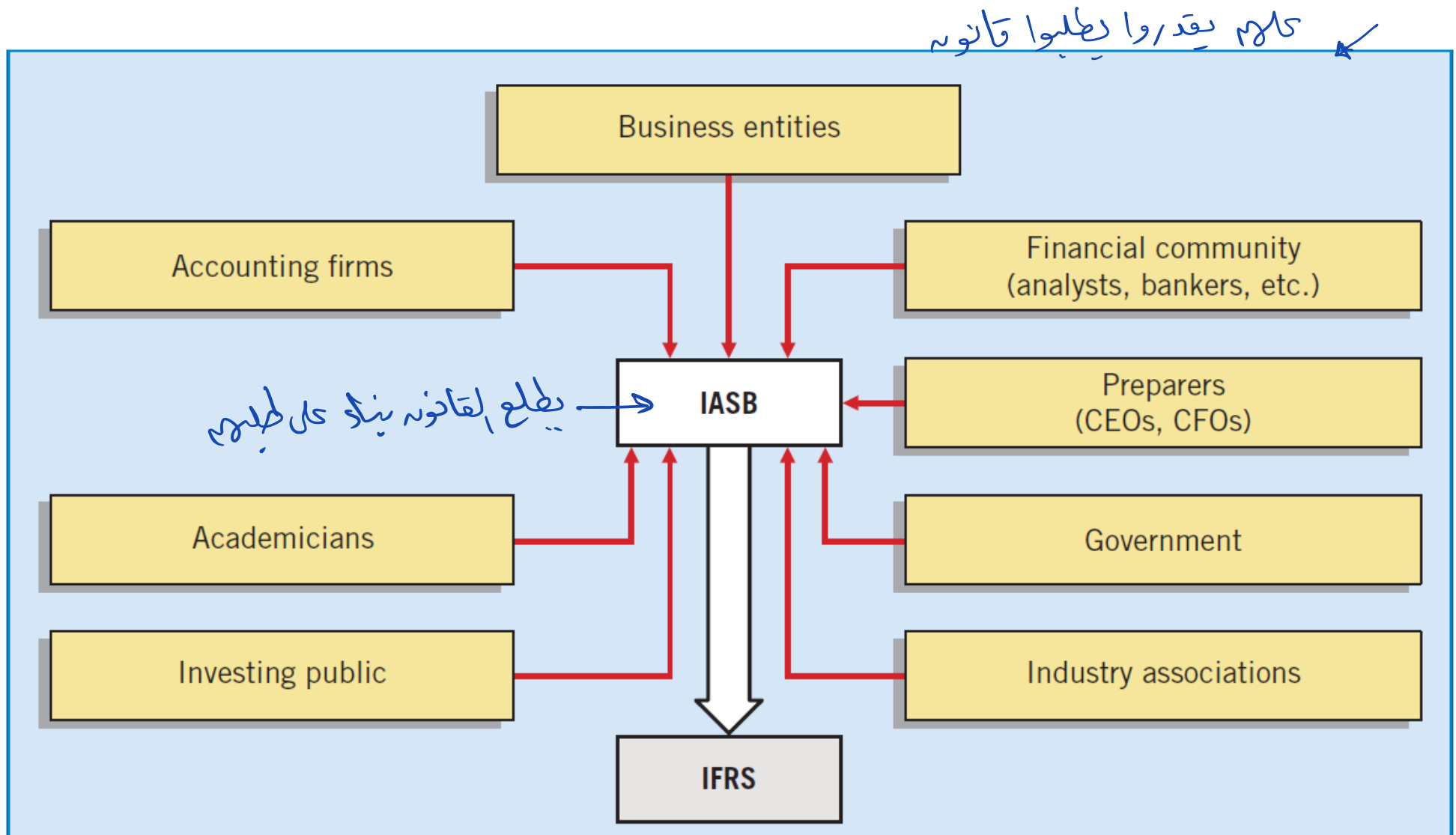


ILLUSTRATION 1.6

User Groups that Influence the Formulation of Accounting Standards

Financial Reporting Challenges

The Expectations Gap

فجوة بين المتوقع ووظيفة المحاسب فجوة التوقع

What the public thinks accountants should do and what accountants think they can do.

Significant Financial Reporting Issues

- ▶ Non-financial measurements → عدم وجود قياس مالي
- ▶ Forward-looking information → معلومات مستقبلية
- ▶ Soft assets → الأصول مرنة (جهود تصنيف معين ثم فرع من النظام)
- ▶ Timeliness → التوقيت

Financial Reporting Challenges

Ethics in the Environment of Financial Accounting

الشركات التي تركز على تعظيم الناتج المالي أو مواجهته تحديات المنافسة والتأكيد على الناتج قصيرة المدى تمنع المحاسبين تحت ضغط وصراع

- ▶ Companies that concentrate on “maximizing the bottom line,” “facing the challenges of competition,” and “stressing short-term results” place accountants in an environment of conflict and pressure.
- ▶ IFRS do not always provide an answer. → من دائم عندها اجابة
- ▶ Technical competence is not enough when encountering ethical decisions. لا تكفي الكفاءة الفنية عند مواجهه لقرارات اخلاقية

Financial Reporting Challenges

International Convergence

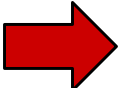
Examples of how convergence is occurring:

1. China's goal is to eliminate differences between its standards and IFRS.
2. Japan now permits the use of IFRS for domestic companies.
3. The IASB and the FASB have spent the last 12 years working to converge their standards.
4. Malaysia helped amend the accounting for agricultural assets.
5. Italy provided advice and counsel on the accounting for business combinations under common control.

Financial Reporting Challenges

Question

The expectations gap is:

- a. what financial information management provides and what users want.
-  b. what the public thinks accountants should do and what accountants think they can do.
- c. what the governmental agencies want from standard-setting and what the standard-setters provide.
- d. what the users of financial statements want from the government and what is provided.