6.3 **“Substance over form is a recipe for failing to achieve comparability between financial statements of different enterprises.” Discuss.**

ANSWER 1:

Substance over form is an accounting principle, which ensures the relevant and true picture of the transactions in the financial statements of the entity. It is an accounting concept, where items are accounted according to their economic reality and substance, rather than focusing merely on the legal aspects of transactions. The key point is to highlight the transactions should not be recorded in order to hide the intention behind the transaction.

However, this recipe fails to compare the financial statements of different enterprises, as in some cases, it is difficult to identify the intent behind the transaction and the substance linked to the transaction, hence the difference, in how to present the transaction can lead to various results. For example: For a company, say X, the intent over creation of an asset or a liability is not identified, based on the benefits and obligations attached to it. Hence, a problem arises, which gives different results in different situations.

ANSWER 2:

Financial information is irrelevant unless it can be compared across periods and companies. This requires that any changes should be disclosed.

It is important that financial statements released by enterprises have similar and consistent form. It is not just about what numbers you have on the statements, but also how the statements are constructed.

6.4 **Explain why it is necessary to define either “asset” or “expense” from first principles, but not both. Why has the IASB chosen to define the former?**

It is important to define either asset or expense from first principles because you must understand weather to use the matching concept ort the revenue principle. The IASB chooses to use the second way of defining the elements because it has the effect of reducing the importance of the matching concept.

6.5 **Is it necessary and useful to have different valuation bases for different assets?**

Yes, it is necessary and useful to have different valuation bases for different assets. The different valuations can be used for differing classes of assets. Such as intangible fixed assets, tangible assets, biological assets, etc. Depending on the classification of the asset, an appropriate means of valuation, depreciation (and impairment if applicable) can be applied to the asset.

6.7 **“In recent years, the IASB has clearly been moving towards the use of current values rather than historical costs.” Discuss.**

Under the historical cost doctrine, assets are generally carried on the balance sheet at their acquisition cost and liabilities are usually carried at the prices at which they were incurred. For many years this model, which reflects the profession's traditionally conservative approach, was sufficient.

The use of historical cost has been a traditionally conservative approach and was proven sufficient for many years.

In recent years, however, the IASC/B has questioned this approach, asking if accuracy would be better achieved if selected assets and liabilities were valued under a fair market model that would reflect current valuations.

Fair values provide information about financial assets and liabilities which are more relevant than amounts based on their historical cost and are also found to be more efficient when making business decisions.

Those opposed to the change can argue current cost should only be used for short term decisions and that it is hard to determine the exact current value. It is also said historical cost can be used more efficiently in economic decisions and is less subject to manipulation.

7.3 **“The influence of tax on financial reporting cannot be relevant in the context of IFRS consolidated statements.” Discuss.**

ANSWER 1:

The influence of tax on financial reporting is not relevant in the context of IFRS consolidated statements because there are no requirements for statements of financial position or in-depth income. There are also gaps in IFRS and scope for different measurement estimations.

ANSWER 2:

There are differences between IFRS and EU-endorsed IFRS. There is no format requirements for statements of financial position or comprehensive income. There are also gaps in IFRS, overt options, scope for different measurement estimations, and transitions options.

7.5 **If it is found that large differences in IFRS practice exist systematically between countries, which implications does this have?**

ANSWER 1:

It has implications for users of financial statements and for US acceptance of IFRS standards. Over time, some IFRS differences will be removed and the transitional differences will be eroded. A further implication relates to the SEC's monitoring of IFRS practice.

ANSWER 2:

It has implications for users of financial statements and for US acceptance of IFRS standards. Over time, some IFRS differences will be removed (IASB will continue to fill gaps & narrow possible interpretations) and the transitional differences will be eroded. A further implication relates to the SEC's monitoring of IFRS practice, as part of its decision making about whether to allow or require IFRS for US registrants.

7.6 **If a translation of IFRS exists in a language with which you are familiar, assess the quality of the translation.**

ANSWER 1:

There is always risk that the process of translation will change or lose meaning from the original version, but the EU and government representatives will always review the translations.

ANSWER 2:

The IFRS Foundation (the parent organization of the IASB) has an official translation process for IFRS, including committees to review the quality of translations.

In the case of the EU, the Regulation of 2002 gives the translations legal status in the various countries. EU and government representatives have been added to the IFRS Foundation's review committees, and the EU's Accounting Regulatory Committee has also reviewed the translations.

As in any field, there is a risk that the process of translation will change or lose meaning from the original version (in this case English).

For example, cash flow statements are required by IAS 7, reconciling to "cash and cash equivalents". The term "cash equivalents" is defined in paragraphs 6-9 including:

"An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months...."

This is an attempt to avoid writing a rule, as opposed to a principle. The Portuguese translation of IAS 7 omits the word "say". This improves the standard, but does translate it accurately. As a result, it would be more difficult in Portugal than in Ireland to argue successfully that an investment with a maturity of just over three months is a cash equivalent.

10.3 **Why might it be expected that there would be more examples of political lobbying relating to the US than to any other country?**

Because political lobbying occurred in the United States first due to two reasons: 1. The U.S. was among the very first countries to have an accounting standard-setter and 2. The U.S. has a rigorous securities market regulator

10.7 **Discuss the role of a conceptual framework as a defence against political lobbying.**

Decision usefulness comes from two fundamental qualitative characteristics - relevance and faithful representation.

Information that is capable of making a difference in decisions made by financial statement users is relevant.

Faithful representation is when the words and numbers accurately predict the economic substance of what they mean to represent.

12.3 **From this and earlier chapters, explain how financial reporting profit can differ from taxable income, and how this varies internationally.**

While financial reporting profit is computed using the accrual method of financial accounting based on generally accepted accounting principles, or GAAP, taxable income is calculated using the cash method of tax accounting based on tax rules. As a result, companies report accrued revenues and expenses in financial reporting to derive accounting profit, and cash revenues and expenses in tax reporting to obtain taxable income.

12.4 **Explain how the IASB’s standard for private entities differs from full IFRS. In your opinion, does it differ enough?**

Despite the project's SME title, it was decided that the key point is not size but whether the reporting entity is of public interest, and especially whether it is listed. The exposure draft was intended for entities that are not publicly accountable.

The standard is much shorter than full IFRS. The SME-IFRS standard is 230 pages long (plus guidance and basis for conclusions), compared to about 2,800 for full IFRS. It is also better written, so it is much easier to read. Each chapter in the SME standard covers one standard in full IFRS. There are many reductions in disclosure requirements, a few whole standards are left out, some options are deleted and others are added, and there are several simplifications compared to IFRS.