

Conceptual Framework and Primary Financial Statements

觀念架構及主要財務報表

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Conceptual Framework for Financial Reporting

財務報導之觀念架構

Conceptual Framework for Financial Reporting

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What is it?



Underpins

developing and applying IFRS Standards
(作為制定及適用國際財務報導準則之基礎)



Priority (優先性)

project identified in the Agenda Consultations
(於議程諮詢中辨認之計畫)

What changed?



Updated

concepts that will result in better IFRS Standards
(更新後之觀念將產生更佳之國際財務報導準則)



Issued (發布)

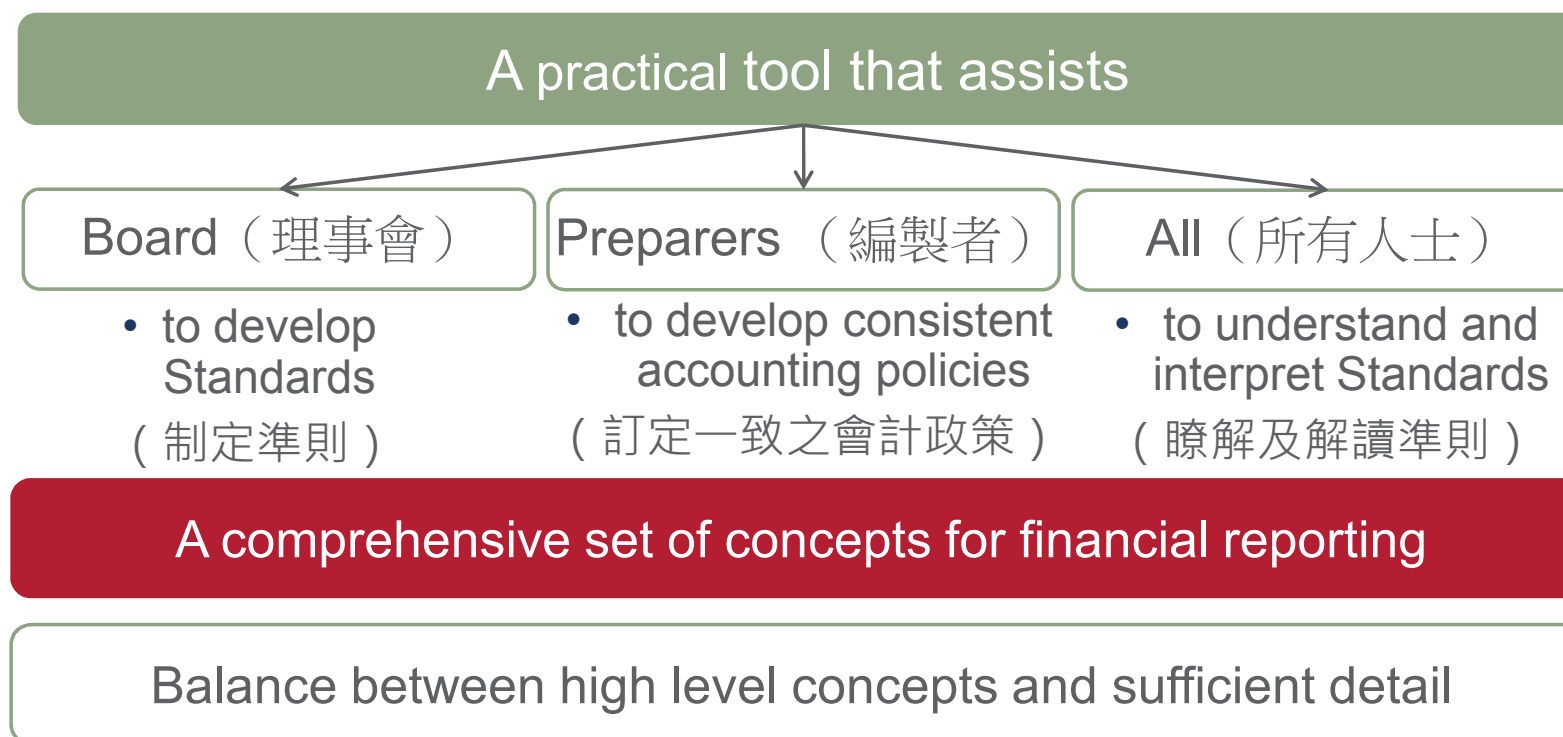
March 2018
(2018年3月)



Introduction to the 2018
Conceptual Framework
「2018年觀念架構」之簡介

What is the *Conceptual Framework*?

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Highlights of the 2018 *Conceptual Framework*

Previous version of the *Conceptual Framework*
useful but some improvements needed

incomplete(不完整)

out of date(過時)

Unclear(不明確)

Main improvements

New concepts (新觀念)

Concepts on the reporting entity, derecognition, measurement, unit of account and presentation and disclosure, including guidance on the use of profit or loss and other comprehensive income

Updates(更新)

The definitions of an asset and a liability, guidance supporting those definitions and recognition criteria

Clarifications(闡釋)

The roles of stewardship, prudence, substance over form and measurement uncertainty in financial reporting

Board and IFRS Interpretations Committee(理事會及國際財務報導準則解釋委員會)

- Underpins the Board's decisions in setting Standards but the Board **can depart from aspects** of the *Conceptual Framework* **to meet the objective** of financial reporting
- Standards are interpreted in the context of the 2018 *Conceptual Framework*
- **Effective immediately(立即生效)**

Preparers(編製者)

- Directly affects only those who develop accounting policies using the *Conceptual Framework* when no applicable Standard applies
 - See ***Amendments to References to the Conceptual Framework in IFRS Standards***
 - **Effective 1 January 2020 (2020年1月1日生效)**
- Indirectly affects preparers when future Standards become effective

Not a Standard and does not override Standards
(並非一準則，且不推翻任何準則)



The objective and qualitative characteristics

目的及品質特性

Objective of general purpose financial reporting(一般用途財務報導之目的)

Provide financial information useful to **primary users** of financial reports in making decisions about providing resources to the entity
(提供財務報告**主要使用者**於作成提供資源予個體之決策時有用之財務資訊)

buy, hold or sell

provide or settle
loans

vote and influence
management

clarified

Assess the prospects for **future net cash inflows**
(評估對未來淨現金流入之展望)

Assess **management's stewardship** of the entity's
resources (評估管理階層之個體資源託管責任)

clarified

To make those assessments users need information about

economic resources, claims and changes in them

how efficiently/effectively management discharges its
responsibilities

Qualitative characteristics(品質特性)

Fundamental qualitative characteristics(基本品質特性)

Relevance(攸關性)

- Capable of making a difference to the decisions made by users
- Predictive or confirmatory value

Faithful representation (忠實表述)

clarified

- Represents the substance of the economic phenomena
- Complete, neutral and free from error

A **trade-off** between relevance and faithful representation may need to be made in order to meet the objective of financial reporting (攸關性與忠實表述間可能需作權衡)

Enhancing qualitative characteristics(強化性品質特性)

Comparability
(可比性)

Verifiability
(可驗證性)

Timeliness
(時效性)

Understandability
(可了解性)

Cost constraint(成本限制)

Clarifying aspects of faithful representation (闡明忠實表述之各層面)

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Neutrality(中立性)

Prudence (審慎性)

- Exercise of caution under conditions of uncertainty
- Does not allow for overstatement or understatement of assets, liabilities, income or expenses
- Standards may contain asymmetric requirements if this is necessary to achieve the objective of financial reporting

clarified

free from error(免於錯誤)

Measurement uncertainty (衡量不確定性)

- Arises when monetary amounts cannot be observed directly
- Estimates are an essential part of preparing financial information
- Does not prevent information from being useful but if high may affect whether a sufficiently faithful representation can be achieved

clarified

Substance over form (實質重於形式)

- In many circumstances, economic substance of the underlying economic phenomenon is the same as the legal form
- If not, need to represent the substance to provide a faithful representation

clarified

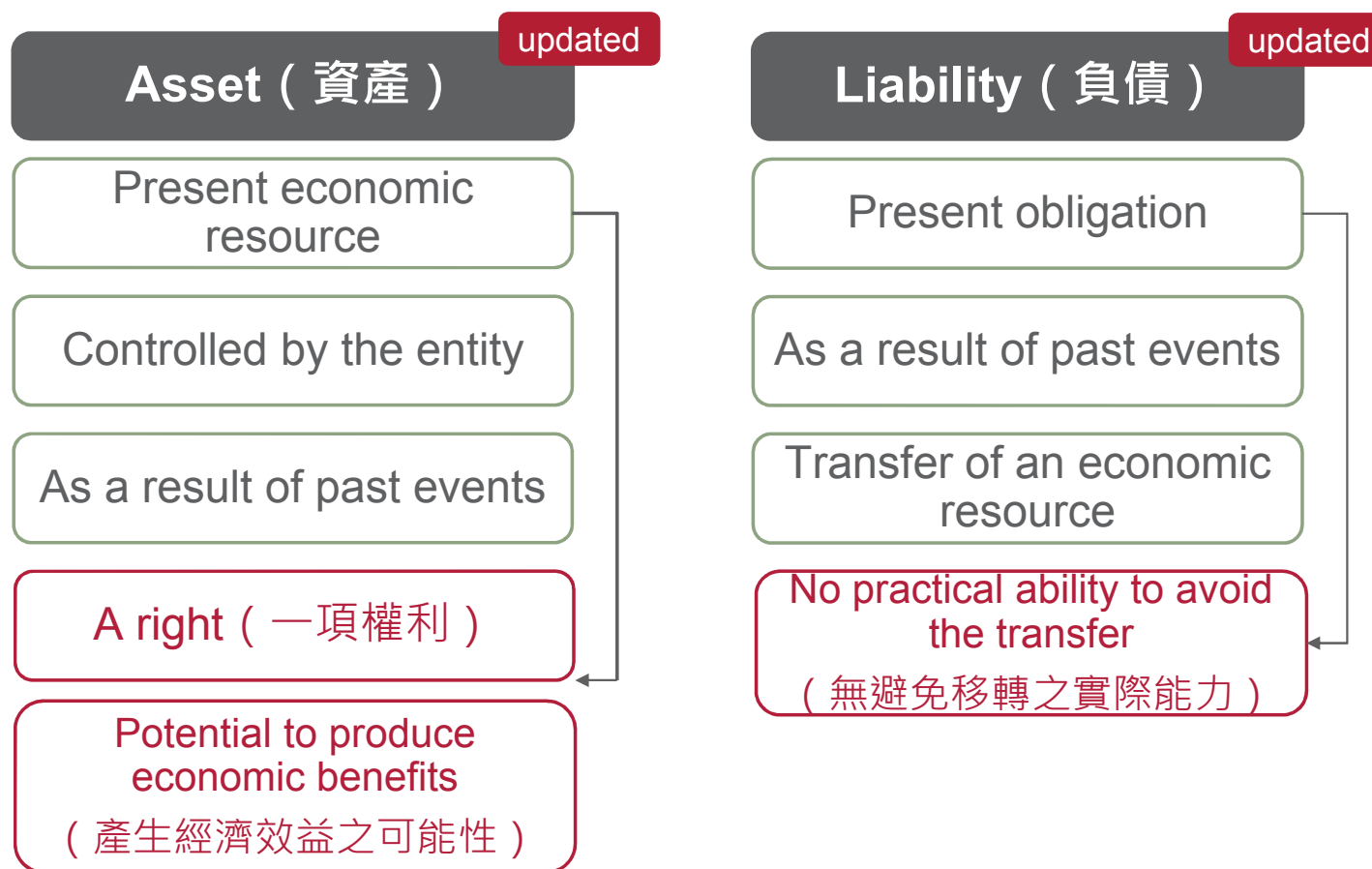


The elements of financial statements and recognition

財務報表之要素及認列

Elements of financial statements – assets and liabilities (財務報表之要素– 資產及負債)

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updated

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Recognition criteria (認列條件)

Meet the definition of an element of financial statements
(符合財務報表要素之定義)

Relevance (攸關性)

Existence uncertainty

Low probability of a flow of economic benefits

Faithful representation (忠實表述)

Measurement uncertainty

Recognition inconsistency
(accounting mismatch)

Presentation and disclosure of resulting income, expenses and changes in equity

Cost constraint (成本限制)

It is often a combination of factors that determines whether recognition provides useful information (認列是否提供有用資訊常由綜合各種因素所判定)

Example 1 – Production process(釋例1 –生產流程)

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- An entity has developed an efficient process for producing a new material. The entity has not yet patented the process, but has successfully kept it secret. The process has the potential to produce significant economic benefits for the entity.
- The material is not yet in commercial production, so economic benefits are highly uncertain—the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate.

Does the entity have an asset?

Example 1 – Production process (釋例1 –生產流程)

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Criterion	Met?
Right	✓
Potential to produce economic benefits	✓
Controlled by the entity	✓
As a result of past events	✓
	↓
Does the entity have an asset?	✓
Decide at Standards level if the asset is recognised	

Example 2 – Levy triggered when entity generates revenue in two periods (釋例2 – 當個體於兩個期間均產生收入時啟動公課)

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- Government charges levies on entities as soon as they generate revenue in 20X1. The amount of the levy is calculated by reference to revenue entity generated in 20X0.
- An entity's reporting period ends on 31 December 20X0. The entity generated revenue in 20X0, and in 20X1 it starts to generate revenue on 3 January 20X1.

Does the entity have a liability on 31 December 20X0 for the levy charged on 3 January 20X1?

Example 2 – Levy triggered when entity generates revenue in two periods (釋例2 – 當個體於兩個期間均產生收入時啟動公課)

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Criterion	Met?	Comments
Potential to require transfer of an economic resource	✓	Potential to require transfer of cash to the government
No practical ability to avoid	Likely to be ✓	The entity could avoid the levy only by generating no revenue in 20X1. Economic consequences of generating no revenue are likely to be significantly more adverse than the cost of the levy
As a result of past events	✓	Revenue entity generated in 20X0



Does the entity have a liability?	Likely to be ✓	Different from consensus in IFRIC 21
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Elements of financial statements – equity, income and expenses (財務報表之要素–權益、收益及費損)

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Equity (權益)

The residual interest in the assets of the entity after deducting all its liabilities

Financial Instruments with Characteristics of Equity research project explores how to distinguish liabilities from equity

Income (收益)

Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Expenses (費損)

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

Information about income and expenses is just as important as information about assets and liabilities



Measurement

衡量

new

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Measurement bases (衡量基礎)

Mixed measurement model (混合衡量模式)

Historical cost (歷史成本)

includes

Amortised cost (攤銷後成本)

Derived from transaction or other event that gave rise to the asset or liability

Information about margins

Current value (現時價值)

Fair value (公允價值)

Value in use (使用價值)

Fulfilment value (履約價值)

Current cost (現時成本)

Updated to reflect conditions on the measurement date

Information about changes in prices and other factors

Selecting a measurement basis (選擇衡量基礎)

Relevance (攸關性)

Characteristics of the asset or liability

Contribution to future cash flows

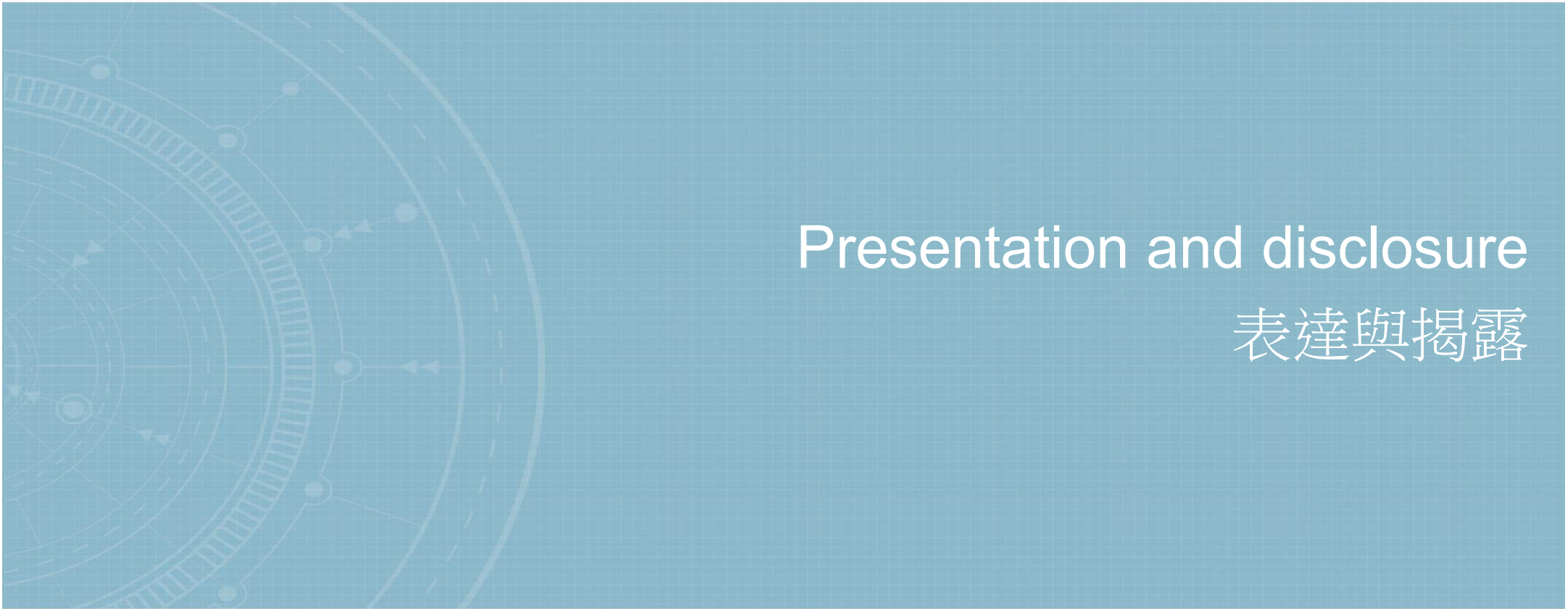
Faithful representation (忠實表述)

Measurement inconsistency (accounting mismatch)

Measurement uncertainty

Information in both the statement of financial position and the statement(s) of financial performance

Enhancing qualitative characteristics (強化性品質特性) and cost constraint (成本限制)



Presentation and disclosure
表達與揭露

Presentation and disclosure – new objectives and principles (表達與揭露之目的與原則)

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When developing presentation/disclosure requirements in Standards

Balance between:

- giving entities the **flexibility** to provide useful information
- requiring information that is **comparable**

Presentation/disclosure **objectives** to help entities to:

- identify useful information
- decide how to communicate it in the most effective manner

Effective communication **principles**:

- entity-specific information is more useful than 'boilerplate'
- duplication of information makes financial statements less understandable

new

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Profit or loss and OCI (損益及其他綜合損益)

Statement of profit or loss (損益表)

- **Primary**, but not the only, source of information about performance
- Profit or loss is a required (sub)total
- In principle, all income and expenses are included in the statement of profit or loss

Other comprehensive income (其他綜合損益)

- **Exceptional circumstances**
- Only changes in current values of assets and liabilities
- In principle, OCI items are recycled

Classification into profit or loss and OCI and recycling (再循環)

Relevance

Faithful representation

Only the Board can make decisions on OCI and recycling



Better Communication in Financial Reporting

財務報導之更佳溝通

Central theme of the Board's work

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Better Communication in Financial Reporting (財務報導之更佳溝通)





Primary Financial Statements

主要財務報表

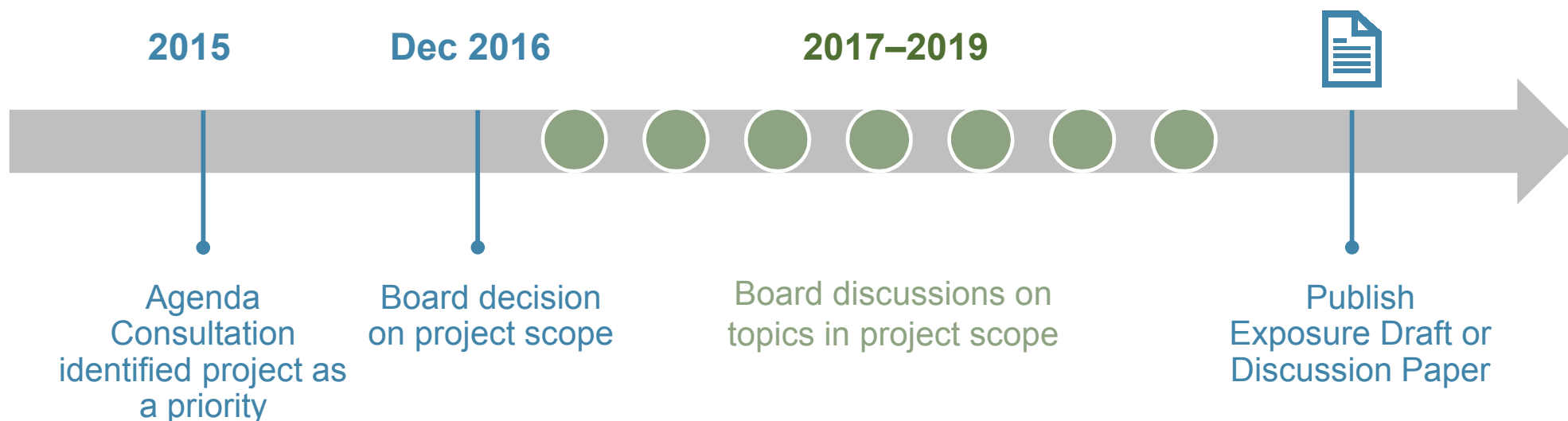
Primary Financial Statements (主要財務報表)

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Objective:

targeted improvements to the primary financial statements with a focus on the structure of statement(s) of financial performance (對主要財務報表作針對性之改善 - 著重於財務績效表之架構)



Stakeholder feedback and key tentative Board decisions (利害關係人之回饋意見及理事會之重要初步決議)

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Users

Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance
(於財務績效表中引進所定義之小計)



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Introduce disclosure of **Management Performance Measures**
(引進管理階層績效衡量之揭露)



Preparers

I need flexibility to tell my company's story

Introduce **requirements to improve disaggregation**
(引進改善細分之規定)



Users

There is insufficient disaggregation in financial statements

Full scope of the project

Statement(s) of financial performance (財務績效表)

Introducing subtotals & categories facilitating comparisons between entities:

- Operating, investing and financing
- Presentation of share of profit of associates/JVs

Introducing disclosure of management performance measures

Improving communication of OCI

Statement of cash flows (現金流量表)

Eliminating classification options (interest/dividends)

Introducing consistent starting point for the indirect method

Prescribing classification of cash flows related to associates/JVs

Improving disaggregation in financial statements (改善財務報表中之細分) by:

Introducing principles of disaggregation in financial statements

Requiring disaggregation by nature or by function in the statement(s) of financial performance

Requiring disclosure of unusual items

Requiring minimum line items in the primary financial statements

Developing illustrative examples of primary financial statements for a small number of industries

Introduce three defined subtotals in the statement of profit or loss (於財務績效表中引進所定義之小計)

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1

Operating profit (營業淨利)

Excludes share of profit from **all** associates/JVs

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Operating profit and share
of profit of integral
associates/JVs
(營業淨利及對重要關聯企業
/合資之損益份額)

- Excludes **income/expenses from investments**, which are defined as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'
- Excludes share of profit from **non-integral** associates and JVs

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Profit before financing
and income tax (計入
籌資及所得稅前之淨利)

- Excludes:
- Income/expenses arising from **financing activities**
 - Income from **cash and cash equivalents**
 - **Unwinding of discount** on liabilities that do not arise from financing activities (eg pensions)

Defined
bottom-up

Defined subtotals

—illustrative example for general corporates (by nature)

所定義之小計：一般公司之釋例（性質別）

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	Revenue	16,500
	Changes in inventories of finished goods and work in progress	(1,000)
	Raw material and consumables used	(6,000)
	Employee benefits expense	(4,000)
	Impairment of property, plant and equipment	(500)
	Depreciation expense	(1,200)
	Amortisation expense	(800)
①	Operating profit (營業淨利)	3,000
	Share of profit of integral associates and JVs	500
②	Operating profit and share of profit or loss of integral associates and JVs (營業淨利及對重要關聯企業/合資之損益份額)	3,500
	Changes in the fair value of financial assets	250
	Dividend income	50
	Share of profit of non-integral associates and JVs	100
③	Profit before financing and income tax (計入籌資及所得稅前之淨利)	3,900
	Interest income from cash and cash equivalents	100
	Expenses from financing activities	(1000)
	Unwinding of discount on pension liabilities and provisions	(100)
	Profit before tax	2,900

Classification of income/expenses for financial entities

金融機構對收益/費損之分類

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Starting point

Present all 3 subtotals

All expenses from financing activities and income from cash & cash equivalents:

Financing
(籌資)

All income (expenses) from investments:

Investing
(投資)

Tentative Board decisions for financial entities

If providing financing to customers is a main business activity (對客戶提供融資若係企業之一項主要經營活動), make accounting policy choice:
Allocate expenses from financing activities and income from cash & cash equivalents:

- Related to provision of financing to customers
- Not related to provision of financing to customers

Operating
(營業)

Financing
(籌資)

OR

Present all expenses from financing activities and income from cash & cash equivalents in:

Operating
(營業)

If the entity invests in the course of its main business activities (若企業於主要經營活動過程中投資) :

Allocate income/ expenses from investments:

- Investments in course of main business activities
- Investments not in course of main business activities

Operating
(營業)

Investing
(投資)

If no expenses from financing activities or income from cash & cash equivalents in financing category:

No 'profit before financing & tax' subtotal

Insurance finance expenses (income):

Operating

Management performance measures (管理階層績效衡量) (1)

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Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Identify a measure (or measures) of profit that, in management's view (以管理階層之觀點辨認利潤之一項或多項衡量) , communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a **management performance measure** (MPM) that complements those subtotals or totals (此衡量常為IFRS準則明定之小計或總計，但也可能是補充該等小計或總計之**管理階層績效衡量**) .

If entities identify MPMs, they will usually be disclosed in the **notes** (於附註中揭露) , because few will fit the structure of the statement(s) of financial performance

No specific constraints on the calculation of MPMs. (對於MPMs之計算無特定限制)



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative Board decisions

- Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (*not* as a column on the face) (於附註中揭露調節)
- Disclose the **effect on tax and non-controlling interests** separately for each reconciling item (就每一調節項目揭露所得稅及非控制權益之影響)
- Explain any **differences** between MPMs and **segment** measures(說明與部門衡量間之差異)
- **Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**
- **Label** MPMs in a **clear** and **understandable** way
- Explain any **changes over time** in calculation of MPMs

Statement of cash flows (現金流量表)

Tentative Board decisions

Single starting point for the indirect reconciliation: **Operating profit**
(間接法之單一起始點：營業淨利)

Removal of classification options for interest and dividends
(刪除對利息及股利之分類之選擇)



Cash flow item	IAS 7 classification	Tentative Board decision— non-financial entities	Tentative Board decision— financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (always investing for equity- accounted investments)

* Depends on classification of related income/expenses in P&L

Disaggregation (細分)

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Users

There is insufficient disaggregation in financial statements

Tentative Board decisions

Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large 'other' balances (建立特定原則以細分大額之「其他」餘額)

Require entities to disclose information about unusual items (揭露特殊項目) in the notes, attributed to line items in the statement(s) of financial performance.

Require entities to present their primary analysis of expenses by nature **or** by function (按性質別**或**功能別) in the statement(s) of financial performance. When primary analysis of expenses is presented by function, entities are required to disclose a full analysis of expenses by nature in the notes.

Develop illustrative examples for the primary financial statements for a small number of industries.

Expand the list of minimum required line items in the statement of financial position

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a mission
that matters



working with global
accounting experts



access to network of
influential people



small organisation
with a big impact



unique development
opportunities



intellectually
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environment

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