



Conceptual Framework..

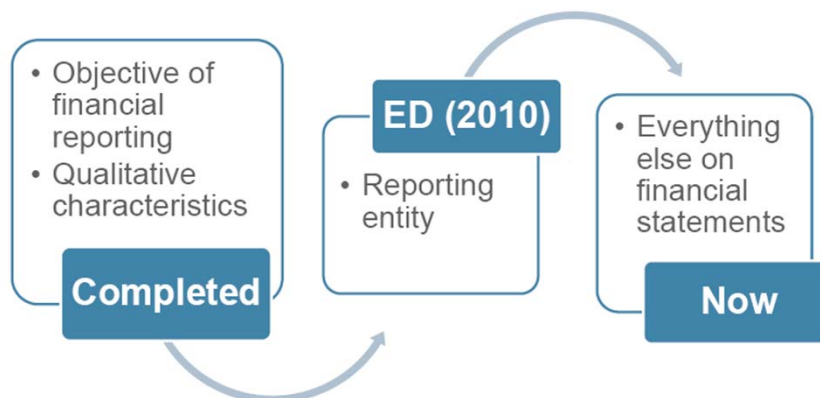
18 July 2013 DP
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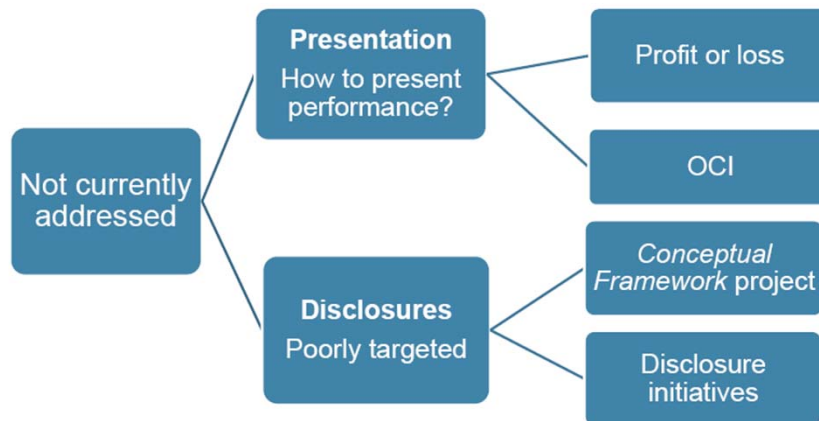
**The Institute of Chartered
Accountants of Sri Lanka**

High level overview of proposals

- Measurement
- Presentation & disclosure (including Profit/Loss and OCI)
- Definitions of elements (including recognition, and boundaries between liabilities/equity)



Current problems – Presentation & Disclosures



Presentation and disclosure: Proposal

Clarify purpose of primary financial statements & notes

- Information about the existing resources, claims against the entity, and changes to those resources and claims

Introduce principles for presentation

- Classification, aggregation & offsetting
- Relationship between primary financial statements

Introduce principles for disclosures

- Materiality
- Communication



Proposed Profit or loss and OCI in the Conceptual Framework

Retain profit or loss as a subtotal or total

- Items in profit or loss communicate the primary picture of the return an entity has made on its resources
 - A common starting point for analysis
- Two approaches:
 - Narrow use of OCI
 - Broad use of OCI
- Could still present as one or two statements

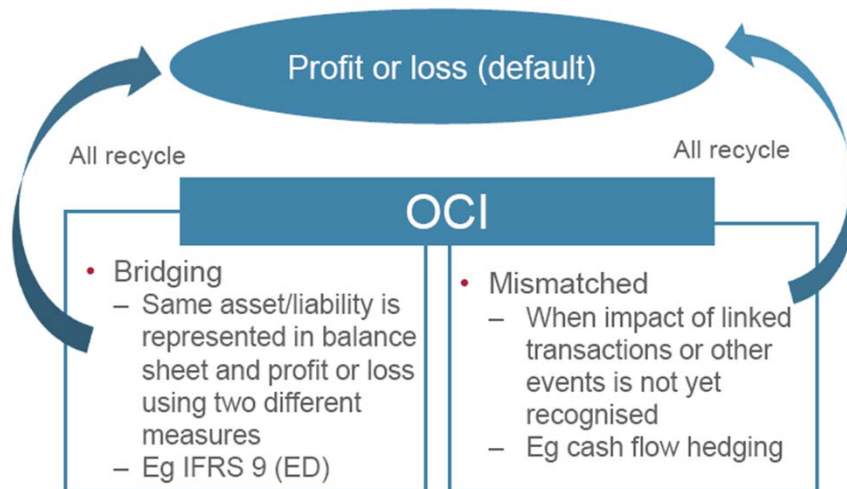


Proposed Profit or loss and OCI in the Conceptual Framework

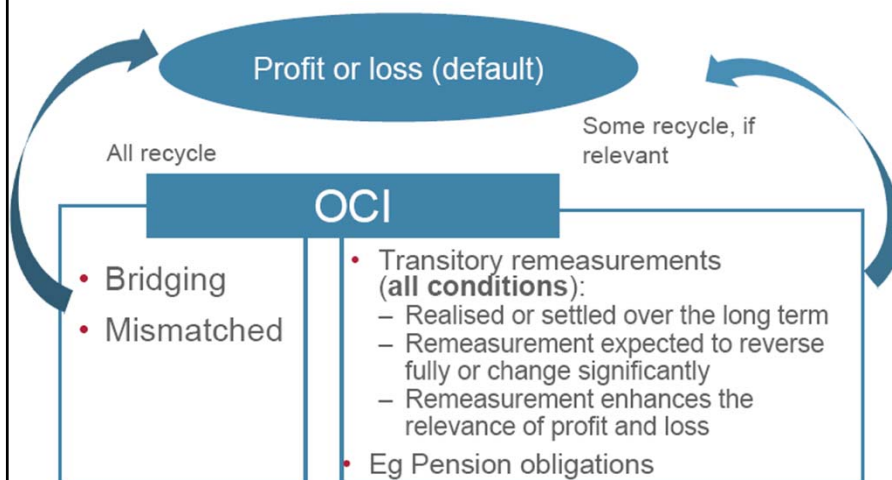
OCI contains only changes in some current measures (remeasurements) in two categories:

- „Bridging items“: arises where same asset/liability is represented in balance sheet and profit or loss using two different measures
- „Mismatched remeasurements“: arises when impact of linked transactions or other events is not yet recognised eg cash flow hedging and foreign exchange translation
- OCI always recycled

Narrow use of OCI



Broad use of OCI



Existing definitions

Asset [of an entity]	Liability [of an entity]
<ul style="list-style-type: none"> a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity 	<ul style="list-style-type: none"> a present obligation of the entity arising from past events the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Proved useful tool for many years, but some problems

Problems with existing definitions and recognition

Risk of confusing:

- the resource or obligation, with
- the inflows or outflows of economic benefits that the resource or obligation may generate
- What does „expected“ mean? How about probability from the recognition criteria?
- More guidance needed?
 - What is a resource?
 - What is an obligation?

Possible revised definition..

Clarify definitions

Asset [of an entity]	Liability [of an entity]
<ul style="list-style-type: none"> A present economic resource controlled by the entity as a result of past events An economic resource = a right, or other source of value, that is capable of producing economic benefits 	<ul style="list-style-type: none"> a present obligation of the entity to transfer an economic resource as a result of past events

Liability vs Equity

- **Existing definition:** the residual interest in the assets of the entity after deducting all its liabilities
- **Problem** : to distinguish liabilities from equity instruments, Standards (IAS 32) use complex criteria that:
 - conflict with the conceptual definitions
 - are difficult to understand and apply
- **Possible approach:**
 - Use conceptual definition of a liability:
 - to show obligation to transfer economic resources
 - Use expanded statement of changes in equity:
 - to show wealth transfers between equity holders

Thank You