Current Events and Developments in Financial Reporting

(The Conceptual Framework – an approach)

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The examinations for both Professional Level Financial Reporting and Strategic Level Advanced Financial Reporting include the potential for the examination of the impact of current issues and developments on the financial statements of an organisation. This is a common feature of most financial accountancy programmes, in both professional and academic institutions, but is a source of concern and discomfort for students and educators preparing for exams. The tension here is very understandable as those preparing for exams want certainty as to the extent of their studies. Professional bodies recognise that real world events can have profound effects on the financial performance of organisations and the practicing accountant needs to have the skills to assess and form an opinion on the impact of those events, on the financial statements, as they emerge.

The Examination Teams are keenly aware that any current issues examined, must have relevance to the current (advanced) financial reporting syllabus or be an issue that can be easily linked to existing financial reporting regulation.

By their nature, these events are not predictable and therefore it is not possible to provide a list of such events in the syllabus. This article aims to provide a framework within which an accountant can consider any new issue and present a reasonably argued opinion. The emphasis here on your opinion is important as there will not necessarily be a 'correct answer' as circumstances and opinions will differ. The approach presented below does not claim to be complete as there are many additional factors that could, and should, be considered and these would earn credit in an exam situation. It is the basis of your argument that is assessed rather than your conclusions.

At the strategic level it is expected that students can critique accounting standards and recognise the limitations of selected standards.

A Suggested Framework

The Financial Reporting Standards focus on three major areas in relation to the financial statements – these are: Recognition (De-recognition)/ Classification, Measurement, and Disclosure. Exploring each of these in turn.

1. Recognition

This topic seeks to answer the question as to whether a monetary adjustment (a journal entry) is necessary to reflect the impact of the event in the financial statements. If the event changes the value of the key **elements,** then, in principle, that change should be recognised subject to the following criteria:

- It is **probable** that the economic benefits will flow to or from the entity; and
- The event's cost or value can be measured **reliably**.

Both of these criteria require the exercise of professional judgement and therefore there is no correct answer (particularly in an exam setting).

2. Measurement

The conceptual framework describes this as the process of 'assigning monetary amounts at which elements of the financial statements are recognised and reported'.

There are a variety of different measurement bases that may be appropriate depending on the specific circumstances of the element being considered. Examples of such bases include:

- Historical Cost
- Current Cost
- Net Realisable Value
- Discounted Present Value
- Fair Value

Individual accounting standards provide guidance as to the appropriate base depending on the specific item being considered. Students should ask themselves which accounting standard most closely matches the item being considered and what the required base is in that situation.

3. Disclosure

In summary, the objective of the financial statements is to provide users with **useful** information to support informed economic decisions. (Consideration of the characteristics of useful information is likely to generate relevant points).

Regardless of whether we have decided to **Recognise** the effect of an event in the financial statements, it may be appropriate to Disclose information in the Notes to the Accounts. While students are not expected to be familiar with all the detailed disclosure requirements of the accounting standards, they should recognise the value of disclosures as a means of communicating with the user. It should also be observed that there is a different approach (bias) in favour of the disclosure of **possible** negative impacts on the key elements while only disclosing **probable** benefits.

Going Concern

Finally, there is an underlying assumption that the entity is a Going Concern, and the financial statements are required to be prepared on that basis unless there is evidence to the contrary.

If the event could potentially threaten the company's ability to continue as a going concern, then an entirely different approach may be needed for the preparation of the accounts, the Break-Up basis. The use of the Break-Up basis would require evidence that the company is, in fact, no longer a going concern. However, where doubt exists over the company's ability to survive then it would be appropriate to disclose this doubt to users.

Conclusion

At the time of writing this article, we have experienced a number of events which could fall within this category. These include the war in Ukraine, the rise of inflation and interest rates, and the collapse of high-profile crypto exchanges.

These are classic examples of 'Current Events' in that they could not have been anticipated at the time of preparing the syllabus and may be of relevance for a relatively short period of time. However, they are having a significant impact on the commercial activities of business and it is important that the Professional Accountant be able to consider their impact on the financial statements.

The approach presented above provides one mechanism for constructing a reasoned argument/opinion on these issues.