Objectives of General Purpose Financial Reporting:

To provide financial information about the reporting entity that is useful to

- existing investors,
- potential investors,
- lenders and
- other creditors

in making decisions relating to providing resources to the entity.

Those decisions involve decisions about:

a. buying, selling or holding equity and debt instruments;

b. providing or settling loans and other forms of credit; or

c. exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

Consider the flow of action given below:

- Financial information about the economic resources of the entity, claims against the entity and changes in those resources and claims
- Assessment of the amount, timing and uncertainty of future net cash inflows to the entity
- Expectation of returns i.e. dividends, principal and interest repayments, market price increases, etc.
- Decisions of investors, lenders and other creditors

Economic resources and claims

Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to:

a. assess the reporting entity's:
    - liquidity and solvency,
    - its needs for additional financing and
    - how successful it is likely to be in obtaining that financing

b. assess management's stewardship of the entity's economic resources

c. predict how future cash flows will be distributed among those with a claim against the reporting entity

Changes in economic resources and claims

Changes in a reporting entity's economic resources and claims result from:

- that entity's financial performance and
- other events or transactions such as issuing debt or equity instruments

To properly assess both the prospects for future net cash inflows to the reporting entity and management's stewardship of the entity's economic resources, users need to be able to identify those two types of changes.

If financial information is to be useful, it must be:

- Relevant and
- Faithful Representation.

The usefulness of financial information is enhanced if it is:

- Comparable,
- Verifiable,
- Timely and
- Understandable.

Relevant Financial Information:

- Financial information with (a) predictive value or (b) confirmatory value or both
- Makes it capable of making a difference in decisions made by users

The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value.

Faithful representation:

To be a perfectly faithful representation, a depiction would have following three characteristics:

- Complete
- Neutral
- Free from Errors

Scope of Financial Statements

The objective of financial statements is to provide financial information about the Reporting Entity's:

- assets, liabilities and equity; and
- income and expenses

that is useful to users of financial statements in assessing:

- the prospects for future net cash inflows to the reporting entity, and
- management's stewardship of the entity's economic resources.

Such financial information is provided in:

a. The balance sheet, by recognising assets, liabilities and equity;
b. The statement of profit and loss, by recognising income and expenses; and
c. Other statements and notes, by presenting and disclosing information about:
    - recognised assets, liabilities, equity, income and expenses, including information about their nature and about the risks arising from those recognised assets and liabilities;
    - assets and liabilities that have not been recognised, including information about their nature and about the risks arising from them;
    - cash flows;
    - contributions from holders of equity claims and distributions to them; and
    - the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

Reporting Period:

Financial statements are prepared for a specified period of time (reporting period) and to help users of financial statements to identify and assess changes and trends; financial statements also provide comparative information for at least one preceding reporting period.

Information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if it:

a. relates to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and
b. is useful to users of financial statements.

Financial statements include information about transactions and other events that have occurred after the end of the reporting period if providing that information is necessary to meet the objective of financial statements.

Going concern assumption:

Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.

<u>The Reporting Entity:</u>

A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

Sometimes one entity (parent) has control over another entity (subsidiary). If a reporting entity comprises both the parent and its subsidiaries, the reporting entity's financial statements are referred to as '***<u>Consolidated Financial Statements</u>***'.

If a reporting entity is the parent alone, the reporting entity's financial statements are referred to as ***'<u>Unconsolidated Financial Statements</u>'.***

If a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, the reporting entity's financial statements are referred to as '***<u>Combined Financial Statements</u>***'.

General Purpose Financial Reports provide the information about:

- ***Financial position*** i.e. economic resources of the entity and claims against the entity; and
- ***Effects of transactions and other events*** that change entity's economic resources and claims.

Information provided by general purpose financial reports	**Element of financial statements**	**Definition or description**
Economic Resources	***Asset***	***A present economic resource controlled by the entity as a result of past events.*** ***An economic resource is a right that has the potential to produce economic benefits.***
Claim	***Liability***	***A present obligation of the entity to transfer an economic resource as a result of past events.***
	Equity	***The residual interest in the assets of the entity after deducting all its liabilities.***
Changes in economic resources and claims, reflecting financial performance	***Income***	***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	***Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.***
Other changes in economic resources and claims	-	Contributions from holders of equity claims, and distributions to them.
	-	Exchanges of assets or liabilities that do not result in increases or decreases in equity.

Potential to produce Economic Benefits:

Role of Probability:
For the potential to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity, economic benefits beyond those available to all other parties.

A right can meet the definition of an economic resource, and hence can be an asset, even if the probability that it will produce economic benefits is low.

Role of timing:
Although an economic resource derives its value from its present potential to produce future economic benefits, the economic resource is the present right that contains that potential, not the future economic benefits that the right may produce.

Role of Expenditure:
There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that the entity has sought future economic benefits but does not provide conclusive proof that the entity has obtained an asset.

Control:
Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts.

An entity controls an economic resource if:

a. It has the present ability to direct the use of the economic resource and
b. Obtain the economic benefits that may flow from it.

Definition of a Liability
For a liability to exist, three criteria must all be satisfied:

- Entity has "Present Obligation"
- Obligation is to transfer "Economic Resources"
- Present obligation as a "Result of Past Events"

Present obligation as a result of past events:
A present obligation exists as a result of past events only if:

a. The entity has already obtained economic benefits or taken an action; ***and***

b. As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

Executory Contracts:
An executory contract is a contract, or a portion of a contract, that is equally unperformed — neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

Definition of Equity
Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability.

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

Definition of Expenses
Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Recognition:

The Recognition Process

- Recognition is the process of capturing for inclusion
- in the balance sheet or the statement of profit and loss
- an item that meets the definition of one of the elements of financial statements
- an asset, a liability, equity, income or expenses.

The amount at which an asset, a liability or equity is recognised in the balance sheet is referred to as its 'carrying amount'.

Recognition links the elements, the balance sheet and the statement of profit and loss as follows:

Opening Balance Sheet		Assets (–) Liabilities = Equity
Statement of P & L	Add:	Income (–) Expenses
Other changes in Equity	Add:	Contributions from holders of equity claims minus distributions to holders of equity claims
Closing Balance Sheet		Assets (–) Liabilities = Equity

Recognition Criteria

Only items that meet the definition of an asset, a liability or equity are recognised in the balance sheet. Similarly, only items that meet the definition of income or expenses are recognised in the statement of profit and loss.

However, recognition of a particular asset or liability and any resulting income, expenses or changes in equity may not always provide relevant information.

That may be the case if, for example:

a. it is uncertain whether an asset or liability exists; or
b. an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low

Following factors should be considered:

- Existence uncertainty
- Low probability of an inflow or outflow of economic benefits
- Measurement uncertainty

Hence, when assessing whether the recognition of an asset or liability, it is necessary to consider not merely its description and measurement in the balance sheet, but also:

- The depiction of resulting income, expenses and changes in equity.
- Whether related assets and liabilities are recognised.
- Presentation and disclosure of information about the asset or liability, and resulting income, expenses or changes in equity.

Derecognition:
Derecognition is the removal of all or part of a recognised asset or liability from an entity's balance sheet. Derecognition normally occurs when that item no longer meets the definition of an asset or of a liability:

Element of financial statements	When does derecognition normally occur?
Asset	When the entity loses control of all or part of the recognised asset.
Liability	When the entity no longer has a present obligation for all or part of the recognised liability.

The accounting requirements for derecognition are as below:

a. derecognise any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred (referred to as 'transferred component'), and recognise any resulting income and expenses.

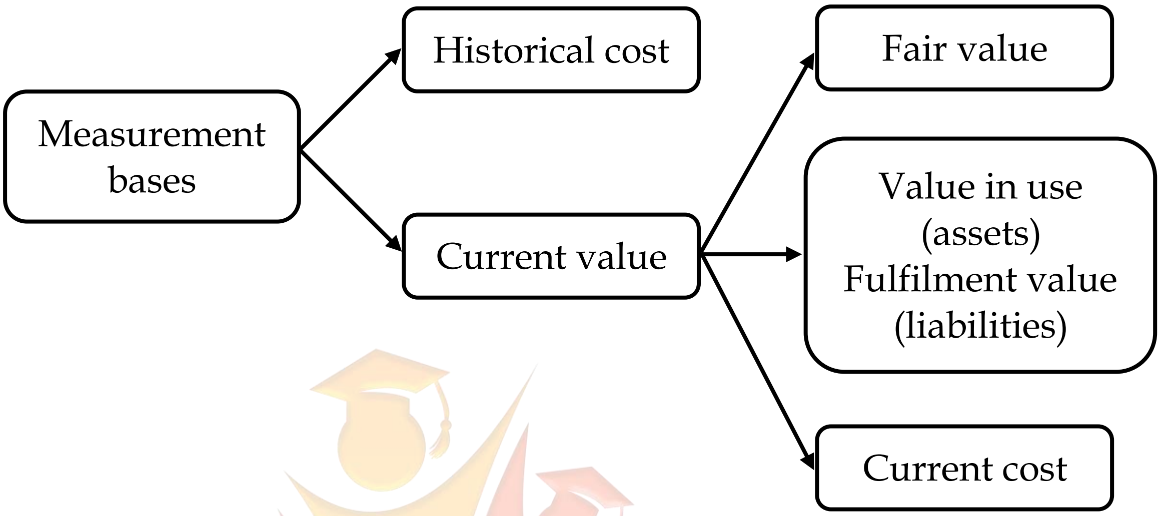
b. continue to recognise the assets or liabilities retained, referred to as the 'retained component', if any.

c. applying following presentation and disclosure requirements:

- presenting any retained component separately in the balance sheet
- presenting separately in the statement of profit and loss any income and expenses recognised as a result of the derecognition of the transferred component
- providing explanatory information.

Measurement:

Measurement Bases of an Asset or a Liability



Comparison between the Historical Cost and Current Value Measurement bases:

Factor	Historical cost	Current value
Monetary information about assets, liabilities and related income and expenses	Derived, at least in part, from the price of the transaction or other event that gave rise to them	Using information updated to reflect conditions at the measurement date
Changes in values	Not reflected except to the extent that those changes relate to impairment of an asset or a liability becoming onerous	Reflect changes, since the previous measurement date, in estimates of cash flows and other factors reflected in those current values

Historical cost:

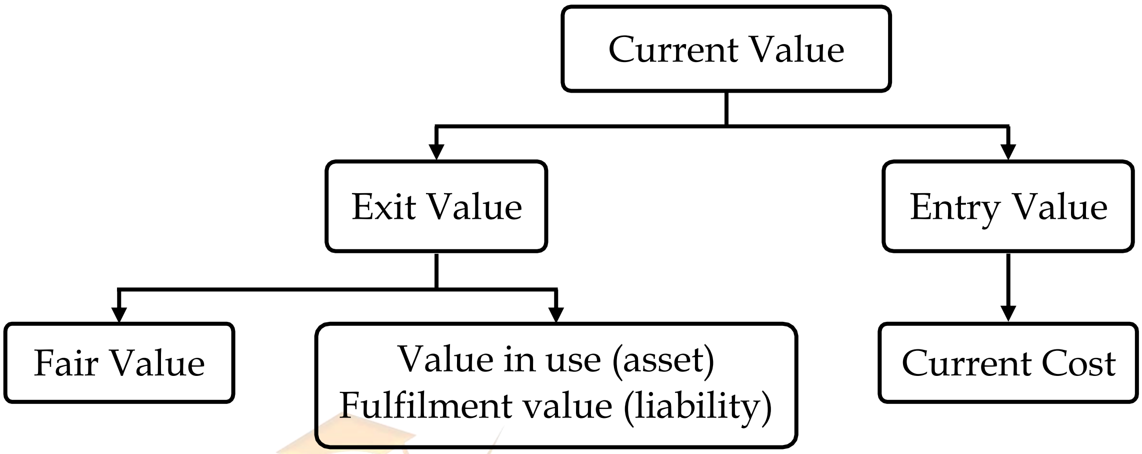
Particulars	Assets	Liabilities
Components	Consideration paid (+) transaction costs	Consideration received (-) transaction costs
Changes	consumption of part or all of the economic resource that constitutes the asset (depreciation or amortisation)	
	payments received that extinguish part or all of the asset	fulfilment of the liability, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods
	effect of events that cause the historical cost of the asset to be no longer recoverable (impairment)	effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability
	accrual of interest to reflect any financing component	accrual of interest to reflect any financing component

Current value:

A current value (Fair Value) of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost.

The amortised cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes.

Current value:



Exit value –
Fair value and Value in use / Fulfilment value

Particulars	Fair value	Value in use / Fulfilment value
Definition	Price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date	***Value in use – For Assets.*** ***Fulfilment Value – For liabilities.***
Value from whose perspective?	Reflects the perspective of market participants.	Reflect entity-specific assumptions rather than assumptions by market participants
How determined?	Directly by observing prices in an active market or using measurement techniques.	Cannot be observed directly and are determined using cash-flow based measurement techniques
Transaction costs considered in measurement?	Neither those costs incurred on initial recognition, nor those costs to be incurred on disposal of asset or settlement of liability are considered.	Those costs incurred on initial recognition are not considered, but the present value of those costs to be incurred on disposal of asset or settlement of liability are considered.

Value in use:
Present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal.

Fulfilment Value:
Present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.

Entry value – Current cost

Comparison between the Historical Cost and Current Cost:

Particulars	Historical cost	Current cost
Value determined on	Date of acquisition of asset or incurrence of liability	Each measurement date
Components	**Assets:** Consideration paid (+) transaction costs **Liabilities:** Consideration received (-) transaction costs	**Assets:** Consideration that would be paid (+) transaction costs that would be incurred **Liabilities:** Consideration that would be received (-) transaction costs that would be incurred

Measurement of Equity
It equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

What 'equity' in the financial statements does not represent?
The general purpose financial statements are not designed to show an entity's value.

Hence, the total carrying amount of equity will not generally equal:
a. the aggregate market value of equity claims on the entity;
b. the amount that could be raised by selling the entity as a whole on a going concern basis; or
c. the amount that could be raised by selling all of the entity's assets and settling all of its liabilities.

Presentation and Disclosure:

A reporting entity communicates information about its assets, liabilities, equity, income and expenses by presenting and disclosing information in its financial statements.

Classification:

Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include — but are not limited to the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

Classification of Assets and Liabilities:

Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics and to classify those components separately. That would be appropriate when classifying those components separately would enhance the usefulness of the resulting financial information.

Offsetting:

Offsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the balance sheet.

Classification of Equity:

To provide useful information, it may be necessary to classify equity claims separately if those equity claims have different characteristics.

Similarly, to provide useful information, it may be necessary to classify components of equity separately if some of those components are subject to particular legal, regulatory or other requirements.

Classification of Income and Expenses:

Classification is applied to:

a. income and expenses resulting from the unit of account selected for an asset or liability; or

b. components of such income and expenses if those components have different characteristics and are identified separately (e.g. Accrued Interest). It would be appropriate to classify those components separately if doing so would enhance the usefulness of the resulting financial information.

Profit or Loss and Other Comprehensive Income:

Income and expenses are classified and included either:

a. in the profit or loss section of statement of profit and loss; or

b. outside the profit or loss section of statement of profit and loss, in other comprehensive income.

Aggregation:

Aggregation is adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.

Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.