Achievable

ACCA FINANCIAL ACCOUNTING DUMP SHEET

# Regulatory framework and accounting concepts

## IFRS Foundation structure

| Body | Role |
|---|---|
| **IFRS Foundation** (Board of Trustees) | Oversight body: appoints the IASB, ISSB and IFRIC; secures funding |
| **IASB** (International Accounting Standards Board) | Issues IFRS Accounting Standards; in 2001 adopted the IASs issued by its predecessor, the IASC |
| **ISSB** (International Sustainability Standards Board) | Issues sustainability standards: IFRS S1 and IFRS S2 |
| **IFRS Advisory Council** | Provides strategic advice to the Foundation, IASB and ISSB |
| **IFRS Interpretations Committee** (IFRIC) | Develops interpretations; addresses issues not covered by standards |

## Fundamental characteristics

*Must* be present for information to be useful

| Characteristic | Meaning |
|---|---|
| **Relevance** | Makes a difference in decisions; has predictive and/or confirmatory value |
| **Materiality** (an aspect of relevance) | Omission or misstatement could influence decisions; often 5% of profit before tax |
| **Faithful representation** | Complete, neutral, free from error |

## Enhancing characteristics

*Improve* the usefulness of information

| Characteristic | Meaning |
|---|---|
| **Comparability** | Enables intra (year-on-year) and inter (between entities) comparisons |
| **Timeliness** | Available in time to influence decisions |
| **Verifiability** | Knowledgeable, independent observers could reach the same consensus |
| **Understandability** | Clear and concise presentation; users are assumed to have reasonable knowledge |

## Key accounting principles & concepts

| Concept | Meaning & application |
|---|---|
| **Going concern** | The business will continue indefinitely; assets at historical cost, not break-up value |
| **Accrual basis** | Income when earned, expenses when incurred (not when cash is received or paid) |
| **Matching** | Expenses matched against the revenue they helped generate, in the same period |
| **Prudence** | Recognise losses when probable; do **not** anticipate profits until realised |
| **Duality** | Every transaction has two equal and opposite effects (debit and credit) |
| **Business entity** | The business is separate from its owners; exclude personal transactions |
| **Consistency** | Same methods applied period to period; change only if required by IFRS or the change improves relevance |
| **Substance over form** | Record economic reality, not just legal form |
| **Historical cost** | Record at the original cost paid |
| **Offsetting** | Assets and liabilities, and income and expenses, are **not** netted off unless required by IFRS |