PRIMEWAYS FINANCIAL COMPANY

TO: Workers in the Finance and Accounting Department

CC: Esteemed clients

FROM:

DATE:

SUBJECT: IFRS PROPOSED CHANGES IN THE DEFINITION OF AN ASSET AND ITS IMPACT TO PREPARATION OF FINANCIAL STATEMENTS

To Colleagues

Definition of an Asset and the Proposed Changes

An asset can be defined as an economic resource; that is it can produce some certain economic benefits, and the entity has control over due to the consequences of past events (IASB Framework 40). The right indicated is usually obtained through legislation means where the body is often bound by the legal obligations with regards to the item in question. It may also be achieved if an individual owns the property thus giving him the authority to make any changes with regards to the ownership of the item in question. Owning the property also gives a person the obligation to have the possession of the intellectual rights and at the same time gets to enjoy the benefits that accompany the transactions that the resource is taken through.

IFRS has proposed the change of the definition to include the aspects through which an entity can have a right through which they get to receive economic benefits from itself and thus equity instruments do not fall into that category (IASB Framework 41). Through this, it helps in the clarification of the fact that the entities contain with regards to the maintenance of separate assets. However, in most cases, the rights that are accounted for in the determination of the legal ownership of an object are a clear indication of the singularity of the item.

The object in question should also contain the potential to deliver economic benefits through any means possible. Through this, the owners of the products get the opportunity to exercise the necessary control that is associated with the economic benefits that are derived.

Objections to the Preparers of the Financial Statements

According to the draft, the definition of an asset incorporates the removal of the term ‘expected’ and replaces it with ‘potential to produce.' It also includes the definition of an economic resource containing the various rights as opposed to the general terms of the earlier definition (Elements of Financial Statements 3). The main reason for making the changes is the provision of clarity between the different outlines that are issued. The rights and obligations in question have no significant influence on the cash flows and thus no influence in the recognition process in the preparation of the financial statements (Elements of Financial Statements 4).

The recognition process includes the evaluation of the objects that can be contained in the definition and classifying them into different categories with the primary objective of determining the monetary value. The recognition, therefore, helps the preparers of the financial statements to make the various structures with regards to the inclusion of the total amounts that are to be included as well as the determination of the ones that don’t fit in the category.

The recognition process is significant since it is responsible for the reconciliation of the statements of financial position and performance. The categorization o the assets in the balance sheet is recognized by minoring the liabilities so as to obtain the amount of the total equity. In the statements of changes in equity, the incomes realized are used to less the expenses that are incurred in the process. The holders of equity claims make the distribution of the asset to receive the appropriate classification (IASB Framework 50). The preparers of the financial statements should, therefore, have the ability to make the different changes with regards to the variations obtained in the recognition process.

Definition of elements (Comment letter)

CPA Australia has no objections with regards to the proposed changes with regards to the changes in the definition of an asset. Therefore the conceptual framework includes the precise definitions to help the individuals to make the necessary adjustments. However, there are some particular areas that they proposed to include some further developments as a way of ensuring the issues of practicability have been put in the right perspective (CPA Australia 4).

The main reason for the agreement is because the definition is helping in the provision of a clear and precise outline of the items that can be classified in this category. In the preparation of the financial statements, it becomes much easier to determine the different categories through which the contents are placed. According to CPA Australia\a, the recommended changes should be made with immediate effect since they will be crucial in the speeding up of the financial determination process (CPA Australia 4).

The conceptual framework outlines that the recognition of the assets to undergo various stages before the items can be said to fit in one area or the other. The evaluation of the property as being a separate economic resource incorporates the main issues that will be substantial in the speeding up of the preparation of the financial statements. Therefore, according to the Institute, IFRS should make the changes with an immediate effect so as to help in the speeding up of the different activities in the financial sector.

Memo to the Client

Preparation and presentation of the financial statement rely on the provision of the various guidelines and regulations from the necessary bodies that facilitate the accounting practice. Therefore, the changes that are proposed by the IFRS are solely for the benefit of the users of the financial information to help in guiding them in making the appropriate decisions (IASB Framework 50). Through this, the clients are entitled to receive a better outline of the effects that the information has on the aspects of the decisions that they make with regards to the changes that are to be affected.

The definition of assets changes incorporates the changes of the term expected to potential to produce economic benefits. According to the exposure draft, the changes would mean that the various items that require fitting in this category should have the ability to have a providing effect of arriving at economic benefits (IASB Framework 40). The definition also suggests that an economic resource should also be defined as a right so that there is a precise evaluation of the items that are put in this category and the effect that they may contain with regards to the preparation. The recognition process, on the other hand, incorporates the realization of the assets first so that it becomes much easier to determine. According to the IFRS, the change helps in making an apparent variation between the items that qualify in meeting the criteria that incorporate the assets. Therefore, the proposed changes are a way of ensuring that the evaluation and determination of the property are undertaken through the use of the appropriate measures.

The proposed changes are likely to lead to some significant variations in the items that are recorded as assets. The ‘expected’ and ‘potential to’ aspects have a significant influence on the different ways through which the people will prepare the financial statements. Therefore, if the changes are conducted, it will be crucial to making sure that the preparers of the financial statements take note so as to ensure that the variations are evident. The exposed draft on the conceptual framework has given an outline of the recognition criteria that gives light to the determination of the various items that fit in the described category. The changes in the definition, therefore, are significant and will lead to fundamental shifts in the recognition process.

The IFRS indicated that the definition of the assets was resulting in some particular unnecessary misconceptions thus recognition items that were not fit to be regarded as assets. It is of utmost concern that the changes should be effected so that the preparation of statements can be effective. The proposed alterations in the definitions are the primary source of concern and us as Primeways Financial Company are always happy to help our clients whenever necessary. Therefore, if you have any concerns about the impact that the changes will have on the recognition and preparation of the financial statements, our offices are always open, and we are happy to serve our customers.

References

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