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Subject: Advanced Accounting Theory
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Answers for the Questions for respondents in Exposure Draft 2005/1

This letter was made from the students and the professor, Doctor Jorge Katsumi Niyama, from Brasília's University - Brazil - doctorate program in accounting
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Chapter 1 and 2 – Chapters 1 and 2 – The objective of general purpose financial reporting and the qualitative characteristics of useful financial information

Question 1A: We agree with the IASB proposal regarding the question 1A. It is important to emphasize that the general purpose of Financial Reporting must be provide useful information for users to assess how efficient and effective management has used the organization's resources.

Question 1B: Few changes/additions are proposed for this section. We highlight the inclusion of subsection 2.18, which deals with the "prudence" in the section Faithful Representation, transcribed above:

2.18 - Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the overstatement of assets and income or the understatement of liabilities and expenses, because such mis-statements can lead to the overstatement of income or the understatement of expenses in future periods.

As widely discussed, even argued in the Basis for Conclusion, the term "prudence" was removed from the conceptual framework on the grounds that confront with neutrality. The arguments were convincing and resulted in the exclusion of the term from the conceptual framework.

Thus, we favor the inclusion of prudence in the Conceptual Framework, as evidenced in the Exposure Draft, but it is necessary to emphasize the new concept of prudence in the sense of caution, to avoid misinterpretations by the agents.

Question 1C: We agree with the IASB proposal.

Question 1D: We agree with the IASB proposal.

Question 1E: We agree with the IASB proposal.

Chapter 3 – Financial statements and the reporting entity

Question 2A: We agree with the definition of the purpose of the proposed financial statements in Section 3.4, as will clarify to users that the financial statements must be prepared in connection with the entity perspective, and, besides that, in addition to provide information to evaluate the possible cash flows. It is important to provide information about how efficient and effective management uses the entity's resources.

We agree with the reporting entity definition proposed in paragraphs 3.11 and 3.12. A reporting entity is not only that which is required to prepare financial statements, but also one that has users who need information. This fact is consistent with the objective of financial reporting, since, is intended to provide useful information to users in decision making. Thus, as there are users for financial statements (since there is interested in the information), the entity may prepare financial statements that provide such information.
**Question 2B:** We disagree with the proposed items from 3.13 to 3.25. The limits proposed by the IASB are very large and adds little in terms of guidance to users. In our view there is no need for such limits to be listed in the Conceptual Framework as it may confuse more than clarify a specific issue. In addition, we understand that the countries that joined the IFRS have detailed rules with regard to the financial statements should or should not be consolidated, such as: IAS 28 - Investments in Associates; IFRS 11 - Joint Arrangements; IFRS 10 - Consolidated Financial Statements.

Additionally we agree with the inclusion of the concepts of direct and indirect control settings.

**Chapter 4 – The elements of financial statements**

**Question 3:** We agree with the proposed definitions. Indeed, we understand that the definition of an asset - as present economic resource - satisfies the predictive value premise of accounting information, ie, for their ability to generate net cash inflows (production of economic benefits). It makes no sense the use of information that is not - present - to empirically support this hope (cash flows). However, it is interesting to note that these transactions must be judged in a timely manner, ie, the past tense should not affect the timeliness of information. Past events not necessarily concern for days, months, etc., the past event can also be associated for minutes, hours, etc. The ability to produce economic benefits is not a necessary condition for the recognition of an asset or liability, but a prudent and rational exercise of judgment/assessment essential to do so. The various sub-elements of an asset or liability have potential to generate higher (or smaller) cash additions or decreases, and this conjecture will also be associated with the mode of how management will conduct the economic resources under their responsibility.

**Question 4:** We agree with the IASB proposal. An obligation should include both legal obligations, as constructive obligations, as had already been proposed in the Discussion Paper.

**Question 5:** We agree with the guidelines proposed by the IASB, as they account for the changes occurring in the definition and not in the concept. The guidelines enable users to make distinction between the economic benefits and economic benefits generated by economic resource.

**Chapter 5 – Recognition and derecognition**

**Question 6:** We agree with the proposed new approach to recognition because it is consistent with the qualitative characteristics of financial information and also consistent with the new proposed definitions of assets and liabilities.

The definitions in items 5.4, 5.5 and 5.6 regarding the link between the statement of financial position and statement of financial performance demonstrate very basic features of accounting that perhaps could be removed from the document.

In the item 5.11 " It is important to consider how to make such disclosures sufficiently visible to compensate for the absence of the item from the summary provided (…)", the expression "to compensate" may not be the most appropriate for the idea in question, because it gives the impression that the notes are to make items that are
not disclosed in the statement of financial position or statement of financial performance. Our proposal is that the text is replaced as follows: "It is important to consider how to make such disclosures sufficiently visible to that the information may be available for the users ".

**Question 7:** We agree with the proposed discussion for derecognition, as it makes clear the time when an asset or liability must be derecognised.

**Chapter 6 – Measurement**

**Question 8:** We agree with the measurement bases described in the conceptual framework, as the IASB clearly and correctly describes the bases, making clear its advantages and disadvantages. It is explicit the use of a mixed basis of measurement, in which the IASB does not show the better or worse, demonstrating that the basis chosen must meet the usefulness of the information. Thus, it is consistent with the objective of general purpose financial statements.

**Question 9:** Yes, we agree. IASB has correctly identified from the moment it takes into account the usefulness and quality of accounting information.

**Question 10:** These paragraphs discuss situations where more than one measurement basis is required to provide relevant information for assets, liabilities, income and expenses. We agree since evidenced information is useful, and to achieve this purpose it is necessary to use more than one measurement basis. The proposal of the IASB is consistent.

**Chapter 7 – Presentation and disclosure**

**Question 11:** We broadly agree with the IASB proposal with regard to the items proposed in paragraphs 7.2 to 7.7 and 7.8 to 7.18, except for item 7.6:

> Information about transactions or events that have occurred after the end of the reporting period is included in the financial statements if such information is necessary to meet the objective of financial statements.

We suggest the inclusion of the sentence: "... as long as the triggering event has been derived in the period prior to the balance sheet."

**Question 12:** We agree with the descriptions proposed for the statement of profit or loss (paragraphs 7.19 to 7.27)

We believe that paragraph 7.22 should not be inserted into the document, because it does not bring any new and relevant information.

We believe that the items 7.23 (letters "a" and "b") and 7.24 ("a" and "b") could be removed and treated in a specific standard, rather than remain in the conceptual framework, as could confuse users of accounting.

We suggest changing the wording of paragraphs as follows:

**Original text:** "7.23 Because the statement of profit or loss is the primary source of information about an entity’s financial performance for the period, there is a presumption that all income and all expenses
will be included in the statement of profit or loss. That presumption cannot be rebutted for:
(a) income or expenses related to assets and liabilities measured at historical cost; and
(b) components of income or expenses related to assets and liabilities measured at current values if the components are separately identified and are of the type that would arise if the related assets and liabilities were measured at historical cost. For example, if an interest-bearing asset is measured at a current value and if interest income is identified as one component of the change in the carrying amount of the asset, that interest income would need to be included in the statement of profit or loss.

7.24 The presumption that all income and all expenses will be included in the statement of profit or loss can only be rebutted if:
(a) the income or expenses (or components of them) relate to assets or liabilities measured at current values and are not of the type described in paragraph 7.23(b); and
(b) excluding those income or expenses (or components of them) from the statement of profit or loss would enhance the relevance of the information in that statement for the period.
When this is the case, those income or expenses (or components of them) are included in other comprehensive income.”

Proposed text for items 7.23 and 7.24: “7.23 Because the statement of profit or loss is the primary source of information about an entity’s financial performance for the period, there is a presumption that all income and all expenses will be included in the statement of profit or loss. That presumption cannot be rebutted for:
(a) income or expenses related to assets and liabilities measured at historical cost; and
(b) components of income or expenses related to assets and liabilities measured at current values if the components are separately identified and are of the type that would arise if the related assets and liabilities were measured at historical cost. For example, if an interest-bearing asset is measured at a current value and if interest income is identified as one component of the change in the carrying amount of the asset, that interest income would need to be included in the statement of profit or loss.

7.24 The presumption that all income and all expenses will be included in the statement of profit or loss can only be rebutted if:
(a) the income or expenses (or components of them) relate to assets or liabilities measured at current values and are not of the type described in paragraph 7.23(b); and
(b) excluding those income or expenses (or components of them) from the statement of profit or loss would enhance the relevance of the information in that statement for the period.
When this is the case, those income or expenses (or components of them) are included in other comprehensive income.”

Question 13: We believe that should prevail only paragraph 7.23, with the changes proposed in the answer to question 12. Paragraph 7.24 should be addressed in a specific standard to be developed on "other comprehensive income", as it is a very specific issue to be treated in a conceptual framework.

Question 14: We believe that this "rebuttable presumption", dealt in paragraph 7.27, should be treated in specific standard to be developed about "other comprehensive
income”, as it is a very specific issue to be treated in a conceptual framework. Thus, we suggest removing paragraph 7.27.

Chapter 8 – Concepts of capital and capital maintenance

There were no questions proposed for the chapter 8 “Concepts of capital and capital maintenance”. However, paragraphs 8.3 to 8.8, dealing with “Concepts of capital maintenance and the determination of profit”, from our point of view, are basic and should not be inserted in the document because it does not bring any new and relevant information.

Other questions for respondents

Question 15: We agree with the proposed changes and that some differences are inevitable. However, these differences must be minimized by aligning the existing rules to the concepts listed in the Conceptual Framework.

Question 16: We agree with the IASB proposal with respect to items BCIN.28-BCIN.34 from the Basis for Conclusions Exposure Draft ED/2015/3, since the matter is relevant, but there is no need to include it in the Conceptual Framework. Thus, we understand the need to be treated in a separately standard.

Question 17: We agree that the proposal in the ED meets the needs of both short-term investors as well as long-term investors and, therefore, there is no need for additional changes.

Other comments

Question 18: We have no additional comments beyond those already discussed in previous issues.