Brief Discussion Aiming at the Current International Accounting Issues

Haoran Wen[1, a, *], Xiaoyu Li[2, b]

[1]School of Accounting (MPAcc Education Center), Shanxi University of Finance and Economics, Taiyuan 030006, China

[2]School of economics, Shanxi University of Finance and Economics, Taiyuan 030006, China

[a]18834189032@163.com, [b]1458779899@qq.com

*Corresponding author

Keywords: current issue, accounting policy change, financial instruments

Abstract: This paper will give a brief discussion aiming at the current international accounting issues. As we know, IAS 8 and IAS 32 are two vital standards of the International Accounting Standards, play a significant role in the instructing accounting policy changes and financial instruments. In recent year, aiming at these two standards, IASB is taking more detailed considerations to make these standards better from some views.

1. Accounting policy changes

These changes are related to the IAS8 and it's belong to the amendments to IAS8. in recent years, aiming at the IAS8, the International Standards Board was formed that the requirement is IAS8 Accounting Polices,Changes in Accounting Estimates and Errors to apply changes in accounting policy retrospectively (it means a new accounting policy to transactions,other events and conditions as if the policy had always been applied), subject to impracticability (when a company cannot apply it after making every reasonable effort to do so), may reduce the usefulness of Agenda Decisions(An Agenda Decision is a decision published by the IFRS interpretations Committee explaining its rationale for not adding a particular matter to its standard-setting agenda). Accordingly, the Board is proposing a narrow-scope amendment to simplify the application of accounting policy changes that result from Agenda Decisions.

Voluntary changes in accounting policy are applied retrospectively, with restatement of comparative information. However relief is available if retrospective application is impracticable as defined by IAS8. When this is the case, a company applies the new policy from the earliest data practicable.

The proposed amendment does not change this approach in IAS8 of applying an accounting policy change. Instead, it proposes an alternative threshold to the impracticable threshold for assessing how to apply an accounting policy change resulting from an Agenda Decision. The proposed threshold is based on an assessment of the expected benefits to users and the cost to a company. Importantly, the proposed threshold is not a "free pass" to prospective application; it is designed to achieve a balance of cost and benefits on initial application of accounting policy changes resulting from Agenda Decisions.

When applying the proposed cost/benefit threshold to an accounting policy change resulting from an Agenda Decision, a company is required to consider:

- The additional cost it would reasonably expect to incur and the additional effort it would reasonably expect to make to determine the effect of the change
- How the absence of information that retrospective application would provide could affect decisions that users of financial statements make based on the company's financial statements.

The graph below illustrates the different application methods. Users of financial statements are generally expected to benefit more as the application method moves from prospective to retrospective application with restatement. The cost and effort involved are also expected to increase

as the application method moves from prospective to retrospective application with restatement.

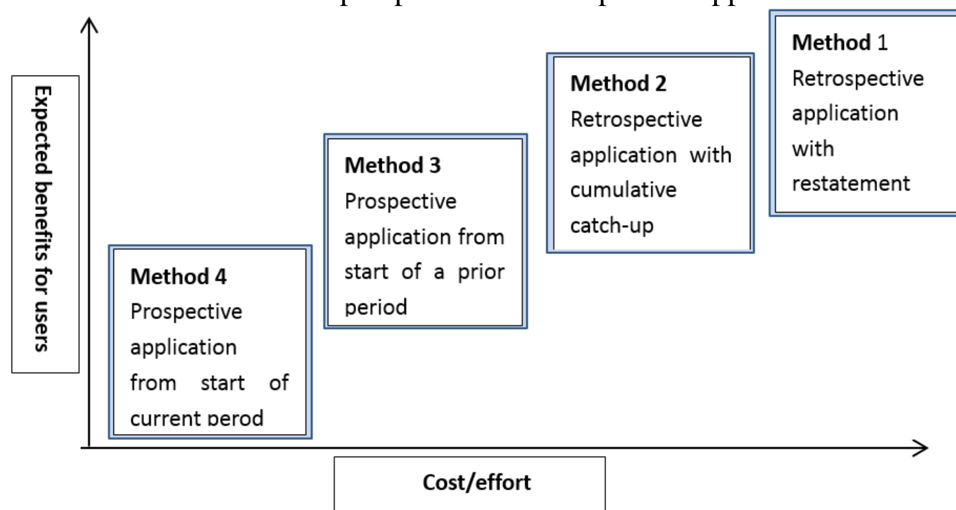

Fig.1 Method basis diagram

The Exposure Draft provides guidance on how a company assesses whether the expected benefits to users of financial statements exceed the cost to the company of determining the effects of the accounting policy change. To make this assessment, a company is required to apply judgement and consider all relevant facts and circumstances. The proposed threshold is not limited to simply assessing cost because doing so in isolation would fail to reflect the important of user needs.

The following table will explain when to use the four methods and give the explicit examples.

Table 1 Specific illustration

Application Method	The method would apply when...	Implications for company A in its 2020 annual financial statements
Method 1 Retrospective application with restatement	The expected benefit of restating all period's presented-as if the new policy had always been applied-exceed the cost of doing so.	①Company A applies the new policy for both 2019 and 2020. ②A cumulative catch-up adjustment is made at 1 January 2019, representing the cumulative effect of retrospective application before that date.
Method 2 Retrospective application with cumulative catch-up	The expected benefits of applying the new policy at the start of the current period-as if the start of the new policy had always been applied-exceed the cost of doing so (and the cost exceeds the expected benefits for Method1)	①Company A applies the new policy for 2020 ②A cumulative catch-up adjustment is made at 1 January 2020, representing the cumulative effect of retrospective application before that date.
Method 3 Prospective application from start of a prior period	The expected benefits of applying the new policy to new transactions, events or conditions from the start of a prior period exceed the cost of doing so (and the cost exceeds the expected benefits for Method 1 and 2)	①Company A applies the new policy to new transactions, event or conditions occurring after 1 January 2019 (the earliest date on which the expected benefits exceed the cost) ②No adjustment is made for transactions, event or conditions that occurred before that date.
Method 4 Prospective application from start of current period	The expected benefits of applying the new policy to new transactions, events or conditions from the start of the current period exceed the cost of doing so (and the cost exceeds the expected benefits for Methods1,2 and 3	①Company A applies the new policy only to new transactions, events or conditions occurring after 1 January 2020. ②No adjustment is made for transactions, event or conditions that occurred before that date

2. Financial Instrument with Characteristics of Equity

Another new trend about international accounting standard is aiming at the Financial Instrument. Issuing Financial Instrument is in the specification by the IAS 32 previously. However, in the recent years, about whether issuing Financial Instrument belongs to debt or equity seems to cause a hot

discussion.

The objective of this project is to improve the information that companies provided in their financial statements about financial instruments they have issued. There are some ways to achieve this goal: ①investing challenges with the classification of financial instruments applying IAS 32 Financial Instruments: Presentation. ②considering how to address those challenges through clearer principles for classification and enhanced requirements for presentation and disclosure.

IAS 32 works well for most financial instrument but presents challenges for some complex financial instruments. In addition, the basic for classification is not always clearly explained in IAS 32. The challenges in classifying these instruments can result in accounting diversity in practice. Such diversity, in turn, makes it difficult for investors to assess how these financial instruments affect issuers' financial position and performance. (For example, if a company classify its complex financial instruments into equity, therefore, the gearing ratio will look well) In addition, investors have been calling for more information about equity instrument.

The IASB observed that many of the challenges in the application of IAS 32 arise because it does not always provide a clear rationale for its requirements and the distinction provided by classifying financial instruments as financial liabilities or equity instruments can provide only a limited amount of the information about the instruments. To respond to the challenges identified, the Board has developed an approach that would articulate principles with a clear rationale for classifying financial instruments as financial liabilities or equity instruments; improve the consistency, completeness and clarity of the classification requirements, in particular, for financial instruments that present accounting challenges in practice and improve the information provided through presentation and disclosure about features of financial liabilities and equity instruments not captured by classification alone.

The Board has sought to establish principles that would classify financial instruments by reference to the presence or absence of particular features. To establish those principles, the Board has identified two features that users of financial statements regard as important.

- Timing feather: the issuer can be required to pay cash or to hand over another financial asset before liquidation.
- Amount feather: the issuer has promised a particular return to the holder regardless of the issuer's own performance and share price.

Financial instruments would be classified as equity instruments if they do not contain either of these two feathers. The following graph will explain the specific and detailed approach to classify financial instruments.

Amount feature / **Timing feature**	Obligation for an amount independent of the issuer's available economic resource	No obligation for an amount independent of the issuer's available economic resources.
Obligation to transfer of economic resources required at a specified time other than at liquidation	Liability	Liability
Obligation to transfer of economic resources required only at liquidation	Liability	Equity

[Chart 3] Equity liability basis chart

After classifying the financial instruments correctly, subsequent matter is to make the presentation and disclosure.

Presentation: the Board's preferred approach would enhance information provided through presentation on the face of the financial statements, including: information about 'the amount feather' of financial liabilities that would be provided separately presenting financial liabilities with different types of amount feathers in statements of financial position and financial performance and information about equity instruments that would be provided by attributing total income and expense to equity instruments other than ordinary shares.

Disclosure: investors have requested more information to enable them to understand the effects of financial instruments on an issuer's financial position and performance and to understand the effects of financial instruments on an issuer's financial position and performance and to understand the ranking of different providers of finance. Currently, IFRS Standards require little information, if any, to be provided about such effects and rankings. In addition, investors have told us that enhanced in response to these requests, the Discussion Paper suggests that issuers of financial instruments should be required to disclosure:

- Each class of financial liabilities and equity instruments ranked in order of priority on liquidation.
- Potential dilution of ordinary shares, that is, any actual or potential increase in the number of issued ordinary shares as a result of setting a financial instrument regardless of whether the effect is diluted or anti-diluted.
- Particular contractual terms of financial liabilities and equity instruments, for example, contractual terms that are relevant to understanding the amount and timing features of a financial instrument.

3. Conclusion

Plan, budget and control are three significant elements in the operation of any company, so setting up a good budget is very important towards a company, a good budget can help company to better forecast future event and better evaluate the managers' performance. To attain this target, the company should combine the learning effect theory and use some relevant budget methods to make a good budget and take on the continuous control.

References

[1] International Accounting Standards (IAS) 8

[2] International Accounting Standards (IAS) 32

[3] Junjie Ren, et al. 2015. Research on accounting policy choice behavior of listed companies.

[4] The ministry of finance, et al. 2018. Accounting standard for business enterprise no.22-recognition and measurement of financial instruments.

[5] Guoyong Zhang, et al. 2009. Research on accounting information disclosure of derivative financial instrument.