INTERMEDIAT ACCOUNTING 1&2

Demonstrate an awareness of the substance of and the standard-setting process for international accounting standards;

To demonstrate an awareness of the substance of and the standard-setting process for international accounting standards, you need to understand the following:

- International accounting standards (IAS) are a set of rules for financial statements that were issued by the International Accounting Standards Council (IASC) between 1973 and 2001[1].
- IAS were replaced in 2001 by International Financial Reporting Standards (IFRS), which are issued by the International Accounting Standards Board (IASB), an independent body that succeeded the IASC[12].
- IFRS are a set of principles-based standards that aim to provide high-quality, transparent and comparable information to users of financial statements[2].
- The IASB follows a due process for developing and issuing IFRS, which involves consultation with various stakeholders, such as preparers, auditors, regulators, investors and academics[2].
- The IASB also issues interpretations of IFRS through the IFRS Interpretations Committee (IFRIC), which provides guidance on how to apply IFRS in specific situations[2].
- The IASB cooperates with national and regional standard-setters, such as the Financial Accounting Standards Board (FASB) in the US, to promote convergence and adoption of IFRS globally

Explain the IASB's conceptual framework for financial reporting

The IASB's conceptual framework for financial reporting is a set of concepts and principles that provide the basis for the development and application of IFRS. The framework has the following purposes:

- To assist the IASB in developing and revising IFRS that are based on consistent concepts
- To help preparers to develop consistent accounting policies when there is no specific IFRS or when there is a choice of accounting policy
- To assist auditors in forming an opinion on whether financial statements comply with IFRS

- To help users of financial statements to understand and interpret the information provided
- To provide a reference for resolving accounting issues that are not addressed by a specific IFRS

The framework consists of eight chapters that cover the following topics[23]:

- The objective of general purpose financial reporting, which is to provide useful information to the primary users of financial statements, who are present and potential investors, lenders and other creditors
- The qualitative characteristics of useful financial information, which are relevance, faithful representation, comparability, verifiability, timeliness and understandability
- The financial statements and the reporting entity, which define the scope, perspective and going concern assumption of financial reporting
- The elements of financial statements, which are assets, liabilities, equity, income and expenses
- The recognition and derecognition of elements of financial statements, which specify the criteria and process for including or removing items from the statement of financial position and the statement(s) of financial performance
- The measurement of elements of financial statements, which describe the different measurement bases (historical cost, current value) and factors to consider when selecting a measurement basis
- The presentation and disclosure of financial information, which explain the objectives and principles of communication through classification, aggregation and disclosure
- The concepts of capital and capital maintenance, which define capital as the resources contributed by investors and capital maintenance as the preservation of the quantity or quality of capital over time

Explain the IASB's conceptual framework for financial reporting

Apply professional judgment in analyzing accounting issues and recommending accounting policies;

To apply professional judgment in analyzing accounting issues and recommending accounting policies, you need to do the following:

- Identify the relevant facts and circumstances of the accounting issue, such as the nature of the transaction, the economic substance, the contractual terms, the business purpose and the reporting objectives
- Identify the applicable IFRS requirements and guidance, such as the standards, interpretations, conceptual framework and other authoritative sources
- Evaluate the different accounting alternatives and their implications for the financial statements, such as the recognition, measurement, presentation and disclosure of the items involved
- Consider the qualitative characteristics of useful financial information, such as relevance, faithful representation, comparability, verifiability, timeliness and understandability
- Consider the views and expectations of the primary users of financial statements, such as investors, lenders and other creditors
- Apply an ethical approach and professional skepticism to ensure that the accounting policies are not biased or misleading
- Document the rationale and assumptions for the chosen accounting policies and disclose them appropriately in the financial statements

Understand the fair value measurement and impairment concept

The fair value measurement and impairment concept are two related topics in accounting that deal with the valuation and recognition of assets and liabilities.

Fair value measurement is the process of estimating the 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. Fair value measurement is based on a market exit price notion and uses a fair value hierarchy that prioritizes observable inputs over unobservable inputs. Fair value measurement is required or permitted by various IFRS standards, such as IFRS 13, IFRS 9, IFRS 16 and others[12].

Impairment is the process of reducing the carrying amount of an asset or a cash-generating unit when it is higher than its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Value in use is the present value of the future

cash flows expected to be derived from an asset or a cash-generating unit. Impairment is required by IAS 36 for non-financial assets, such as property, plant and equipment, intangible assets, goodwill and investments in associates and joint ventures[3]. Impairment is also required by IFRS 9 for financial assets measured at amortized cost or fair value through other comprehensive income, such as loans, receivables and debt securities.

Analyze the recognition&recognition of receivables

Explain the special inventory valuation techniques

The special inventory valuation techniques are methods of estimating the cost of inventory that are not based on the actual purchase or production cost of the items. These techniques are used when the actual cost is not readily available or when it is impractical or costly to track the cost of each individual item. Some of the special inventory valuation techniques are:

- Retail method: This method is used by retailers who sell goods at a constant markup on cost. The cost of inventory is estimated by applying a cost-to-retail ratio to the retail value of inventory. The cost-to-retail ratio is calculated by dividing the cost of goods available for sale by the retail value of goods available for sale[1]
- Gross profit method: This method is used to estimate the cost of inventory that has been lost, stolen, or destroyed by fire or other causes. The cost of inventory is estimated by subtracting the estimated gross profit from the net sales. The estimated gross profit is calculated by multiplying the net sales by the historical gross profit percentage[1]
- Standard cost method: This method is used by manufacturers who assign predetermined or budgeted costs to the inventory items based on expected material, labor, and overhead costs. The standard costs are periodically compared with the actual costs and any variances are recorded as adjustments to the cost of goods sold or inventory[1]
- LIFO retail method: This method is a variation of the retail method that uses the last-in, first-out (LIFO) assumption to value inventory. The cost-to-retail ratio is calculated separately for each

layer of inventory that is added during the period at the current prices and markups. The cost of ending inventory is estimated by applying the appropriate cost-to-retail ratio to each layer of inventory at its retail value

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- Perform the accounting procedures for the Depreciation, disposition &Impairment of PPE
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The accounting procedures for the depreciation, disposition and impairment of property, plant and equipment (PPE) are as follows:

- Depreciation: This is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of an asset less its residual value. The useful life is the period over which an asset is expected to be available for use by an entity. The depreciation method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The depreciation charge for each period is recognized in profit or loss, unless it is included in the carrying amount of another asset[12]
- Disposition: This is the removal of an asset from the statement of financial position when it is disposed of or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an asset is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss is recognized in profit or loss when the asset is derecognized[12]
- Impairment: This is the reduction in the recoverable amount of an asset below its carrying amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. An impairment loss is recognized in profit or loss when the carrying amount of an asset exceeds its recoverable amount. The impairment loss reduces the carrying amount of the asset to its recoverable amount

Recognize & measure investment property

The recognition and measurement of investment property are governed by IAS 40 Investment Property, which defines investment property as property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both.

Recognition of investment property occurs when an entity becomes a party to the contractual provisions of a financial instrument that gives rise to a right to receive cash or another financial asset from another entity. Recognition of investment property is subject to the same criteria as the recognition of property, plant and equipment under IAS 16, which are:

- it is probable that the future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Measurement of investment property at initial recognition is at cost, which includes its purchase price and any directly attributable expenditure, such as legal fees, property transfer taxes and other transaction costs.

Measurement of investment property after initial recognition is either using a cost model or a fair value model, as follows:

- Cost model: The investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the same method and rates as for property, plant and equipment under IAS 16. Impairment is assessed and recognized in accordance with IAS 36 Impairment of Assets.
- Fair value model: The investment property is carried at its fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is determined by reference to market-based evidence, such as current prices in an active market or recent transactions for similar properties. Changes in fair value are recognized in profit or loss in the period in which they arise. No depreciation or impairment is applied to investment property measured at fair value.

An entity must apply the same model to all of its investment property, unless there is a class of investment property that cannot be measured reliably at fair value on an ongoing basis. In that case, the entity may use the cost model for that class only.

Received message. The recognition and measurement of investment property are governed by IAS 40 Investment Property, which defines investment property as property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both. Recognition of investment property occurs when an entity becomes a party to the contractual provisions of a financial instrument that gives rise to a right to receive cash or another financial asset from another entity. Recognition of investment property is subject to the same criteria as the recognition of property, plant and equipment under IAS 16, which are: - it is probable that the future economic benefits associated with the item will flow to the entity; and - the cost of the item can be measured reliably. Measurement of investment property at initial recognition is at cost, which includes its purchase price and any directly attributable expenditure, such as legal fees, property transfer taxes and other transaction costs. Measurement of investment property after initial recognition is either using a cost model or a fair value model, as follows: - Cost model: The investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the same method and rates as for property, plant and equipment under IAS 16. Impairment is assessed and recognized in accordance with IAS 36 Impairment of Assets. - Fair value model: The investment property is carried at its fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is determined by reference to market-based evidence, such as current prices in an active market or recent transactions for similar properties. Changes in fair value are recognized in profit or loss in the period in which they arise. No depreciation or impairment is applied to investment property measured at fair value. An entity must apply the same model to all of its investment property, unless there is a class of investment property that cannot be measured reliably at fair value on an ongoing basis. In that case, the entity may use the cost model for that class only.

Know the characteristics of Intangible assets

The characteristics of intangible assets are as follows:

- An intangible asset is an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected[12]
- An intangible asset is identifiable when it is separable, or when it arises from contractual or other legal rights. Separable assets can be sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability. Contractual or other legal rights are enforceable regardless of whether they are transferable or separable from the entity or from other rights and obligations[12]
- Examples of intangible assets include computer software, licenses, trademarks, patents, customer lists, franchise agreements, publishing rights and goodwill[123]
- Intangible assets are initially measured at cost. The cost of an intangible asset comprises its purchase price and any directly attributable expenditure, such as legal fees, stamp duties and import duties. If an intangible asset is acquired in a business combination, it is measured at fair value at the acquisition date. If an intangible asset is acquired by way of a government grant, it is measured at fair value or nominal amount. If an intangible asset is acquired in exchange for another asset, it is measured at fair value unless the exchange transaction lacks commercial substance. If an intangible asset is internally generated, it is measured at the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria[12]
- After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses (cost model), or at its fair value at the date of revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses (revaluation model). The revaluation model can only be applied if there is an active market for the intangible asset. Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life. The depreciable amount is the cost of an asset less its residual value. The useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity. The amortization method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The amortization

charge for each period is recognized in profit or loss unless it is included in the carrying amount of another asset[12]

- An intangible asset shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset. The gain or loss is recognized in profit or loss unless it is included in other comprehensive income in accordance with other IFRS

Describe the nature of current liabilities, provisions, and contingencies

The nature of current liabilities, provisions, and contingencies are as follows:

- Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle. Current liabilities are typically settled using current assets, such as cash, inventory, or receivables. Examples of current liabilities include accounts payable, short-term debt, accrued expenses, taxes payable, and dividends payable. Current liabilities are reported on the balance sheet and are used to calculate liquidity ratios, such as the current ratio and the quick ratio[1]
- Provisions are liabilities of uncertain timing or amount. Provisions are recognized when an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are reported on the balance sheet and are adjusted at each reporting date to reflect the current best estimate. Examples of provisions include warranties, environmental liabilities, decommissioning costs, and restructuring costs. Provisions are governed by IAS 37 Provisions, Contingent Liabilities and Contingent Assets[23]
- Contingencies are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be

measured with sufficient reliability. Contingencies are not recognized on the balance sheet but are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Examples of contingencies include lawsuits, claims, and fines. Contingencies are also governed by IAS 37

Compare & Contrast the current liabilities, Contingencies and Provisions

The current liabilities, contingencies and provisions can be compared and contrasted as follows:

- Current liabilities are present obligations that are due within one year or within a normal operating cycle, while contingencies and provisions are possible or present obligations that are uncertain in timing or amount.
- Current liabilities are recognized on the balance sheet and measured at the amount expected to be paid, while contingencies are not recognized but disclosed in the notes unless the possibility of an outflow is remote, and provisions are recognized and measured at the best estimate of the expenditure required to settle the obligation.
- Current liabilities are settled using current assets, while contingencies and provisions may require future cash outflows or other forms of settlement.

Received message. The current liabilities, contingencies and provisions can be compared and contrasted as follows: - Current liabilities are present obligations that are due within one year or within a normal operating cycle, while contingencies and provisions are possible or present obligations that are uncertain in timing or amount. - Current liabilities are recognized on the balance sheet and measured at the amount expected to be paid, while contingencies are not recognized but disclosed in the notes unless the possibility of an outflow is remote, and provisions are recognized and measured at the best estimate of the expenditure required to settle the obligation. - Current liabilities are settled using current assets, while contingencies and provisions may require future cash outflows or other forms of settlement.

Discuss the nature and accounting treatment of leases;

The nature and accounting treatment of leases are as follows:

- A lease is a contract that grants the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A lease is classified as either a finance lease or an operating lease, depending on whether the lessee (the user of the asset) obtains substantially all of the risks and rewards of ownership of the asset[12]
- A finance lease is a lease that transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee. The lessee recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is measured at cost, which includes the initial amount of the lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The lessee subsequently measures the right-of-use asset using a cost model (unless it applies a revaluation model to similar owned assets) and depreciates it over the shorter of its useful life and the lease term. The lessee subsequently measures

Apply the Accounting for bonds and other long-term liabilities

The accounting for bonds and other long-term liabilities are as follows:

- Bonds are debt instruments that are issued by an entity to raise funds from investors. Bonds typically have a fixed maturity date, a stated interest rate, and periodic interest payments. Bonds can be issued at face value, at a premium, or at a discount, depending on the market conditions and the creditworthiness of the issuer[12]
- Under US GAAP, bonds are recorded at face value and the premium or discount is recorded in a separate account. The premium or discount is amortized over the life of the bond using the effective interest method, which allocates a constant rate of interest expense to each interest period. The interest expense is calculated by multiplying the carrying value of the bond by the

effective interest rate. The difference between the interest expense and the interest payment is the amount of premium or discount amortization. The carrying value of the bond increases or decreases by the amount of amortization each period until it equals the face value at maturity[23]

- Under IFRS, bonds are initially recorded at fair value, which is usually equal to the present value of the future cash flows discounted at the market interest rate. The fair value of bonds issued at either a premium or discount is shown on the balance sheet at its net amount, without using separate accounts for premium or discount. The premium or discount is amortized over the life of the bond using the effective interest method, similar to US GAAP. However, under IFRS, an entity can choose to measure bonds at fair value through profit or loss, in which case any changes in fair value are recognized in profit or loss and no amortization is required[24]
- Other long-term liabilities are obligations that are not due within one year or within the normal operating cycle of the entity. Examples of other long-term liabilities include long-term loans, deferred tax liabilities, pensions and other post-retirement benefits, lease liabilities, and long-term provisions. Other long-term liabilities are initially recorded at their present value and subsequently measured according to their nature and terms. For example, long-term loans are measured at amortized cost using the effective interest method, deferred tax liabilities are measured at the tax rates that are expected to apply when they are settled or realized, and lease liabilities are measured at the present value of the remaining lease payments plus any interest accrued

Understand the Revenue recognition methods for long-termContracts

The revenue recognition methods for long-term contracts are as follows:

- A long-term contract is a contract that involves the provision of goods or services over a period of more than one year or beyond the normal operating cycle of the entity. Examples of long-term contracts include construction contracts, engineering contracts, and software development contracts[12]
- The revenue recognition methods for long-term contracts are based on the principle that revenue should be recognized when (or as) the entity satisfies a performance obligation by transferring a

promised good or service to a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A good or service is distinct if the customer can benefit from it on its own or together with other resources and if it is separately identifiable from other promises in the contract[34]

- The two main revenue recognition methods for long-term contracts are the percentage-of-completion method and the completed-contract method. The percentage-of-completion method recognizes revenue and expenses over the duration of the contract based on the progress of the work. The completed-contract method recognizes revenue and expenses only when the contract is completed or substantially completed[12]
- The percentage-of-completion method is preferred under both US GAAP and IFRS, unless the outcome of the contract cannot be reasonably estimated. The outcome of a contract can be reasonably estimated if the entity can reliably measure the total contract revenue, the total contract costs, and the progress toward completion. The percentage-of-completion method requires the entity to estimate the stage of completion of the contract at each reporting date using an appropriate measure, such as the proportion of costs incurred to date to the total estimated costs, surveys of work performed, or physical output measures. The entity then recognizes revenue and expenses based on the percentage of completion multiplied by the total expected contract revenue and costs. Any expected losses on the contract are recognized immediately in full[1234]
- The completed-contract method is allowed under US GAAP only if the outcome of the contract cannot be reasonably estimated or if it involves significant uncertainties that affect performance. Under IFRS, the completed-contract method is not permitted and instead, a zero-profit method is used if the outcome of the contract cannot be reasonably estimated. Under this method, revenue is recognized only to the extent of costs incurred that are expected to be recoverable and no profit is recognized until the outcome can be reliably measured. Under both US GAAP and IFRS, any expected losses on the contract are recognized immediately in ful

Understand the nature & classifications of investments, Perform the accounting applications in debt & security investments

- while equity investments are measured at fair value or equity method. The changes in fair value and the income from investments are recognized in profit or loss or other comprehensive income, depending on the classification and election of the investor. The following table summarizes the accounting for debt and equity investments under US GAAP and IFRS:

Classification	Measurement	Changes in fair value	Income recognition
Debt investments			
US GAAP			
HTM	Amortized cost	N/A	Interest income in profit or loss
AFS	Fair value	Other comprehensive income	Interest income and impairment losses in profit or loss
Trading	Fair value	Profit or loss	Interest income and impairment losses in profit or loss
IFRS			

Classification	Measurement	Changes in fair value	Income recognition
Amortized cost	Amortized cost	N/A	Interest income and impairment losses in profit or loss
FVOCI	Fair value	Other comprehensive income (recycled)	Interest income and impairment losses in profit or loss
FVTPL	Fair value	Profit or loss	Interest income and impairment losses in profit or loss
Equity investments			
US GAAP			
Equity method	Equity method	N/A	Share of investee's net income or loss in profit or

Classification	Measurement	Changes in fair value	Income recognition
			loss
Consolidated subsidiary	Consolidation	N/A	N/A
Other equity investments (without readily determinable fair value)	Cost minus impairment, plus or minus observable price changes (optional)	N/A (unless observable price changes are elected)	Dividend income in profit or loss
Other equity investments (with readily determinable fair value)	Fair value (optional)	Profit or loss (unless FVOCI is elected)	Dividend income in profit or loss
IFRS			
Equity method	Equity method	N/A	Share of investee's net income or loss and other comprehensive income
Consolidated	Consolidation	N/A	N/A

Classification	Measurement	Changes in fair value	Income recognition
subsidiary			
Other equity investments	Fair value (mandatory)	Profit or loss (unless FVOCI is elected)	Dividend income in profit or loss (unless FVOCI is elected)

Compare the differred tax assets and liabilities

The deferred tax assets and liabilities are as follows:

- Deferred tax assets and liabilities are the amounts of income taxes that are recoverable or payable in future periods due to temporary differences between the carrying amounts and tax bases of assets and liabilities. Temporary differences are differences that will reverse over time and affect taxable income in future periods[12]
- Deferred tax assets are the amounts of income taxes that are recoverable in future periods due to deductible temporary differences, unused tax losses, or unused tax credits. Deductible temporary differences are temporary differences that will result in amounts that are deductible when determining taxable income in future periods. Unused tax losses are losses that can be carried forward to reduce taxable income in future periods. Unused tax credits are tax credits that can be carried forward to reduce income taxes payable in future periods[12]
- Deferred tax liabilities are the amounts of income taxes that are payable in future periods due to taxable temporary differences. Taxable temporary differences are temporary differences that will result in amounts that are taxable when determining taxable income in future periods[12]
- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and laws that have

been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are not discounted[12]

- Deferred tax assets and liabilities are recognized on the balance sheet as non-current items, regardless of the classification of the related asset or liability or the expected reversal date of the temporary difference. Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities that intend to settle on a net basis[12]
- Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses, or unused tax credits can be utilized. The probability of future taxable profit is assessed based on all available evidence, such as past performance, future projections, tax planning strategies, and reversal patterns of existing temporary differences. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered[12]
- Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from: (a) the initial recognition of goodwill; (b) the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit; and © investments in subsidiaries, branches, associates, or joint arrangements where the timing of the reversal of the temporary difference can be controlled by the parent, investor, or venturer and it is probable that the temporary difference will not reverse in the foreseeable future

Understand the accounting for Revenue recognitions in the longtermConctracts

The accounting for revenue recognition for long-term contracts are as follows: - A long-term contract is a contract that involves the provision of goods or services over a period of more than one year or beyond the normal operating cycle of the entity. Examples of long-term contracts include construction contracts, engineering contracts, and software development contracts. [^1^] - The revenue recognition for long-term contracts is based on the principle that revenue should be recognized when (or as) the entity satisfies a performance obligation by transferring a

promised good or service to a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A good or service is distinct if the customer can benefit from it on its own or together with other resources and if it is separately identifiable from other promises in the contract. The two main revenue recognition methods for long-term contracts are the percentage-of-completion method and the completed-contract method. The percentage-of-completion method recognizes revenue and expenses over the duration of the contract based on the progress of the work. The completed-contract method recognizes revenue and expenses only when the contract is completed or substantially completed. The percentage-of-completion method is preferred under both US GAAP and IFRS, unless the outcome of the contract cannot be reasonably estimated. The outcome of a contract can be reasonably estimated if the entity can reliably measure the total contract revenue, the total contract costs, and the progress toward completion. The percentage-of-completion method requires the entity to estimate the stage of completion of the contract at each reporting date using an appropriate measure, such as the proportion of costs incurred to date to the total estimated costs, surveys of work performed, or physical output measures. The entity then recognizes revenue and expenses based on the percentage of completion multiplied by the total expected contract revenue and costs. Any expected losses on the contract are recognized immediately in full. The completed-contract method is allowed under US GAAP only if the outcome of the contract cannot be reasonably estimated or if it involves significant uncertainties that affect performance. Under IFRS, the completed-contract method is not permitted and instead, a zero-profit method is used if the outcome of the contract cannot be reasonably estimated. Under this method, revenue is recognized only to the extent of costs incurred that are expected to be recoverable and no profit is recognized until the outcome can be reliably measured. Under both US GAAP and IFRS, any expected losses on the contract are recognized immediately in full

Understand the cash flow statement preparation under different methods

The cash flow statement preparation under different methods are as follows:

- A cash flow statement is a financial statement that shows how cash and cash equivalents enter and leave a business during a specific period. It helps to assess the liquidity, solvency, and financial performance of a business. A cash flow statement consists of three sections: cash flow

from operating activities, cash flow from investing activities, and cash flow from financing activities[12]

- There are two methods to prepare a cash flow statement: the direct method and the indirect method. Both methods result in the same amount of net cash flow, but they differ in how they present the cash flow from operating activities[12]
- The direct method shows the actual cash receipts and payments from operating activities, such as cash received from customers, cash paid to suppliers, cash paid for wages, etc. The direct method provides more information about the sources and uses of cash, but it requires more data and analysis than the indirect method. The direct method is preferred by IAS 7 Statement of Cash Flows, but it is rarely used in practice[123]
- The indirect method starts with the net income from the income statement and adjusts it for non-cash items and changes in working capital accounts to arrive at the net cash flow from operating activities. The non-cash items include depreciation, amortization, gains or losses on asset sales, provisions, deferred taxes, etc. The changes in working capital accounts include changes in accounts receivable, inventory, accounts payable, etc. The indirect method is easier to prepare and more commonly used than the direct method[123]
- The cash flow from investing activities and financing activities are prepared in the same way under both methods. They show the cash inflows and outflows from investing activities, such as purchases and sales of fixed assets or investments, and financing activities, such as issuance and repayment of debt or equity, dividends paid, etc