Chapter 2
The IASB conceptual framework

2.8

(a) £1 invested at 7% per annum will become £1 × 1.07 × 1.07 × 1.07 after three years. So the present value on 1 January 2018 of an amount to be received on 1 January 2021 (assuming a discount rate of 7%) is equal to that amount divided by $(1.07)^3$. This is the same as multiplying the amount by a discounting factor (to three decimal places) of 0.816 ($1/1.07^3$).

So the present value of £50,000 to be received on 1 January 2021 is £40,800 (£50,000 × 0.816).

(b) Similarly, the discounting factor over a five-year period is 0.713 ($1/1.07^5$) and so the present value of £100,000 to be received on 1 January 2023 is £71,300 (£100,000 × 0.713).

(c) With a discount rate of 7%, discounting factors for one, two, three and four years are 0.935, 0.873, 0.816 and 0.763 respectively (the calculation of these factors is left to the reader). So the present value of £10,000 to be received on 1 January each year from 2019 to 2022 inclusive is £33,870 (£9,350 + £8,730 + £8,160 + £7,630).

2.9

(a) The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of general purpose financial statements prepared for the benefit of external users. The main purposes of the *Conceptual Framework* are:

- to assist in the development of future international standards and review of existing standards
- to provide a basis for reducing the number of alternative accounting treatments permitted by international standards
- to assist national standard-setters in developing national standards
- to assist preparers of financial statements in applying international standards and in dealing with topics which are not yet covered by international standards
- to assist auditors in forming an opinion as to whether financial statements conform with international standards
- to assist the users of financial statements in interpreting the information contained in financial statements prepared in accordance with international standards
- to provide information about the IASB approach to the formulation of international standards.

(b) The *Conceptual Framework* states that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

(c) The primary users of general purpose financial reports are existing and potential investors, lenders and other creditors. Further user groups include employees, customers, governments (and their agencies) and the public. Examples of the types of information that each user group would be seeking from financial reports are given in Chapter 2 of the textbook.

(d) Financial statements are normally prepared on the "going concern" basis. It is assumed that the reporting entity will continue to operate for the foreseeable future and has neither the intention nor the need either to close down or materially reduce the scale of its operations. But if an entity is not a going concern, the financial statements will have to be prepared on a different basis and that basis should be disclosed.

(e) The fundamental qualitative characteristics are relevance and faithful representation. The enhancing characteristics are comparability, verifiability, timeliness and understandability. A full explanation of each characteristic is given in Chapter 2 of the textbook.

(f) Reporting financial information imposes costs and these costs should be justified by the benefits which users obtain from the information. This means that there is a cost constraint on the extent to which financial statements can attain all of the qualitative characteristics that are listed in the *Conceptual Framework*.