

Faithful representation is a fundamental characteristic of useful information within the IASB's *Conceptual framework for financial reporting*.

Which of the following accounting treatments correctly applies the principle of faithful representation?

- A** Reporting a transaction based on its legal status rather than its economic substance
- B** Excluding a subsidiary from consolidation because its activities are not compatible with those of the rest of the group
- C** Recording the whole of the net proceeds from the issue of a loan note which is potentially convertible to equity shares as debt (liability)
- D** Allocating part of the sales proceeds of a motor vehicle to interest received even though it was sold with 0% (interest free) finance

Examiners Report

The correct answer to this question was D.

The principle of the cost of finance has been examined at F7 several times and with this type of 0% interest product, the finance cost is built into the selling price.

A similar principle would also apply to other 'offers' such as free maintenance or insurance.

Approximately half of candidates believed C to be the correct answer.

This is really surprising as the treatment of a convertible loan note which involves splitting the initial proceeds between debt and the value of the equity option has been examined often (and answered well).

Perhaps many candidates did not read or think about the words 'whole of the proceeds' or 'convertible' properly.