







Q

Home ▶ All Journals ▶ Economics, Finance & Business ▶ Accounting in Europe ▶ List of Issues Volume 7, Issue 2 ► On the Definitions of Income, Expenses a

Accounting in Europe >

Volume 7, 2010 - Issue 2

2.763 26 Views CrossRef citations to date Altmetric

Refereed articles

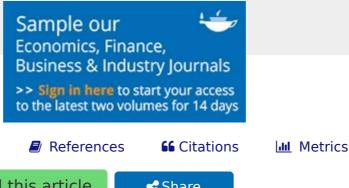
On the Definitions of Income, Expenses and Profit in IFRS

Richard Barker

Pages 147-158 | Published online: 24 Nov 2010

Figures & data

66 Cite this article ▶ https://doi.org/10.1080/17449480.2010.511892



➡ Reprints & Permissions

Read this article

Share

Abstract

Full Article

This paper makes two contributions. First, it demonstrates that income and expenses are incorrectly defined in the IASB's conceptual framework, and it proposes alternative definitions. Second, the paper identifies that, in part as a consequence of these incorrect definitions, and in part because there are two, conflicting concepts of profit in IFRS, there is, first, no definition of profit in the Framework and, second, inconsistency and needless complexity in the concept of profit in IAS 1. The issues raised in this paper contribute to the current IASB projects on the conceptual framework and on financial statement presentation.

Acknowledgements

The author is grateful to Anne McGeachin and Geoff Whittington, for valuable comments and discussion, and to the editor and reviewers for helpful suggestions.

Notes

The same logic is fundamental to the Modigliani-Miller theorem in financial economics.

Revenue and gains are subsets of income. Hence, for example, revenue could be defined, consistently with the Framework, as 'a particular type of increase in economic benefits that arises in the course of ordinary activities in the form of inflows or enhancements of assets or decreases in liabilities and results in an increase in equity' (DRSC, EFRAG and CNC, 2007).

The same is true for US GAAP (FASB, 1984, 1985).

For example, expenses under Definition 2 would be: Expenses are decreases in equity, excluding distributions to equity participants.

There is a potential confusion in terminology here, which is that Hicks actually uses the term 'income' to refer to net income. Hence income for Hicks corresponds, in the lexicon of accounting, to profit and not to income.

The Framework's division of income between revenue and gains also finds its counterpart in Hicks. Specifically, Hicks' second definition of profit addresses the sustainability of the profit stream, for which revenue is directly relevant but gains are only indirectly relevant: 'The income which is relevant to conduct must always exclude windfall gains; if they occur, they have to be thought of as raising income for future weeks (by the interest on them) rather as entering into any sort of effective income for the present week.'

Instead, IAS 1 (para. 88) requires simply that 'an entity shall recognise all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise' (italics added).

There is again a connection here with Hicks, whose third and final definition of profit is expressed in real terms, thereby implicitly making the distinction between profit and capital maintenance.

The Framework does not express a preference for either financial or physical capital maintenance, and in principle it allows either.

IAS 1's Basis for Conclusions suggest that the IASB is actually willing but unable.

The term 'other reserves' is used here to mean reserves relating to other comprehensive income, as defined in IAS 1.

In this definition, 'transactions with owners in their capacity as owners' replaces 'contributions from equity participants', presumably because 'transactions' embraces both contributions and distributions, and because equity participants could transact in alternative roles, such as that of employees. If profit is defined simply as income less expenses, then both of these definitional complexities go away, enabling a less wordy definition.

Interestingly, it is defined correctly as a change in equity rather than as a change in net assets.

This is the case made by those IASB members dissenting to IAS 1. This position is also, of course, consistent with residual income valuation (Ohlson, <u>1995</u>).

It might also be noted that the term total is redundant given that the term comprehensive is also in use.

Related Research Data

The Theory and Measurement of Business Income

Source: Unknown Repository

Earnings, Book Values, and Dividends in Equity Valuation*

Source: Contemporary Accounting Research IAS 1 – Presentation of Financial Statements

Source: Unknown Repository

Reporting Financial Performance

Source: Accounting Horizons

IAS 39 - Financial Instruments: Recognition and Measurement

Source: Unknown Repository

Linking provided by Schole plorer

People also read

Recommended articles

Open access

Overview

Cited by 26

Information for

Authors

R&D professionals Open journals

Editors Open Select

Librarians **Dove Medical Press**

Societies F1000Research

Opportunities Help and information

Reprints and e-prints Help and contact

Advertising solutions Newsroom

Accelerated publication All journals

Corporate access solutions **Books**

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions

Francis Group

Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG

