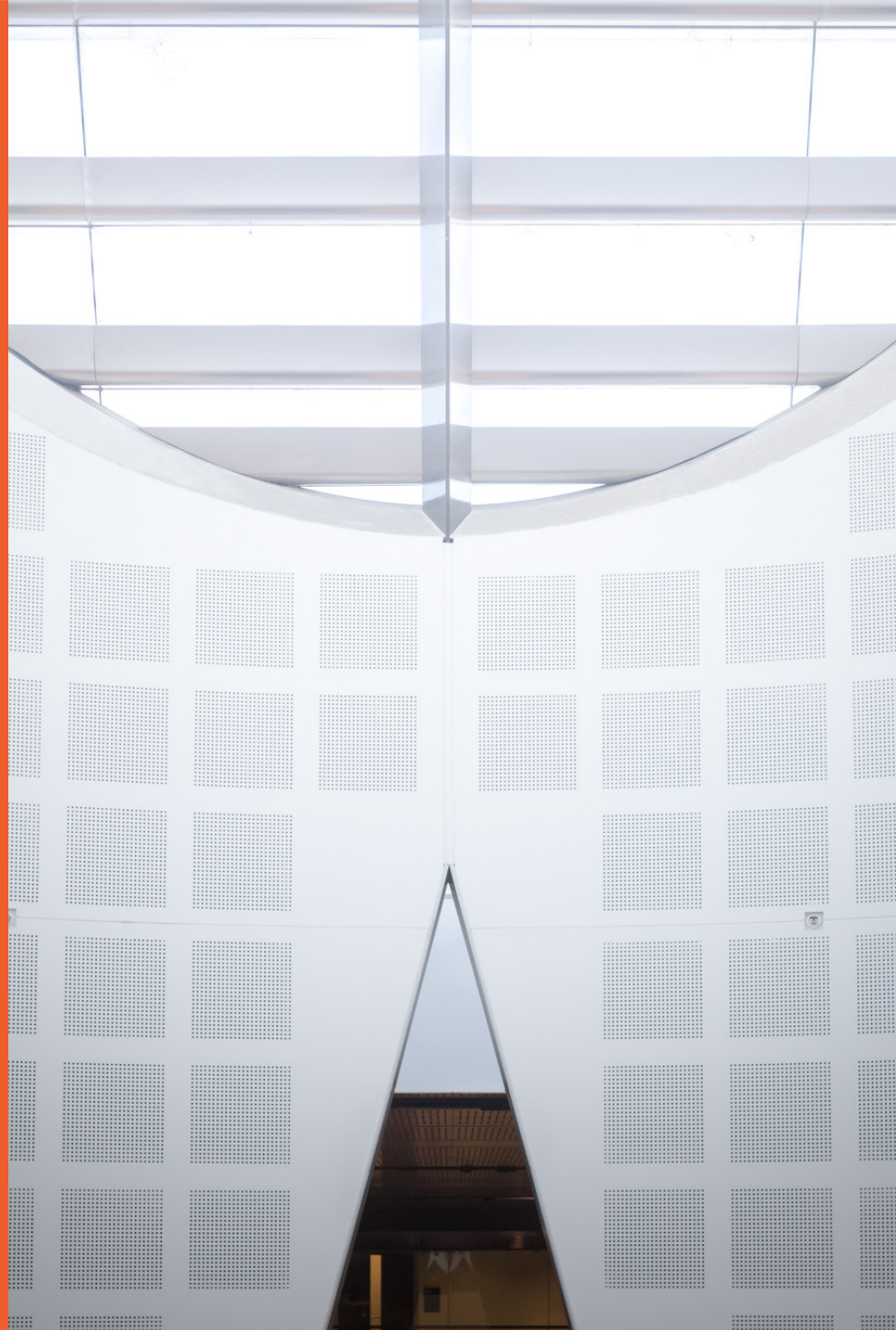


ACCT 6002

Key features of international standards



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Key features of IFRS

- **Text readings:**
- *Comparative International Accounting:*
 - Chapters 6, 7 and 9.3
- **Academic paper, on Canvas:** section 2 of Nobes, C.W., 'IFRS ten years on: Has the IASB imposed extensive use of fair value...?', *Accounting in Europe*, Vol. 12, No. 2, 2015, pp. 153-170.
- **Self-Study Questions:** See Canvas for instructions

Learning objectives

After this week's studies, you should be able to:

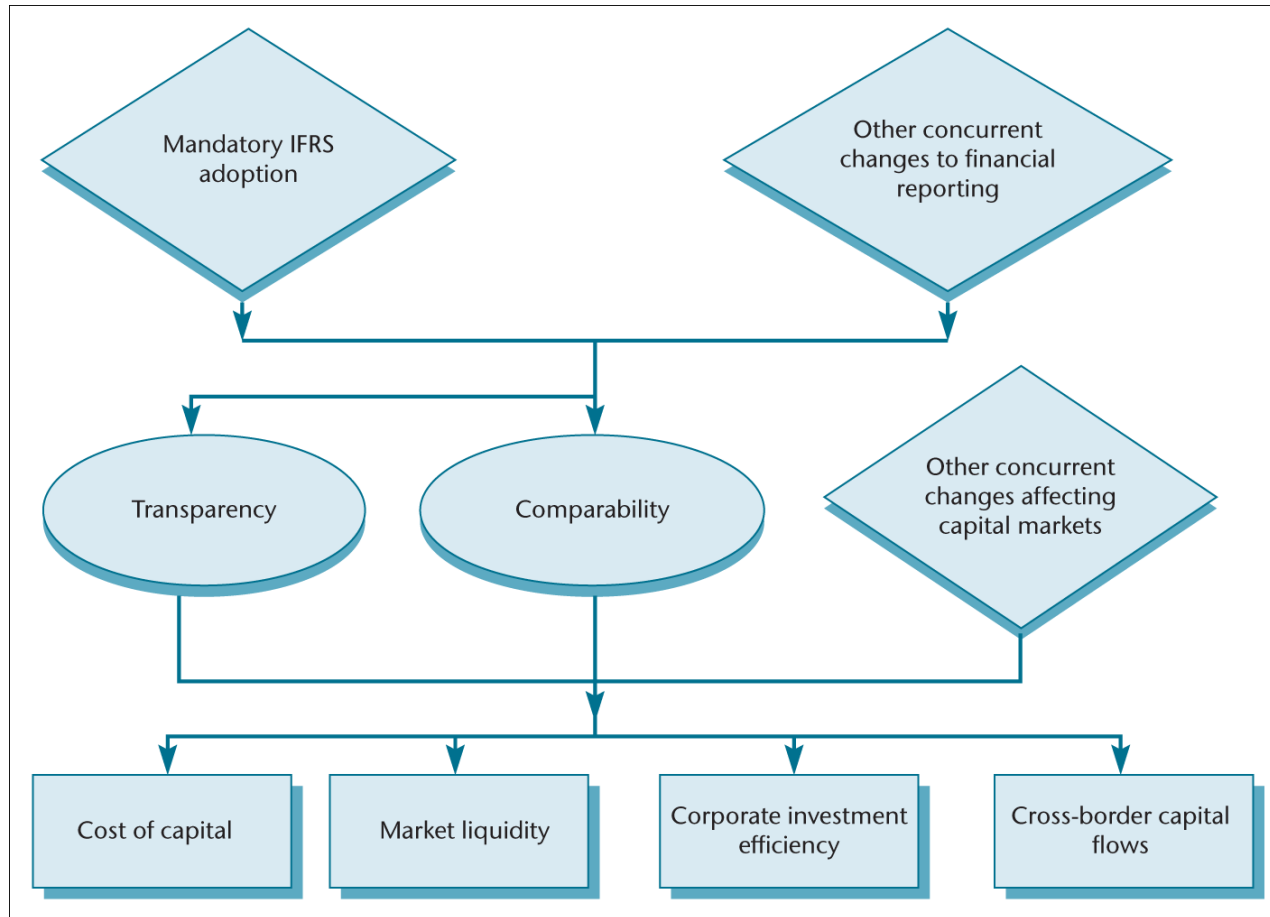
- Explain why there are two sets of international standards, and whether this matters;
- Discuss recent developments in IFRS;
- Explain the major options available to companies under IFRS;
- Explain the ways in which variety is possible in IFRS practice even when there are no overt options;
- Outline the major various ways in which IFRS requirements are different from US or other national GAAPs.

Why have international standards?

- What is achieved by this?
- One of the IASB's objectives: seeking to achieve comparable financial statements internationally
- This week, we look at the content of IFRS, particularly how it is different from other GAAPs

Figure 5.4

Improvement in financial reporting



Source: adapted by the authors from a figure kindly provided by Brian Singleton-Green of the Institute of Chartered Accountants in England and Wales.

Extant Standards (I)

IAS	1	Presentation of financial statements
IAS	2	Inventories
IAS	7	Statement of cash flows
IAS	8	Accounting policies, changes in accounting estimates and errors
IAS	10	Events after the reporting period
IAS	12	Accounting for taxes on income
IAS	16	Property, plant and equipment
IAS	19	Employee benefits
IAS	20	Accounting for government grants and disclosure of government assistance
IAS	21	The effects of changes in foreign exchange rates
IAS	23	Borrowing costs
IAS	24	Related party disclosures

Extant Standards (II)

IAS	26	Accounting and reporting by retirement benefit plans
IAS	27	Separate financial statements
IAS	28	Investments in associates and joint ventures
IAS	29	Financial reporting in hyperinflationary economies
IAS	32	Financial instruments: presentation
IAS	33	Earnings per share
IAS	34	Interim reporting
IAS	36	Impairment of assets
IAS	37	Provisions, contingent liabilities and contingent assets
IAS	38	Intangible assets
IAS	40	Investment property
IAS	41	Agriculture

<https://www.ifrs.org/issued-standards/list-of-standards/>

Extant Standards (III)

IFRS	1	First-time adoption
IFRS	2	Share-based payments
IFRS	3	Business combinations
IFRS	4	Insurance contracts (being replaced)
IFRS	5	Non-current assets held for sale and discontinued operations
IFRS	6	Exploration for and evaluation of mineral resources
IFRS	7	Financial instruments: disclosures
IFRS	8	Operating segments
IFRS	9	Financial instruments
IFRS	10	Consolidated financial statements
IFRS	11	Joint arrangements
IFRS	12	Disclosure of interests in other entities
IFRS	13	Fair value measurement
IFRS	14	Regulatory deferral accounts
IFRS	15	Revenue from contracts with customers
IFRS	16	Leases
IFRS	17	Insurance contracts

Overview of standards

- Standards can be grouped into broad topics:
 - Presentation and accounting policies: example, IASs 1 and 8 (= AASBs 101 and 108)
 - Revenue and foreign currency transactions: IFRS 15 and IAS 21
 - Assets: IASs 2, 16, 38, 40, 41
 - Liabilities: IASs 12, 19, 37, IFRS 16
 - Group accounting: IFRSs 3, 10-12, IAS 28
 - Disclosures: in addition to disclosure requirements in each accounting standard, a few standards are about disclosures only (e.g. requirement in IAS 33 to disclose earnings per share)

Table 7.3

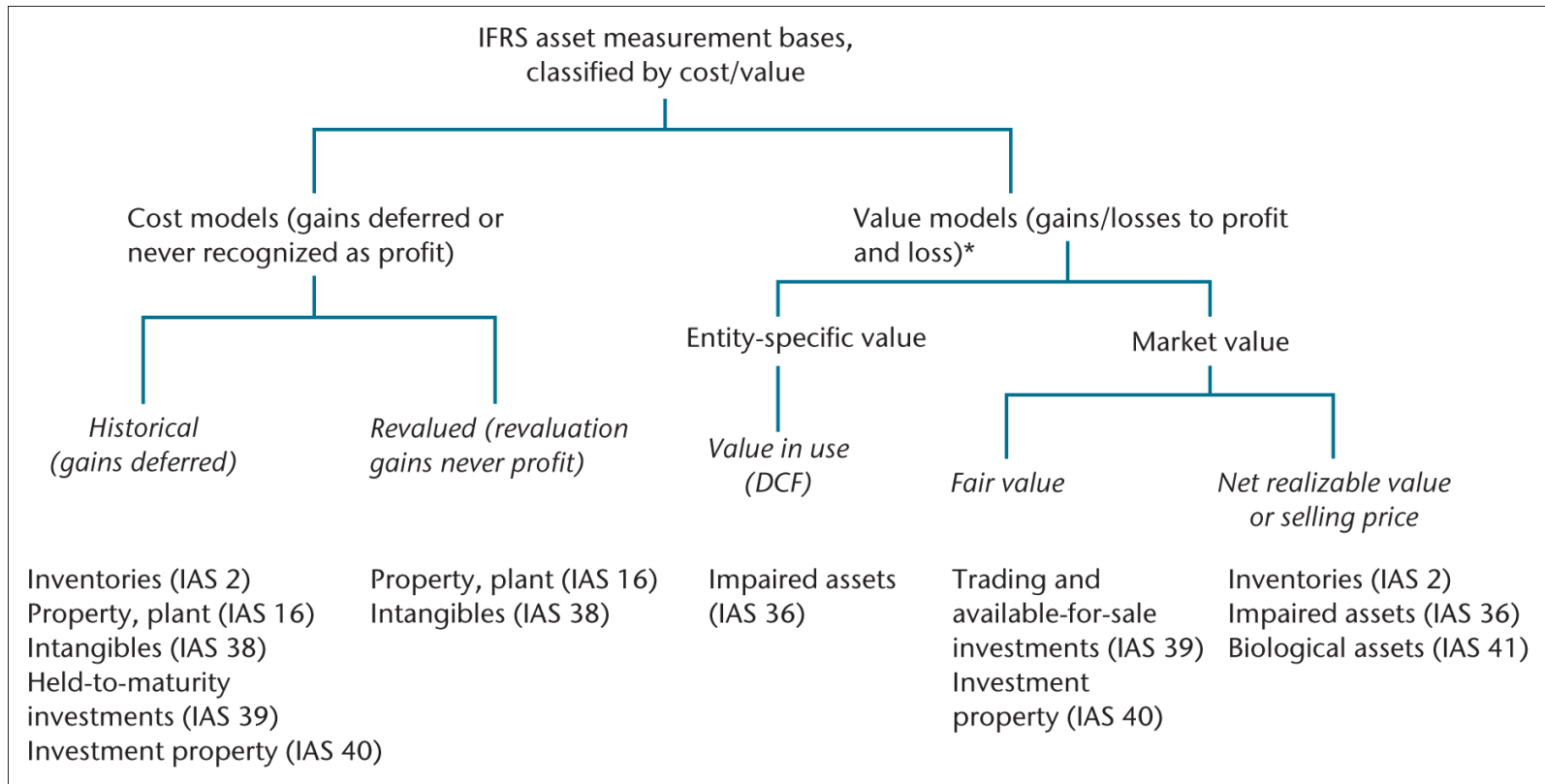
Initial and subsequent measurement bases under IFRS

	Initial	Subsequent
Cost basis only	PPE, intangibles, investment properties, non-trading investments, inventories	Inventories, intangibles with no active market, some investments
Cost or fair value	Some non-trading investments*	PPE, intangibles with active market, investment properties, some non-trading investments*
Fair value only	Trading investments, derivatives, biological assets	Trading and some other investments, derivatives, biological assets

Note: *refers to the fact that there are various options in IFRS 9 (see Section 7.7).

Figure 7.1

IFRS asset measurement bases, classified by cost/value



Note: *Except that gains/losses on available for sale investments are deferred. IAS 39 is now superseded by IFRS 9.
Source: Nobes (2001)

Table 7.4

LIFO in various GAAPs

GAAP	LIFO allowed	
	2004	2019
Australian	No	N.A.*
Dutch	Yes	Yes
French**	No	No
German	Yes	Yes
IFRS	Yes	No
Italian	Yes	Yes
Japanese	Yes	No
South Korean	Yes	N.A.*
UK	No	No
US	Yes	Yes

Notes: *National GAAP replaced by locally endorsed IFRS.

**This records the position for unconsolidated statements. By contrast, LIFO is allowed in the French GAAP that applies for consolidated statements (if IFRS is not used).

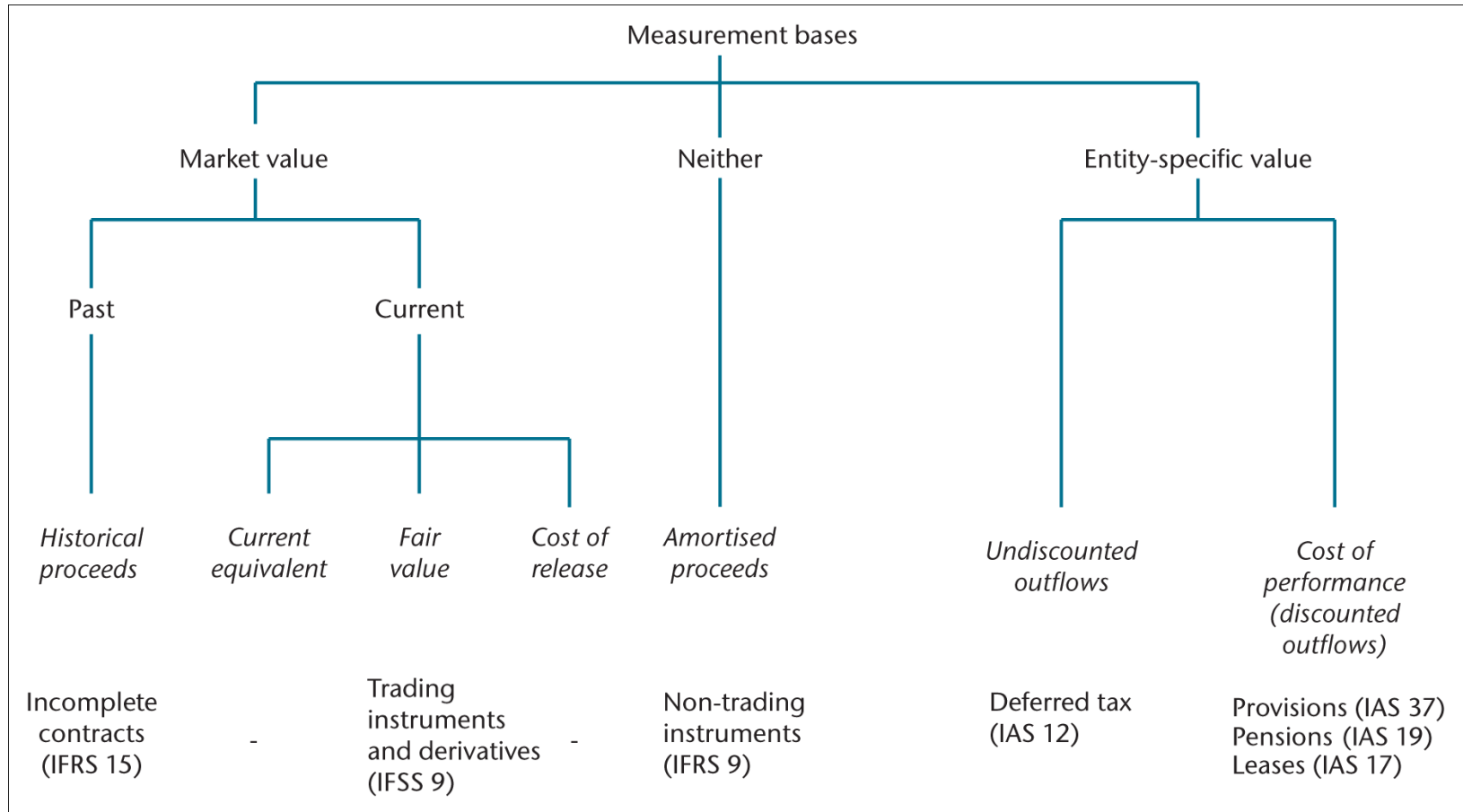
Table 7.6

Outline of IFRS 9's measurement categories for assets

<i>Measurement basis</i>	<i>Type of asset</i>
Amortised cost	Held to collect cash flows; and contractual flows are interest and repayment of principal
Fair value through OCI	Held to collect cash flows and to sell; and contractual cash flows are interest and repayment of principal
Fair value through profit or loss	All other financial assets, including derivatives

Figure 7.3

IFRS measurement bases for liabilities



Where did the requirements in IFRS come from?

- Sometimes we can identify a particular country as the source:
 - In some cases, the US was the source, for example for tax effect accounting, lease accounting and financial instruments
 - In other cases, the UK was the source, and in Table 6.2 you will also notice the Netherlands, Canada, Germany, Australia
 - See comment in the chapter on why US and UK seem to be the most prominent sources (also revisit the [IASB link](#))
 - The IASB was a committee of 16 national delegations. It needed 75% majority to pass a standard, so options were included

Figure 6.1

IASB/FASB qualities

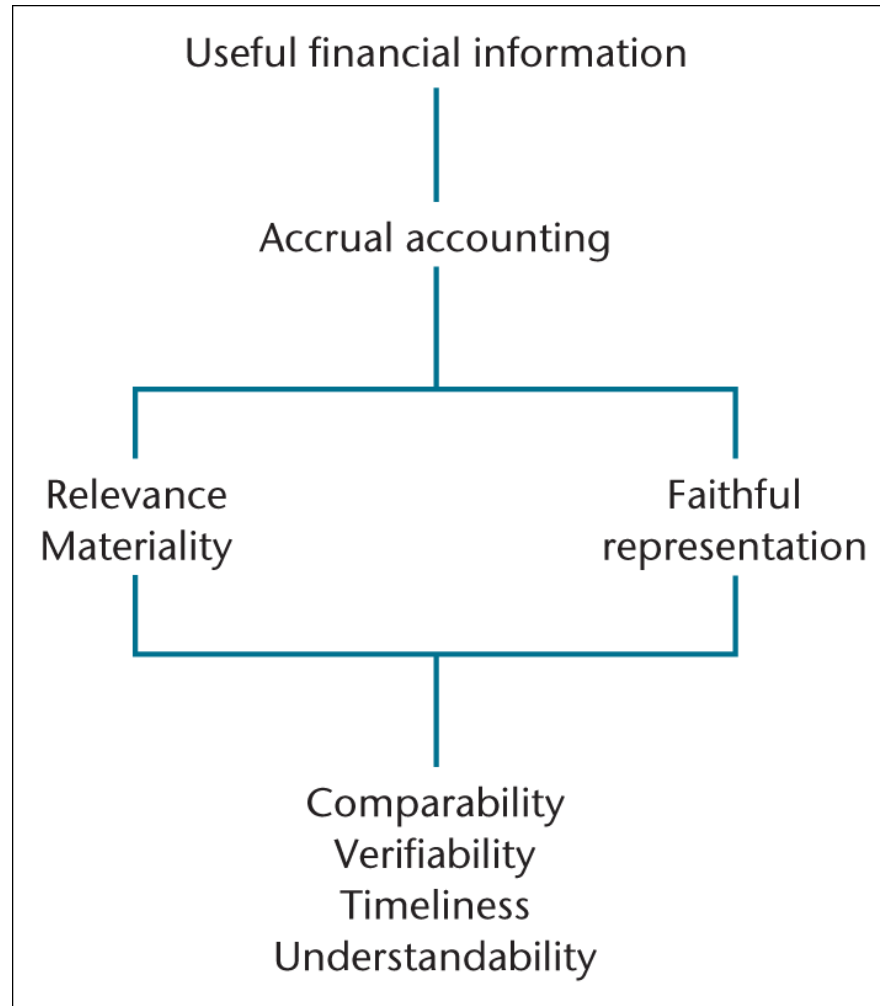


Table 6.2

National sources of some main IFRS requirements

<i>Standard</i>	<i>Requirement</i>	<i>Source</i>
IAS 1	Fair 'override'	UK, Companies Act 1947
IAS 1	Second income statement (now OCI)	UK, FRS 3
IAS 7	Cash flow statements	US, SFAS 95
IAS 8	Accounting for policy changes retrospectively	UK, FRS 3
IAS 12	Deferred tax based on temporary differences	US, SFAS 109
IAS 16	Option to revalue PPE	Netherlands and UK practice
IAS 17	Capitalisation of finance leases	US, SFAS 13
IAS 19	Pension remeasurement (actuarial gains and losses) to OCI	UK, FRS 17
IAS 23	Capitalisation of interest on construction	US, SFAS 34
IAS 36	Impairment based on recoverable amount, with reversals required	UK, FRS 11
IAS 37	Discounting of provisions	UK, FRS 12
IAS 38	Development costs capitalised when meeting certain criteria	Canada
IAS 38/IFRS 3	Impairment-only for indefinite-lived intangibles	US, SFAS 142
IAS 39/IFRS 9	Marking to market for trading and derivative financial instruments	US, SFAS 115/133
IAS 40	Accounting for investment properties separately from PPE	UK, SSAP 19
IAS 41	Biological assets at fair value	Australia
IFRS 5	Treatment of held for sale assets	US, SFAS 144
IFRS 7	Disclosures about fair value of financial instruments	US, SFAS 107
IFRS 8	Segment reporting on the basis of internal reporting	US, SFAS 131
IFRS 10	Consolidation based on control	Germany, Aktiengesetz 1965

Options within IFRS

- Some accounting standards do NOT specify just one method but contain options
- Nobes (2006; 2013) refers to options as either “overt” or “covert”
 - Overt: an option that is open, plainly apparent in the standard; and the choice can be seen in company reports
 - Covert: something that is not open, is not clearly apparent but vague or fuzzy (not supposed to be a **recognition-related** choice, but requirements allow scope for different practices)
 - Measurement estimations (Nobes 2020: Ch 9.3.7)

Examples of Overt Options in IFRS

- IAS 1 No format requirements for statements of financial position or comprehensive income (paras. 54, 81A, 81B and 82)
- IAS 2 FIFO or weighted average for the determination of the cost of inventories (para. 25). (LIFO removed in 2003)
- IAS 7 Indirect (net) basis allowed for cash flow statements (para. 21)
- IAS 7 Choice of classification for interest and dividend flows (para. 31)
- IAS 16 Cost or fair value measurement basis for classes of property, plant and equipment (para. 29)
- IAS 20 Asset grants can be shown as a deduction from the asset or as deferred income (para. 24)

Examples of Overt Options (contd)

- IAS 38 Cost or fair value measurement for some types of intangible asset (para. 72; 75)
- IAS 40 Entity-wide choice of cost or fair value as measurement basis for investment property (para. 30)
- IFRS 9 Choice of (amortised) cost basis or marking to market (fair value through profit or loss) for some financial assets and liabilities (para. 4.1.5) OR fair value through OCI for equity instruments (para. 4.1.4)
- IFRS 16 Short-term and low value leases can be treated as operating leases (para. 5)

Covert Options or Vague Recognition-related Criteria

- IAS 1 Determination of whether a liability is current on the basis of the **expected date** of settlement or **purpose of holding** (para. 60) (see assets, para 66, liabilities, para 69)
- IAS 8 The **determination of materiality** for various purposes (para. 5)
- IAS 12 Recognition of a deferred tax asset for a loss carryforward only **if future taxable profit is probable** (para. 34)
- IAS 23 Cessation of capitalisation of borrowing costs when **'substantially all'** the activities to prepare the asset are complete (para. 22)

Covert Options or Vague *Recognition-related* Criteria (contd)

- IAS 36 Identification of an indication of impairment based on a **mixture of criteria** (paras. 12 – 14)
- IAS 37 Recognition of a provision based on **probability of outflow** of resources (para. 14)
- IAS 38 Capitalisation of development costs when all of **six criteria** are met (para. 57)
- IAS 38 Amortisation of intangible assets only if useful life is **assessed as finite** (para. 88)

Covert Options or Vague Recognition-related Criteria (contd)

- IAS 40 Cost basis, despite entity-wide choice of FV, for an investment property whose FV **cannot be measured reliably** (para. 53)
- IAS 41 Use of cost basis for a biological asset whose fair value **cannot be measured reliably** (para. 30)
- IFRS 5 Treatment of assets as held-for-sale if **expected to be sold** within one year (para. 8)
- IFRS 10 Identification of a subsidiary on the basis of **'control'** (para. 5)

Table 9.4 Measurement estimations (2019)

IAS 2	Net realisable value of inventories (paras 30 and 31).
IAS 12	Tax rate for deferred tax calculations based on the expected manner of settlement or recovery (para. 51).
IAS 16 (and IASs 38, 40)	Depreciation (or amortisation) based on estimates of useful life, residual value and pattern of consumption (paras 50, 51 and 60).
IAS 16 (and IASs 38, 40)	Fair value when selected as a measurement basis (paras 31–34).
IAS 19	Pension obligations based on estimates of mortality, final salary, etc. (para. 75).
IAS 36	Discounted cash flows or net realisable values for impairments (para. 18, etc.).
IAS 37	Best estimate of provisions based on percentage likelihoods of outflows (para. 40).
IFRS 9	Fair values for certain financial assets and liabilities (para. 5.2.1).
IAS 41	Fair values for biological assets (para. 12).
IFRS 2	Fair value of equity instruments (e.g. share options or shares in an unlisted company) granted to employees (para. 11).
IFRS 3	Allocation of cost of a business combination to assets and liabilities of acquiree based on fair values (para. 18).
IFRS 15	Estimating variable consideration (para. 50).
IFRS 16	Lease term depends on estimating whether optional periods will be exercised (para. 18).

Table 7.1

Treatment of leases under different GAAPs

	All operating	Some operating, some finance	All finance
Lessees	French GAAP Italian GAAP	IAS 17 IFRS for SMEs UK GAAP US GAAP income statements	IFRS 16 US GAAP balance sheets
Lessors	French GAAP Italian GAAP	IAS 17 IFRS 16 IFRS for SMEs US GAAP UK GAAP	—

Key Features that Differ from Some National Rules (I)

- IAS 1 - fair presentation override (para 15, para 19): unlike US or Germany
 - no set formats: unlike most national GAAPs
 - no extraordinary items: unlike France, Japan
 - presentation of 'other comprehensive income' required: unlike Germany, France
 - 'statement of changes in equity' required: unlike Germany, France
- IAS 2 - no LIFO: unlike US, Germany
- IAS 7 - cash flow statement required: unlike Germany, France
- IAS 8 - errors and policy changes to be corrected retrospectively: unlike Germany, France

Key Features that Differ from Some National Rules (II)

- IAS 16 - PPE may be held at fair value: unlike US, Japan, Germany, China
- IAS 19 - pension remeasurement gains and losses never go to profit/loss: unlike US, Germany, France, Japan
- IAS 21 - gains and losses on monetary balances go to income: unlike France, Italy

Key Features that Differ from Some National Rules (III)

- IAS 23 - capitalisation of borrowing costs required: unlike Germany, France, UK
- IAS 24 - extensive disclosures of related party transactions: unlike Germany, France
- IAS 32 - preference shares to be shown as debt: unlike most GAAPs
- IAS 36 - impairment based reversals required when appropriate: unlike US, China, Japan
- IAS 37 - provisions only when there is a present obligation: unlike Germany; must be discounted: unlike France
- IAS 38 - development costs meeting criteria are capitalised: unlike US, Japan
- IAS 38/IFRS 3 - intangibles without finite lives (goodwill) to be impaired not amortised: unlike Japan, UK, Germany, France
- IAS 40 - investment property can be measured at fair value: unlike US, Japan
- IFRS 2 - share-based payments accounted for from grant date: unlike Germany, France

Key Features that Differ from Some National Rules (IV)

IFRS 5 - discontinued operations to be disclosed: unlike Germany, France

IFRS 9 - equities and derivatives to be fair valued: unlike Germany, France

IFRS 10 - definition of subsidiary based on control in practice: unlike US

IFRS 15 - revenue should sometimes be taken over time: unlike Germany

IFRS 16 - all leases capitalised: unlike Germany, France, Japan, UK

Sekaran (2016)'s Research Design

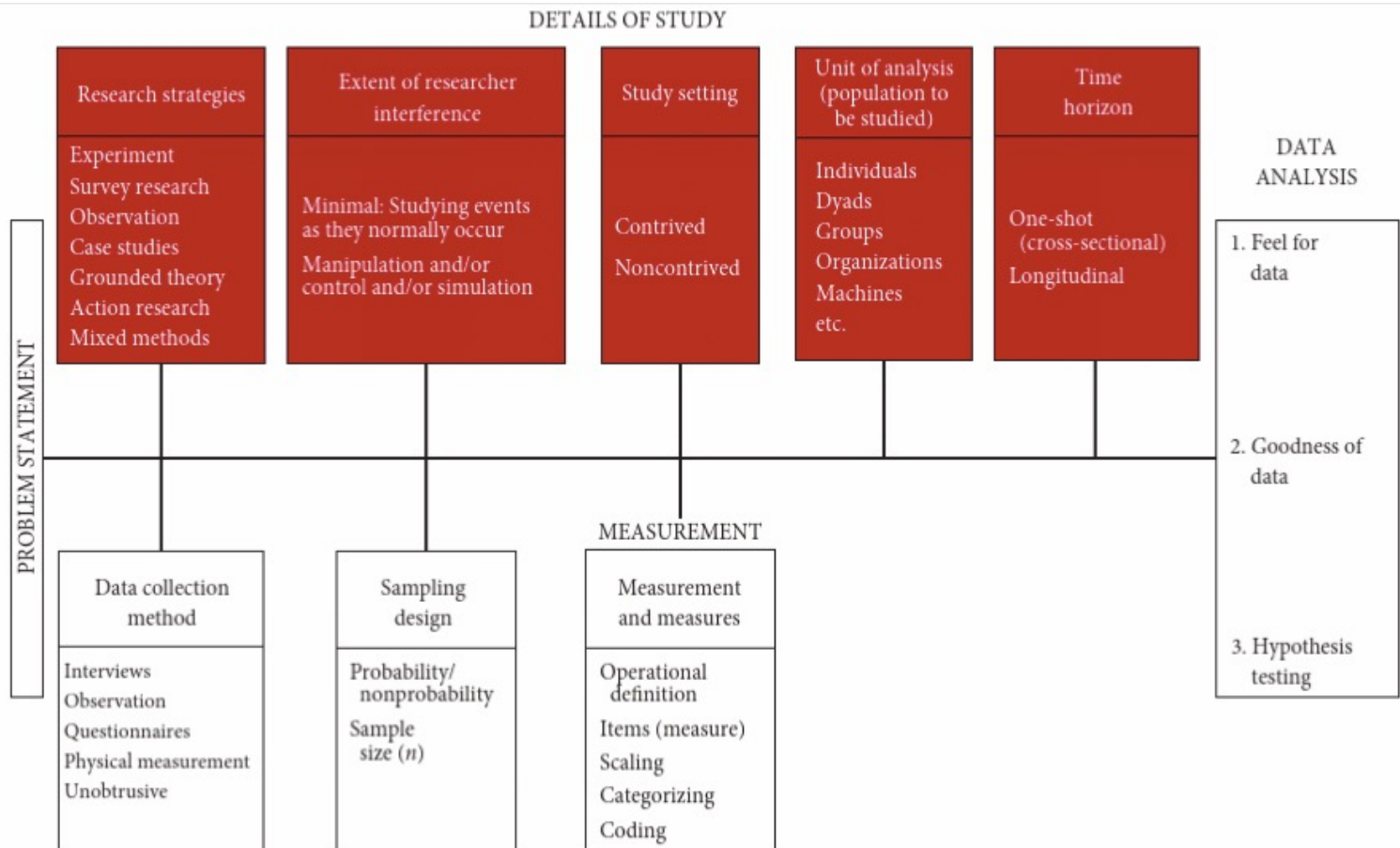


FIGURE 6.1

Short discussion of academic article

- Nobes, C.W., 'IFRS ten years on: Has the IASB imposed extensive use of fair value...?', *Accounting in Europe*, Vol. 12, No. 2, 2015, pp. 153-170.
- Section 2 examines all the IAS/IFRS standards to see how much fair value is required
- Concludes that FV is used for different purposes
- 'Subsequent measurement at FV' is not required much
- In practice, few assets are continually measured on the FV basis