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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Unit Structure

OBJECTIVES

After studying the unit the students will be able to:

- Understand the Meaning of IFRS.
- Know the objectives of IFRS
- Explain the Scope of IFRS
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INTRODUCTION

Accounting is the art and science of recording business transactions in best possible manner with proper selection and adoption of accounting policies and principles. Over the time it was felt necessary to ensure easy comparability the enterprises should follow uniform accounting methods. In India the Institute of Chartered Accountants of India governs the profession of accountancy. The institute ensures professionalism and prudence in preparation and presentation of financial statements by issuing guidelines, accounting standards from time to time. In today's world of globalization business enterprises have become more dependent on each other, across the nation and across the world. The globalization has forced more and more countries to open their doors for business expansion across borders and to foreign investments. Traditionally companies raised funds from domestic capital markets and financial institutions. The business was restricted to very few countries. The rapid expansion of international trade and internationalization of firms, the development of new communication technologies, and the 514 emergence of international competitive forces has made it extremely necessary to have uniform and internationally acceptable accounting standards. Now it has been realized that under this global business scenario the business community is badly in need of a common accounting language that should be spoken by all of them across the world. A financial reporting system supported by a strong governance, high quality standards and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. Different countries have local accounting standards which spell out the accounting treatment and disclose your requirements for preparing of financial statements, some sort of compatibility or convergence is necessary to enable all the stake holders to take appropriate economic decisions. This is sought to be ensured through the International Financial Reporting Systems (IFRS) adopted by International Accounting Standards Board (IASB). Most of the countries have started adopting IFRS or making their local GAAP convergent with IFRS. Major stock exchanges across the world today accept IFRS.

MEANING OF IFRS:

IFRSs are principle-based standards.

- The principle-based standards have distinct advantage that the transactions cannot be manipulated easily to achieve a particular accounting.
- The Financial Accounting Standards Board (FASB), USA, is having a convergence project with the IASB and is broadly adopting the principle-based approach instead of rule-based approach.
- IFRSs lay down treatments based on the economic substance of various events and transactions rather than their legal form.
- The application of this approach may result into events and transactions being presented in a manner different from their legal form.
- To illustrate, as per IAS 32, preference shares that provide for mandatory redemption by the issuer are presented as a liability.

OBJECTIVES OF IFRS:

WHY IFRS?

A single set of accounting standards would enable internationally to standardize training and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. It would be beneficial to regulators too, as a complexity associated with needing to understand various reporting regimes would be reduced.

OBJECTIVES OF IFRS:

1. The main objective of IFRS is to develop in the public the interest of a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.
2. To promote the use and rigorous application of those standards; in fulfilling the objectives associated with it.
3. To take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.
4. To bring about convergence of national accounting standards and International Accounting standards and IFRS to high quality solutions.

SCOPE OF IFRS

All International Accounting Standards (IASs) and Interpretations issued by the former IASC (International Accounting Standard Committee) and SIC (Standard Interpretation Committee) continue to be applicable unless and until they are amended or withdrawn. IFRSs apply to the general purpose financial statements and other financial reporting by profit-oriented entities -- those engaged in commercial, industrial, financial, and similar activities, regardless of their legal form. Entities other than profit-oriented business entities may also find IFRSs appropriate. General purpose financial statements are intended

to meet the common needs of shareholders, creditors, employees, and the public at large for information about an entity's financial position, performance, and cash flows. Other financial reporting includes information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. IFRS apply to individual company and consolidated financial statements. A complete set of financial statements includes a balance sheet, an income statement, a cash flow statement, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a summary of accounting policies, and explanatory notes.
If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment, financial statements may be described as conforming to IFRS whichever treatment is followed. In developing Standards, IASB intends not to permit choices in accounting treatment. Further, IASB intends to reconsider the choices in existing IASs with a view to reducing the number of those choices. IFRS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority. The provision of IAS 1 that conformity with IAS requires compliance with every applicable IAS and Interpretation requires compliance with all IFRSs as well.

CONVERGENCE WITH IFRSS: INDIAN PERSPECTIVE

- Indian Accounting Standards (ASs) are formulated on the basis of the IFRSs.
- While formulating ASs, the endeavor of the ICAI remains to converge with the IFRSs.
- The ICAI has till date issued 29 ASs corresponding to IFRSs.
- Some recent ASs, issued by the ICAI, are totally at par with the corresponding IFRSs, e.g., the Standards on ‘Impairment of Assets’ and ‘Construction Contracts’.

- While formulating Indian Accounting Standards, changes from the corresponding IAS/ IFRS are made only in those cases where these are unavoidable considering:
- Legal and/ or regulatory framework prevailing in the country.
- To reduce or eliminate the alternatives so as to ensure comparability.
- State of economic environment in the country
- Level of preparedness of various interest groups involved in implementing the accounting standards.

BENEFITS OF IFRS

The forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. Following are some of the benefits of adopting IFRS -

- Transparency and comparability
- Low cost of capital
- Eliminates need for multiple reporting
- True value of acquisition
- Cross border transaction
- Sets a benchmark
- Improvement in planning and forecasting

IFRS -1: FIRST TIME ADOPTION OF IFRS

1. An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs.
2. An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs.
3. An entity need not present its opening IFRS balance sheet in its first IFRS financial statements. In general, the IFRS requires an entity to comply with each IFRS effective at the end of its first

IFRS reporting period. In particular, the IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRSs:

- Recognize all assets and liabilities whose recognition is required by IFRSs.
- Not to recognize items as assets or liabilities if IFRSs do not permit such recognition; IFRS-1.
- IFRS-1 reclassify items that it recognized under previous GAAP as one type of asset, liability or component of equity, but are different type of asset, liability or component of equity under IFRSs. Apply IFRSs in measuring all recognized assets and liabilities.

The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. The IFRS also prohibits retrospective application of IFRSs in some areas; particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entities reported financial position, financial performance and cash flows.

EXERCISE

1. Explain the meaning and scope of IFRS.
2. What are the objectives of IFRS?