MODULE 2

INTERNATIONAL FINANCIAL REPORTING STANDARDS

OUTLINES

- General Introduction
- Structure of IFRS
- Objectives of Financial Statements
- Underlying assumptions
- Qualitative Characteristics of Financial Statements
- Contents of Financial Statements
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General Introduction

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

IFRS is a globally-accepted set of accounting standards and interpretations established by:

- International Accounting Standards Board (IASB)
- International Financial Reporting Interpretations Committee (IFRIC).

IFRS assist preparers of financial statements produce and present:

- high quality
- transparent and,
- comparable financial information

General Introduction… cont.

On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS).

IFRSs are designed for use by profit-oriented entities. However, entities engaged in not-for-profit activities may find IFRSs useful, and may follow them if considered appropriate.

Structure of IFRS

IASB: International Accounting Standards Board The IASB is the independent standard setting body of the IFRS Foundation. The IASB comprises 16 board members, including the Chairman and Vice Chairman.

Trustees: The Trustees undertake governance and oversight of the IFRS Foundation, for example, funding, approving the annual budget, amending operating procedures and so on. The Trustees comprises 22 Trustees, including the Chairman and Vice-Chair.

Monitoring Board: The Monitoring Board was established in April 2009 to enhance the organization's public accountability. The members include representatives of the European Commission, the IOSCO (2 people), the Financial Services Agency of Japan, and the U.S. Securities and Exchange Commission. The working group of the governance review of the IFRS Foundation was established in July 2010.

IFRS Interpretations Committee: The IFRS Interpretations Committee is the interpretative body of the IASB. The Committee comprises 14 voting members.

IFRS Advisory Council: The IFRS Advisory Council is the formal advisory body to the IASB. The Advisory Council is comprised of 45 members.

Objectives of Financial Statements

According to the IASB Framework for Preparation and Presentation of Financial Statements, objective of (general purpose) financial statements is to provide information about:

- financial position,
- financial performance, (provided in an income statement or profit and loss account), and
- changes in financial position of the entity to the wide range of users in making economic decisions (primarily provided in a separate statement).

The information contained in financial statements are useful to a wide range of users in making economic decisions.

Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it.

Another major purpose of preparing financial statements is that it helps the stakeholders in assessing the **stewardship of management**.

Management acts on behalf of shareholders and is thus responsible to make the entity profitable so that shareholders' wealth increases.

Underlying Assumptions

There are four underlying assumptions in IFRS: accrual basis, going concern, stable measuring unit assumption and units of cost purchasing power.

Each assumption is explained in further detail below:

1. **Accrual basis**: The assumption that the financial effect of transactions and events are recognized as they occur, not when cash is received or paid.

2. **Going concern:** The assumption that a business entity will be in operation for the foreseeable future.

3. **Stable measuring unit assumption:** The assumption that financial capital in nominal monetary units should be maintained (i.e. traditional historical cost accounting: assets and liabilities are recorded at their originally acquired values; not generally restated for changes in values).

4. **Units of constant purchasing power:** The rejection of the stable measuring unit assumption in certain situations: Only constant real value non-monetary items are inflation-adjusted during low inflation and deflation. However, all non-monetary items are inflation-adjusted during hyperinflation as required under Constant Purchasing Power Accounting.

Qualitative Characteristics of Financial Statements

The following are all qualitative characteristics of financial statements:

1. **Understandability .** The information must be readily understandable to users of the financial statements. This means that information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.
2. **Relevance** . The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.
3. **Reliability** . The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.
4. **Comparability** . The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity.

Contents of Financial Statements

1. Statement of financial position
2. Statement of comprehensive income
3. Statement of changes in equity
4. Statement of cash flows
5. Notes to the financial statements
6. a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Others in GAAP are:

7. Chairman's report
8. Director's report
9. Audit committees' report
10. Auditor's report
11. Value added statement
12. Five-year financial summary

Presentation of Financial Statements

IAS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

The standard shall apply in preparing and presenting general purpose financial statements; it does not apply to the structure and content of condensed interim financial statements; it applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements.

The Complete set of financial statements as prescribed by IAS 1 to be presented by an entity comprises of:

1. A statement of financial position as at the end of the period;
2. A statement of comprehensive income for the period;
3. A statement of changes in equity for the period;
4. A statement of cash flows for the period;
5. Notes, comprising a summary of significant accounting policies and other explanatory information; and
6. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

IFRS Statements

International Financial Reporting Standards

IFRS 1 *First-time Adoption of International Financial Standards*

IFRS 2 *Share-based Payment*

IFRS 3 *Business Combinations*

IFRS 4 *Insurance Contracts*

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 6 *Exploration for and Evaluation of Mineral Assets*

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 Deferrals Accounts*

IFRS 15 *Revenue from contracts with customers*

IFRS Statements… cont.

International Accounting Standards

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 11 *Construction Contracts*

IAS 12 *Income Taxes*

IAS 14 *Segment Reporting*. Superseded by IFRS 8 effective 1 January 2009

IAS 16 *Property, Plant and Equipment*

IAS 17 *Leases*

IAS 18 *Revenue*

IAS 19 *Employee Benefits*. Superseded by IAS 19 (2011) effective 1 January 2013

IAS 19 *Employee Benefits* (2011)

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*

IFRS Statements… cont.

IAS 24 *Related Party Disclosures.*

IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

IAS 27 *Consolidated and Separate Financial Statements*. Superseded by IFRS 10, IFRS 12 and IAS 27 (2011) effective 1 January 2013

IAS 28 *Investments in Associates and Joint Ventures (2011)*

IAS 28 *Investments in Associates*. Superseded by IAS 28 (2011) and IFRS 12 effective 1 January 2013

IAS 29 *Financial Reporting in Hyperinflationary Economies*

IAS 31 *Interests In Joint Ventures*. Superseded by IFRS 11 and IFRS 12 effective 1 January 2013

IAS 32 *Financial Instruments: Presentation*

IAS 33 *Earnings Per Share*

IAS 34 *Interim Financial Reporting*

IAS 36 *Impairment of Assets*

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

IAS 38 *Intangible Assets*

IAS 39 *Financial Instruments: Recognition and Measurement*. Superseded by IFRS 9 effective 1 January 2015

IAS 40 *Investment Property*

IAS 41 *Agriculture*

IFRS Statements… cont.

IFRIC Interpretations

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

IFRIC 3 *Emission Rights.* Withdrawn June 2005

IFRIC 4 *Determining Whether an Arrangement Contains a Lease*

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

IFRIC 6 *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

IFRIC 8 *Scope of IFRS 2.* Withdrawn effective 1 January 2010

IFRIC 9 *Reassessment of Embedded Derivatives*

IFRIC 10 *Interim Financial Reporting and Impairment*

IFRIC 11 *IFRS 2: Group and Treasury Share Transactions.* Withdrawn effective 1 January 2010

IFRIC 12 *Service Concession Arrangements*

IFRIC 13 *Customer Loyalty Programmes*

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC 17 *Distributions of Non-cash Assets to Owners*

IFRIC 18 *Transfers of Assets from Customers*

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

IFRS Statements… cont.

SIC Interpretations

SIC 1 *Consistency – Different Cost Formulas for Inventories*. Superseded

SIC 2 *Consistency – Capitalisation of Borrowing Costs*. Superseded

SIC 3 *Elimination of Unrealised Profits and Losses on Transactions with Associates*. Superseded

SIC 5 *Classification of Financial Instruments - Contingent Settlement Provisions*. Superseded

SIC 6 *Costs of Modifying Existing Software*. Superseded

SIC 7 *Introduction of the Euro*

SIC 8 *First-Time Application of IASs as the Primary Basis of Accounting*. Superseded

SIC 9 *Business Combinations – Classification either as Acquisitions or Unitings of Interests*. Superseded

SIC 10 *Government Assistance – No Specific Relation to Operating Activities*

SIC 11 *Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations*. Superseded

SIC 12 *Consolidation – Special Purpose Entities*

SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*

SIC 14 *Property, Plant and Equipment – Compensation for the Impairment or Loss of Items*. Superseded

SIC 15 *Operating Leases – Incentives*

SIC 16 *Share Capital – Reacquired Own Equity Instruments (Treasury Shares)*. Superseded

IFRS Statements… cont.

SIC 17 *Equity – Costs of an Equity Transaction*. Superseded

SIC 18 *Consistency – Alternative Methods*. Superseded

SIC 19 *Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29*. Superseded

SIC 20 *Equity Accounting Method – Recognition of Losses*. Superseded

SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

SIC 22 *Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported*. Superseded

SIC 23 *Property, Plant and Equipment – Major Inspection or Overhaul Costs*. Superseded

SIC 24 *Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares*. Superseded

SIC 25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*

SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*

SIC 28 *Business Combinations – 'Date of Exchange' and Fair Value of Equity Instruments*. Superseded

SIC 29 *Disclosure – Service Concession Arrangements*

SIC 30 *Reporting Currency – Translation from Measurement Currency to Presentation Currency*. Superseded

SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

SIC 32 *Intangible Assets – Web Site Costs*

SIC 33 *Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests*. Superseded

Review Questions

1. IFRSs are designed for use by profit-oriented entities. Discuss!
2. Identify the structure of IFRS.
3. What are the main objectives of financial statements?
4. Discuss three underlying assumptions in IFRS.
5. Highlight the qualitative characteristics of financial statements.
6. Enumerate the contents of financial statements.
7. Identify at least five (5) line items in the Statement of Financial Position.
8. Mention five (5) standards and interpretations in all the IFRS statements.

References

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