International Financial Reporting Standards

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WHAT IS STANDARD?

"Standard" - is a norm, a model.

With respect to the regulation of accounting documentation, "standard" means the documented accounting rules in general.

Each of these "rules" (norms, samples) defines terminology, methods, models, reflecting the essence of accounting, or some phenomenon of economic activity.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS is the abbreviation for International Financial Reporting Standards. It is a set of rules and guidelines that every firm has to adhere to ensure their financial statements are consistent with other firms worldwide.

These rules **determine** how a company should record a transaction in the accounting books, among other things. The use of IFRS helps to ensure the transparency and credibility of the accounting statements. And this, in turn, allows third parties to make decisions by going through these financial records.

WHAT IS IAS AND IFRS?

IAS = International Accounting Standards

The IAS was a set of standards that was developed by the International Accounting Standards Committee (IASC). They were originally launched in 1973 but have since been replaced by the IFRS.

IFRS = International Financial Reporting Standards

IFRS is a set of standards that was developed by the International Accounting Standards Board (IASB).

IAS VS. IFRS – WHAT'S THE DIFFERENCE?

The **IAS** and **IFRS** are incredibly similar. In fact, only a handful of the updates in the IFRS make the IAS redundant, meaning that many countries continue to follow IAS and defer to IFRS only when the two differ.

So, what does IFRS and IAS do?

Both IFRS and IAS are standards to which companies must adhere in their financial statements. It is required by EU regulation within Europe.

OVERVIEW OF THE STRUCTURE OF THE IFRS FOUNDATION, IASB AND ISSB

IFRS Foundation

IASB

ISSB

The International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) are organized under an independent foundation named the IFRS Foundation. The Foundation is a not-for-profit corporation which was created under the laws of the State of Delaware, United States of America, on 8 March 2001.

The components of the overall structure of the IFRS Foundation are set out below. The obligations and high-level operating procedures for most components are established under the IFRS Foundation Constitution.

IFRS STRUCTURE

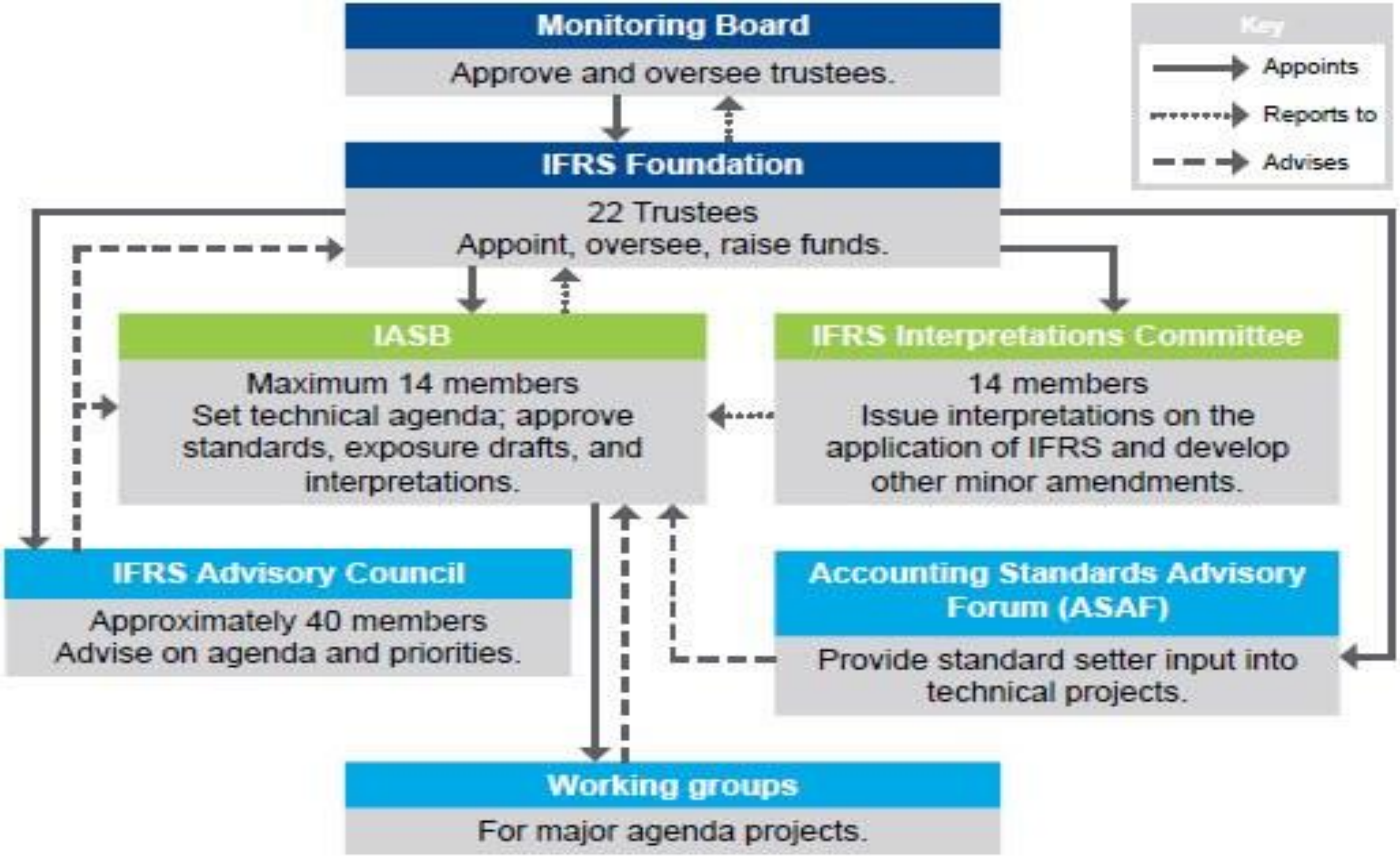
Group	Role	Formed
Governance		
IFRS Foundation	Oversees the work of the IASB, the structure, and strategy, and has fund raising responsibility.	8 March 2001
Due Process Oversight Committee (DPOC)	Trustee committee responsible for the Trustee's oversight function under the IFRS Foundation Constitution.	2006
Monitoring Board	Oversees the IFRS Foundation Trustees, participates in the Trustee nomination process, and approves appointments to the Trustees.	1 February 2009

IFRS STRUCTURE

Group	Role	Formed
Technical		
International Accounting Standards Board (IASB)	Sole responsibility for establishing International Financial Reporting Standards (IFRSs)	1 April 2001 (1)
IFRS Interpretations Committee (2)	Develops interpretations for approval by the IASB, and undertakes under tasks at the request of the IASB	1 April 2001 (2)
International Sustainability Standards Board (ISSB)	Sole responsibility for establishing IFRS Sustainability Disclosure Standards (IFRS SDSs)	3 November 2021
Working groups	Expert task forces for individual agenda projects	Formed as needed

IFRS STRUCTURE

Group	Role	Formed
Advisory		
Accounting Standards Advisory Forum (ASAF)	Advises on the technical standard-setting activi-ties of the IASB	Announced 1 February 2013
IFRS Advisory Council (3)	Advises the IASB and the IFRS Foundation	25 June 2001


Monitoring Board
Approve and oversee trustees.
IFRS Foundation
22 Trustees
Appoint, oversee, raise funds.
IASB
Maximum 14 members
Set technical agenda; approve standards, exposure drafts, and interpretations.
IFRS Interpretations Committee
14 members
Issue interpretations on the application of IFRS and develop other minor amendments.
IFRS Advisory Council
Approximately 40 members
Advise on agenda and priorities.
Accounting Standards Advisory Forum (ASAF)
Provide standard setter input into technical projects.
Working groups
For major agenda projects.
Key
Appoints
Reports to
Advises

IFRS ACCOUNTING STANDARDS

International Financial Reporting Standards (IFRSs) are international accounting standards issued by the IASB

International Accounting Standards (IASs) are international accounting standards issued by the International Accounting Standards Committee (IASC). The IASC was replaced by the IASB in 2001.

Standing Interpretations Committee (SIC) Interpretations were developed by the Standards Interpretations Committee and were subsequently endorsed by the IASB between 1997 and 2001.

International Financial Reporting Interpretations Committee (IFRIC) Interpretations are developed by the IFRS Interpretations Committee and are issued approval by the IASB.

IFRS

IFRS 1 First-time Adoption of IFRS
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 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
IFRS for SMEs

IAS STANDARDS

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Statement of Cash Flows (previously Cash Flow Statements)
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Reporting Period
IAS 12 Income Taxes
IAS 16 Property, Plant and Equipment
IAS 19 Employee Benefits
IAS 20 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
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 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
IAS 40 Investment Property
IAS 41 Agriculture

IFRICs

IFRIC 1 Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 5 Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6 Liabilities Arising from Participating in a Specific Market
IFRIC 7 Applying the Restatement Approach under IAS 29
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 12 Service Concession Arrangements
IFRIC 14 IAS 19: Limit on Defined Benefit Asset
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
IFRIC 21 Levies
IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 23 Uncertainty over Income Tax Treatments

SIC INTERPRETATIONS

SIC 7 Introduction of the Euro
SIC 10 Government Assistance – No Specific Relation to Operating Activities
SIC 25 - Changes in the Tax Status of an Enterprise or its Shareholders
SIC 29 Disclosure - Service Concession Arrangements
SIC 32 Intangible Assets – Website Costs

IFRS IN SHORT

- International Financial Reporting Standards (IFRS) **are developed by** the International Accounting Standards Board (IASB);
- Until 2000, International Accounting Standards (IAS) **were developed by** the International Accounting Standards Committee, which was the predecessor of IAS;
- Initially, the **IFRS** was known as **IAS** (International Accounting Standards), and it issued standards from 1973 to 2000. In 2001, when IASB (International Accounting Standards Board) took up the responsibility for developing new accounting standards, the name was changed to IFRS.
- The International Financial Reporting Interpretations Committee develops **interpretations of standards;**
- Until 2002, the International Accounting Standards Interpretation Committee (predecessor of the International Financial Statements Interpretation Committee) developed **interpretations of standards.**
- In order for the standards and their interpretations to have the force of legal acts, the standards and their interpretations **have been adopted in the form of regulations**.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- **IFRS** mandates that all companies follow it uses the same rules and standards to prepare their financial statements. It means there is uniformity in the financial statements across firms, segments, and nations. And, in turn, it gets easier to evaluate the numbers of two or more companies.
- The **benefit** to the companies is that investors are more likely to trust and invest in companies that are transparent and follow standard accounting and disclosure norms.
- More than **100 countries** currently follow these standards, including the EU, South America, and many Asian countries. However, few countries like the US and the UK follow their accounting standards known as **GAAP** (Generally Accepted Accounting Principles).

OBJECTIVES

The following are the **objectives of IFRS**:

- To establish a universal language for the companies to prepare the accounting statements.
- To establish accounting rules to make it easier for the stakeholders to interpret the financial statements, irrespective of the business location.
- Make the accounting statements credible and transparent.
- To assist companies in appropriately categorizing and reporting financial data.
- It makes international comparisons and analysis an easy task.

TOPICS COVERED

IFRS has **set rules and guidelines for a range of areas**.

These topics are – financial statements presentation; Borrowing costs; Income taxes; Investment in associates; Revenue recognition; Employee benefits; Inventories; Intangible assets; Retirement benefit plans; Foreign exchange rates; Operating segments; Fixed assets; Business combinations; Subsequent events; Leases; Industry-specific accounting (agriculture).

IFRS has also set **mandatory rules** for some business components of various key financial statements. In other words, it provides for what all should be part of those specific financial statements. And these are:

TOPICS COVERED

Statement of Financial Position

IFRS mandates the components of how to report and prepare the balance sheet.

Statement of Comprehensive Income

The statement of comprehensive income means preparing a statement of income. It could be one single statement for all income sources. Or, one can prepare it in several parts, such as a profit and loss statement, other income statements, and more.

TOPICS COVERED

Statement of Changes in Equity

Another name for this is the statement of retained earnings. Based on the inputs, It concludes any increase or decrease in the retained earnings during the period.

Statement of Cash Flow

It categorizes all the cash transactions into Operations, Investing, and Financing.

Apart from these statements, entities following IFRS also need to provide an overview of their **accounting policies**. Also, a parent firm needs to prepare individual reports for every subsidiary.

IFRS ASSUMPTIONS

All the rules, regulations, and guidance provided under IFRS are based upon four key accounting assumptions. And these assumptions are:

- **Going Concern**

The first and foremost assumption is that the sole concept will guide all number crunching, evaluation, estimation, and recording that the business or **the company will continue its activity**. In other words, the business continues for the foreseeable future, and there is nothing like business is coming to an end.

- **Accrual Basis**

This assumption implies that a business **will recognize the impact of transactions as they occur** and not when it results in cash inflow and outflow. In other words, a transaction happening or an event is essential rather than the exchange of money, which can occur in advance or later on.

IFRS ASSUMPTIONS

➢ **Stable Measuring Unit**

This assumption implies that all financial transactions and recordings will consistently happen in the common standard currency across accounting periods. It further directs that a company will record the assets and liabilities at their acquisition value or original cost.

➢ **Units of Constant Purchasing Power**

This assumption implies a few exceptions to the stable measuring unit concept in certain situations, such as inflation or deflation.

IFRS AND US GAAP

Even though both these accounting standards have similar objectives, there are many differences between the two.

1. The first and primary difference between the two is that IFRS is **suggestive and principle-based**. On the contrary, US GAAP is **based on rules**. Principle-based frameworks are flexible, while rule-based ones are more rigid.

2. Another difference is the **treatment of revenue**. IFRS requires firms to report revenue early. It could mean higher revenue in comparison to GAAP.

IFRS AND US GAAP

3. There is a difference **in the treatment** of some expenses as well. For instance, a company may not treat the spending on developing its business or for its future as an expense. The company can capitalize on it. However, as per GAAP, it is an expense, whereas, under IFRS, capitalization of such expenses is possible under certain circumstances.

4. Another difference is **in the accounting of inventory**. There are two popular methods to track and value inventory – first in first out (FIFO) and last in first out (LIFO). IFRS requires companies to use FIFO, but GAAP allows companies to use either of the two.

5. Moreover, there is a difference **in the presentation of extraordinary items in the income statement**. GAAP shows extraordinary items below the income statement; however, no such segregation is there in IFRS.

EFFORTS TO INTEGRATE THE TWO STANDARDS

Work is ongoing to reduce the variance between the GAAP and IFRS. Still, one expects some differences in the financial statements using these two accounting frameworks. The **ultimate objective is to merge** GAAP into IFRS, but it could take a long time to achieve this feat.

Once there is a merger of both guidelines, it would result in substantial **cost savings and avoidance of duplicate efforts** for the companies that do business in the US and other countries. Such companies won't have to pay to get their financial statements to transform into other frameworks to meet the regulatory requirements.

FINAL WORDS

The primary objective of the IFRS is **to make financial statements comparable across the globe**. Even though it is the most popular accounting standard across the world, it is yet to achieve its objective fully. It is because of the presence of US GAAP and other accounting standards. Nevertheless, work is ongoing to consolidate accounting standards across the globe.

IFRS

IFRS (International Financial Reporting Standards) is a set of rules and guidelines that every firm has to adhere to ensure their financial statements are consistent with other firms worldwide.

OBJECTIVES

- Establish universal language for companies to prepare accounting statements.
- Establish accounting rules to make it easier for stakeholders to interpret financial statements.
- Make the accounting statements credible and transparent.
- Assist companies appropriately categorize and report financial data.
- Make international comparisons & analysis an easy task.

TOPICS COVERED IN IFRS

Financial statements presentation; Borrowing costs; Income taxes; Investment in associates; Revenue recognition; Employee benefits; Inventories; Intangible assets; Retirement benefit plans; Foreign exchange rates; Operating segments; Fixed assets; Business combinations; Subsequent events; Leases; Industry-specific accounting (agriculture).

KEY FIN. STATEMENTS

- Statement of Financial Position
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flow

IFRS ASSUMPTIONS

- Going Concern
- Units of Constant Purchasing Power
- Accrual Basis
- Stable Measuring Unit

IFRS	US GAAP
IFRS is suggestive & principle based.	US GAAP is more rule based approach.
IFRS requires firms to report revenue early.	US GAAP does not support early revenue declaration.
Presentation of Extra Ordinary Item can be made anywhere.	Presentation of Extra Ordinary items below income statement.

QUIZ ON IFRS

This quiz will help you quickly check what you have heard and read in class today...

QUESTION #1

__________ is a set of rules and guidelines that ensure transparency and credibility of the accounting statements.

- ❑ International Financial Reporting Standards(IFRS).
- ❑ Generally Accepted Accounting Principles(GAAP).

QUESTION #1 - ANSWER

__________ is a set of rules and guidelines that ensure transparency and credibility of the accounting statements.

- ❑ **International Financial Reporting Standards(IFRS).**
- ❑ Generally Accepted Accounting Principles(GAAP).

QUESTION #2

Which of the accounting assumptions implies recognizing transactions as and when it occurs irrespective of the inflow and outflow of cash?

- Going Concern
- Accrual Basis.

QUESTION #2 - ANSWER

Which of the accounting assumptions implies recognizing transactions as and when it occurs irrespective of the inflow and outflow of cash?

- Going Concern
- **Accrual Basis.**

QUESTION #3

Which of the following accounting standards requires the presentation of extra ordinary items below the income statement?

- Generally Accepted Accounting Principles (GAAP).
- International Financial Reporting Standard (IFRS).

QUESTION #3 - ANSWER

Which of the following accounting standards requires the presentation of extra ordinary items below the income statement?

- **Generally Accepted Accounting Principles (GAAP).**
- International Financial Reporting Standard (IFRS).

QUESTION #4

IFRS requires companies to use the First in First out (FIFO) method of inventory valuation. True or False?

- ➢ True.
- ➢ False.

QUESTION #4 - ANSWER

IFRS requires companies to use the First in First out (FIFO) method of inventory valuation. True or False?

- **True.**
- False.

QUESTION #5

________________ is accounting assumption implies recording of all the financial transaction in common standard currency consistently across accounting periods.

- Stable Measuring Unit
- Units of Constant Purchasing Power

QUESTION #5 - ANSWER

_______________ is accounting assumption implies recording of all the financial transaction in common standard currency consistently across accounting periods.

- **Stable Measuring Unit**
- Units of Constant Purchasing Power

Thank You for Your attention!