International Financial Reporting Standards

(Volume 1, Version 1)

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Introduction

There cannot be two opinions on the question:

"Why are uniform accounting or financial reporting standards essential worldwide?"

As finance and accounting professionals, we are aware of the trend wherein borders and barriers are gradually vanishing when it comes to business and commerce across the globe. There is thus a compulsive need for standardised definitions, similar assumptions, and uniform recognition and measurement principles, particularly when finalising the financial reports of commercial entities.

We know that various stakeholders, – shareholders / customers / suppliers / employees and tax collectors, whose monies are at stake, should be reasonably confident that the financial reports produced by a company are comparable with its own reports of the previous years as well as with other companies in the same industry as also with the relevant industry statistics.

Such a kind of convergence of international standards includes elimination of multiple reporting and better access to capital market with reduced cost of capital. Therefore, it is clear that the International Financial Reporting Standards (IFRS) are here to stay. However, while some countries have adopted the IFRS, others are converging or are in the process of converging with the International Financial Reporting Standards. Such convergence will be the first step towards fully adopting the IFRS in future.

History of International Standards

In the past two decades, the momentum to converge with the international standards has been increasing throughout the world. The need for such convergence first emerged way back in 1950, in response to the post-World War II economic integration and capital flows across borders. The original term used was "harmonisation" but later, during 1990s, it got replaced with the word "convergence".

The first global standards setting body, the International Accounting Standards Committee (IASC) was set up in 1973. The stated intent of this body was to release standards that must "be capable of rapid acceptance and implementation worldwide".

Next came the Standing Interpretations Committee (SIC) in 1997 to give guidance on the contentious accounting issues, which needed authoritative interpretation to stop the widespread variation in the accounting practices.

From 1973 till 2000, IASC has released a series of standards called 'International Accounting Standards' beginning with IAS 1 and ending with IAS 41 – Agriculture, which was published in December 2000. Several interpretations were issued by SIC on these standards during the period.

In the meantime, a conceptual framework was published during 1989. Many national accounting standard setters used this framework while setting their own national accounting standards. The framework provided the basic concepts underlying the preparation and presentation of financial statements for external users. The scope of the framework included the:

- Objective of financial reporting
- Qualitative characteristics of useful financial information
- Reporting entity
- Definition, recognition and measurement of the elements from which financial statements are constructed and
- Concepts of capital and capital maintenance

The IASB

In the year 2001, the IASC was reorganised and replaced by the International Accounting Standards Board (IASB). The IASB adopted the body of standards issued by the IASC and continued the numbering with prefix **IAS** as given by the IASC.

However, to differentiate the standards issued by the IASB from others, the International Accounting Standards Board numbered the series of standards published by the board with the prefix IFRS. IFRS are a new numbered series distinct from the IAS issued by its predecessor IASC. However, broadly, the IFRS includes the entire body of pronouncements, viz. the IFRS standards, the IAS standards, and all interpretations issued by the SIC. IAS 1.7 defines IFRS as comprising:

- International Financial Reporting Standards;
- International Accounting Standards; and
- Interpretations issued by the IFRS Interpretations Committee (IFRIC) as well as the former Standing Interpretations Committee (SIC).

Incidentally, by December 2001, the Standing Interpretations Committee (SIC) had been reconstituted as the International Financial Reporting Interpretations Committee (IFRIC).
The first IFRS, viz. IFRS 1: First-time Adoption of International Financial Reporting Standards, was published in June 2003.

The major milestone for IASB was when the European Commission adopted a regulation endorsing the International Accounting Standards (IAS) in September 2003. This confirmed the requirement for their compulsory use from 2005.

In 2002, the Financial Accounting Standards Board (FASB) in USA and IASB embarked on a partnership to improve and converge U.S. GAAP with the International Financial Reporting Standards
The following link gives all the projects undertaken by the IASB since 2006:
http://www.ifrs.org/Current+Projects/IASB+Projects/All_projects.htm

Present Status

As of 2009, the European Union and over 100 other countries either require or permit the use of International Financial Reporting Standards (IFRS) issued by the IASB or a local variant of them. Many countries, including Canada, Korea, India and Brazil, had committed to adopt IFRS by 2011. Countries like China and Japan have also taken up their convergence plans with IASB.
In USA, the Securities and Exchange Commission (SEC) proposed a roadmap for convergence with international standards, which, if adopted, would result in the use of international standards by U.S. SEC registrants in 2014. Both the FASB and IASB are working on several areas of convergence in this regard.
As on December 2011, The International Accounting Standards consist of:

1. 13 IFRS standards
2. 28 IAS standards
3. 16 IFRIC interpretations
4. 8 SIC interpretations and
5. The Conceptual Framework for IFRS

Out of the above, the effective date for IFRS 9 is from 1st January 2015.
The effective date for IFRS 10 to 13 is from 1st January 2013.
The effective date for the three amended standards, viz. IAS 19, 27 and 28, is from 1st January 2013.

Future Plans of IASB

IASB is simultaneously working on several amendments and improvement projects. Some of them are standards for Financial Instruments, Leases, Revenue Recognition, Insurance and so on. IASB is also carrying out annual improvements with regard to other standards.

A detailed work plan of the projects can be viewed from the following link:

http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm

Indian Scenario

India accepted to converge with the International Standards from April 2011. The Ministry of Corporate Affairs (MCA) has also notified a roadmap for a phased implementation of these standards.

Roadmap

The first set of Accounting Standards (that is, converged accounting standards) will be applied to a specified class of companies in three phases.

(a) **Phase – I:** The following categories of companies will convert their opening balance sheets as at 1st April 2011 if the financial year commences on or after 1st April 2011 in compliance with the notified accounting standards, which are convergent with IFRS.

These companies are:

a. Companies that are part of NSE – Nifty 50
b. Companies that are part of BSE – Sensex 30
c. Companies whose shares or other securities are listed on stock exchanges outside India
d. Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores

(b) **Phase – II:** The companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores will convert their opening balance sheet as at 1st April 2013 if the financial year commences on or after 1st April 2013 in compliance with the notified accounting standards, which are convergent with IFRS.

(c) **Phase – III:** Listed companies, which have a net worth of Rs. 500 crores or less, will convert their opening balance sheet as at 1st April 2014 if the financial year commences on or after 1st April 2014, whichever is later, in compliance with the notified accounting standards, which are convergent with IFRS.

Though the Ministry of Corporate Affairs has notified the roadmap, the actual implementation date remains to be notified by the ministry as at December 2011. It is stated that the actual implementation is pending in order to resolve the tax matters that would arise on implementing the new standards.

Also note that the Indian Accounting Standards – Ind AS – are applicable only to the companies that would fall under Phases 1, 2 and 3, as mentioned above. Other companies still have to follow the existing Accounting Standards (AS).

Ind AS

During February 2010, the MCA published 36 Ind AS standards corresponding to both the IFRS and IAS, along with the Framework for Preparation and Presentation of the Financial Statements.

These can be downloaded from the link:

http://www.icai.org/post.html?post_id=7543

Ind AS are converged standards. They also have corresponding IFRIC and SIC interpretations. However, though the Ind AS standards have been notified, the MCA has deferred certain IFRS and IFRIC interpretations for specific reasons. In addition, there are carve outs in some standards as also a few other major changes in other standards.

These can be downloaded from the link:

http://220.227.161.86/23157announ240611.pdf

Why These Voluminous Books?

Just Simplification!

Though the international standard setting activities started way back in 1950, the momentum accelerated from 1990. Around that time, the IASB had come into being. Around the same time, USA's FASB took serious note of the developments and got into an active convergence process. With the acceptance of the standards by the EU, there was no time for the IASB to look back. Several standards started rolling out along with 'N" number of amendments, additions, deletions and interpretations.

This massive exercise has resulted in about more than 10,000 pages of content, which includes standards, basis for conclusions, application guidelines and implementation guidelines.

The recent progress has been so dynamic that unless each organisation sets up a department to follow up on the IFRS developments, one may easily get outdated.

With this being the position, even reading the standards once, understand the principles from the language of the standards, and assimilate and apply the same in the actual environment may turn out to be next to impossible for many persons.

Hence, what we have attempted in these three volumes is simplification of the content related to the entire standards.

The starting point of these volumes is the standards issued by the IASB. These books aim at simplifying the complex phenomenon involved in understanding the objectives, scope, applicability and exclusions, classification, recognition, measurements, presentation, disclosures and reporting principles of the standards to the extent dealt by each standard.

Our objective is to guide the readers with an easy-to-understand approach. The various concepts and principles have been addressed in the following pattern:

a. Simplification of the various original clauses of the standards as given by IASB / IND AS
b. Rearranging and grouping of the standards in logical flows
c. Value addition through examples and case studies
d. Additional headings and sub-headings to suit the relevant content

The topics are covered based on the 2009 version of the standards published by the IASB. There are five new standards – IFRS 9 to IFRS 13 – and three revised standards issued by IASB as at December 2011. Effective date for IFRS 9 is 1st January 2015 and for others it is 1st January 2013. These new and amended standards are not a part of this version of the books.

Every attempt has been made to simplify the language and make it comprehensive, complete and correct. Updates till 2011 have been added as Annexure. Still, there is a scope for improvements and corrections, wherever required. My humble request to the readers is to please give your valuable feedback, which will help in improving the next edition.

Acknowledgement

At this point, I would like to, with gratitude, place on record the two important persons who have constantly trusted and motivated me in writing this book – Mr. S A Muraliprasad and Mr. S Santhanakrishnan. They always said "You Can" when I myself lacked confidence and was doubtful. They have continuously guided me with their intellectual support throughout and remain doing so.

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