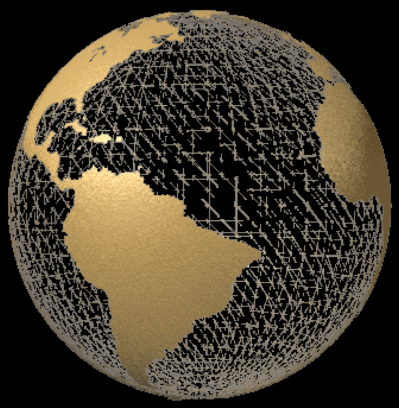
# IFRS
## (International Financial Reporting Standards)



Presented by
Bhavya kannaiah

# History

- IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee(IASC).
- On 1 April 2001, the new International Accounting Standards Board took over from the IASC the responsibility for setting International Accounting Standards.
- The IASB has continued to develop standards calling the new standards International Financial Reporting Standards

# International Financial Reporting Standards (IFRS)

## Meaning

- **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.
- 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.

# Definition-IFRS

- ✓ A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements.

- ✓ IFRS are issued by the International Accounting Standards Board.

# Objective of financial statements

- A financial statement should reflect a true and fair view of the business affairs of the organization.
- As statements are used by various constituents of the society / regulators, they need to reflect a true view of the financial position of the organization, and they are very helpful to check the financial position of the business for a specific period.

# Why IFRS

- International Financial Reporting Standards (IFRS) convergence, in recent years, has gained momentum all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards.

# Adoption of IFRS

- IFRS are used in many parts of the world, including the European Union, India, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, Chile, South Africa, Singapore and Turkey.
- As more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting and 85 require IFRS reporting for all domestic, listed companies, according to the U.S. Securities and Exchange Commission.

# Elements of financial statements

- **Statement of Financial Position**. The elements include:
  - **Asset**: An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
  - **Liability**: A liability is a present obligation of the enterprise arising from the past events, the settlement of which is expected to result in an outflow from the enterprise' resources, i.e., assets.
  - **Equity**: Equity is the residual interest in the assets of the enterprise after deducting all the liabilities under the Historical Cost Accounting model.
  - Equity is also known as owner's equity.

- **Statement of Comprehensive Income**(income state mentor profit and loss account). The elements of an income statement or the elements that measure the financial performance are as follows:
  **Revenues**: increases in economic benefit during an accounting period in the form of inflows or enhancements of assets, or decrease of liabilities that result in increases in equity.
  However, it does not include the contributions made by the equity participants, i.e., proprietor, partners and shareholders.
  **Expenses**: decreases in economic benefits during an accounting period in the form of outflows, or depletions of assets or incurrence's of liabilities that result in decreases in equity.

# India and IFRS

- ✓ In India, there will be two set of Accounting Standards –

- ➢ <u>The existing Indian Accounting Standards (AS)</u>

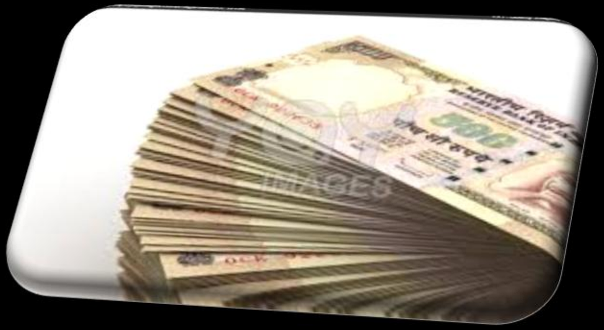
  Applicable to all companies which are not required to adopt IFRS converged standards.

- ➢ <u>Indian Accounting Standards, as converged with IFRS (Ind-AS)</u>

  *A*pplicable to companies operating in India in phased manner. The date of implementation of the Ind-AS is expected to be with effect from Financial Year 2016-17.

# GLOBAL CONVERGANCE OF ACCOUNTING STANDARDS

- ✓ Global convergence of accounting standards is the process by which standards -setters around the world discuss accounting issues and combine their experiences in order to arrive at the most appropriate solution.
- ✓ Convergence ,in fact, is a step towards developing a universally accepted common language to communicate financial information.



# Timeline for Convergence (major countries)

Europe ,UK
2005

Canada
2011

India
2016

USA
2016

Japan
2016

# IFRS adoption and implementation: Benefits

- increase credibility and reliability of financial statements especially in cross-border transactions.

- Comparability of financial statements at both national and international levels.

- Easy access to technical support given the widespread adoption around the world.

# IFRS adoption and implementation: Benefits

- Career mobility of accounting professionals.
- Extensive disclosures useful for a wide variety of stakeholders including shareholders, lenders, regulators, customers, suppliers, etc.
- Improves quality of information necessary for management decisions.

# Basic Difference

| Basis | IFRS | AS |
|---|---|---|
| Principle vs Rule based standards | Principle based. Economic sub-stance of the transaction is the prime evaluation factor. | Generally rule based. Compa-nies act and rules dominate and guide as to how a transaction is recorded. |
| Standards vs Local laws | Accounting standards take precedence over local laws. | Local regulations usually take precedence while preparing fi-nancial statements. Whenever there is between law standard, the law prevails. |
| Presentation of financial statements | Primarily, no prescribed format. Assets and liabilities need to be divided into current and non-current. | Companies Act and other industry regulations have defined prescribed formats. |
| Depreciation on fixed assets | Depreciation is an annual charge on basis of estimated life of assets. | Useful lives have been prescribed in Schedule II of the Indian Company's Act. |
| Cash flow statements | Mandatory. Any of the direct or indirect method can be used. | Mandatory for some. Direct method for insurance compa-nies and indirect method for other listed companies. |
| Change in accounting policy and estimates | Comparatives are restated unless specifically exempted where the effect of period(s) not presented is adjusted against opening retained earnings. | The effect of change is in-cluded in current year income statement. The impact of the change is disclosed. |

| | | |
|---|---|---|
| Valuations | Provides specific guidance and standards to deal with mergers, acquisitions, take over, amalgamations etc specifically as regards to valuation | Positions taken under IAS are debatable. |
| Adoption methodology` | IFRS 1 spells out the methodology and systems to be adopted for first time adoption of IFRS. IFRS specifies the financial reporting in hyper inflationary economies. Also has a specific standard for retirement benefit plans, agriculture, insurance contracts and disclosure of financial instruments. | More traditional and insulated from changing economic scenario. A more historical perspective. |

# Corporate Impacted by IFRS in India

- In the initial phase, the large entities are expected to adopt Ind-AS.

➢ The large entities might be:

✓ Public Listed Companies forming part of Stock Exchange Index
✓ All companies above a particular level of net worth.
✓ Indian subsidiary of foreign companies, if so required by the parent company for consolidation process

# Some Key Challenges to Implementation

a) Amendments in the Law -

- ✓ IFRS will have a bearing on the legal provisions as are presently set out in the Indian Income Tax Act, Companies Act, etc.

b) Impact on financial results -

- ✓ Financial reports will experience a lot of changes. For example treatment of depreciation differs. Hence, the value of assets as well as the probability of the organization may swing,which,in turn, may impact the net worth.

# Some Key Challenges to Implementation

c) User awareness and training –

- Many people are yet not aware of IFRS, their complexities and impact. A change in the reporting format will require awareness of these new norms and systems, training and education, both professional as well the user.