International Financial Reporting Standards (IFRS)

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- 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.

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 (IFRS).

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.

Qualitative characteristics of financial statements

- Comparability
- Verifiability
- Timeliness
- Understandability

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.

Measurement of the elements of financial statements

- (a) Historical cost
- Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.
- Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

- (b) Current cost.
- Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently.
- Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

- (c) Realizable (settlement) value.
- Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal.
- Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.
- Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Requirements of IFRS

- a Statement of Financial Position
- a Statement of Comprehensive Income separate statements comprising an Income Statement and separately a Statement of Comprehensive Income, which reconciles Profit or Loss on the Income statement to total comprehensive income
- a Statement of Changes in Equity (SOCE)
- a Cash Flow Statement or Statement of Cash Flows

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.

- THANK YOU