

International Financial Reporting Standards — Changing Fundamentals

The International Financial Reporting Standards (IFRSs) are a new set of accounting standards issued by the Interna-

is the development and rigorous application of a single set of global accounting standards, which will produce high quality transparent and com-



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International Financial Reporting Standards (IFRSs) refer to the new series of pronouncements that the International Accounting Standards Board (IASB) is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor, the International Accounting Standards Committee (IASC). The objective is to develop a single set of high quality, understandable and enforceable global accounting standards that will form the 'stable platform' for international accounting. The correct adoption of IFRS will bring more transparency and a higher degree of comparability, both of which promise many benefits for the organisations, including enhanced investor confidence, greater consistency and transparency of financial reporting as well as the ability to compare financial information from companies around the world.

tional Accounting Standards Board (IASB). The IASB replaced the International Accounting Standards Committee (IASC) in April 2001. The IASC has issued a total of 68 exposure drafts, 41 International Accounting Standards (IASs) and Interpretations of IAS between 1973 and 2001.

Subsequently the IASB made a statement on April 23, 2001 about current and future standards: *IASB publishes its Standards in a series of pronouncements called IFRS. It has also adopted the body of Standards issued by the Board of the IASC. Those pronouncements continue to be designated IAS.*

The ultimate goal of IASB

parable information in general purpose financial statements.

On 23rd May 2002, the IASB published the 'Preface to IFRS', which provided 'a brief description of the purpose and function of the main structures of the new arrangements for setting global standards'. Since then, the IASB has issued a number of new IFRSs to replace some IASs and on topics for which there was no IAS as part of its 'convergence project'. In addition, the IASB has made improvements and revisions to some IASs as part of its 'improvement project'. Numerous interpretations and exposure drafts have also been issued.

Overview of IFRSs

There are seven new IFRSs currently in effect (See Table A on next page).

A brief introduction about the scope of each of IFRSs is given below:

IFRS 1 First-time Adoption of International Financial Reporting Standards: IFRS 1 sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. A first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that its general-purpose financial statements comply with IFRSs.

IFRS 2 Share-based Payment: IFRS 2 encompasses the issuance of shares, or rights to shares, in return for services and goods. A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of (a) equity, (b) cash, or (c) equity or cash.

Table - A

IFRS	Project carried over from IASC	Project added to IASB Agenda	Exposure Draft issued	IFRS Issued	Effective Date	Amendment
IFRS 1	-	Sept2001	July 2002	June 2003	Jan 1, 2004	June 30, 2005
IFRS 2	-	July 2001	Nov2002	Feb 2004	Jan 2005	-
IFRS 3	April 1, 2001	July 2001	Dec 5, 2002	March, 2004	March 31, 2004	-
IFRS 4	April 1, 2001	May 2002	July 31, 2003	March, 2004	Jan 1, 2005	Aug 18, 2005
IFRS 5	-	Sept2002	July 24, 2003	March, 2004	Jan 1, 2005	-
IFRS 6	April 1, 2001	-	Jan 16, 2004	Dec 10, 2004	Jan 1, 2006	June 30,2005
IFRS 7	April 1, 2001	-	July 22, 2004	Aug 18, 2005	Jan 1, 2007	-

IFRS 3 Business Combinations: IFRS 3 applies to all business combinations except combinations of entities under common control, combinations of mutual entities, combinations by contract without exchange of ownership interest, and functions of joint ventures. A business combination is the bringing together of separate entities or businesses into one reporting entity.

IFRS 4 Insurance Contracts: IFRS 4 applies to virtually all insurance contracts (including reinsurance contracts) that an

entity issues and to reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*. Furthermore, it does not address accounting by policyholders. An insurance contract is a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified

uncertain future event (the insured event) adversely affects the policyholder.”

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: IFRS 5 replaces IAS 35 Discontinuing Operations. The definition of discontinued operations is very much the same as the definition of discontinued operations in IAS 35. However, the timing of the classification now depends on when the discontinued operation satisfies the criteria to be classified as held for sale. The same requirement applies



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to non-current assets held for sale. Further, IFRS 5 requires the results of discontinued operations to be presented as a single amount on the face of the income statement.

IFRS 6 Exploration for and Evaluation of Mineral Assets: IFRS 6 requires entities recognising exploration and evaluation of assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

IFRS 7 Financial Instruments: Disclosures— IFRS 7 adds certain new disclosures about financial instruments to those currently required by IAS 32 Financial Instruments: Disclosures and Presentation; replaces the disclosures now required by IAS 30 Disclo-

tures in the Financial Statements of Banks and similar financial institutions; and puts all those financial instruments' disclosures together in IFRS 7. The remaining parts of IAS 32 Financial Instruments: Disclosures and Presentation deal only with financial instruments presentation matters.

Status of IASs

Consequent on the changes and revisions made by the IASB, the current status of each of the IASs is given below:

IAS 1 Presentation of Financial Statements: Revised by IASB in December 2003 and June 2005. Applicable for the annual period beginning on or after January 1, 2005.

IAS 2 Inventories: Revised by IASB in December 2003. Applicable for the annual

period beginning on or after January 1, 2005.

IAS 3 Consolidated Financial Statements: Originally issued in 1976, effective January 1, 1977. Withdrawn by IASC. No longer effective. Superseded in 1989 by IAS 27 and IAS 28.

IAS 4 Depreciation Accounting: Withdrawn by IASC. No longer effective. Superseded in 1999 by IAS 16, IAS 22 and IAS 38.

IAS 5 Information to be Disclosed in Financial Statements: Originally issued October 1976, effective January 1, 1977. No longer effective. Withdrawn by IASC. Superseded in 1997 by IAS 1.

IAS 6 Accounting Responses to Changing Prices: Withdrawn by IASC. No longer effective. Superseded by IAS 15.

IAS 7 Cash Flow Statements: Revised by IASC in 1992.

IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors: Title changed from 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' and revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 9 Accounting for Research and Development Activities: Withdrawn by IASC. No longer effective. Superseded by IAS 38 effective July 1, 1999.

IAS 10 Events After the Balance Sheet Date: Revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 11 Construction Contracts: Revised by IASC in 1993.

IAS 12 Income Taxes: Revised by IASC in 2000.

IAS 13 Presentation of Current Assets and Current Liabilities: Withdrawn by IASC. No longer effective. Superseded by IAS 1.

IAS 14 Segment Reporting: Revised by IASC in 1997.

IAS 15 Information Reflecting the Effects of Changing Prices: Withdrawn by IASB in December 2003 with effect from January 1, 2005. No longer effective.

IAS 16 Property, Plant and Equipment: Revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 17 Leases: Revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 18 Revenue: Revised by IASC in 1993.

IAS 19 Employee Benefits: Revised by IASC in 2000.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance: Reformatted by IASC in 1994.

IAS 21 The Effects of Changes in Foreign Exchange Rates: Revised by IASB in December 2003. Applicable for the annual periods beginning on or after January 1, 2005.

IAS 22 Business Combinations: Revised by IASC in 1998. Though superseded by IFRS 3 Business Combinations with effect from January 1, 2005, will continue to be applicable until adoption and notification of IFRS 3.

IAS 23 Borrowing Costs: Revised by IASC in 1993.

IAS 24 Related Party Disclosures: Revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 25 Accounting for Investments: Withdrawn by IASC. No longer effective. Superseded by IAS 39 and IAS 40 effective 2001.

IAS 26 Accounting and Reporting by Retirement Benefit Plans: Reformatted by IASC in 1994.

IAS 27 Consolidated and Separate Financial Statements: Title changed from 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries' and revised by IASB in December 2003. Applicable for the annual periods beginning on or after January 1, 2005.

IAS 28 Investments in Associates: Title changed from 'Accounting for Investments in Associates' and revised by IASB in December 2003. Applicable for the annual period beginning on or after January 1, 2005.

IAS 29 Financial Reporting in Hyperinflationary Economies: Reformatted by IASC in 1994.

IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions: Reformatted by IASC in 1994. Superseded by IFRS 7 Financial Instruments: Disclosures effective 2007.

IAS 31 Interests in Joint Ventures: Title changed from 'Financial Reporting of Interests in Joint Ventures' and revised by IASB in December 2003. Applicable for the annual periods beginning on or after January 1, 2005.

IAS 32 Financial Instruments: Disclosures and Presentation: Revised by IASB in December 2003 and August 2005. Applicable for the annual periods beginning on or after January 1, 2005. Disclosure provisions superseded by IFRS 7 Financial Instruments:



Disclosures effective 2007.

IAS 33 Earnings Per Share: Revised by IASB in December 2003. Applicable for the annual periods beginning on or after January 1, 2005.

IAS 34 Interim Financial Reporting: Revised by IASC in 1998.

IAS 35 Discontinuing Operations: Though superseded by IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations with effect from January 1, 2005, will continue to be applicable until adoption and notification of IFRS 5.

IAS 36 Impairment of Assets: Revised by IASB in March 2004. Applicable for the annual periods beginning on or after March 31, 2004 to all assets other than acquisi-

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tion of goodwill and intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Revised by IASC in 1998.

IAS 38 Intangible Assets: Revised by IASB in March 2004. Applicable for the annual periods beginning on or after March 31, 2004 to all intangible assets other than acquisition of intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004.

IAS 39 Financial Instruments: Recognition and Measurement: Revised by IASB in March 2004 and August 2005. Applicable for the annual period beginning on or after January 1, 2005.

IAS 40 Investment Property: Revised by IASB in December 2003 and March 2004. Applicable for the annual period beginning on or after January 1, 2005.

IAS 41 Agriculture: Issued in 2001. Applicable for the annual period beginning on or after January 1, 2003.

Benefits

Adopting a common financial reporting language is a big step towards improving the efficiency of international capital markets. The adoption of IFRS will reduce barriers to both trade and the flow of capital. Investors will have access to more reliable financial data to compare and analyse corporate performance in multiple jurisdictions.

Sir David Tweedie, Chairman, IASB, list out the benefits of IFRSs: *“The goal is to*

create one single set of accounting standards that can be applied anywhere in the world, saving millions for firms with more than one listing and allowing investors to compare the performance of businesses across geographic boundaries for the first time.” As issuers of securities, companies will be able to access investors more easily, potentially reduce their cost of capital, and save the costs of conforming to different requirements in different jurisdictions. Audit firms will be better able to assure quality of audits among national partner firms. Regulators will benefit from the greater consistency and quality of information. On a macro economic level, the gains to be derived from such a market are considerable. Also on a lower level, the move to IFRS is beneficial. It presents company executives with opportunities to challenge the way in which their company is viewed and evaluated by investors, other key stakeholders, and competitors.

A conversion to IFRS allows companies to:

- re-shape internal management reporting systems to effectively manage financial accounting and financial statement generation within the new regime, and to provide essential management information required internally.
- improve the metrics that evaluate company and executive performance, particularly in terms of increasing shareholder value.
- enhance the communication of the company's financial results and posi-

tion—together with other performance indicators—to analysts, investors, and other key stakeholders.

- benchmark the company against its global peer group, gaining a broader and deeper understanding of the company's relative standing by looking beyond the country and regional benchmarks.
- reduce its cost of capital.

Conversion to IFRS

It will require significant alterations to financial accounting and reporting processes and systems. The challenge is to complete the conversion efficiently and effectively, with sufficient time to test systems, train people, and deal with change-management issues before the system must go “live.”

The steps are: conducting an initial diagnostic impact analysis; designing and planning the IFRS conversion process; identifying key issues; developing and implementing solutions; addition, training to company personnel and review of the company's IFRS financial statements.

Conclusion

The move towards a single set of high quality global accounting standards which transform the landscape of accounting is a change that has important practical implications: building confidence, lowering the cost of capital, and increasing the opportunity for investment, employment and world growth. The potential benefits of an integrated global capital market regulated by a single worldwide financial reporting language, will be long lasting. □