An Introduction to International Financial Reporting Standards

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The term International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning. Narrowly, IFRSs refers to the new numbered 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 International Accounting Standards Committee (IASC) from 1973 to 2000. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor IASC.

The IASB was preceded by the IASC which operated until 2001. IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States, and these countries constituted the Board of IASC at that time. The international professional activities of the accountancy bodies were organised under the International Federation of Accountants (IFAC) in 1977. In 1981, IASC and IFAC agreed that IASC would have full and complete autonomy in setting IASs and in publishing discussion documents on international accounting issues. At the same time, all members of IFAC became members of IASC. This membership link was discontinued in May 2000 when IASC's Constitution was changed as part of the reorganisation of IASC.

Since 2001, the IASB has amended some IASs and has proposed to amend others, has replaced some IASs with new IFRSs, and has adopted or proposed certain new IFRSs on topics for which there was no previous IAS. Through committees, both the IASC and the IASB also have issued Interpretations of Standards**.** Financial statements may not be described as complying with IFRSs unless they comply with all of the requirements of each applicable standard and each applicable interpretation.

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Objectives of IASB:

Under the IASCF Constitution, the objectives of the IASB are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards; and

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions.

Scope of IFRSs

IASB Standards are known as International Financial Reporting Standards (IFRSs).

All IASs and Interpretations issued by the former IASC and SIC continue to be applicable unless and until they are amended or withdrawn.

IFRSs apply to the general purpose financial statements and other financial reporting by profit-oriented entities -- those engaged in commercial, industrial, financial, and similar activities, regardless of their legal form.

Entities other than profit-oriented business entities may also find IFRSs appropriate.

General purpose financial statements are intended to meet the common needs of shareholders, creditors, employees, and the public at large for information about an entity's financial position, performance, and cash flows.

Other financial reporting includes information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

IFRS apply to individual company and consolidated financial statements.

A complete set of financial statements includes a balance sheet, an income statement, a cash flow statement, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a summary of accounting policies, and explanatory notes.

If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment, financial statements may be described as conforming to IFRS whichever treatment is followed.

In developing Standards, IASB intends not to permit choices in accounting treatment. Further, IASB intends to reconsider the choices in existing IASs with a view to reducing the number of those choices.

IFRS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority.

The provision of IAS 1 that conformity with IAS requires compliance with every applicable IAS and Interpretation requires compliance with all IFRSs as well.

Due Process for IFRS

Due process steps for a Standard will normally include the following (* means required by IASB Constitution):

Staff work to identify and study the issues

Study of existing national standards and practices

IASB consults with SAC about the advisability of adding the project to the IASB's agenda*

IASB normally forms an advisory group*

IASB publishes a discussion document for comment

IASB considers comments received on the discussion document

IASB publishes an exposure draft with at least 8 affirmative votes* (the exposure draft will include dissenting opinions and basis for conclusions)

IASB considers comments received on the exposure draft

IASB considers the desirability of holding a public hearing and of conducting field tests*

IASB approves the final Standard with at least 8 affirmative votes* (the Standard will include dissenting opinions and basis for conclusions)

IASB deliberates in meetings open to public observation.

Due Process for Interpretations

Interpretations of IFRS will be developed by the International Financial Reporting Interpretations Committee (IFRIC) for approval by IASB.

Due process steps for an Interpretation will normally include (* means required by IASB Constitution):

Staff work to identify and study the issues and existing national standards and practices

IFRIC studies national standards and practices

IFRIC publishes a draft Interpretation for comment if no more than 3 IFRIC members have voted against the proposal*

IFRIC considers comments received on the draft Interpretation within a reasonable period of time

IFRIC approves the final Interpretation if no more than 3 IFRIC members have voted against the proposal and submits it to IASB*

IASB approves the final Interpretation by at least 8 affirmative votes of IASB*

IFRIC deliberates in meetings open to public observation

Currently Effective Standards

So far IASB has issued 8 IFRS (see Table 1) in addition to 41 IASs (Table 2) issued by IASC.

Adoption of IFRS in India

'We will expedite the adoption of accounting standards in alignment with the International Accounting Standards,' said Prime Minister, Dr. Manmohan Singh.The Institute of Chartered Accountants of India (ICAI) has decided to fully converge with IFRSs issued by the IASB from the accounting periods commencing on or after 1st April, 2011. Like in other countries such as Australia, New Zealand and countries in the European Union, the IFRSs will be adopted for the listed entities and other public interest entities such as banks, insurance companies and large-sized entities. The decision is an important milestone in achieving full convergence with IFRSs as India will join 102 countries which presently require or permit use of IFRSs in preparation of financial statements in their countries. By 2011, the number is expected to reach 150.

Conclusion

With a view to ensure smooth transition to the IFRSs from April 1, 2011 it is necessary to formulate work-plan and conduct IFRS-specific training programmes to implement IFRSs. It is essential to take up those areas in certain IFRSs where some changes in IFRSs may be required keeping in view the Indian conditions.

Table 1

International Financial Reporting Standards
■ **IFRS 1** First-time Adoption of International Financial Reporting Standards
■ **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 Assets
■ **IFRS 7** Financial Instruments: Disclosures
■ **IFRS 8** Operating Segments

Table 2

International Accounting Standards
■ **IAS 1** Presentation of Financial Statements
■ **IAS 2** Inventories
■ **IAS 3** Consolidated Financial Statements Originally issued 1976, effective 1 Jan 1977. Superseded in 1989 by **IAS 27** and **IAS 28**.
■ **IAS 4** Depreciation Accounting Withdrawn in 1999, replaced by IAS 16, 22, and 38, all of which were issued or revised in 1998.

■ **IAS 5** Information to Be Disclosed in Financial Statements Originally issued October 1976, effective 1 January 1997. Superseded by **IAS 1** in 1997.
■ **IAS 6** Accounting Responses to Changing Prices Superseded by **IAS 15**, which was withdrawn December 2003
■ **IAS 7** Cash Flow Statements
■ **IAS 8** Accounting Policies, Changes in Accounting Estimates and Errors
■ **IAS 9** Accounting for Research and Development Activities Superseded by **IAS 38** effective 1.7.99
■ **IAS 10** Events After the Balance Sheet Date
■ **IAS 11** Construction Contracts
■ **IAS 12** Income Taxes
■ **IAS 13** Presentation of Current Assets and Current Liabilities Superseded by **IAS 1**.
■ **IAS 14** Segment Reporting
■ **IAS 15** Information Reflecting the Effects of Changing Prices Withdrawn December 2003
■ **IAS 16** Property, Plant and Equipment
■ **IAS 17** Leases
■ **IAS 18** Revenue
■ **IAS 19** Employee Benefits
■ **IAS 20** Accounting for Government Grants and Disclosure of Government Assistance
■ **IAS 21** The Effects of Changes in Foreign Exchange Rates
■ **IAS 22** Business Combinations Superseded by **IFRS 3** effective 31 March 2004.
■ **IAS 23** Borrowing Costs

■ **IAS 24** Related Party Disclosures
■ **IAS 25** Accounting for Investments Superseded by **IAS 39** and **IAS 40** effective 2001.
■ **IAS 26** Accounting and Reporting by Retirement Benefit Plans
■ **IAS 27** Consolidated and Separate Financial Statements
■ **IAS 28** Investments in Associates
■ **IAS 29** Financial Reporting in Hyperinflationary Economies
■ **IAS 30** Disclosures in the Financial Statements of Banks and Similar Financial Institutions Superseded by **IFRS 7** effective 2007.
■ **IAS 31** Interests In Joint Ventures
■ **IAS 32** Financial Instruments: Presentation Disclosure provisions superseded by **IFRS 7** effective 2007.
■ **IAS 33** Earnings Per Share
■ **IAS 34** Interim Financial Reporting
■ **IAS 35** Discontinuing Operations Superseded by **IFRS 5** effective 2005.
■ **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