Introduction to International Financial Reporting Standards
Structure of IASCF

International Accounting Standards Committee Foundation (22 Trustees)

International Accounting Standards Board (15 members)

International Financial Reporting Interpretations Committee (14 members)

Standards Advisory Council
Structure of IASCF
Developments in IFRS: IASB and IFRIC Update
Principle-based vs. rule-based standards
Applicability of IFRS

IFRS are applicable to general purpose financial statements of all commercial, industrial and business reporting entities, whether in the public or the private sectors.

General purpose financial statements:

- Directed towards the common information needs of a wide range of users
- Prepared at least annually
Users of financial statements

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment analysts</td>
<td>Regulators</td>
</tr>
<tr>
<td>Creditors</td>
<td>Government agencies</td>
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<tr>
<td>Suppliers</td>
<td>Rating agencies</td>
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<tr>
<td>Employees</td>
<td>Public at large</td>
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</tbody>
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General purpose financial statements are not intended to provide information specifically needed only for a particular category of users.
Objective of financial statements

To provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions

Financial statements do not provide all necessary information:

► Largely portray the financial effects of past events
► Do not necessarily provide non-financial information
Financial position

Economic resources the entity controls
Financial structure of the entity
Liquidity and solvency of the entity
Presented in the balance sheet
Financial performance

Profitability
Changes in economic resources
Variability of performance (trends)
Presented in the *income statement*
Changes in financial position

Operating, investing and financing activities
Ability to generate cash and cash equivalents
Needs of entity to utilize cash flows
Statement of cash flows
**Accrual basis**

The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Sometimes, items small by size may also be material.
Qualitative characteristics of financial statements

Understandability
Reliability

► Faithful representation
► Substance over form
► Neutrality
► Prudence
► Completeness

Relevance

► Materiality

Comparability

Constraints:

► Timeliness
► Balance between benefit and cost
Elements of financial statements

Assets
Liabilities
Equity
Income
Expenses
Assets

An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably.
Liabilities

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.
Equity

Equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

Although it is conceptually a residual amount, it is generally subdivided into its components for presentation purposes, for example:

- Paid-in capital
- Retained earnings
- Other reserves
Income and expenses

**Income** is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

**Expenses** are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
Measurement Bases

IFRS Framework lists four possibilities of measurement basis:

► Historical cost
► Current cost
► Realisable (settlement) value
► Present value

► Is there something missing?
Fair Value

Not mentioned as a measurement basis in the Framework

“The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction” as defined in several standards

Recognition and measurement of fair value is crucial to performance measurement under the system the IASB is developing
IAS 1 - Summary

Applies to presentation of all general purpose financial statements

► Intended to meet the needs of users who are not in a position to demand reports tailored to specific information needs

Applies to:

► Separate and consolidated financial statements
► All types of entities (industry specific issues are not addressed)

No mandatory formats to follow
Identification of Financial Statements

Financial Statements under IFRS if they include an explicit and unreserved statement of compliance with all the requirements of IFRSs
Content of financial statements

A complete set of financial statements includes the following components:

► a balance sheet
► an income statement
► a statement showing either
  ► all changes in equity
  ► changes in equity other than those arising from capital transactions with owners and distributions to owners
► a cash flow statement
► accounting policies and explanatory notes
Accounting Policies - Fair Presentation

The application of IFRSs is presumed to result in Financial Statements that achieve a fair presentation. This presumption is however potentially rebuttable:

► Because of a rare circumstance where departure from a provision of IFRSs is needed to achieve fair presentation.

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.
Going concern

Financial statements are prepared on a going concern basis unless management intends to liquidate the enterprise or cease trading, or can’t avoid doing so.

Any material uncertainties about the enterprise’s ability to continue as a going concern should be disclosed.

When the going concern basis is not used, disclose:

► that fact
► the alternative basis that has been used instead, and
► why the enterprise is not considered to be a going concern.
Consistency

The presentation and classification of information should be retained from period to period, unless

- a significant change in the nature of the operations, or a review of the financial statement presentation, shows that a change will give a more appropriate presentation, or
- a change is required by an IFRS or IFRIC interpretation
Materiality and aggregation

Each material item should be presented separately in the financial statements.

Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.
Offsetting

Assets and liabilities should not be offset except if required or permitted by another IAS.

Items of income and expense should be offset when, and only when:

- an IAS requires or permits it, or

- gains, losses and related expenses arising from the same or similar transactions and events are not material.
Comparative information

For numerical information

► Should be disclosed in respect of the previous period for all numerical information in the financial statements unless an IFRS permits or requires otherwise.

► Should be amended to remain comparable, if there are changes to the presentation or classification of items in the current period, and details of changes disclosed.

For narrative and descriptive information

► Should be included if it is relevant to an understanding of the current period’s financial statements.
Balance sheet classification

The balance sheet format should present either

► current and non-current assets and current and non-current liabilities as separate classifications, or

► assets and liabilities broadly in order of their liquidity

In either case, disclose for each item that includes current and non-current amounts, any amount expected to be recovered or settled after more than twelve months.
Current assets are defined as...

those expected to be realised in, or held for sale or consumption in, the normal course of the enterprise’s operating cycle
those held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the balance sheet date, or
cash or a cash equivalent asset that is not restricted as to its use
All other assets are classified as non-current assets
Current liabilities are defined as...

those expected to be settled in the normal course of the enterprise's operating cycle, or

those due to be settled within twelve months of the balance sheet date

All other liabilities should be classified as non-current
Long-term debt being refinanced

An enterprise continues to classify its long-term debt as non-current, even when it is due to be settled within a year of the balance sheet date, if:

► the original term was for a period of more than a year

► the enterprise intends to refinance the obligation on a long-term basis, and

► that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue
Classification of expenses

Operating expenses can be classified either:

► by the nature of the expenses, such as
  ► depreciation
  ► purchases of materials
  ► transport costs
  ► wages and salaries
  ► advertising costs

► by their function, such as
  ► cost of sales
  ► distribution costs
  ► administrative costs
Changes in accounting policy arising from:

- A. The initial (early) application of an IFRS with specific transitional provision
- B. The initial application of an IFRS without specific transitional provision; and
- C. Voluntary changes in accounting policy

Policy changes under A. should be accounted for in accordance with the specific transitional provisions of the IFRS.

Policy changes under B. and C. require retrospective application.
Retrospective Application

Retrospective application requires (IAS 8.22):
Adjustment of the opening balance of each affected component of equity for the earliest prior period presented
Other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied

► If the entity presents comparatives for two previous periods, the comparative amounts of both periods need to be restated
Retrospective Application (cont.)

Retrospective application requires (IAS 8.22):
Usually to make the resulting adjustment relating to periods before those presented in the financial statements to retained earnings

► However, the adjustment may be made to another component of equity (for example, to comply with a standard or an interpretation)
IFRS 1 First-time Adoption of IFRS

What is a first-time adopter?
► An entity that presents its first IFRS financial statements

What are the first IFRS financial statements?
► The first annual financial statements in which the entity adopts IFRS by an explicit and unreserved statement of compliance

What is an explicit and unreserved Statement of Compliance?
► Prepared in accordance with IFRS (including interpretations)
Objective of IFRS 1

A first-time adopter should prepare financial statements as if it had always applied IFRSs.
An entity's first IFRS financial statements and its first IFRS interim financial statements contain high quality financial information that:

► (a) Is transparent for users and comparable over all periods presented;
► (b) Provides a suitable starting point for accounting under IFRS; and
► (c) Can be generated at a cost that does not exceed the benefits to users.
What Counts as First-time Adoption?

IFRS first-time adopter:

Whether or not the entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRS by an 'explicit and unreserved Statement of Compliance with IFRS' in those financial statements.
Who is a First-time Adopter?

An entity's first IFRS financial statements will be subject to IFRS 1 even if it presented its most recent previous financial statements in conformity with IFRS in all respects except that they did not contain an explicit and unreserved Statement of Compliance with IFRSs.
Who is Not a First-time Adopter?

**General rule:**
If the previous financial statements contained an explicit and unreserved Statement of Compliance with IFRS, then the entity can never be considered a first-time adopter.
Timeline

Last financial statements under ‘previous GAAP’

Comparative period

First IFRS

Reporting period

First IFRS Financial Statements

31/12/2002

Date of transaction to IFRSs opening IFRS balance sheet

1/1/2004

Beginning of the first IFRS reporting period

31/12/2004

Reporting period

31/12/2005
IFRS 1 requires full retrospective application of IFRSs in force at an entity’s reporting date.

The opening IFRS balance sheet must comply with each IFRS effective at the reporting date for the first IFRS financial statements.

However, a number of exemptions from other IFRS and exceptions to retrospective application of other IFRS allowed by IFRS 1.
Opening IFRS Balance Sheet

A first-time adopter should prepare an opening IFRS balance sheet, prepared in accordance with IFRS at the date of transition to IFRS. The opening IFRS balance sheet does not have to be published but must be prepared.