B Com –III Sem. VI

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTRDOCUCTION

International Financial Reporting Standards (IFRS) are developed through an international consultation process, the "due process", which involves interested individuals and organizations from around the world.

The due process comprises six stages, with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout:

Setting the agenda:

The IASB evaluates the merits of adding a potential item to its agenda by evaluating thefollowing:

- Considers the relevance to users of the information and the reliability of information that could be provided if a new standard is developed,
- The possibility of increasing convergence because of the development of the new standards;
- Resource constraints if any in the development process.

Planning the project:

After adding the agenda, IASB make an execution plan, where it is being decidedthat whether the project would be done alone by IASB itself or with the collaborationwith someone.

Developing and publishing the Discussion Paper, including public consultation:

Although a Discussion Paper is not mandatory, the IASBnormally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents.If the IASB decides to omit this step, it will state why.

- a comprehensive overview of the issue;
- possible approaches in addressing the issue;
- the preliminary views of its authors or the IASB; and an invitation to comment.

Developing and publishing the Exposure Draft, including public consultation:

Publication of an Exposure Draft is a mandatory step in due process.

Irrespective of whether the IASB has published a Discussion Paper, an Exposure Draft is the IASB's main vehicle for consulting the public.

Unlike a Discussion Paper, an Exposure Draft sets out a specific proposal in the form of a proposed Standard (or amendment to an existing Standard).

The development of an Exposure Draft begins with the IASB considering:

- issues on the basis of staff research and recommendations;
- comments received on any Discussion Paper; and
- suggestions made by the IFRS Advisory Council, Consultative groups and accounting standard-setters, and arising from public education sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the ExposureDraft. When the draft has been completed, and the IASB has balloted on it, the IASB publishesit for public comment.

Developing and publishing the Standard:

The development of an IFRS is carried out during IASB meetings, when the IASBconsiders the comments received on the Exposure Draft.

After resolving issues arising from the Exposure Draft, the IASB considers whether itshould expose its revised proposals for public comment, for example by publishing a second Exposure Draft.

In considering the need for re-exposure, the IASB:

- identifies substantial issues that emerged during the comment period on theExposure Draft that it had not previously considered;
- assesses the evidence that it has considered;
- evaluates whether it has sufficiently understood the issues and actively soughtthe views of constituents; and
- considers whether the various viewpoints were aired in the Exposure Draft andadequately discussed and reviewed in the basis for conclusions.

DRAFTING THE IFRS

The IASB's decision on whether to publish its revised proposals for another round ofcomments is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first Exposure Draft.

When the IASB is satisfied that it has reached a conclusion on the issues arising from the Exposure Draft, it instructs the staff to draft the IFRS.

Finally, after the due process is completed, all outstanding issues are resolved, and theIASB members have balloted in favour of publication, the IFRS is issued.

PROCEDURES AFTER AN IFRS ARE ISSUED:

After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact ofits proposals.

With the reorganization of International Accounting Standard Committee (IASC) to IFRS Foundation, there has been a change in various nomenclatures that are used. All the standards and interpretation that IASB has issued till 2001 were known as International Accounting Standards (IAS) and SIC respectively whereas, now all the standards and interpretations that are issued by the new body are known as International Financial Reporting Standards (IFRS) and IFRIC respectively.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Here is the list of all standards and interpretations issued by IFRS Foundation and its predecessor IASB-

- 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
- IFRS 9: Financial Instruments

International Accounting Standards (IAS)

- IAS 1: Presentation of Financial Statements
- IAS 2: Inventories
- IAS 7: Statement of Cash Flows
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10: Events After the Reporting Period
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- 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 GovernmentAssistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAA 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- 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 31: Interests In Joint Ventures
- IAS 32: Financial Instruments: Presentation

- IAS 33: Earnings Per Share
- IAS 34: Interim Financial Reporting
- IAS 36: Impairment of Asset
- 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

- Note: IAS 3, 4, 5, 6, 9, 13, 14, 15, 22, 25, 30, 35 have been superseded

IFRIC

- IFRIC 1: Changes in Existing Decommissioning, Restoration and SimilarLiabilities
- IFRIC 2: Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 4: Determining Whether an Arrangement Contains a Lease
- IFRIC 5: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6: Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reportingin Hyperinflationary Economies
- IFRIC 10: Interim Financial Reporting and Impairment
- IFRIC 12: Service Concession Arrangements
- IFRIC 13: Customer Loyalty Programmers
- IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IFRIC 17: Distributions of Non-cash Assets toOwners
- IFRIC 18: Transfers of Assets from Customers
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

- Note: IFRIC 3, 8, 9 & 11 have since been withdrawn

CONVERGENCE, ADOPTION AND ADAPTATION-

The above listed standards and interpretation gives the world a concrete set of practices which should be followed in order to have globally comparable financial statements. Now, the question is how various countries would follow these standards and interpretation. As we can appreciate that such a shift cannot happen overnight, it would definitely take time but how much nobody knows. All the countries want to follow such asystem which would place them in advantageous position and make them more attractive destination for foreign capital, but starting to follow a system of uniform standards is a very complex process as we already know that many countries came out with deadlines for following IFRS but could not met them and the process was delayed. In the case of India, we had an implementation date of 1st April 2011 but it was not materialized and delayed. For other countries also implementation has been delayed.

WHAT COUNTRIES NEED TO DO FOR IMPLEMENTATION OF IFRS?

The first step would be, the need to converge there Accounting Standards to IFRS. Convergence refers to the process of establishing a single set of Accounting Standards that will be used internationally. So any step taken by a country to make its Accounting Standard similar to IFRS would be known as convergence. A country can directly adopt the standards and interpretations issued by IFRS Foundation. Adoption process is not thatsimple as it sounds and every country can’t right away adopt the standards as business environments differ widely from one country to the next, and so there is no guarantee thatthe IFRS are the best for all countries. Then what are countries doing to implement IFRS?They are adapting it rather than a plain adoption. Standards given by IFRS Foundationare being modified to meet the specific differences in the business environment. This is what many countries including India have done.

IFRS are known as “principle based” standards that do not prescribe detailed rules, leaving the task of actual accounting processing to the discretion of individual companiesand auditors. Transactions of similar nature may, therefore, be processed quite differentlyaccording to how they are interpreted by each company. This can easily give rise to window dressing. So, adaptation makes more sense than adoption as it would limit the discretion of the preparer of the accounts. On the other hand, it may also lead to the defeat of the whole purpose of convergence as in the process of adaptation countries would give out different methods of preparing financial statements and it would not be different from the existing system.