IFRS

- International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS) from 1973 to 2000.
- The International Accounting Standards Board (IASB) replaced IASC in 2001.
- IASB issues International Financial Reporting Standards (IFRS).
- IASB adopted some IAS, replaced some IAS with new IFRS, or proposed new IFRS on topics for which there was no previous IAS.
- IFRS are global accounting standards used by more than 125 countries.

IFRS

- IFRS are principle-based, drafted in simple language and easy to understand and apply.
- Application of IFRS requires an increased use of fair values for measurement of assets and liabilities.
- IASB has issued 41 IAS and 14 IFRS, 33 SIC (Standing Interpretations Committee) and 21 IFRIC (IFRS Interpretations Committee).

IFRS

Benefits of adopting IFRS for Indian companies are –

- Improved access to international capital markets and international investors
- Lower cost of capital as no need to prepare separate sets of financial statements for Indian and global use.
- Enable comparison with global companies and understand relative standing in the global market.
- Improve brand value
- Escape Multiple Reporting for different countries and for preparing consolidated statements.
- Reflects true value of acquisitions as net assets taken over in a business combination are to be accounted at fair value, not cost price. Also, intangible assets obtained have to be recorded.
- New job opportunities for accountants, valuers and actuaries, BPOs.

IAS 1 Presentation of Financial Statements

- Applies from 1 January 2009
- The objective of IAS 1 is –
  - to prescribe the basis for presentation of general purpose financial statements,
  - to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
  - The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions.
- It sets out the requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

IAS 1

A complete set of financial statements includes:

- a statement of financial position (balance sheet) at the end of the period
- a statement of profit or loss and other comprehensive income for the period
- a statement of changes in equity for the period
- a statement of cash flows for the period
- notes, comprising a summary of significant accounting policies and other explanatory notes
- comparative information prescribed by the standard.

An entity may use titles for the statements other than those stated above.

IAS 1

- When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, it must also present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period.
- The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.

IAS 1

Going concern

- The Conceptual Framework notes that financial statements are normally prepared assuming the entity is a going concern and will continue in operation for the foreseeable future.
- IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed.
- If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures.

IAS 1

Accrual basis of accounting

- IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Consistency of presentation

- The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified due to a change in circumstances or a requirement of a new IFRS.

Materiality and aggregation

- Each material class of similar items must be presented separately in the financial statements.
- Dissimilar items may be aggregated only if they are individually immaterial.

IAS 1

Comparative information

- IAS 1 requires that comparative information is to be disclosed in respect of the previous period for all amounts reported in the financial statements, both on the face of the financial statements and in the notes, unless another Standard requires otherwise.

Format of statement

- IAS 1 does not prescribe the format of the statement of financial position.

Statement of financial position (Balance sheet)

- The statement should show separately current and non-current assets and liabilities.
- Profit or loss statement
- Expenses recognised in the profit and loss statement should be analysed either by nature or by function.

Minimum line items to be included on the face of the statement of financial position, statement of profit or loss and other comprehensive income have been specified in IAS 1.

IAS 2 — Inventories

- Applies to annual periods beginning on or after 1 January 2005.
- The objective of IAS 2 is to prescribe the accounting treatment for inventories.
- It provides guidance for determining the cost of inventories and for subsequently recognising an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

IAS 2

- Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).
- However, IAS 2 excludes certain inventories from its scope:
  - work in process arising under construction contracts
  - financial instruments
  - biological assets related to agricultural activity and agricultural produce at the point of harvest

IAS 2

- IAS 2 does not apply to the measurement of inventories held by: [IAS 2.3]
  - producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products,
  - commodity brokers and dealers who measure their inventories at fair value less costs to sell.

IAS 2

Fundamental principle of IAS 2

- Inventories are required to be stated at the lower of cost and net realisable value (NRV). [IAS 2.9]

Measurement of inventories

Cost should include all:

- costs of purchase (including taxes, transport, and handling) net of trade discounts received
- costs of conversion (including fixed and variable manufacturing overheads) and
- other costs incurred in bringing the inventories to their present location and condition

IAS 2

Inventory cost should not include:

- abnormal waste
- storage costs
- administrative overheads unrelated to production
- selling costs
- foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency
- interest cost when inventories are purchased with deferred settlement terms.

IAS 2

- IAS 2 allows the FIFO or Weighted Average Cost formulas for valuation of inventory. The LIFO formula is not allowed.

- Required disclosures under IAS 2 are -
  - Accounting policy for inventories
  - Carrying amount, generally classified as merchandise, supplies, materials, work in progress and finished goods.
  - Carrying amount of any inventories carried at fair value less costs to sell
  - Amount of any write-down of inventories recognised as an expense in the period
  - Amount of any reversal of a write-down to NRV and the circumstances that led to such reversal
  - Carrying amount of inventories pledged as security for liabilities
  - Cost of inventories recognised as expense (cost of goods sold)