The IFRS Challenges

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Why IFRS?

- Simply put "IFRS is acceptable globally and provides a common accounting/reporting language to the world! "
- About 9,000 listed companies in Europe use IFRS
- IFRS are the accounting standards in Australia, New Zealand and South Africa.
- China is phasing in IFRS for public, private and state-owned companies starting in 2007

Why IFRS?

- Comparability is essential if "in accordance with IFRS" means that the same or similar transactions are accounted for the same way everywhere, producing financial statements in accordance with IFRS will add value
- A single system of financial reporting would benefit a host of constituents.
- Capital would flow more efficiently, at less cost to more companies in more places.

What is “Challenge”?

- “a demand for explanation or justification”
- “an act or statement of defiance”
- “a call to confrontation”

What is IFRS Challenge?

- A number of benefits have been quoted in the adoption of IFRS.
- In spite of these benefits, adoption of IFRS in India certainly has a number of obstacles to cross

Common Challenges are….

a. International Financial Reporting Standards – Awareness among Stakeholders
b. Professional Training to Lead
c. Changes in Law & Practice to accommodate IFRS adoption
d. IFRS adoption – The Tax Impact
e. Fair Value Measurement
f. Internal Control and Financial Reporting System

What is Accounting??

It is the systematic

- recording,
- reporting, and
- analysis of financial transactions of a business.

Accounting allows a company to analyze the financial performance of the business, and look at statistics such as net profit.

"Accounting

is

about

ACCOUNTABILITY"

Who is an Accountant?

- The person in charge of accounting is known as an accountant.
- This individual is typically required to follow a set of rules and regulations, such as the Generally Accepted Accounting Principles (GAAP).

Accounting Standards

- Accounting Standards aim at standardizing different accounting policies and practices.
- **GAAP** is a term used to refer to the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as **Accounting Standards**.

Accounting Standards

- Country based GAAPs
  - Commercial GAAPs - Cost Accounting Standards, AS issued by ICAI
  - Non Commercial GAAPs - ASLB, IPSAS, GASAB

- International GAAP

Golden Rules in Accounting

- To identify the effect of a transaction on a account there are rules:
  - **<u>For Personal Account:</u>**
    - **<u>Debit:</u>** **the receiver**
    - **<u>Credit:</u>** **the giver**

  - **<u>For Real Account:</u>**
    - **<u>Debit:</u>** **what comes in**
    - **<u>Credit:</u>** **what goes out**

  - **<u>For Nominal Account:</u>**
    - **<u>Debit:</u>** **all expenses and losse**
    - **<u>Credit:</u>** **all incomes and gains**

Process of Accounting/Accounting Cycle

1. Recognize or identify the transaction or event.
2. Record the transaction by making entries in the appropriate journal, such as the sales journal, purchase journal, cash receipt or disbursement journal, or the general journal.
3. Post general journal entries to the ledger accounts.
4. Prepare the trial balance to make sure that debits equal credits.
5. Prepare the financial statements.

Types of Accounts

There are 3 types of accounts

- Personal accounts
- Real accounts
- Nominal accounts

Methods of Accounting

There are 2 accounting methods

- **Cash Method of Accounting**
  - Revenue recognition: Revenue is recognized when cash is received.
  - Expense recognition: Expense is recognized when cash is paid
- **Accrual Method of Accounting**
  - Revenue Recognized: Revenue is recognized when both of the following conditions are met:
    a. Revenue is earned.
    b. Revenue is realized or realizable.
  - Expense Recognized: Expense is recognized in the period in which related revenue is recognized

What is Book Keeping??

Bookkeeping is the practice of recording transactions.

Methods of Book Keeping

- **Single Entry Book Keeping** - One sided accounting entry
- **Double Entry Book Keeping** - An accounting technique which records each transaction as both a credit and a debit.

History of Accounting

- Accounting started with currency system 5000 years back
- In India, early references to accounting concepts are found in the Vedas. **Vikraya** is found in the Atharvaveda and the **Nirukta** denoting ‘sale’.
- Standard making started in 1934 after great depression of USA, Securities act 1933, Securities Exchange Act 1934
- Accountant’s International Study Group 1966 to 1973

Accounting Concepts

1. Business Entity Concept
2. Money Measurement Concept
3. Going Concern Concept
4. Accounting Period Concept
5. Accounting Cost Concept
6. Duality Aspect Concept
7. Realisation Concept
8. Accrual Concept
9. Matching Concept

Accounting Conventions

- Convention of Consistency.
- Convention of Full Disclosure.
- Convention of Materiality.
- Convention of Conservatism

Branches of Accounting

- Financial Accounting
- Management Accounting
- Tax Accounting
- Fund Accounting
- Forensic Accounting

Important Accounting Terminologies

- Debtors
- Creditors
- Assets
- Liabilities
- Income
- Expenses
- Account

Financial (Accounting) Statements

- There are two main purposes of financial statements:

(1) To report on the financial position of an entity (e.g. a business, an organisation);

(2) To show how the entity has performed (financially) over a particular period of time (an "accounting period").

Financial Statements

- The Balance Sheet
- The Profit and Loss Account
- Statement of Cash Flows

Finalization of Accounts

1. Refers to the preparation of Profit and Loss Account and the Balance sheet as per the Legislative Framework.
2. Adjusting Entries are to be passed.
3. The revised Trial Balance is generated.
4. Financial Statements are prepared.
5. Relevance of Accrual Concept, Matching Concept, Accounting Period Concept, Conservatism Concept at the time of finalization.

Balance Sheet

- **Assets = Liabilities + Stockholders' Equity**
- The balance sheet states what the firm owns and how it is financed.

Things to Remember – B/S

- When analyzing a balance sheet, the financial manager should be aware of three concerns:-

  1- Accounting Liquidity

  2- Debt versus Equity

  3- Value versus Cost

Income Statement

- **Revenue – Expenses = Income**
- The income statement measures performance over a specific period of time, say, a year.

Things to Remember – P&L

- When analyzing an income statement, the financial manager should keep in mind the followings:-

1- GAAP

2- Noncash items

3- Time and Costs

Statement of Cash Flow

Uses of Fund

- **Assets - ↑**
- **Liabilities and Stock Holder's Equity - ↓**

Sources of Fund

- **Assets - ↓**
- **Liabilities and Stock Holder's Equity - ↑**

Components of Cash Flow Statement

3 components of Cash Flow Statement

1- Cash flow from Operating Activities

2- Cash flow from Investing Activities

3- Cash flow from Financing Activities

Need to know accounting standards

- Auditor need to know accounting
- Accounting is undergoing change in India as per global financial reporting.
- What is accounting standards -standards of accounting
- Accounting is language which write money transactions into accounting entries and ultimately financial statements

What is IFRS?

- Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB).
- Complete literature on IFRSs 3000 pages
- Considered "principles based" standards as they establish broad rules as well as dictate specific treatments in some cases
- 123 countries around the world currently require or permit IFRS reporting.
- By 2014, 150 countries will be following IFRS (total countries in world 192)
- Approximately 85 of those countries require IFRS reporting for all domestic, listed companies
- Country specific – a country may chose to adopt them

What does IFRS Comprise?

- IAS 1.7 –
- IAS 8.5 –
- IFRS 1 Appendix A

  A) IFRSs

  B) IASs

  C) IFRICs and SICs

Importance of IFRSs Convergence

- Accessibility to Foreign Capital Markets
- Reduced Cost
- Enhance Comparability
- Boon for Multinational Group Entities
- New Opportunities for the professionals in PSUs

Changes brought by IFRSs

- Purchase of shares
- Revaluation of Fixed Assets
- Business Combinations
- Recognition of contingent liabilities
- Component Accounting
- New Terminologies PPE, Investment property etc.

Accounting

- Accounting consists of two things Systems and methods -systems are of two types
- Single entry book keeping/double entry book keeping
- Method of accounting Cash, Accrual, Mixed
- 1494 Italian Economist Luca Pacioli introduced double entry principals
- Every debit has to have equal credit
- Fair value baring bank 1995 Nick(nicholas) Leeson

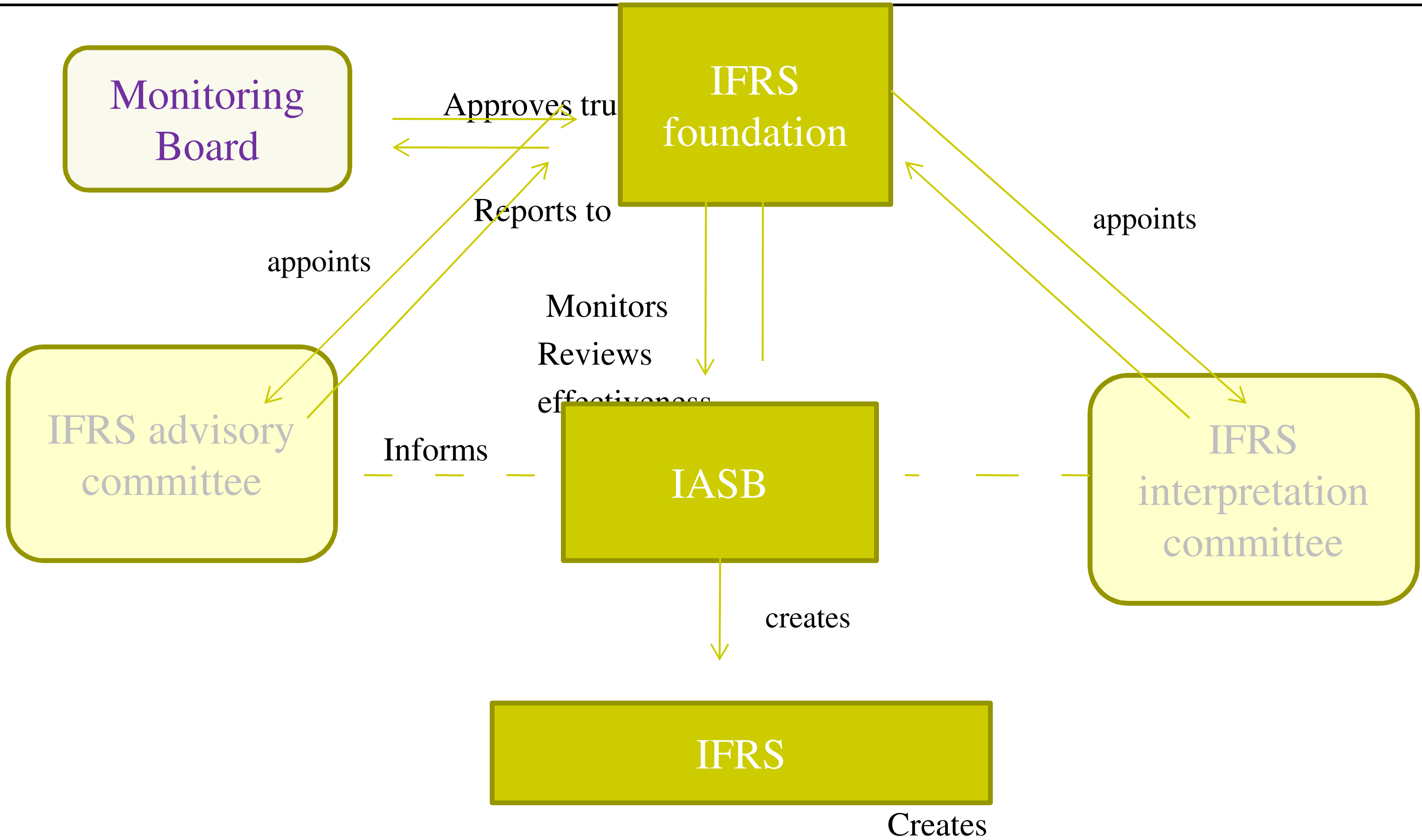
Principles of accounting

- All account heads have to fall in 3 types
- Personal, Real and Nominal
- Golden Rules
  - Personal -Debit the Receiver , Credit the Giver
  - Real -Debit what comes in, Credit what goes out
  - Nominal -Debit all expenses and losses, Credit all gains and income

Few relevant websites

- www.ifrs.org
- www.mca.gov.in
- www.icai.org
- www.ifac.org/public sector
- www.gasb.org & www.fasb.org of USA

Working of IASB



Various GAAP -Accounting Standards

1. Accounting Standards issued by ICAI
2. Companies (Accounting Standard) Rules, 2006
3. Accounting Standards for Local Bodies issued by ICAI
4. Standards issued under Sec 145 of the Income Tax Act
5. Cost Accounting Standards
6. GASAB
7. IPSAS

IFRS Foundation

- **The IFRS Foundation is an independent, not-for-profit private sector organisation working in the public interest. Its principal objectives are:**
  - **to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;**
  - **to promote the use and rigorous application of those standards;**
  - **to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and**
  - **to bring about convergence of national accounting standards and IFRSs to high quality solutions.**

IFRS Foundation

- **incorporated in the State of Delaware, USA, on 6 February 2001, as the International Accounting Standards Committee Foundation (IASC Foundation), the name was changed to IFRS foundation from 1st July 2010, is a not-for-profit charitable organization with its primary operations based in London**
- **Oversight of the due process falls to a special committee of the Trustees, known as the Due Process Oversight Committee (DPOC). It is this committee that is responsible for approving, and overseeing the IASB's compliance with, due process, and reviewing the Trustees' fulfilment of their oversight function in accordance with the Constitution of the IFRS Foundation.**

IASB (International Accounting Standard Board)

- The IASB is the independent standard-setting body of the IFRS Foundation.
- Its members (currently 16 full-time members) are responsible for the development and publication of IFRSs, including the IFRS for SMEs and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee (formerly called the IFRIC)

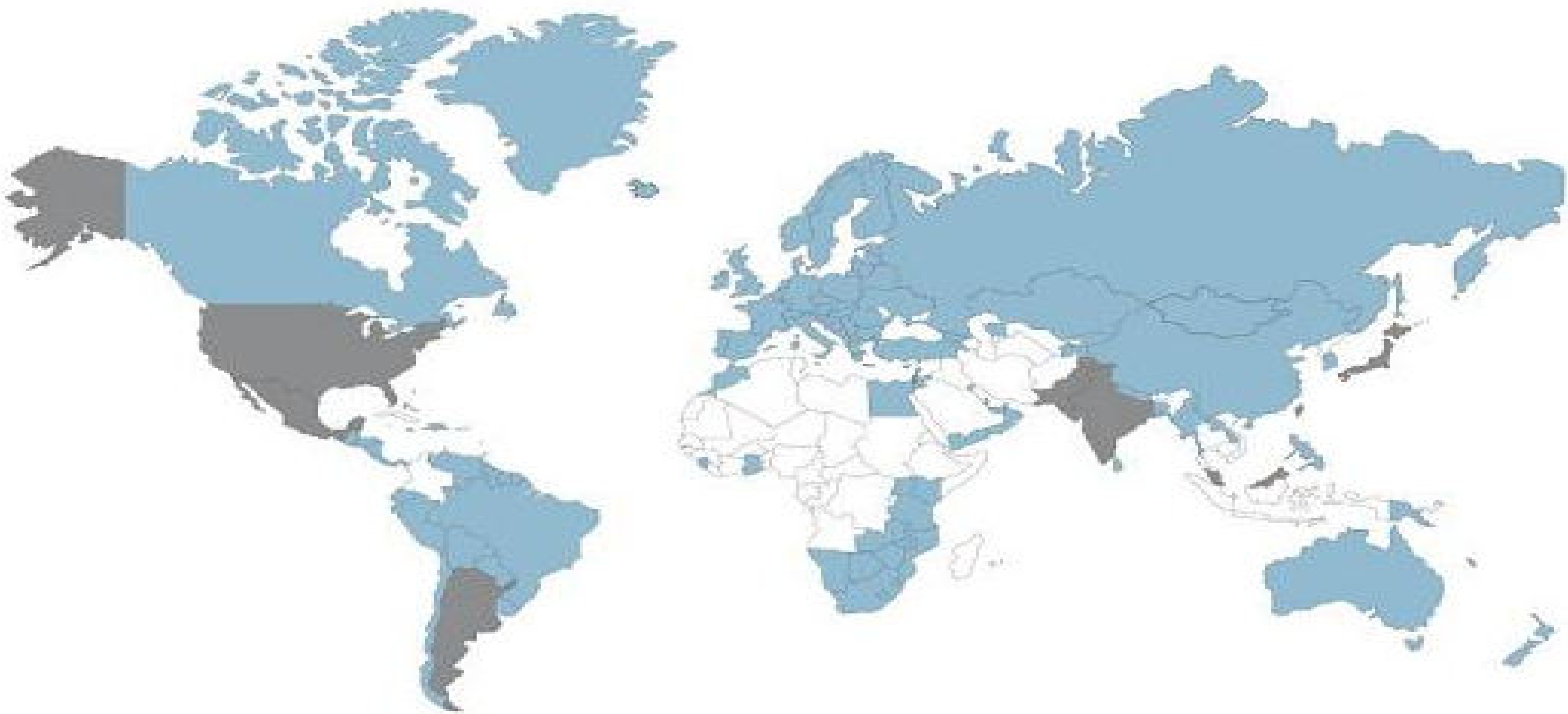
HISTORY OF ACCOUNTING & STANDARDS

- Accounting started with currency system 5000 years back
- Standard making started in 1934 after great depression of USA securities act 1933, Securities Exchange Act 1934
- World accounting group 1666 to 1973
- IASC 29th June 1973 to 5th Feb 2001
- IFRS Foundation from 6th Feb 2001 to till date

Global Presence

More than 100 countries now require or permit the use of IFRSs or are converging with the International Accounting Standards Board's (IASB) standards.

The picture below shows the level of IFRS adoption at present. Blue areas indicate countries that require or permit IFRSs. Grey areas are countries seeking convergence with the International Accounting Standards Board (IASB) or pursuing adoption of IFRSs.



Group of 20 Leaders (G20)

Countries and their Status for listed companies as of April 2010

1. **Argentina** Required for fiscal years beginning on or after 1 January 2011
2. **Australia** Required for all private sector reporting entities and as the basis for public sector reporting since 2005
3. **Brazil** Required for consolidated financial statements of banks and listed companies from 31 December 2010 and for individual company accounts progressively since January 2008
4. **Canada** Required from 1 January 2011 for all listed entities and permitted for private sector entities including not-for-profit organisations
5. **China** Substantially converged national standards

Group of 20 Leaders (G20)

6. **European Union** All member states of the EU are required to use IFRSs as adopted by the EU for listed companies since 2005
7. **France** Required via EU adoption and implementation process since 2005
8. **Germany** Required via EU adoption and implementation process since 2005
9. **India** India is converging with IFRSs over a period beginning 1 April 2011
10. **Indonesia** Convergence process ongoing; a decision about a target date for full compliance with IFRSs is expected to be made in 2012
11. **Italy** Required via EU adoption and implementation process since 2005

Group of 20 Leaders (G20)

12. **Japan** Permitted from 2010 for a number of international companies; decision about mandatory adoption by 2016 expected around 2012
13. **Mexico** Required from 2012
14. **Republic of Korea** Required from 2011
15. **Russia** Required for banking institutions and some other securities issuers; permitted for other companies
16. **Saudi Arabia** Not permitted for listed companies
17. **South Africa** Required for listed entities since 2005

Group of 20 Leaders (G20)

12. **Turkey** Required for listed entities since 2008
13. **United Kingdom** Required via EU adoption and implementation process since 2005
14. **United States** Allowed for foreign issuers in the US since 2007; target date for substantial convergence with IFRSs is 2011 and decision about possible adoption for US companies expected in 2011.

The international convergence efforts of IFRS Foundation and the IASBare also supported by the Group of 20 Leaders (G20)

List of IFRS

IFRSs-IFRSs

S.No	IFRS	Name of the Standard
1	IFRS 1	First – time Adoption of International Financial Reporting Standards
2	IFRS 2	Share-based Payment
3	IFRS 3	Business Combinations
4	IFRS 4	Insurance Contracts
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
6	IFRS 6	Exploration for and evaluation of Mineral Resources
7	IFRS 7	Financial Instruments: Disclosures

IFRSs-IFRSs (contd)

S.No	IFRS	Name of the Standard
8	IFRS 8	Operating Segments
9	IFRS 9	Financial Instruments (This standard will replace IAS 39 Financial Instruments: Recognition and Measurement on being updated completely)
10	IFRS 10	Consolidated Financial Statements
11	IFRS 11	Joint Arrangements
12	IFRS 12	Disclosure of Interests in Other Entities
13	IFRS 13	Fair Value Measurement

IFRSs – IAS

S.No	IAS	Name of the Standard
1	IAS 1	Presentation of Financial Statements
2	IAS 2	Inventories
3	IAS 7	Statement of Cash Flows
4	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
5	IAS 10	Events After the Reporting Period
6	IAS 11	Construction Contracts
7	IAS 12	Income Taxes

IFRSs – IASs (contd)

8	IAS 16	Property, Plant and Equipment
9	IAS 17	Leases
10	IAS 18	Revenue
11	IAS 19	Employee Benefits
12	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
13	IAS 21	The Effects of Changes in Foreign Exchange Rates
14	IAS 23	Borrowing Costs
15	IAS 24	Related Party Disclosures

IFRSs – IAS (contd)

16	IAS 26	Accounting and Reporting by Retirement Benefit Plans
17	IAS 27	Separate Financial Statements
18	IAS 28	Investments in Associates and Joint Ventures
19	IAS 29	Financial Reporting in Hyperinflationary Economies
20	IAS 32	Financial Instruments: Presentation
21	IAS 33	Earnings Per Share
22	IAS 34	Interim Financial Reporting
23	IAS 36	Impairment of Assets

IFRSs – IAS (contd)

24	IAS 37	Provisions, Contingent Liabilities and Contingent Assets
25	IAS 38	Intangible Assets
26	IAS 39	Financial Instruments: Recognition and Measurement
27	IAS 40	Investment Property
28	IAS 41	Agriculture

IFRSs-List of IFRIC Interpretations…….

1	IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
2	IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments
3	IFRIC 4	Determining whether an Arrangement contains Lease
4	IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
5	IFRIC 6	Liabilities arising from Participation in a Specific Market-Waste Electrical and Electronic Equipment
6	IFRIC 7	Applying restatement approach under IAS 29
7	IFRIC 10	Interim Financial Reporting and Impairment

IFRSs-List of IFRIC Interpretations.

8	IFRIC 12	Service Concession Arrangements
9	IFRIC 13	Customer Loyalty Programmes
10	IFRIC 14	IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
11	IFRIC 15	Agreements for the Construction of Real Estate
12	IFRIC 16	Hedges of a Net Investment in a Foreign Operation
13	IFRIC 17	Distribution of Non – Cash assets to owners
14	IFRIC 18	Transfer of assets from customers
15	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
16	IFRIC 20	Stripping Costs in the production cost of a surface mine

IFRSs-List of SIC Interpretations..

1	SIC 7	Introduction of the EURO
2	SIC 10	Government Assistance- No Specific Relation to Operating Activities
3	SIC 15	Operating Lease- Incentives
4	SIC 21	Income Taxes- Recovery of Revalued Non Depreciable Assets
5	SIC 25	Income Taxes- Change in Tax Status of an Entity or its Shareholders
6	SIC 27	Evaluating the Substance of Transaction Involving the Legal Form of a Lease
7	SIC 29	Service Concession Arrangements: Disclosures
8	SIC 31	Revenue: Barter Transaction Involving Advertising Services
9	SIC 32	Intangible Assets- Web Site Costs

IFRS for SMEs

- On 9 July 2009, the IASB issued the *IFRS for SMEs*.
- This is the first set of international accounting requirements developed specifically for small and medium-sized entities (SMEs).
- It has been prepared on IFRS foundations but is a stand-alone product that is separate from the full set of International Financial Reporting Standards (IFRSs).
- The *IFRS for SMEs* has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

Why IFRS for SMEs?

- Topics not relevant to SMEs are omitted.
- Where full IFRSs allow accounting policy choices, the IFRS for SMEs allows only the easier option.
- Many of the principles for recognising and measuring assets, liabilities, income and expenses in full IFRSs are simplified.
- Significantly fewer disclosures are required.
- And the standard has been written in clear, easily translatable language.

Omitted Topics for SMEs

- The IFRS for SMEs does not address the following topics that are covered in full IFRSs:
  - Earnings per share
  - Interim financial reporting
  - Segment reporting
  - Special accounting for assets held for sale

Major Principles in IFRS

Major principles of IFRSs

- Fair value / Present Value
- Revaluation Model
- Net Realizable Value
- Cost model

IFRS Complete Literature

Three groups

- Preface , Conceptual Framework & Glossary
- IFRS Foundation Constitution, due process Handbook of IASB & due process Handbook of IFRS Interpretation Committee
- 65 IFRSs PLUS SME IFRS
- 3000 printed pages

Classification of IFRSs for Fast Understanding

- Presentation
  - General Purpose financial statements -standalone
  - Interim Financial Reporting
  - Consolidation – Group Reporting
- General Principles of presentation & Related matters
- Assets
- Liabilities and Expenses
- Income
- Industry Specific
- Disclosure Standards

Components of Financial Statements

- IAS 1 defines a complete set of Financial Statements to be comprised of the following:
  1. a statement of financial position as at the end of the period
  2. a statement of comprehensive income for the period;
  3. a statement of changes in equity for the period;
  4. a statement of cash flows for the period;
  5. notes, comprising a summary of significant accounting policies and other explanatory information; and
  6. a statement of financial position as at the beginning of the earliest comparative period 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

Elements of Financial Statements

- The elements of financial statements
- Financial position – assets, liabilities and equity
- Performance – income, expense
- Income – Revenue and gains
- Revenue - sales, fees, interest, dividends, royalties and rent
- Gains – disposal of non current assets, revaluation of marketable securities, unrealised gains

Assets

- Conceptual Framework for financial reporting
- Definition 4.4(a)
  - An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity .

Liability

4.4(b)

- Definition – A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Income

4.25(a)

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

Expenses

4.25(b)

- Definition – Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Elements of Financial Position

- 4.4(c) Equity is the residual interest in the assets of the entity after deducting all the liabilities
- There is no IFRS on equity

Measurement of Elements of Financial Statements

- 4.55 (a) Historical Cost

  (b) Current Cost

  (c) Realisable Value (Settlement)

  (d) Present Value

IFRSs on Group Reporting

Standard Number	Standard Name
IAS 1	Presentation of Financial Statements
IAS 28	Investment in Associates and Joint Ventures
IAS 27	Separate Financial Statements
IFRS 3	Business Combinations
IFRS 11	Interest in Joint Ventures
IFRS 10	Consolidated Financial Statements

IFRSs on Assets

Standard Number	Standard Name
IAS 2	Inventories
IAS 16	Property, Plant & Equipment
IAS 40	Investment Property
IAS 38	Intangible Assets
IAS 32, IAS 39, IFRS 7, IFRS 9	Financial Assets
IAS 41	Biological assets
IFRS 5	Non-Current Assets held for sale & Discontinued operations
IAS 17	Leases
IFRS 6	Exploration and Evaluation Assets
IFRS 13	Fair Value Measurement

Major principles of IFRSs

Type of asset / liability	Initial Measurement	Subsequent measurement
Inventories IAS 2	Cost	Lower of cost and net realizable value
Property, Plant and Equipment IAS 16	Cost	Cost model or revaluation model
Investment property IAS 40	Cost	Fair value model or cost model
Intangible assets IAS 38	Cost	Cost model or revaluation model
Exploration and Evaluation of mineral assets IFRS 6	Cost	Cost model or revaluation model
Non Monetary Government grants IAS 20	Fair Value or Nominal Value	Fair Value or Nominal Value
Non-current assets held for sale & Disposal groups IFRS 5	lower of carrying value and fair value less costs to sell	lower of carrying value and fair value less costs to sell
Biological Assets IAS 41	Fair value	Fair value less costs to sell

Measurement of Financial Assets

Nature of Financial Assets	Initial recognition	Subsequent measurement
Held for trading	At fair value	At fair value (through profit or loss)
Available for sale	At fair value plus directly attributable transaction costs	At fair value (through equity)
Held to maturity	At fair value plus directly attributable transaction costs	At amortised cost
Loans and Receivables	At fair value plus directly attributable transaction costs	At amortised cost

Measurement of Financial Liability

Nature of Financial Liability	Initial recognition	Subsequent measurement
Financial liabilities at fair value through profit and loss includes derivative liability	At fair value directly attributable transaction cost is charged to profit and loss account	At fair value
Financial liability arising out of continuing involvement asset	Measured at amortised cost or fair value	
Financial guarantee contract less cumulative amortisation recognised		Higher of the 1. Amount initial recognition 2. Valuation as per IAS 37
Other financial liabilities including debentures, bonds, preference shares classified as	At fair value directly attributable transactions cost is included in the fair value	At amortised cost

IFRSs on Expenses & Liabilities

- IAS 19 – Employee Benefits
- IFRIC 14- IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IFRIC 1 -Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 5- Rights to Interests Arising from
- IFRIC 6- Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

IFRSs on Expenses & Liabilities

- IAS 12- Income Taxes
- SIC 21 - Income Taxes – Recovery of Revalued Non-Depreciable Assets
- SIC 25- Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
- IFRS 2- Share-based Payment
- Financial liabities
  - IAS 32 Financial Instruments: Presentation
  - IAS 39 Financial Instruments: Recognition and Measurement
  - IFRS 7 Financial Instruments: Disclosure
  - IFRS 9 Financial Instruments
  - IFRS 13 Fair Value Measurement

Losses

- Framework para 79 deals with losses
- Definition – Decrease in economic benefits and as such no different in nature from other expenses
- E.g. disasters such as fire & floods
- Expenses include unrealised losses e.g. effects of increases in the rate of exchange for a foreign currency in respect of borrowings
- Losses are not separate element

IFRSs on income

- Construction contracts (IAS 11)
- Revenue (IAS 18)
- Agriculture income (IAS 41)
- Service concession arrangements - IFRIC 12 & SIC 29
- Customer loyalty programmes – Customer reward credit or points IFRIC 13

IFRSs on Disclosure

- IAS 24 Related Party Disclosures
- IFRS 8 Operating Segments
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 7 Financial Instruments: Disclosures
- SIC 29 Service Concession Arrangements: Disclosures

IFRSs on Industry

- IFRS 4 Insurance Contracts
- IAS 26 Accounting and Reporting by
  Retirement Benefit Plans
- IFRS 6 Exploration & Evaluation of Mineral Resources

IFRS on First Time Adoption

IFRS 1 - First – time Adoption of International Financial Reporting Standards

- identify the first IFRS financial statements;
- prepare an opening statement of financial position at the date of transition to IFRS;
- select accounting policies that comply, and apply those policies retrospectively to all of the periods presented in the first IFRS financial statements;
- consider whether to apply any of the 14 exemptions from retrospective application;
- apply the three mandatory exceptions from retrospective application; and make extensive disclosures to explain the transition to IFRS
- Effective date of IFRS 1 (Revised and Restructured 2008) – 1 July 2009

IFRSs on Financial reporting

- Separate financial statements
  - IAS 1,7,8,10,21,27,29,33
- Interim financial reporting
  - IAS 34
- Consolidated financial statements
  - IFRS 3,11, IAS 28

Elements of Financial statements

- Assets
- Liabilities
- Equity

- Income
- Expenses

IFRSs on Presentation of Financial Statements

Standard Number	Standard Name
IAS 1	Presentation of Financial Statements
IAS 7	Statement of Cash Flows
IAS 33	Earnings Per Share
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting period
IAS 21	The effects of changes in foreign exchange rates
IAS 29	Financial Reporting in Hyperinflationary economies
SIC 7	Introduction of the EURO
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyper inflationary Economies

Fair Value Measurement – IFRS 13

- The IFRS explains how to measure fair value for financial reporting.
- Some IFRSs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments.
- Fair value is a market-based measurement, not an entity-specific measurement.

Barings Bank

- Barings Bank - 1762 to 26th February 1995
- ING, a Dutch bank, purchased Barings Bank in 1995 for the nominal sum of £1and assumed all of Barings' liabilities, forming the subsidiary ING Barings
- The bank lost £827 million ($1.3 billion) the loss is twice the banks available trading capital
- It was due to speculative investing, primarily in futures contracts, at the bank's Singapore office.
- Nick Leeson Key Personnel in the Baring Bank (Born on 25th February 1967) (age 44)

Components of Financial Statements

Statement of financial position

Statement of comprehensive income

Statement of changes in equity

Statement of cash flows

Notes including accounting policies

Statement of financial Position at the beginning of earliest comparative period

Complete set of Financial statements

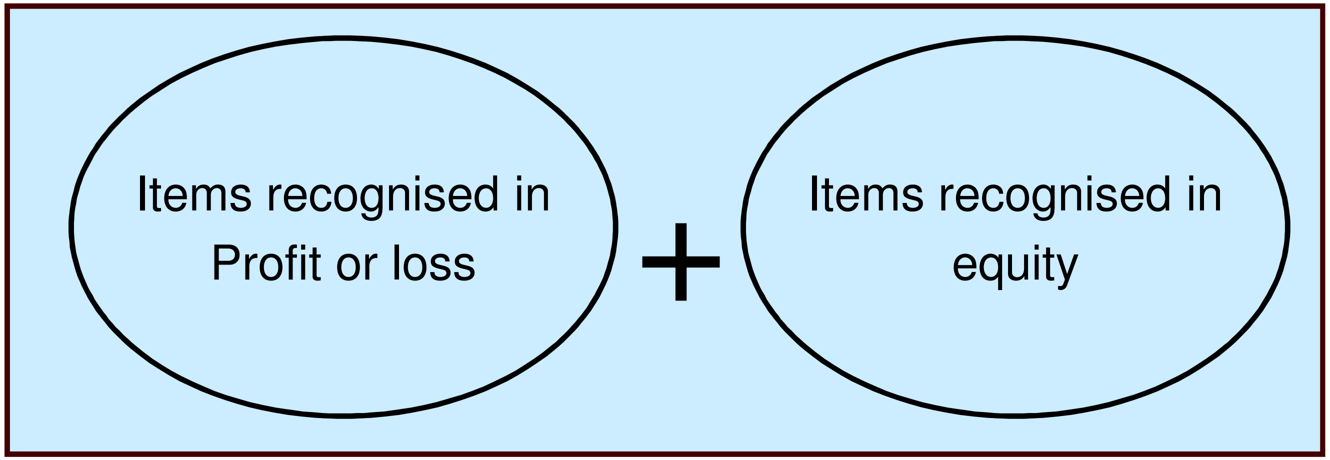
IAS 1.10

Comprehensive Income

- An entity presents both a statement of comprehensive income and a statement of changes in equity as part of a complete set of financial statements.
- An entity presents either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or an income statement and a separate statement of comprehensive income.
- All owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

Statement of Comprehensive Income

Total Comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.



Other Comprehensive income comprises items of income and expenses that are not recognised in profit or loss as required or permitted by other IFRSs.

Components of OCI:- Items of income and expense recognised in Equity

Effective portion of cash flow hedges

Actuarial gains/losses on Defined Benefit Pension Plans

Effect of translation of FS Of foreign operations

Re measurement of AFS

Change in Revaluation Surplus of PPE and Intangibles

The Current/Non-Current Distinction

- An item is classified as current
  - if it is involved in the entity's operating cycle or
  - is expected to be realized/ settled within twelve months or
  - If it as held for trading or
  - Is cash or cash equivalent or
  - If entity does not have unconditional right to defer settlement of liability for 12 months after reporting period.
- Other assets and liabilities are non current
- Financial assets held for trading should be classified as current assets. HTM and AFS investments can only be classified as current assets if realization within twelve months is expected.
- Long-term assets /liabilities that an entity expects to realize/ settle within the 12 months should be reclassified as current.

Change in Accounting Policies

- Accounting Policies should be changed only for
  - compliance with standard or
  - if it enhances reliability/ relevance of information in financial statements
- When change is because of initial application of IFRS then transitional provisions are applied and nature and amount of change for current and prior period to be disclosed
- Otherwise accounted **Retrospectively** and disclosure of reason for change also given

Definition: Change in Accounting Estimate

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates **result from new information or new developments and, accordingly, are not corrections of errors.**

Prior Period Errors

- Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
  - was available when financial statements for those periods were authorised for issue; and
  - could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Examples
- Effect of mathematical mistakes
- Mistakes in applying accounting policies
- Oversight and misinterpretation of facts and fraud.

Events after the reporting period

- An event, which could be favourable or unfavourable, that occurs **between the end of the reporting period and the date that the financial statements are authorised for issue**:

(a) those that provide evidence of **conditions that existed at the end of the reporting period** (adjusting events after the reporting period); and

(b) those that are **indicative of conditions** that arose after the reporting period (non - adjusting events after the reporting period).

Examples of non-adjusting events after the reporting period

(1) when market value of investments declined after the reporting period, amounts recognised in financial statements are not adjusted.

(2) business combination

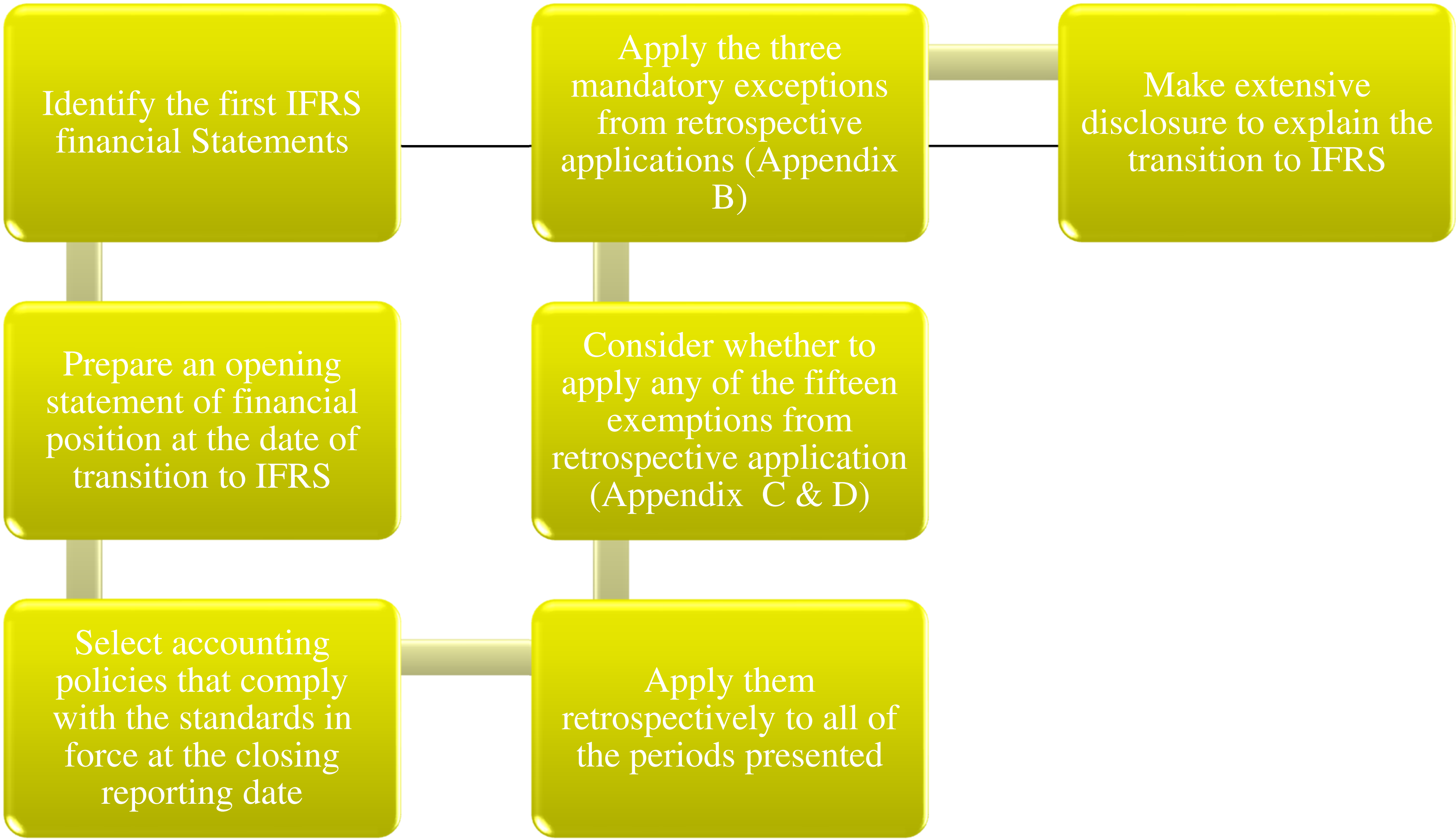
(3) sale of a subsidiary

(4) major purchase or disposal of assets

(5) major restructuring

(6) significant commitments

(7) major litigation due to the events occurred after the reporting period



Identify the first IFRS financial Statements
Prepare an opening statement of financial position at the date of transition to IFRS
Select accounting policies that comply with the standards in force at the closing reporting date
Apply them retrospectively to all of the periods presented
Consider whether to apply any of the fifteen exemptions from retrospective application (Appendix C & D)
Apply the three mandatory exceptions from retrospective applications (Appendix B)
Make extensive disclosure to explain the transition to IFRS

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About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
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- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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THANK YOU