IFRS
All about Debits and Credits

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"Not much happens without a dream. And for something great to happen, there must be a great dream." – Robert Greenleaf

(ICSI Journal – July 2011)

Professional Opportunities in IFRS

1. Consultation
2. Convergence in 123 countries
3. Internal audit of Convergence
4. Training India/abroad
5. Writer of Technical Material
6. Training for IPSAS in UN bodies and other NPO
7. Research work for various trade bodies like IBA/IRDA/RBI
8. To become Trustees or assist other countries

What is IFRS?

<u>IFRS Defined in (IAS 1.7, IAS 8.5 ,IFRS 1 Appendix A)</u>

Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise

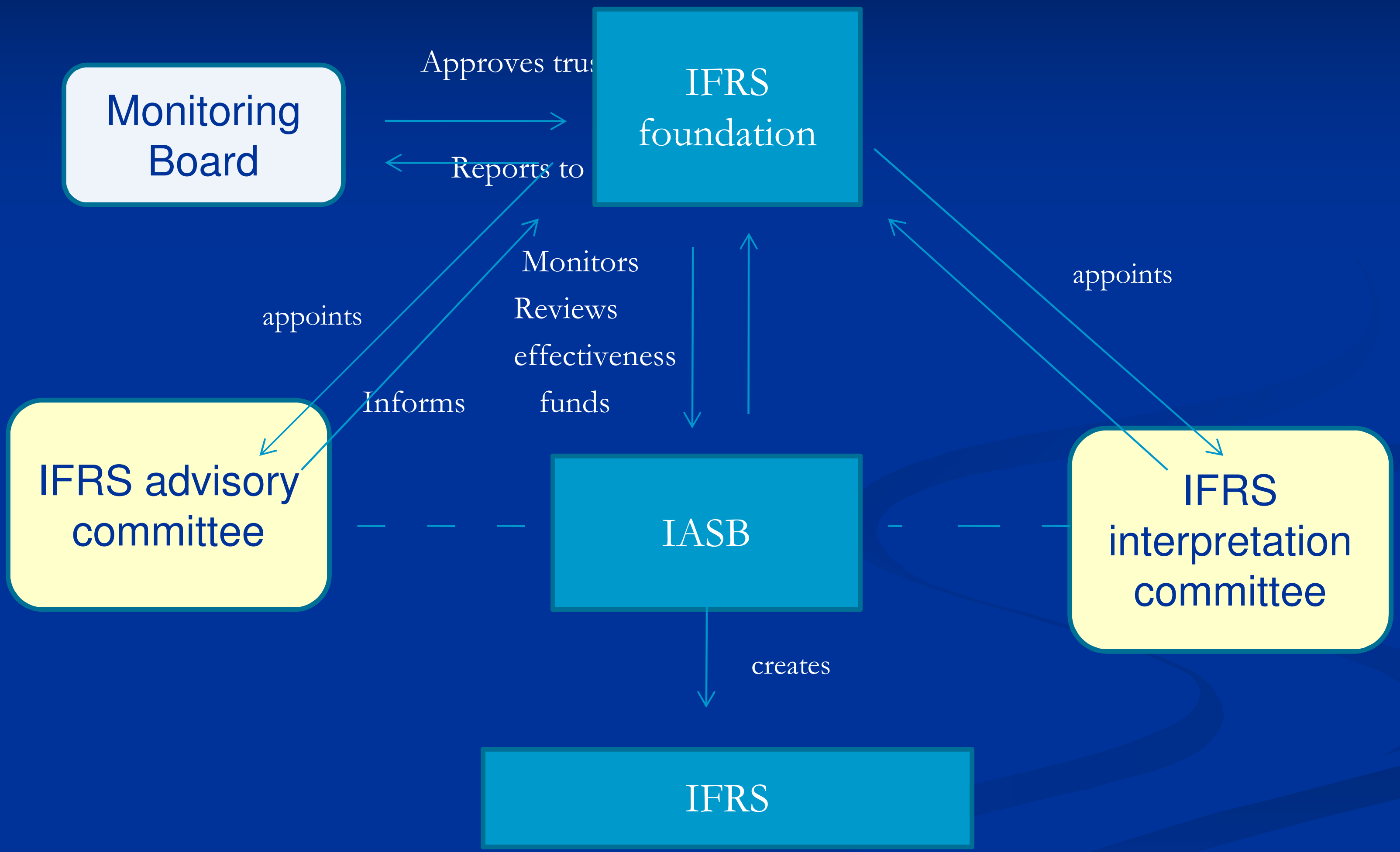
- International Financial Reporting Standards
- International Accounting Standards; and
- Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and
- Former Standing Interpretations Committee (SIC)

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

Working of IASB



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

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

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

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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

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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 .

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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

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Measurement of Elements of Financial Statements

- 4.55 (a) Historical Cost

  (b) Current Cost

  (c) Realisable Value (Settlement)

  (d) Present Value

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 25thFebruary 1967) (age 44)

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PPE

- Asset Value Rs.100,00,000
- Depreciation SLM over a period of 5 years
- At the end of the 4th year it was re-determined at a further period of 5 years
- Carrying amount of Rs.40,00,000 will be depreciated at Rs.8,00,000 every year for the next 5 years

Depreciation A/c Dr 8,00,000

To PPE A/c 8,00,000

Financial Instruments

- A Ltd holds Glaxco Ltd shares purchased at Rs.50,000
- A Ltd sell the shares to B Ltd.
- The Investment has been sold for Rs.5,00,000
- Fair Value on the date of Sale is Rs.13,00,000

How do we account for the same?

A/c Entry in A Ltd

Initial Measurement

Fair Value on the date of purchase is Rs.1,00,000

Shares in Glaxco Ltd A/c Dr	1,00,000	
To Bank A/c		50,000
To Gain on Purchase		50,000

A/c Entry in A Ltd

- On the date of sale - Revision of Fair Value at Rs.13,00,000

Shares in Glaxco Ltd A/c	Dr	12,00,000	
To Mark to Fair Value			12,00,000

Bank A/c	Dr	5,00,000	
Loss on Sale	Dr	8,00,000	
To Shares in Glaxco Ltd A/c			13,00,000

A/c Entry in B Ltd

On the date of purchase

Shares in Glaxco Ltd A/c Dr	13,00,000	
To Bank A/c		5,00,000
To Gain on Purchase		8,00,000

Agriculture – IAS 41

Purchase of Livestock

- Fair Value – 6000
- Purchase Cost 500

Livestock A/c Dr	6000	
To Bank		500
To Gain on Purchase		5500

(Measurement is at fair value under IAS 41)

Income Taxes – IAS 12

An entity's PPE Carrying Value – Rs.10,00,000

Revalued at Rs.15,00,000

Rate of Tax 20%

What is the Deferred Tax Liability and the entry to be passed?

Income Tax

- Carrying Value is Rs.15,00,000 after revaluation.
- Tax Liability – 20%*(15,00,000-10,00,000)
- Deferred Tax Liability is Rs.1,00,000

Income Tax

PPE A/c Dr Rs.5,00,000

To Revaluation Surplus A/c Rs.5,00,000

Revaluation Surplus A/c Dr Rs.1,00,000

To Deferred Tax Liability A/c Rs.1,00,000

Business Combination

Complete merger by payment - Purchase of Business

- Fixed Assets 5 crores
- Current Assets – 3 crores
- Current Liabilities - 2 crores
- Contingent Liabilities 1 crores
- Payment made 4 crores
- Fair Value of Fixed Assets – 4.5 crores

Business Combination

- Journal Entry for purchase of business

Non Current Assets A/c	Dr	4.5cr
Current Assets A/c Dr.		3cr
To Current Liabilities A/c		2cr
To Contingent Liabilities A/c		1cr
To Bank A/c		4cr
To Gain on Purchase		.5cr

Business Combination

- Future liability of Rs.1crore to be paid to the buyer after two years

Non Current Assets A/c Dr	4.5cr	
Current Assets A/c Dr	3cr	
Goodwill A/c Dr	.5cr	
To Long Term Liability A/c		1cr
To Current Liability A/c		2cr
To Contingent Liability A/c		1cr
To Bank A/c		4cr

Errors pertaining to previous years

- In 2011, B Ltd discovered that some products that had been sold during 2010 where incorrectly included in the stock on 31st March 2011 of Rs.7,000 Cr
- In 2011 – Sales is at Rs.1,04,000 Cr Cost of Goods sold is at Rs.87,000 Cr (which includes error in opening inventory) and income taxes of Rs.5,250 Cr

Errors pertaining to previous years

Statement of Comprehensive Income of B Ltd – 2010

	Rs. in Cr
Sales	73,000
Cost of Goods sold	(53,000)

Profit before income taxes	20,000
Income Taxes	(6,000)

Profit	14,000

Errors pertaining to previous years

- 2010 RE was Rs.20,000 and closing RE was Rs.34,000
- B Ltd tax rate was 30% for 2010 and 2011
- It has no other income or expense.
- Share capital of B Ltd Rs. 5,000 remained the same except the retained earnings

How will you go about the retrospective restatement of errors?

Errors pertaining to previous years

- Solution

Restated Statement of Comprehensive Income

	2011	2010
	Rs. In Cr	
Sales	1,04,000	73,000
Cost of Goods Sold	(80,000)	(60,000)
Profit before Inc Tax	24,000	13,000
Income Taxes	(7,200)	(3,900)
Profit	16,800	9100

Errors pertaining to previous years

Statement of Changes in Equity

Rs. In Cr

	Share Capital	RE	Total
Balance as at 31^{st} Mar 2011	5,000	20,000	25,000
Profit for y.e 31^{st} Mar 2011		9,100	9,100
Balance as at 31^{st} Mar 2011	5,000	29,100	34,100
Profit for y.e 31^{st} Mar 2012		16,800	16,800
Balance as at 31^{st} Mar 2012	5,000	45,900	50,900

Errors pertaining to previous years

- Financial Statements of 2010 have restated to correct this error. The result is there is no effect in 2011

	Rs. In Cr
(Increase) in Cost Goods Sold	(7,000)
Decrease in Income Tax Expense	2,100

(Decrease) in Profit	(4,900)

(Decrease) in Inventory	(7,000)
Decrease in Income Tax payable	2,100

(Decrease) in Equity	(4,900)

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*

- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*

- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*

- *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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