INTRODUCTION TO IFRS

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CORPORATE ACCOUNTING

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MEANING OF IFRS

- International Financial Reporting Standards (**IFRS**) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).
- They specify how companies must maintain and report their accounts, defining types of transactions and other events with financial impact. IFRS were established to create a common accounting language, so that businesses and their financial statements can be consistent and reliable from company to company and country to country.

FRAMEWORK OF IFRS

Generally Accepted Accounting Principles (GAAP)

National GAAP

(Like We have Accounting Standards

In India.i.e. AS)

Ind-AS is basically converged form of IFRS.

Ind-AS (Indian Accounting Standards)

Note: Convergence is everyone agreeing to use of

same standards.

International GAAP

IAS (International Accounting Standards)

It is followed by UK and several other European Countries. IAS - new version is IFRS.

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NEED/OBJECTIVES OF IFRS

- To bring uniformity , comparability in financial statements throughout the world.
- To get funds from foreign nations.
- To become globally competitive
- Reduce financial reporting cost
- Raise the quality level of accounting practices
- Increase credibility of financial information
- Easier to transfer accounting staff internationally
- Increased investors interest in foreign investments

HOW TO BECOME IFRS COMPLIANT?

There are two ways to become IFRS compliant.

i) IFRS Adopt-Countries adopting IFRS prepared by IASB.(International Accounting Standard Board) example: European Counties

ii) IFRS Converge –Prepare own converged Accounting Standards .India has adopted this and developed Indian Accounting Standards ,popularly known as IND-AS.

ASSUMPTIONS IN IFRS

1) Going Concern –Life of business is indefinite.
2) Accrual Concept-Transactions are recorded on accrual basis i.e. as and when they occur and date of settlement is immaterial.
3) Valuation –Measuring unit is current purchasing power . It means that assets are not shown in the Balance sheet at historical cost but they are shown at current or fair value. Similarly, liabilities are shown at the amount at which they are required to be settled at present.
4) Constant Purchasing Power –Inflation is taken into account for adjusting the items of financial statements.

BENEFITS OF IFRS

1) Helpful to Enterprises operating globally-As there would not be any inconsistency of accounting standards . IFRS unify the accounting practices worldwide as a result of which problem in consolidation is avoided.
2) Helpful to Investors-The use of common set of high quality accounting standards i.e. IFRS would be helpful to investors in comparing financial statements of different companies and to make their investment decisions.
3) Helpful to industries –Obtaining funds from outside the country becomes easier if financial statements comply with IFRS. Convergence to IFRS would enable the Indian companies to access global market easily.
4) Helpful to Accounting Professionals-They can provide services in all over the world if they know IFRS and this will increase their employability in foreign nations too.
5) True and Fair view-In IFRS ,assets are valued at fair value i.e. market value .

REQUIREMENTS OF IFRS

Standard IFRS Requirements

IFRS covers a wide range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules. These are the part of financial statements in IFRS.

1) Statement of Financial Position: This is also known as a balance sheet IFRS influences the ways in which the components of a balance sheet are reported.

2) Statement of Comprehensive Income: This can take the form of one statement, or it can be separated into a profit and loss statement and a statement of other income, including property and equipment.

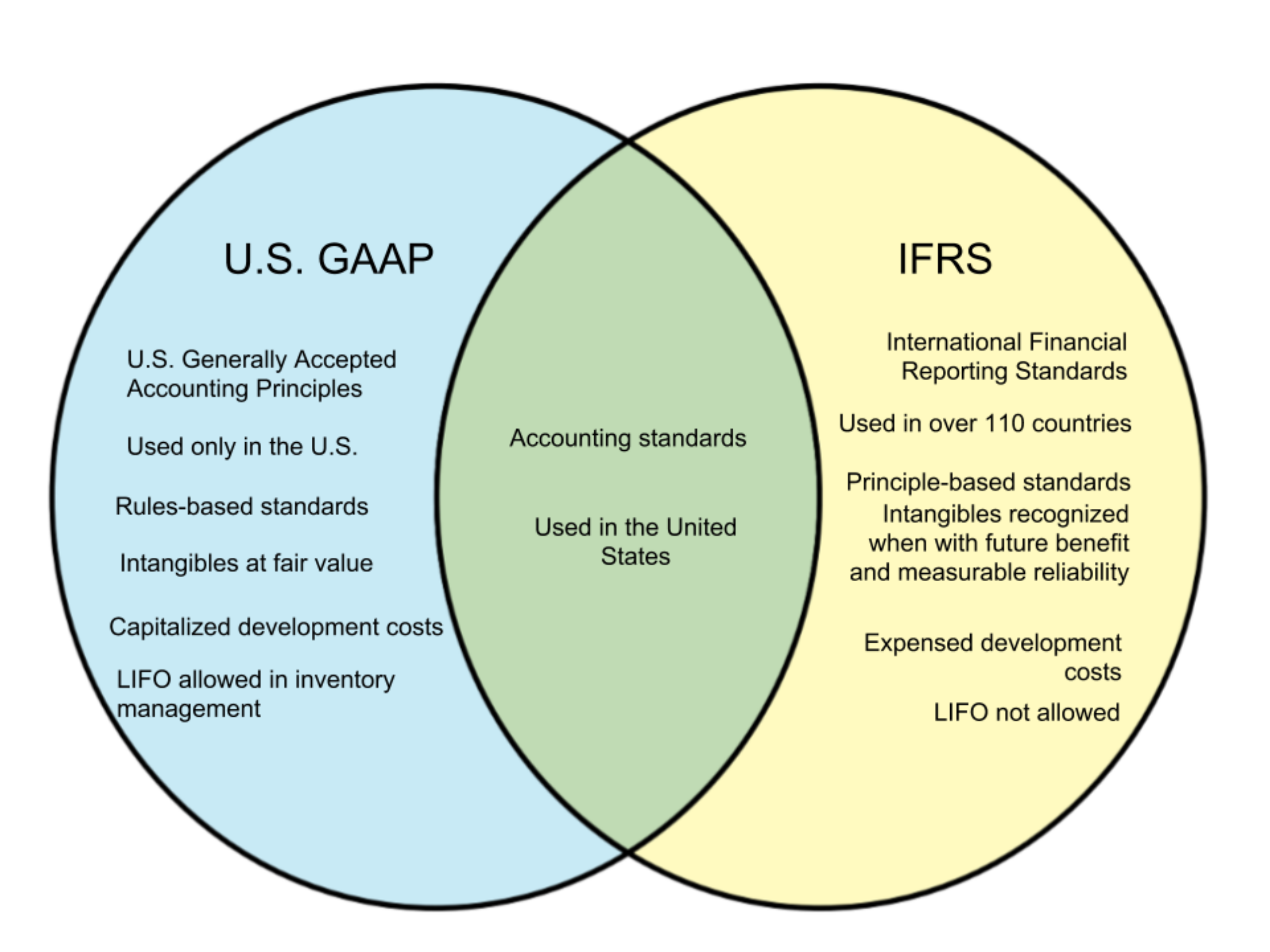
3) Statement of Changes in Equity: Also known as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.

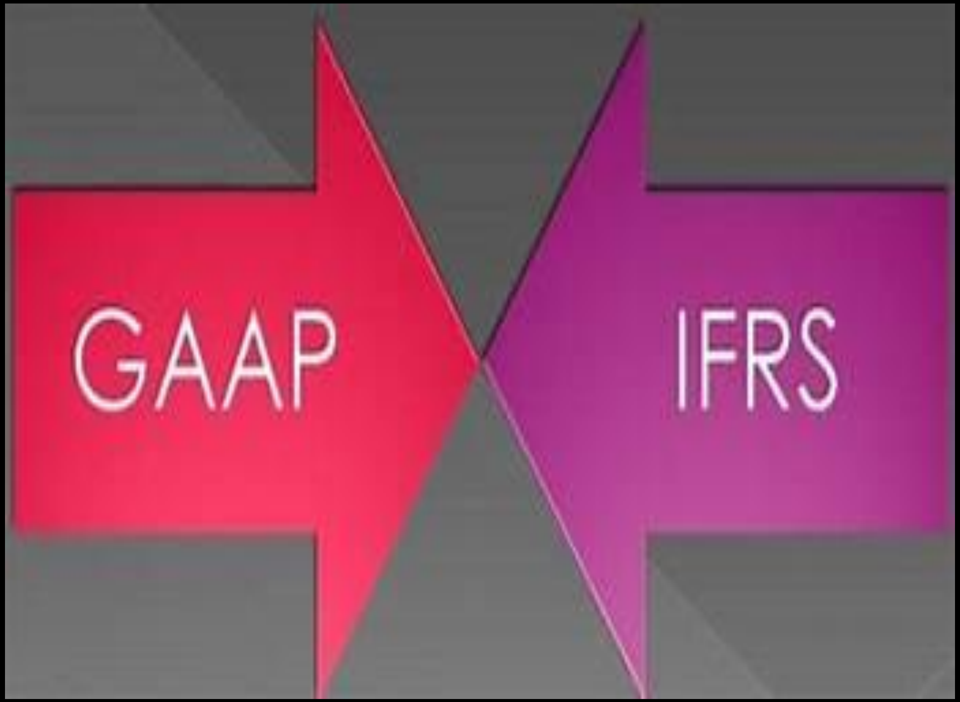
4) Statement of Cash Flow: This report summarizes the company's financial transactions in the given period, separating cash flow into Operations, Investing, and Financing.

APPLICABILITY OF IFRS IN INDIA

- India has opted to apply IFRS after making certain deviations from the original IFRS (also known as carve outs). In India, IFRS in their converged form (after required modifications) are popularly known as Ind AS. Each individual Ind AS contains an Appendix that explains the modifications. These Ind AS areapplicable to specified category of as discussed below:
- **In case of Companies:**
- 1. Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India;
- 2. Unlisted companies having net worth of Rs. 250 crore or more; and
- 3. Holding, subsidiary, joint venture or associate companies of companies covered in point (1) and (2) above.
- Voluntary applicability: Company may voluntarily apply Indian accounting standards (Ind AS).
- Companies on which Ind AS is not applicable will continue to follow existing Accounting Standards (AS) which will be upgraded by ICAI.
- Banking Companies and Insurance Companies:
- Banking Companies and Insurance Companies have their statues and they shall apply the Ind ASs as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively.
- However, for the purpose of consolidation, insurance company shall provide financial statements in compliance to Ind AS for the purposes of preparation of consolidated financial statements by its parent, investor or venturer, as required by such parent or investor or venturer to comply with the requirements of these rules.

DIFFERENCE BETWEEN IFRS AND GAAP





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BASIS FOR COMPARISON	GAAP	IFRS
Acronym	Generally Accepted Accounting Principles	International Financial Reporting Standard
Meaning	A set of accounting guidelines and procedures, used by the companies to prepare their financial statements is known as GAAP.	IFRS is the universal business language followed by the companies while reporting financial statements.
Developed by	Financial Accounting Standard Board (FASB).	International Accounting Standard Board (IASB).
Based on	Rules	Principles
Inventory valuation	FIFO, LIFO and Weighted Average Method.	FIFO and Weighted Average Method.
Extraordinary items	Shown below the statement of Income.	Not segregated in the income statement.
Development cost	Treated as an expense	Capitalized, only if certain conditions are satisfied.
Valuation	Historical Cost Concept	Fair Value Concept

LIST OF IFRS

- 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

LATEST UPDATE

- IFRS are used in at least 120 countries, as of March 2018, including those in the European Union (EU) and many in Asia and South America, but the U.S. uses Generally Accepted Accounting Principles (GAAP).

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