BLOCK I:
INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS)

Unit-1
Financial Reporting and Analysis

Unit Structure:

1.1 Introduction

Accounting is a financial information system. As a financial information system, accounting is the process of identifying, measuring, recording and communicating information to interested parties. An accounting system that converts inputs into outputs, Inputs are business transactions and external events. The output is financial statements prepared from a record of business transactions and events. Outputs include income statement, balance sheet. Statement of cash flows etc. these statements provide information for decision making. At the end of each financial year, every business is curious to know whether it has made a profit or a loss during the accounting period.

1.2 Objectives

After going through this unit , you shall be able to

- Explain the concept of financial reporting.
- Describe the objectives of financial reporting.
- Explain the users of financial reporting information.

- Explain Benefits of financial reporting
- Describe Qualitative characteristics of financial reporting information

1.3 Concept of Financial Reporting

Financial reporting is the financial results of an organization that are disclosed to its stakeholders and the public. This reporting is a key function of the trustee, which may be assisted by an investor relations officer if the organization is publicly held. Financial reporting usually involves issuing financial statements that include a profit and loss statement, a balance sheet, and a cash flow statement. . There may also be accompanying footnotes that provide more detail on certain topics as prescribed by the relevant accounting framework. In addition, a business may list any financial information it chooses to disclose about itself on its website. It may also issue annual reports to its shareholders. Finally, it may issue a prospectus regarding the organization's securities issuance to potential investors. Next, the key components of financial reports are described.

Profit and loss statement :An income statement is a summary of a business's sales, costs, and profits over a certain period of time. The sales figure in this report is called the "top line," while the reported profit or loss at the bottom of the report is called the "bottom line." This report is the most watched of the various reports as it shows the financial performance of the entity.

Balance sheet :The balance sheet presents an aggregated view of the assets, liabilities and equity of a business as of a certain date. This date is almost always the last day of the period used for the accompanying income statement. It can be used to examine the liquidity of a business and its ability to pay its debts by comparing various line items of assets and liabilities.

Statement of cash flows :The statement of cash flows presents a summary view of the cash flows of the enterprise, which are connected with its operation, financing and investment activities. This is a useful report for examining how cash is used in business. It can provide a better overview of the viability of the business than the income statement.

Statement of retained earnings :The smallest of the reports is the retained earnings statement. It shows any changes in the company's retained earnings during the reporting period. It is often excluded from the financial statements package.

1.4 Objectives of Financial reporting and analysis

According to the International Accounting Standards Board (IASB), the purpose of financial reporting is "to provide information about the financial position, performance and changes in the financial position of the entity that is useful to a wide range of users in making economic decisions".

The following points are a summary of the goals and objectives of financial reporting.

1. Providing information to the organization's management for use in planning, analysis, benchmarking and decision-making purposes.
2. Provide information so that investors, promoters, lenders and creditors can make rational and wise decisions about investment, credit, etc.
3. In the case of public companies, providing information to shareholders and the public about various aspects of the organization.
4. Provide information about the economic resources of the organization, the claims on those resources (debt and equity), and how these resources and claims change over time.
5. Providing information about how the organization prepares and uses different resources.
6. Providing information to various stakeholders in the performance management of the organization regarding how diligently and ethically it performs its fiduciary duties and responsibilities.
7. Facilitating audits by providing information to corporate auditors.
8. Strengthening social welfare by considering the interests of employees, trade unions and the government.

Check Your Progress

1. What is cash flow statement?
2. What are the various activities classified while preparing the cash flow statement?
3. What is statement of retained earning?

1.5 Users of Financial Information

As mentioned above, the company's financial reporting is intended to provide external user information that is useful for business and economic decisions, i.e. for reasonable choices between alternative uses of scarce resources in behavior business and economic activities. So users are potentially interested in information provided by financial reporting. Users in financial reporting can be classified based on their respective information needs.

1. Those who consider direct economic interests:

(a) Potential users including owners, creditors, employees are the most direct relating to a particular business enterprise and its ability to create favorable cash flows because their decisions concern the amount, timing, and uncertainty of expected cash flows. These users receive cash in kind interest, dividends, market price appreciation, loan repayment, payment of goods and services or salaries or wages.

(b) Customers have a direct interest in the business in terms of goods and services. They usually oversee the ability the company to use resources and ensure a continuous flow of goods and services.

(c) Managers and directors who are charged with the management of the business they also have a direct interest in the interests of the owners. They use financial providing information in their decisions and managerial decisions liability, including their liability to directors and owners.

2. Persons who intend to gain indirect economic benefits:

Users such as financial analysts and consultants and unions have indirect interests because they advise, protect or represent a large part of the bearers of direct interests. Financial analysts analyze reports and propose recommendations to their clients. Protects unions interest of the working class and negotiation with management for monetary and non-monetary benefits based on the company's financial performance.

3. Users with specialized needs:

Regulatory agencies like the SEBI maintain a a hawkish eye on financial reporting to protect investors' interests and for prudent use from public money. Legislators and tax authorities often use this information in finance statement for their lawful purposes. They also have the power to search for more information for their viewing.

1.6 Benefit of Financial Reporting

Financial reporting has the following advantages:

1. It helps in decision making:

True and fair financial reporting provides strong basis for various decisions at the macro and micro level.

(a) Macro level decision making

Two important economic decisions that affect the allocation of resources that external users typically make are (a) investment in securities (b) credit decisions. Sound economic decisions require assessing the impact of current business activities and the development of the company's earning power. Both economic decisions require detailed information to determine benefits (to be received) instead of sacrifices. Information about the economic resources and liabilities of the enterprise is also needed to form a judgment about the business's ability to survive, adapt, grow and thrive in changing economic conditions.

(b) Decision making at the micro level :

Financial reporting serves as a guide for various users including owners, potential investors, managers, consultants, suppliers, lenders, etc. to fulfill their direct or indirect targets. Regulators also amend or change laws based on information provided through the reporting mechanism.

2. Favorable impact on the company's cost of capital :

Adequate disclosure in annual reports increases the trust and image of the company. It increases the market price of the company's share in the investment market in the long term. Higher company share prices resulting from full disclosure lead to a favorable impact on the company's cost of capital. It also increases the future marketability of the company's subsequent share issue. Higher security prices would mean that the primary issue of securities could be valued higher and that the net proceeds from it would be higher. The company would thus record more income from the given issue and hence lower cost of capital.

3. Increasing the efficiency of the stock market :

Financial reporting helps in bringing transparency to stock markets and leaves a positive impact on improving market efficiency. Such a voluntary release information by corporate houses reduces information asymmetry and stock prices accurately reflect the value of the company.

4. Reduction of stock price fluctuations :

Adequate disclosure will tend to minimize fluctuations in the shareholding of companies prices. Fluctuations in stock prices occur due to ignorance prevailing in the investment market .Fluctuations show an element of uncertainty in investment decision. If the stock market has complete information, ignorance and uncertainty will be reduced and stock prices will tend to maintain equilibrium. In addition, greater disclosure would prevent fraud and manipulation minimize the likelihood of their occurrence

- More complete information reduces uncertainty
- Less uncertainty reduces risk for investors and lenders
- Risk reduction makes investors and lenders happy with a lower rate of return.
- A lower rate of return for investors and lenders means a lower cost of capital and produces higher stock prices.

5. It affects the perception of employees :

Hiring decisions can be based on a company's perception of the economic status obtained through financial statements. Especially prospective and contemporary employees can use financial reports to assess risk and growth potential company and therefore job security and future promotion opportunities. Work unions and individual employees can use financial statement data as a basis creating contractual requirements for wages and employee benefits. If this happens, data which incorrectly reflect the economic position and prospects of the enterprise deceive employees into making or justifying unrealistic demands.

In addition, unionized companies show a large increase in profits they are likely to face successfully negotiated demands for large wage increases. Therefore, when it comes to employee decision-making, accounting techniques that result in greater fluctuations in reported earnings appear costly to shareholders, a sharp increase in profits are likely to create a demand for a large increase in wages. Management also wants to avoid charges for manipulating net profit figures. Thus, an apparently objectively determined series that does not tend to change sharply is always desirable. Accounting based on historical costs meets these requirements.

6. Improves public image :

The data presented in the financial statements can influence the customers and therefore have economic consequences. Customers, like employees, can use financial statement data to predict the probability and/or timing of business performance bankruptcy or inability to meet obligations. This information can be important when estimating warranty value or predicting availability after-sales support services or continued supply of goods over a longer period of time. Financial institutions may also use financial statements to assess their financial statements current and future solvency, and thus the probability that they will be able to repay funds or fulfill promises as agreed.

7. Manager's decision :

Accounting information disclosed in financial reports may have economic implications by its influence on the behavior of managers of corporate enterprises. The inclusion of accounting figures in managing compensation systems or fear the market's misinterpretation of accounting reports can affect a manager's performance and funding decisions. Shareholders prefer accounting practices that mirror economic events as close as possible. However, shareholders must also be concerned that managers can manipulate reported data to increase their compensation. Therefore, shareholders also want numbers that are reliable. To summarize, information contributes significantly to better decision making, promoting understanding and creating a collaborative environment. Financial reporting creates trust and has a positive effect on company costs Capital. In the long run, financial reporting can only retain its credibility if it does what it is designed for - to provide the company with relevant and reliable information about economic events and transactions - and does not attempt to move the economy in one direction rather than the other.

1.7 Qualitative Characteristics of Financial Reporting Information

Qualitative characteristics of financial information can be categorized as basic (relevance and fair presentation) or enhancing (comparability, verifiability, timeliness and comprehensibility) according to how they affect the usefulness of financial information.

Basic qualitative characteristics of financial information

1. Relevance : Relevant financial reporting information means the ability of users (shareholders) to change their decision. Information about an economic phenomenon will help users make decisions if it contains predictive value and confirmatory value.

a) Predictive value: Information has predictive value if it can be useful to shareholders in predicting certain things that relate to the future. Information that is highly predictable does not necessarily have predictive value. For example, depreciation of property and equipment using the straight-line method may be highly predictable each year, but cannot help in evaluating net cash flows.

b) Confirmatory value: Information has confirmatory value if it confirms the validity of a previous expectation or corrects it according to previous evaluations. Results will be the same as expected in the past if the information has confirmed past expectations, while the outcome can be changed if there is a correction in past expectations.

2. Faithful representation : Useful financial information must not only be relevant, but also accurate. The financial reporting information contained characteristics that were complete, neutral and free of significant errors, intended to faithfully represent the economic phenomenon. One description in financial reports can correspond to several economic phenomena. For example, the buildings and equipment listed on the balance sheet may represent all the buildings and equipment owned by the entity.

a) Complete: Complete financial reporting information must contain all necessary information useful for decision-making and should not lack material facts or considerations that could cause misleading financial reporting information.

b) Neutrality: Neutrality in financial reporting information must not be biased because the information provided does not favor a particular group over another interested person. To be neutral, information must be presented in a faithful and trustworthy state without changing anything that needs to be communicated to induce someone's behavior.

c) Error-free: A set of financial reporting information is considered true if it is error-free. However, due to certain limitations and uncertainties in economic phenomena, financial reporting information does not provide an absolute value that is completely free of errors. Therefore, management uses various types of judgments and estimates based on appropriate inputs in evaluating financial reporting.

Relevance is a basic qualitative characteristic of financial information that is related to economic phenomena and must be considered first before other qualitative characteristics. Once relevance is used to distinguish which economic phenomena should be presented, faithful representation determines which characteristics best match the relevant phenomena. Therefore, relevance and fidelity must work in harmony to provide users with useful financial information.

Check Your Progress

1. Who are the users of financial reports?
2. What are the objectives of financial reports?
3. What are the various components of financial reporting ?
4. How customers get benefited by financial reports of an organization?
5. How financial reporting improves public image?

1.8 Significance of analysis of financial statement

Financial analysis is the process of determining a company's financial strengths and weaknesses by establishing relationships between various elements of the balance sheet and income statement. Financial analysis can be done by the company's management or by parties outside the company, such as owners, trade creditors, creditors, investors, trade unions, analysts, and others. The nature of the analysis varies based on the analyst's goals. Methods that are often used by analysts may not serve the goals of other analysts because of differences in analyst interests. Financial analysis is useful and relevant to several users in the following ways:

(a) Financial managers: Financial analysis focuses on facts and relationships related to management, company efficiency, financial strengths and weaknesses, and credit worthiness of the company. Financial managers should be equipped with various analytical tools to make rational decisions for the company. Analytical tools help analyze accounting data to examine the sustainability of operating policies, the value of business investments, credit ratings, and operational efficiency. This method is equally important in financial control, they allow financial managers to continue to review the actual financial operations of the company, analyze the causes of major deviations, which can help to take corrective measures where indicated.

(b) Top management: The importance of financial analysis is not limited to financial managers. There is a broad scope that generally includes senior management and other functional managers. Company management will be interested in every aspect of financial analysis. It is everyone's responsibility to see that the company's resources are used more efficiently and that the company's finances are sound. Financial analysis helps managers measure the success of company operations, evaluate individual performance, and evaluate internal control systems.

(c) Trade debt: Trade debt assesses not only the short-term ability of a company to meet its short-term obligations, but also the long-term ability to meet all future financial obligations through the analysis of financial statements. Trade debt is concerned with the company's ability to meet its short-term requirements. Therefore, their analysis will assess the liquidity of the company.

(d) Lenders: Long-term debt providers are concerned with the long-term solvency and viability of the company. They analyze the profitability of the firm in a period of time, its ability to generate cash, pay interest and principal repayment, and the relationship between various sources of funds (capital structure relationship). Long-term lenders analyze historical financial statements to assess solvency and future profitability.

(e) Investors: Investors who put their money in the shares of the company focus on the profits of the company. As such, they analyze the company's current and future profitability. It also takes into account the company's capital structure to determine its impact on the company's profitability and risk. They also evaluate the effectiveness of management and determine whether changes are needed. However, in some large companies, the interests of shareholders are limited to buying, selling, or holding shares.

(f) Trade Unions: Trade unions analyze financial statements to determine whether they can now raise wages or obtain wage increases through increased productivity or price increases.

(g) Others: Economists, researchers, etc. they analyze financial reports to study current business and economic conditions. Government agencies need it for valuation regulations, taxation and similar purposes.

1.9 Objectives of financial statement analysis

Analysis of the financial statements reveals important facts regarding the managerial performance and efficiency of the firm. Broadly speaking, the goal of analysis is to capture the information contained in financial statements in order to know the weaknesses and strengths of the firm and thus create a forecast of the firm's future prospects, which will enable analysts to make decisions regarding operations and further investment in the firm. To be more specific, the analysis is carried out for the following purposes (objectives)

- to assess the current profitability and operational efficiency of the firm as a whole as well as its various departments in order to assess the firm's financial health.
- find out the relative importance of different components of the company's financial position.
- identify the reasons for the change in profitability/financial position of the company.
- assess the company's ability to repay its debt and assess the company's short-term and long-term liquidity position. Through the analysis of the financial statements of various companies, the economist can assess the extent of the concentration of economic power and the pitfalls in the monitored financial policies. The analysis also provides the basis for many government measures relating to licensing, controls, price fixing, profit caps, dividend freezes, tax subsidies and other reliefs for the corporate sector.

1.10 Tools for analysis of financial statement

The most commonly used financial analysis techniques are the following:

1. Comparative Statements: These are statements that show profitability and financial position of the company in different time periods a comparative form that gives an idea of the position of two or more periods. It usually covers two important financial statements viz balance sheet and profit and loss statement processed in comparative form. Financial data will only be comparable with the same accounting principles are used in the preparation of these statements. If this is not the case, deviation in the application of accounting principles should be mentioned as footnote. Comparative figures show the trend and direction of finances position and operating results. This analysis is also known as "horizontal". analysis'.

2. Common Statement Size: These are the statements that indicate the relationship of different financial statement items with a common item by expressing each item as a percentage of that common item. The the percentage thus calculated can easily be compared with the results the corresponding percentage of the previous year or some other companies, as the numbers are put into a common base. Such statements also allow analyst to compare the operating and financial characteristics of the two companies of different sizes in the same industry. So regular size statements are useful for intercompany comparisons across years and also in an intercompany comparison for the same year or for several years flight. This analysis is also known as "vertical analysis".

3. Trend Analysis: It is a technique of studying operational results and financial situation over a number of years. Using data from previous years a business enterprise, trend analysis can be done to observe the percentage changes over time in the selected data. The trend percentage is percentage relationship in which each item from different years bears k the same item in the base year. Trend analysis is important because s in the long run, it can point to fundamental changes in the nature of business. By looking at the trend in a particular ratio, one can determine whether the ratio decreases, increases or remains relatively constant. From this observation a a problem is detected or a sign of good or bad management is detected.

4. Ratio Analysis: Describes the significant relationship that exists between different balance sheet and income statement items and loss of business. As a technique of financial analysis, it measures accounting indicators comparative importance of individual items of income a position statement. It is possible to assess profitability, solvency and efficiency of the enterprise using the technique of ratio analysis.

5. Cash Flow Analysis: It refers to the analysis of actual cash flow in and out of the organization. The flow of cash into a business is called such as cash flow or positive cash flow and cash flow from the firm called cash outflow or negative cash flow. Difference between cash inflow and outflow is net cash flow. The statement of cash flows is prepared to project the manner in which the cash was received and was used during the accounting year because it shows resources monetary income as well as the purposes for which payments are made. Thus, summarizes the causes of changes in the company's financial position of the company between the dates of the two balance sheets.

Stop to Consider

In India, Indian Accounting Standard is followed for reporting of financial statement. In the context of the above statement what financial reporting system is being adopted by developed countries like USA, UK?

1.11 Summing Up

- Financial reporting involves the process of presenting financial information about a company's performance and financial position to external stakeholders, such as investors, creditors, regulators, and the general public. It typically includes the preparation and dissemination of financial statements, which provide a snapshot of the company's financial health.
- The objectives of financial reporting are to enhance transparency, accountability, and decision-making, thereby fostering investor confidence, facilitating efficient capital markets, and supporting economic growth.
- Users of financial reporting information include investors, creditors, analysts, regulators, employees, and the general public. They rely on financial statements and disclosures to make investment decisions, assess creditworthiness, evaluate performance, ensure regulatory compliance, understand governance practices, and monitor the financial health and accountability of the reporting entity
- Financial reporting enhances transparency, accountability, and decision-making, fosters investor confidence, facilitates capital allocation, and supports economic growth and development.
- The qualitative characteristics of financial reporting information include relevance, reliability, comparability, consistency, understand ability, and timeliness, ensuring useful and decision-useful information for stakeholders.

1.12 Model Questions

1. State the importance of Financial Analysis?
2. What are Comparative Financial Statements?
3. What do you mean by Common Size Statements?
4. Describe the different techniques of financial analysis and explain the limitations of financial analysis.
5. Explain the usefulness of trend percentages in interpretation of financial performance of a company.
6. State whether each of the following is true or false:
   (a) The financial statements of a business enterprise include a cash flow statement.
   b) Comparative statements are a form of horizontal analysis.
   (c) Common size statements and financial ratios are two tools used in vertical analysis.
   (d) Ratio analysis establishes the relationship between two financial statements.
   (e) Ratio analysis is a tool for analyzing the financial statements of any business.
   (f) Financial analysis is used only by creditors.
   (g) The income statement shows the operating performance of an company for a certain period of time.
   (h) Financial analysis helps the analyst arrive at a decision.
   (i) Statement of cash flows is a financial statement analysis tool.
   (j) In the joint size statement, each item is expressed as a percentage of some common base.

1.13 References and Suggested Readings

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Unit-2

International Accounting Standard Committee Foundation and International Financial Reporting Interpretation Committee

Unit Structure:

2.1 Introduction

To bring an uniformity and standardization in various accounting practices all over the world.The IASC was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the UK and the USA. In November 1999, the IASC board itself approved the constitutional changes necessary for its own restructuring. In May 2000, the IASC was restructured in order to strengthen its working. Consequently the International Accounting Standard Committee has been converted to the International Accounting Standard Committee Foundation (IASCF). The International Accounting Standards Committee Foundation (IASCF) is the private sector independent body responsible for the development and promulgation of a single set of high quality international accounting standards. In January 2010, the IASC Foundation was again renamed as IFRS Foundation. The change of name formally took effect on 1 July 2010. The IFRS Foundation is the legal entity under which the IASB operates. The IASB(International Accounting Standard Board) is the most important organ of the IASC

Foundation. TheIFRS Interpretations Committee (Interpretations Committee) is the interpretative body of the International Accounting Standards Board (IASB). The Interpretations Committee works with the IASB in supporting the consistent application of IFRS Accounting Standards. This Interpretations Committee responds to questions about the application of the Accounting Standards and does other work at the request of the IASB. The members of the IFRIC provide the best available technical expertise and diversity of international business and market experience relating to the application of IFRS Accounting Standards

2.2 Objectives

After going through this unit, you will be able to:

- Understand the objectives of IASC Foundation.
- Understand theresponsibilities and functions of IASCFoundation.
- Know about International Accounting Standard Board (IASB)
- Discuss the purpose of IFRIC

2.3 International Accounting Standards Committee Foundation (IASCF)

The International Accounting Standard Committee Foundation is an independent body not controlled by any particular government or professional organization. Its main purpose is to oversee the IASB (International Accounting Standard Board) which is an important organ for international financial reporting, in setting the accounting principles which are used by business and other organization around the world concerned with financial reporting.

To bring uniformity and standardization in various accounting practices all over the world the IASC was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the UK and the USA.

In November 1999, the IASC board itself approved the constitutional changes necessary for its own restructuring. In May 2000, the IASC was restructured in order to strengthen its working. Consequently the International Accounting Standard Committee has been converted to the International Accounting Standard Committee Foundation (IASCF).

The International Accounting Standards Committee Foundation (IASCF) is theprivate sector independent body responsible for the development and promulgation of a single set of high quality international accounting standards. The governance of the foundation rests with 22 Trustees, who comprise leaders from the international business and policymaking communities around the world. The Trustees oversee the Foundation and the International Accounting Standards Board (IASB).

In December 1999, the IASC Board has appointed a Nominating Committee to select the first Trustees of International Accounting Standard Committee Foundation(IASCF).The Nominating Committee nominated 19 Trustees on 22nd of May 2000 who took office on 24th May 2000 as a result of the approval of the constituted. In execution of their duties under the constitution, the trustee formed the International Accounting Standard Committee on 6th February 2001.It has three main organs

i) Standard Advisory Council,
ii) The International Accounting Standard Board; and
iii) International Financial Reporting Interpretation Committee.

IASC Foundation is constituted of two parts: Part A and Part B. Part A deals with the organization's name and objectives, membership and appointment of trustees. Part B sets out the provisions that came into effect when the trustees formed the International Accounting Standard Committee Foundation on 6th February 2001, following a Trustees Resolution.

In January 2010, the IASC Foundation was again renamed as IFRS Foundation. The change of name formally took effect on 1 July 2010. The IFRS Foundation is the legal entity under which the IASB operates.

2.4 Objectives of IASC Foundation

The constitution of IASC Foundation has laid down the following objectives:

(a) To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standard that require high quality, transparent and comparable information in financial statement and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) To promote the use and rigorous application of those standards; and

(c) To bring about convergence of national accounting standards and international accounting standards and international reporting standards to high quality solution.

2.5 Responsibilities and Functions of the International Accounting Standard Committee Foundation (IASCF)

i) The trust assumes responsibility for established and maintaining appropriate financing arrangements

ii) Establish or amend operating procedures for the trustees

iii) Determine the legal entity under which the IASCFoundation shall operate, provided that such legal entity shall be foundation or other body corporate conferring limited liability on its members and that the legal document establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in IASC Foundation Constitution

iv) Review in due course the location of the IASC Foundation, both as regards its legal base and its cooperating location

v) Investigate the possibility of seeking charitable or similar status for the IASCfoundation in those countries where such status would assist fund raising;

vi) Open their meeting to the public but may at their discretion, hold certain discussions(normally only about selection , appointment and other personnel issues and funding) in private and

vii) Publish an annual report on the IASC foundation activities, including audited financial statements and priorities for the coming year.

2.6 International Accounting Standard Board (IASB)

The IASB (International Accounting Standard Board) is the most important organ of the IASC Foundation. It comprises of a fourteen-member team appointed by the trustees of the IASC Foundation. The IASB is completely responsible for all technical matters including the preparation and issuing of International Accounting Standard. International Financial Reporting

Standard, and exposure draft. The publication of an exposure draft, International Accounting Standard, International Financial Reporting Standard, or final interpretation of the interpretation financial reporting. Interpretation committee shall require the approval by eight of the fourteen members of the IASB.

2.7 International Financial Reporting Interpretation Committee (IFRIC)

The international financial reporting interpretation committee, is comprised of fourteen voting members, appointed by the trustees for renewable terms of three years. The trustees select members of the interpretation committee so that it comprises a group of people representing within that group, the best available combination of technical expertise and diversity of international business and market experience in the practical application of IFRSs and analysis of financial statements prepared in accordance with IFRSs.

The trustees shall appoint the chairperson of the interpretation committee. The chair has the right to speak to the technical issues being considered but to vote. The trustees as they deem necessary, shall appoint as non-voting observers representatives of regulatory organization, who shall have the right to attend have the right t attend and speak at meetings

2.8 Purpose of the Committee

The interpretations committee shall meet as and when required for the following purposes

a) Interpret the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs, in the context of the IASB,S framework, and undertake other tasks at the request of the IASB,

b) In carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bringabout convergence of national accounting standards and IFRSs to high quality solutions;

c) Publish after clearance by the IASB draft interpretation for public comment and consider comments made within a reasonable period before finalizing an interpretation; and

d) Report to the IASB and obtain the approval of nine of its members for final interpretation if there are fewer than sixteen members, or by ten of its members if there are sixteen members.

Check Your Progress

1. Explain the functions of InternationalAccounting Standard Committee Foundation (IASCF).

2. Identify the objectives of International Financial Reporting Interpretation Committee (IFRIC).

Stop to Consider

The International Accounting Standards Committee (IASC) was established in 1973 with the primary objective of formulating and promoting the use of international accounting standards (IAS) for global financial reporting. In 2001, the IASC underwent a major reorganization and was replaced by the IASB. This change was aimed at further enhancing the credibility and independence of the standard-setting process. The IASB is overseen by the IFRS Foundation, an independent, not-for-profit organization. The IASB has continued the work of the IASC in developing and promoting the adoption of International Financial Reporting Standards (IFRS), which have replaced the original IAS.

2.9 Summing Up

- The International Accounting Standards Committee Foundation (IASCF) is the private sector independent body responsible for the development and promulgation of a single set of high quality international accounting standards.
- To bring an uniformity and standardization in various accounting practices all over the world the IASC was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the UK and the USA.
- International Financial Reporting Interpretation Committee (IFRIC)Interprets the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs, in the context of the IASB's framework, and undertake other tasks at the request of the IASB

2.10 Key Terms

- **IASCF:** International Accounting Standard Committee Foundation is an important organisation associated with setting International accounting standard.
- **IFRIC:** Interational Financial Reporting Interpretation Committee is a fourteen member committee which interpret the application of IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs, in the context of the IASB,S framework, and undertake other tasks at the request of the IASB.
- **IASB:** International Accounting Standard Board is the most important organisation associated with the development of International Financial Reporting Standards in association with IASCF.

2.11 Model Questions

Long Answer Question:

1. Elaborate the process of issuing IFRSs.
2. Explain the functions and responsibilities of IASCF.
3. What is meant by IFRIC? Also explain the objectives of IFRIC

Short- Answer Question:

1. State the function of IASCF.
2. Elucidate the responsibilities of IASCF
3. What is meant by IFRIC?

2.12 References and Suggested Readings

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Unit-3
International Financial Reporting Standards (IFRS)

Unit Structure:

3.1 Introduction
3.2 Objectives
3.3 Scope and Objectives of IFRS.
3.4 Process of issuing International Financial Reporting Standards.
3.5 Summing up
3.6 Model questions
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3.1 Introduction

International Financial Reporting Standard is a single set of accounting standard, developed and maintained by the International Accounting Standard Board to bring uniformity in the financial statements prepared across the globe. Accounting Standard presents prepares of financial statements with a set of rules to abide by when preparing an entity's accounts ensuring this standardization across the markets

3.2 Objectives

After going through this unit, you will be able to:

- Understand the concept IFRS.
- Determine the scope and objectives of IFRS
- Discuss the process of issuing IFRS

3.3 Scope and Objectives of IFRS

International Financial Reporting Standard is a single set of accounting standard, developed and maintained by the International Accounting Standard Board to bring uniformity in the financial statements prepared across the globe. Accounting Standard presents prepares of financial statements with a set of rules to abide by when preparing an entity's accounts ensuring this standardization across the markets.

The basic intention or scope of financial reporting standard is todevelop a single set of accounting standards, which are capable of being applied on a globally consistent basis by developed, emerging and developing economies thus providing investors and other users of financial statements with the ability to compare the financial performance of companies with their international peers.

The IFRS Standards are now mandated for use in more than 100countries around the globe.All the participating countries and the international organizations have been consistently working with the Board to achieve the objective of global convergence.

Check Your Progress

1. What does IFRS stand for?
2. Explain the meaning and scope of International Financial Reporting Standard (IFRS).
3. Mention the steps involved in issuing International Financial Reporting Standards.

3.4 Process of issuing International Financial Reporting Standards

The international financial reporting standards are a set of international accounting standard stating how particular types of transactions and other events should be reported in financial statements the point f IFRS is to maintain stability and transparency throughout the financial world.

The IASB and the IFRS international committee are responsible for the maintenance of IFRS standard. The types of issues that the interpretation committee is called on to deal with include the identification of divergent practices that have emerged for particulars transaction, cases of doubt about the appropriate transactions, cases of doubt about the appropriate treatment for a particular circumstances or concerns expressed by investors about poorly specified disclosure requirements.

Thus IFRS are developed by the IASB in consultation with IFRIC and along with 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:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation
5. Developing and publishing the Standard
6. Procedures after a Standard is issued

The above steps are explained hereunder:

1. Setting the agenda:

An agenda on important issues is set with due consideration with IASB. The IASB calculates the merits of adding a potential item to its agenda, also known as the work plan, mainly by reference to the needs of the investors. The IASB considers;

- The relevance to users of the information and the reliability that could be provided
- Whether existing guidance is available
- The possibility of increasing convergence
- The quality of the standard to be developed and
- Resource constraints

To help the IASB in considering its future agenda, its staff are asked to identify, review and raise issues that might warrant the IASB's attention.

New issues may also arise from a change in the IASB's Conceptual Framework. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

The IASB receives requests from constituents to interpret, review or amend existing publications. The staff considers all such requests, summarize major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda.

IASB meetings:The IASB's discussions of potential projects and its decisions to adopt new projects take place in public IASB meetings.Before reaching such decisions the IASB consults the IFRS Advisory Council and accounting standard-setting bodies on proposed agenda items and setting priorities. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters.The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

2. Planning the project:

Once an item to its active agenda, the IASB decides whether to conduct the project alone r jointly with another standard- setter.

Similar due process is followed under both approaches. After considering the nature of the issues and the level of interest among constituents, the IASB may establish a **Consultative group** at this stage.

A team is selected for the project by the two most senior members of the technical staff:

- The **Director of Technical Activities;** and
- The **Director of Research**.

The project manager draws up a project plan under the supervision of those Directors. The team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

3. Development and publication of a Discussion Paper:

Although a Discussion Paper is not mandatory, the IASB normally 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.Typically, a Discussion Paper includes:

- 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.

This approach may differ if another accounting standard-setter develops the research paper.

Discussion Papers may result either from:

- a research project being conducted by another accounting standard-setter; or
- as the first stage of an active agenda project carried out by the IASB.

In the first case, the Discussion Paper is drafted by another standard-setter and published by the IASB. Issues related to the Discussion Paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB.

If the Discussion Paper includes the preliminary views of other authors, the IASB reviews the draft Discussion Paper to ensure that its analysis is an appropriate basis on which to invite public comments.

For Discussion Papers on agenda items that are under the IASB's direction, or include its preliminary views, the IASB develops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council, **Consultative groups** and standard-setters and presentations from invited parties.

All discussions of technical issues related to the draft paper take place in public sessions.

4. Development and publication of an Exposure Draft:

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 Exposure Draft.

When the draft has been completed, and the IASB has **balloted** on it, the IASB publishes it for **public comment.**

5. Development and publication of an IFRS Standard:

The development of an IFRS Standard is carried out during IASB meetings, when the IASB considers the comments received on the Exposure Draft. After resolving issues arising from the Exposure Draft, the IASB considers whether it should 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 the Exposure Draft that it had not previously considered;
- assesses the evidence that it has considered;
- evaluates whether it has sufficiently understood the issues and actively sought the views of constituents; and
- considers whether the various viewpoints were aired in the Exposure Draft and adequately discussed and reviewed in the basis for conclusions.

Drafting the Standard: The IASB's decision on whether to publish its revised proposals for another round of comments 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 Standard.

Pre-ballot draft: A pre-ballot draft is usually subject to external review, normally by the IFRS IC. Shortly before the IASB ballots the Standard, a near-final draft is posted on e-IFRS.

Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favors of publication, the Standard is issued.

6. Procedures after a Standard is issued:

After a Standard 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 of its proposals.

The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRS Standards.

After a suitable time, the IASB may consider initiating studies in the light of:

- its review of the Standard's application;
- changes in the financial reporting environment and regulatory requirements; and

- comments by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the Standard.

These discussions may result in items being added to the IASB's work plan.

The IFRS set by the IASB after due consultation with various international organizations and other interested bodies are reviewed from time to time after considering various changes that takes place in the business environment.This standards are set with the basic objectives of bringing transparency , uniformity and comparability of financial information around the globe. Hence these international accounting standards are followed and considered while setting accounting standards at national level to bring in an aspect of congruence in financial statements prepared worldwide.

Stop to Consider

"IFRS was developed and maintained by IASB to bring uniformity in the preparation and presentation of financial statement across the world." In the context of the above statement highlight the reporting practices adapted by the companies in the developed countries like USA and UK.

3.5 Summing up

- International Financial Reporting Standard is a single set of accounting standard, developed and maintained by the International Accounting Standard Board to bring an uniformity in the financial statements prepared across the globe. Accounting Standard presents prepares of financial statements with a set of rules to abide by when preparing an entity's accounts. Ensuring this standardization across the markets.

- The due process of issuing financial reporting standards comprises of six stages, with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout which includes

1. Setting of the agenda
2. Planning the project
3. Development and publication of a Discussion Paper
4. Development and publication of an Exposure Draft
5. Development and publication of an IFRS Standard
6. Procedures after a Standard is issued

3.6 Model Questions

1. What are IFRS?
2. What are the scopes and objectives of IFRS?
3. Discuss the Process of issuing International Financial Reporting Standards.
4. Explain the role of IFRS in bringing uniformity in the financial reporting system around the globe.

3.7 References and Suggested Readings

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