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IFRS (International Financial Reporting Standards)

What is IFRS?

IFRS is short for International Financial Reporting Standards. IFRS is the international accounting framework within which to properly organize and report financial information. It is derived from the pronouncements of the London-based International Accounting Standards Board (IASB). It is currently the required accounting framework in more than 120 countries. IFRS requires businesses to report their financial results and financial position using the same rules; this means that, barring any fraudulent manipulation, there is considerable uniformity in the financial reporting of all businesses using IFRS, which makes it easier to compare and contrast their financial results.

IFRS is used primarily by businesses reporting their financial results anywhere in the world except the United States. Generally Accepted Accounting Principles, or GAAP, is the accounting framework used in the United States. GAAP is much more rules-based than IFRS. IFRS focuses more on general principles than GAAP, which makes the IFRS body of work much smaller, cleaner, and easier to understand than GAAP.

The IFRS: History and Purpose

The IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade. The IFRS is particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards.

The IFRS began as an attempt to harmonize accounting across the European Union, but the value of harmonization quickly made the concept attractive around the world. They are occasionally called by the original name of International Accounting Standards (IAS). The IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over the responsibility for setting International Accounting Standards from the IASC. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards the IFRS.

IFRS: An International Standard

The IFRS is a common global financial language for business affairs that is understandable and comparable across international boundaries.

An International Standard

Many countries use or are moving towards using the International Financial Reporting Standards (IFRS), which were established and maintained by the International Accounting Standards Board (IASB). In some countries, local accounting principles are applied for regular companies, but listed or larger companies must conform to the IFRS, so statutory reporting is comparable internationally, across jurisdictions.

IFRS Defined Objective of Financial Statements

A financial statement should reflect true and fair view of the business affairs of the organization. As these statements are used by various constituents of the society/regulators, they need to reflect an accurate view of the financial position of the organization. It is very helpful to check the financial position of the business for a specific period.

Adoption

IFRS Standards are required in more than 140 jurisdictions and permitted in many parts of the world, including South Korea, Brazil, the European Union, India, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, Chile, Philippines, South Africa, Singapore and Turkey.

To assess progress towards the goal of a single set global accounting standards, the IFRS Foundation has developed and posted profiles about the use of IFRS Standards in individual jurisdictions. These are based on information from various sources. The starting point was the responses provided by standard-setting and other relevant bodies to a survey that the IFRS Foundation conducted. As of August 2019, profiles are completed for 166 jurisdictions, with 144 jurisdictions requiring the use of IFRS Standards.

Due to the difficulty of maintaining up-to-date information in individual jurisdictions, three sources of information on current worldwide IFRS adoption are recommended:

- IFRS Foundation profiles page
- The World Bank
- International Federation of Accountants

Ray J. Ball described the expectation by the European Union and others that IFRS adoption worldwide would be beneficial to investors and other users of financial statements, by reducing the costs of comparing investment opportunities and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS Standards. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard. However, Ray J. Ball has expressed some scepticism of the overall cost of the international standard; he argues that the enforcement of the standards could be lax, and the regional differences in accounting could become obscured behind a label. He also expressed concerns about the fair value emphasis of IFRS and the influence of accountants from non-common-law regions, where losses have been recognized in a less timely manner.

IFRS and US GAAP

US GAAP remains separate from IFRS. The Securities Exchange Committee (SEC) requires the use of US GAAP by domestic companies with listed securities and does not permit them to use IFRS; US GAAP is also used by some companies in Japan and the rest of the world.

In 2002 IASB and the Financial Accounting Standards Board (FASB), the body supporting US GAAP, announced a program known as the Norwalk Agreement that aimed at eliminating differences between IFRS and US GAAP. In 2012 the SEC announced that it expected separate US GAAP to continue for the foreseeable future but sought to encourage further work to align the two standards.

IFRS is sometimes described as principles-based, as opposed to a rules-based approach in US GAAP; so, in US GAAP there is more instruction in the application of standards to specific examples and industries.

Conceptual Framework for Financial Reporting

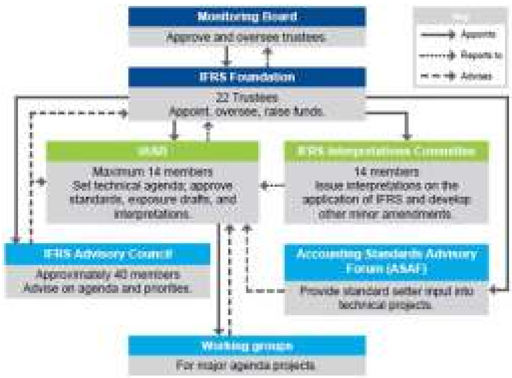
The Conceptual Framework serves as a tool for the IASB to develop standards. It does not override the requirements of individual IFRSs. Some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements.

The revised Conceptual Framework for Financial Reporting (Conceptual Framework) issued in March 2018 is effective immediately for the International Accounting Standards Board (Board) and the IFRS Interpretations Committee. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.

Structure diagram



The IFRS Foundation's three-tier structure

The IFRS Foundation has a three-tier governance structure, based on an independent standard-setting Board of experts (International Accounting Standards Board), governed and overseen by Trustees from around the world (IFRS Foundation Trustees) who in turn are accountable to a monitoring board of public authorities (IFRS Foundation Monitoring Board.)

IFRS in INDIA

Conversion is much more than a technical accounting issue. Ind AS (the converged IFRS standards) in India may significantly affect a company's day-to-day operations and may even impact the reported profitability of the business itself. Conversion brings a one-time opportunity to comprehensively reassess financial reporting.

On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs.

The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. Listed companies as well as others having a net worth equal to or exceeding 250 crore INR will follow 1 April 2017 onwards. From April 2015 companies impacted in the first phase will have to take a closer look at the details of the 39 new Ind AS currently notified. Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered by the roadmap. For the detailed roadmap and clarifications.

While announcing the Ind AS implementation in his 2014 Budget speech, Finance Minister Arun Jaitley also said that the standards for the computation of tax would be notified separately.

ICDS notified by the CBDT

The CBDT (Income Computation and Disclosure Standards) has notified 10 ICDS covering various areas such as accounting policies, construction contracts, revenue recognition, treatment of provision items requiring future outflow, treatment of foreign exchange fluctuation, etc. Two ICDSs still remain in the draft stage. These ICDS are effective from 1 April 2015 and will apply to current financial year 2015-16 (assessment year 2016-17) and subsequent years.

The ICDS (Income Computation and Disclosure Standards) provides certain deviations with respect to the computation of taxable income vis-a-vis the practice followed under the current Indian GAAP ('I-GAAP'). Based on the ICDS notified by the CBDT, the impact of the deviations recommended may be far reaching, including depending on whether the entity is following I-GAAP or is required to transition to Ind AS.

Both Implementing Ind-AS and ICDS are likely to impact key performance metrics requiring thoughtful communication with the board of directors, shareholders and other stakeholders. Internally, their implementation can have a wide-ranging impact on a company's processes, IT systems, internal financial controls, income taxes payout, remuneration policies and also contractual arrangements.

Benefits of adopting IFRS for Indian companies

The decision to converge with IFRS is a milestone decision and is likely to provide significant benefits to Indian corporates.

Improved access to international capital markets

Many Indian entities are expanding or making significant acquisitions in the global arena, for which large amounts of capital is required. The majority of stock exchanges require financial information prepared under IFRS. Migration to IFRS will enable Indian entities to have access to international capital markets, removing the risk premium that is added to those reporting under Indian GAAP.

Enable benchmarking with global peers and improve brand value

Adoption of IFRS will enable companies to gain a broader and deeper understanding of the entity's relative standing by looking beyond country and regional milestones. Further, adoption of IFRS will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

Escape multiple reporting

Convergence to IFRS, by all group entities, will enable company managements to view all components of the group on one financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.

Reflects true value of acquisitions

In Indian GAAP, business combinations, with few exceptions, are recorded at carrying values rather than fair values of net assets acquired. Purchase consideration paid for intangible assets not recorded in the acquirer's books is usually not reflected separately in the financial statements; instead the amount gets added to goodwill. Hence, the true value of the business combination is not reflected in the financial statements. IFRS will overcome this flaw, as it mandates accounting for net assets taken over in a business combination at fair value. It also requires recognition of intangible assets, even if they have not been recorded in the acquirer's financial statements.

Lower cost of capital

Migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing a dual set of financial statements. It will also reduce accountants' fees, abolish risk premiums and will enable access to all major capital markets as IFRS is globally acceptable

New opportunities will open up for corporates

Benefits from the adoption of IFRS will not be restricted to Indian corporates. In fact, it will open up a host of opportunities in the services sector. With a wide pool of accounting professionals, India can emerge as an accounting services hub for the global community. As IFRS is fair value focused, it will provide significant opportunities to professionals including, accountants, valuers and actuaries, which in-turn, will boost the growth prospects for the BPO/KPO segment in India.

IFRS challenges

Implementation of IFRS: Opportunities and Challenges for Chartered Accountants

In the present era of globalization and liberalization the world has become an economic village. Accounting plays a very important role in the economic growth of a country as it is the financial language in which transactions and their effects are expressed. Various nations across the globe are pursuing convergence of their national accounting standards with International Financial Reporting Standards (IFRS). It is very imperative to have a single globally accepted financial reporting system since a number of multinationals companies are engaging in cross-border business transactions. They are getting themselves listed on stock exchanges of different countries. Capital markets are thus becoming integrated.

The use of different accounting frameworks in different countries which require different treatments and disclosures for same transactions shall create confusion amongst users of financial statements. So this calls for the need to adopt unified standards such as IFRS that can help economy, industry and accounting professionals. Adoption of IFRS will encourage in transparent and reliable preparation and presentation of financial statements. These standards would enable comparability of financial information which will boost investor confidence. It will provide easy access to global capital markets and at low cost. These will provide impetus to cross border mergers and acquisitions, affiliate partnerships and ventures with foreign establishments.

Having regard to this and the gaining momentum of IFRS, the convergence roadmap has been issued by the ICAI. The adoption of IFRS will benefit the accounting profession in a way that they are able to render their expert services in different countries.

Opportunities from IFRS's convergence

- **International Opportunity:** Indian CAs can take their professional abilities and deep knowledge anywhere around the world.

Potential Demand of Valuation Experts: As per the IFRSs assets and liabilities are to be recognized at fair values. This fair valuation will require valuers. This is one new area that can be explored by CAs.

- **Appointment in Companies as IFRS specialist:** Companies would be working along the teams of experts and consultants. CAs would be required for interpreting the various complex issues and preparing financial statements according to the standards. The banking industry in India which is most affected by the implementation of IFRSs will also require these professionals as this industry will have to prepare its financial statements as per the new standards.

The persons with expertise in international accounting standards will also have an edge over others in educational institutes which are running certificate diplomas and training programmes in this area.

- **Continuing Professional Education:** Intensive IFRS training needs to be imparted to key management personnel of companies. ICAI has taken steps in this regard.

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