UNIT – V

International Financial Reporting Standard (IFRS)

IFRS standards are International Financial Reporting Standards (IFRS) that consist of a set of accounting rules that determine how transactions and other accounting events are required to be reported in financial statements. They are designed to maintain credibility and transparency in the financial world, which enables investors and business operators to make informed financial decisions.

IFRS standards are issued and maintained by the International Accounting Standards Board and were created to establish a common language so that financial statements can easily be interpreted from company to company and country to country.

Meaning and its Applicability in India

In India, IFRS is key to making the country's accounting standards match those around the world. This makes Indian financial reports clearer and more efficient. The Government of India and the Ministry of Corporate Affairs are working to merge Indian standards with IFRS. This effort helps Indian businesses appeal more to international investors. Yet, not all Indian companies must follow IFRS. Whether they need to depends on how much the company is worth. There are also different rules for companies that are listed or unlisted on any stock exchange in India.

Indian Accounting Standards –

Indian Accounting Standards (Ind AS) are IFRS-converged standards issued by the Central Government of India. They are developed under the supervision of the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) and in consultation with the National Financial Reporting Authority (NFRA). These standards are mandatory for certain Indian companies, ensuring their financial statements align with global practices. The ASB, established in 1977, oversees the formulation and implementation of Ind AS, making them the primary accounting standards adopted by companies in India.

Objectives

- **Uniformity and Consistency:** IND AS aims to establish a consistent framework for accounting practices across various industries and sectors in India. This uniformity ensures that financial statements are prepared using a common set of principles and methods, making them more comparable and understandable.

- **International Convergence:** One of the primary goals of IND AS is to converge Indian accounting standards with International Financial Reporting Standards (IFRS). This convergence facilitates international trade, investment, and cross-border transactions.

- **Transparency and Accountability:** IND AS promotes transparency in financial reporting by requiring companies to disclose relevant information about their financial performance, position, and cash flows. This transparency enhances accountability and helps stakeholders make informed decisions.

- **Reliability and Credibility:** IND AS ensures that financial information is reliable and credible by providing a framework for the preparation of financial statements that reflect the economic substance of transactions and events. This enhances the credibility of financial reporting in India.
- **Investor Protection:** IND AS aims to protect investors by providing them with reliable and comparable financial information. This helps investors make informed decisions about their investments.
- **Facilitation of Cross-Border Transactions:** Convergence with IFRS facilitates cross-border transactions and investments by reducing the complexities associated with reconciling financial statements prepared under different accounting standards.

SIGNIFICANCE OF ACCOUNTING STANDARDS:

Determining Managerial Accountability

The accounting standards help measure the performance of the management of an entity. It can help measure the management's ability to increase profitability, maintain the solvency of the firm, and other such important financial duties of the management.

Management also must wisely choose their accounting policies. Constant changes in the accounting policies lead to confusion for the user of these financial statements. Also, the principle of consistency and comparability are lost.

Assists Auditors

Now the accounting standards lay down all the accounting policies, rules, regulations, etc in a written format. These policies have to be followed. So, if an auditor checks that the policies have been correctly followed, he can be assured that the financial statements are true and fair.

Improves Reliability of Financial Statements

There are many stakeholders of a company and they rely on the financial statements for their information. Many of these stakeholders base their decisions on the data provided by these financial statements. Then there are also potential investors who make their investment decisions based on such financial statements.

So, it is essential these statements present a true and fair picture of the financial situation of the company. The Accounting Standards (AS) ensure this. They make sure the statements are reliable and trustworthy.

Attains Uniformity in Accounting

Accounting Standards provides rules for standard treatment and recording of transactions. They even have a standard format for financial statements. These are steps in achieving uniformity in accounting methods.

Prevents Frauds and Accounting Manipulations

Accounting Standards (AS) lay down the accounting principles and methodologies that all entities must follow. One outcome of this is that the management of an entity cannot manipulate with financial data. Following these standards is not optional, it is compulsory.

So, these standards make it difficult for the management to misrepresent any financial information. It even makes it harder for them to commit any frauds.

Comparability

This is another major objective of accounting standards. Since all entities of the country follow the same set of standards their financial accounts become comparable to some extent. The users of the financial statements can analyze and compare the financial performances of various companies before taking any decisions.

Also, two statements of the same company from different years can be compared. This will show the growth curve of the company to the users.

Procedures for Formulation of Standards

The process of formulating Accounting Standards in India is very detailed and comprehensive.

1. The setting process of Accounting Standards has the following steps.
2. Identifying broad matters of ASB and preparing preliminary drafts.
3. Constituting study groups by ASB to prepare for preliminary drafts.
4. Considering preliminary drafts that are prepared by a study group involving ASB.
5. Circulating drafts among ICAI council members and within some outside bodies such as Indian banks association, SEBI, DCA, CAG, etc.
6. Meeting with representatives of outside bodies for their opinion on the proposed Accounting Standards draft.
7. Finalizing the draft for proposed Accounting Standards based on the comments received from various bodies.
8. Issuing the invite for exposure draft for public opinion.
9. Finalizing the draft for Accounting Standards and submitting to the ICAI council for consideration and then approving it for issuance.
10. Considering Accounting Standards drafts from institute council and modifications to be done in the drafts if necessary, in consultation with the ASB.
11. The finalized Accounting Standards are issued under the council authority.

Ind AS – 1 Presentation of Financial Statement,

Ind AS 1, "Presentation of Financial Statements," establishes the overall framework for the preparation and presentation of financial statements in accordance with Indian Accounting Standards (Ind AS). Here are the key aspects:

Objective: The primary goal is to ensure that financial statements provide relevant and reliable information to users, enabling them to make informed economic decisions.

Components of Financial Statements: Ind AS 1 specifies that complete financial statements should include:

1. Balance Sheet

2. Statement of Profit and Loss
3. Statement of Changes in Equity
4. Cash Flow Statement
5. Notes to the financial statements

Fair Presentation: Financial statements must present a true and fair view of the entity's financial position and performance. This involves compliance with Ind AS and the need for appropriate disclosures.

Going Concern: Financial statements should be prepared on a going concern basis, assuming the entity will continue to operate for the foreseeable future.

Materiality and Aggregation: Information is considered material if its omission or misstatement could influence the economic decisions of users. Financial statements should aggregate similar items and disaggregate dissimilar items to enhance clarity.

Consistency: Accounting policies should be applied consistently across periods, ensuring comparability of financial information. Changes in policies are allowed only when required by Ind AS or if they result in more reliable and relevant information.

Comparative Information: Entities are required to present comparative information for at least one preceding period for all amounts reported in the current period's financial statements.

Structure and Content: The standard provides guidelines on the structure and minimum content required for each financial statement, promoting clarity and understandability.

Disclosure Requirements: Entities must disclose their significant accounting policies, judgements, and estimates made in preparing the financial statements.

Ind AS 1 is crucial for maintaining transparency and consistency in financial reporting, thus enhancing trust among stakeholders, including investors, creditors, and regulators.

Ind AS – 2 Valuation of Inventories,

Ind AS 2, "Valuation of Inventories," provides guidance on the accounting and measurement of inventories for financial reporting. Here are the main elements:

Overview of Ind AS 2

Objective: The standard aims to ensure that inventories are measured accurately and reported in a way that provides useful information to users of financial statements.

Scope: Ind AS 2 applies to all inventories except for:

1. Work in progress from construction contracts
2. Financial instruments
3. Biological assets related to agricultural activities

Definition of Inventories: Inventories are defined as assets held for sale in the ordinary course of business, in the process of production, or as materials and supplies to be consumed in production.

Cost Measurement:

Inventories should be measured at the lower of cost and net realizable value (NRV).

The cost includes all costs incurred to bring the inventory to its current condition and location.

Cost Formulas: Entities can use different methods to calculate the cost of inventories, such as:

First-In, First-Out (FIFO)

Weighted Average Cost

Specific Identification (for unique or high-value items)

Net Realizable Value (NRV): NRV is the estimated selling price less any estimated costs of completion and selling expenses. If NRV is lower than cost, the inventory must be written down to NRV.

Cost Components: The cost of inventories includes:

1. Purchase costs (including transport and import duties)
2. Conversion costs (direct labor and overhead)
3. Other costs incurred in bringing inventories to their present location and condition

Recognition as Expense: The carrying amount of inventory sold should be recognized as an expense in the period in which the related revenue is recognized.

Disclosure Requirements: Entities must disclose:

1. The accounting policies for measuring inventories
2. The total carrying amount of inventories
3. The amounts recognized as an expense during the period
4. Any write-downs to NRV and reversals of such write-downs

Consistency: The chosen accounting policy for inventory measurement must be applied consistently across periods to maintain comparability.

Ind AS – 7 Cash Flow Statement,

Ind AS 7, "Cash Flow Statement," outlines the requirements for the preparation and presentation of cash flow statements, which provide information about the cash inflows and outflows of an entity during a specific period. Here are the key components:

Objective: The primary aim is to provide information about the historical cash flows of an entity, which helps users assess its liquidity, financial flexibility, and overall cash management.

Scope: Ind AS 7 applies to all entities that prepare financial statements in accordance with Ind AS, except for those exempted from preparing cash flow statements under specific regulations.

Components of Cash Flow Statement: The cash flow statement is divided into three main sections:

Operating Activities: Cash flows from the core business operations, including receipts from customers and payments to suppliers and employees.

Investing Activities: Cash flows from the acquisition and disposal of long-term assets, such as property, plant, equipment, and investments.

Financing Activities: Cash flows related to borrowing and repaying loans, issuing or repurchasing shares, and paying dividends.

Method of Presentation:

Direct Method: Cash inflows and outflows from operating activities are presented directly, showing major classes of gross cash receipts and payments.

Indirect Method: Cash flows from operating activities are derived by adjusting net profit or loss for non-cash transactions, changes in working capital, and other items.

Cash and Cash Equivalents: Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an insignificant risk of changes in value.

Disclosure Requirements: Entities must disclose:

1. The total amount of cash and cash equivalents at the end of the period.
2. Significant cash flows, such as those related to acquisitions or disposals of businesses.
3. Any restrictions on cash and cash equivalents.

Non-Cash Transactions: Ind AS 7 requires disclosure of significant non-cash transactions that affect the financial position of the entity but do not involve cash flows, such as converting debt to equity.

Comparative Information: Entities must present comparative information for the preceding period, enhancing the understanding of cash flow trends.

Ind AS – 8 Accounting Policies, Changes in Accounting Estimate and Errors,

Objective: The standard aims to ensure that financial statements present a true and fair view of an entity's financial position and performance by providing consistent accounting policies and addressing changes and errors appropriately.

Accounting Policies:

Definition: Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting its financial statements.

Selection: Entities should select and apply accounting policies that are in accordance with Ind AS and, in the absence of a specific standard, refer to the guidance in other accounting frameworks.

Changes in Accounting Policies:

Changes can occur due to new standards, voluntary changes, or corrections of errors.

Retrospective Application: Generally, changes in accounting policies should be applied retrospectively, adjusting prior period financial statements as if the new policy had always been applied, unless impractical.

Changes in Accounting Estimates:

Accounting estimates are adjustments of the carrying amount of an asset or liability based on new information or developments.

Changes in estimates are accounted for prospectively, meaning they affect only the current and future periods, not prior ones.

Errors:

Errors may arise from mathematical mistakes, mistakes in applying accounting policies, or oversight in financial reporting.

Correction of Errors: Material prior period errors should be corrected retrospectively by restating the comparative amounts in the financial statements.

Disclosure Requirements:

Entities must disclose the nature and effect of changes in accounting policies and estimates.

For errors, entities should disclose the nature of the error and its impact on the financial statements.

Consistency:

Once an accounting policy is selected, it should be applied consistently across periods unless a change is warranted.

Ind AS – 16 – Property, Plant & Equipment,

Ind AS 16 (Property, Plant, and Equipment) is an Indian Accounting Standard that prescribes the accounting treatment for property, plant, and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment.

Objective: To prescribe the accounting treatment for property, plant, and equipment.

Scope: Applies to most tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Exclusions: Does not apply to assets classified as held for sale, biological assets, exploration and evaluation assets, and mineral rights and reserves.

Recognition: An item of property, plant, and equipment is recognized as an asset if it is probable that future economic benefits will flow to the entity and the cost can be measured reliably.

Measurement: Initially measured at cost, including purchase price, import duties, non-refundable purchase taxes, and any directly attributable costs.

Subsequent Measurement: After initial recognition, an entity chooses either the cost model or the revaluation model for subsequent measurement.

Depreciation: Depreciation is charged on the depreciable amount of an asset over its useful life.

Impairment: If an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognized.

Disclosure: Entities must disclose information about their accounting policies, the measurement bases used, and the amounts recognized in financial statements for property, plant, and equipment.

Ind AS 38 – Intangible Assets

Ind AS 38 (Intangible Assets) prescribes the accounting treatment for intangible assets, ensuring users of financial statements can discern information about an entity's investment in intangible assets and the changes in such investment.

Objective: To prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard.

Scope: Applies to most intangible assets except those covered by other standards, financial assets, exploration and evaluation assets, and expenditure on the development and extraction of minerals, oil, natural gas, and similar non-regenerative resources.

Recognition: An intangible asset is recognized if it is probable that future economic benefits will flow to the entity and the cost can be measured reliably.

Measurement: Initially measured at cost, including purchase price and any directly attributable costs.

Subsequent Measurement: After initial recognition, an entity chooses either the cost model or the revaluation model for subsequent measurement.

Amortization: Intangible assets with finite useful lives are amortized over their useful life.

Impairment: If an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognized.

Disclosure: Entities must disclose information about their accounting policies, the measurement bases used, and the amounts recognized in financial statements for intangible assets.

Ind AS – 103, Business Combinations

Ind AS 103 (Business Combinations) aims to improve the relevance, reliability, and comparability of information about business combinations in financial statements. Here are the key points:

Objective: To establish principles and requirements for recognizing and measuring identifiable assets acquired, liabilities assumed, and any non-controlling interest in the acquiree, as well as recognizing and measuring goodwill or a gain from a bargain purchase.

Scope: Applies to transactions or events that meet the definition of a business combination. It does not apply to the formation of a joint arrangement, acquisition of assets that do not constitute a business, or acquisitions by investment entities measured at fair value through profit or loss.

Acquisition Method: The acquirer recognizes and measures the identifiable assets, liabilities, and any non-controlling interest at their fair values at the acquisition date.

Goodwill or Gain from a Bargain Purchase: Goodwill is recognized as the excess of the sum of consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired. A gain from a bargain purchase is recognized if the net identifiable assets acquired exceed the sum of consideration transferred and the fair value of non-controlling interest.

Disclosure: Entities must disclose information that enables users of the financial statements to evaluate the nature and financial effects of the business combination.

Ind AS 110, Consolidated Financial Statement.

Ind AS 110 (Consolidated Financial Statements) establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Here are the key points:

Key Points of Ind AS 110:

Objective: To establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Scope: Applies to entities that control one or more other entities (subsidiaries) and require consolidated financial statements.

Control: Defines control as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee.

Accounting Requirements: Specifies the accounting requirements for the preparation of consolidated financial statements, including the treatment of non-controlling interests and the loss of control over a subsidiary.

Exclusions: Does not apply to business combinations and their effect on consolidation, including goodwill arising from such combinations

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