M.PHIL. IN COMMERCE

COM 123: CORPORATE FINANCIAL REPORTING

COM 123.2: IFRS

International Accounting Standards Board (IASB)

The International Accounting Standards Board (IASB) is the independent, accounting standard-setting body of the IFRS Foundation. The IASB was founded on April 1, 2001, as the successor to the International Accounting Standards Committee (IASC). It is responsible for developing International Financial Reporting Standards (IFRS Standards), previously known as International Accounting Standards (IAS) and promoting the use and application of these standards.

According to the Foundation, their mission is to "develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. The work of IASB would devote to the public interest by fostering trust, growth and long-term financial stability in the global economy."

The IASB forms part of the three-tier structure employed by the IFRS Foundation and is responsible for setting the IFRS Standards and related technical activities. The IASB is overseen by the Trustees of the IFRS Foundation, responsible for the organization's governance, the appointment of IASB members and funding. The IFRS Foundation is publicly accountable to a Monitoring Board of capital market authorities.

Key Differences between IASC and IASB:

The IASB differs from the IASC, its predecessor body, in several key areas:

I. Unlike the IASC, the IASB does not have a special relationship with the international accounting profession. Instead, IASB is governed by a group of Trustees of diverse geographic and functional backgrounds who are independent of the accounting profession.
II. Unlike the Board members of the IASC, Board members of the IASB are individuals who are appointed based on technical skill and background experience rather than as representatives of specific national accountancy bodies or other organizations.

III. Unlike the IASC Board, which only met about four times a year, the IASB Board usually meets each month. Moreover, the number of technical and commercial staff working for IASB has increased significantly as compared with IASC. (Similar to IASC, the headquarters of the IASB is located in London, the United Kingdom.)

IV. The interpretive body of the IASC (SIC), has been replaced by the International Financial Reporting Interpretations Committee (IFRIC).

Objectives of IASB:

The objectives of the IASB are:

1. to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions;

2. to promote the use and rigorous application of those standards;

3. in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings; and

4. to promote and facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.

IFRS Interpretations Committee

The IFRS Interpretations Committee (Interpretations Committee) is the interpretative body of the International Accounting Standards Board (Board). The Interpretations Committee works with the Board in supporting the application of IFRS Standards.

The Interpretations Committee responds to questions about the application of the Standards and does other work at the request of the Board.

The Interpretations Committee comprises 14 voting members, appointed by the Trustees of the IFRS Foundation. The members provide the best available technical expertise and diversity of inter

LIST OF IFRS:

List of IFRS issued by IASB till the date:

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IFRS 4 Insurance Contracts

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

IFRS 14 Regulatory Deferral Accounts

IFRS 15 Revenue from Contracts with Customers

IFRS 16 Leases

IFRS 17 Insurance Contracts

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 7 Statement of Cash Flows

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after the Reporting Period

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 23 Borrowing Costs

IAS 24 Related Party Disclosures

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 32 Financial Instruments: Presentation

IAS 33 Earnings per Share

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IAS 40 Investment Property

IAS 41 Agriculture

List of Indian IFRS issued by the Institute of Chartered Accountants of India till the date:

Ind AS issued under Companies (Ind AS) Rules 2015	Remarks
Ind AS 101 – First-time Adoption of Indian Accounting Standards	Amended*
Ind AS 102 – Share-based Payment	Amended**
Ind AS 103 – Business Combinations	Amended*
Ind AS 104 – Insurance Contracts	Amended*
Ind AS 105 – Non-current Assets Held for Sale and Discontinued Operations	Amended*
Ind AS 106 – Exploration for and Evaluation of Mineral Resources	
Ind AS 107 – Financial Instruments: Disclosures	Amended*
Ind AS 108 – Operating Segments	
Ind AS 109 – Financial Instruments	Amended*
Ind AS 110 – Consolidated Financial Statements	Amended*
Ind AS 111 – Joint Arrangements	
Ind AS 112 – Disclosure of Interests in Other Entities	Amended*
Ind AS 113 – Fair Value Measurement	
Ind AS 114 – Regulatory Deferral Accounts	
Ind AS 115 – Revenue from Contracts with Customers	
Ind AS 116 – Leases (Applicable from April 2019)	
Ind AS 1 – Presentation of Financial Statements	Amended*
Ind AS 2 – Inventories	Amended*
Ind AS 7 – Statement of Cash Flows	Amended**
Ind AS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	
Ind AS 10 – Events after the Reporting Period	
Ind AS 12 – Income Taxes	Amended*
Ind AS 16 – Property, Plant and Equipment	Amended*

Ind AS 17 – Leases	Omitted
Ind AS 19 – Employee Benefits	Amended*
Ind AS 20 – Accounting for Gov. Grants and Disclosure of Govt. Assistance	
Ind AS 21 – The Effects of Changes in Foreign Exchange Rates	
Ind AS 23 – Borrowing Costs	Amended*
Ind AS 24 – Related Party Disclosures	
Ind AS 27 – Separate Financial Statements	
Ind AS 28 – Investments in Associates and Joint Ventures	Amended*
Ind AS 29 – Financial Reporting in Hyperinflationary Economies	
Ind AS 32 – Financial Instruments: Presentation	Amended*
Ind AS 33 – Earnings per Share	
Ind AS 34 – Interim Financial Reporting	Amended*
Ind AS 36 – Impairment of Assets	Amended*
Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets	Amended*
Ind AS 38 – Intangible Assets	Amended*
Ind AS 40 – Investment Property	Amended*
Ind AS 41 – Agriculture	

IFRS 8: Operating Segments

This Standard sets out the requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. A summary of this Standard follows:

1. An entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.

2. An operating segment is a component of an entity-

• That engages in business activities from which it may earn revenues and incur expenses;

• Whose operating results are reviewed regularly by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; *and*

• For which discrete financial information is available.

The CODM may be the chief operating officer, the chief executive, or the board of directors. It depends on who within the organization is responsible for the allocation of resources and assessing the performance of the entity's operating segments.

3. An entity should report financial and descriptive information about its reportable segments.

Not all operating segments automatically qualify as reportable segments. The Standard prescribes criteria for an operating segment to qualify as a reportable segment; if any of such criteria is fulfilled the operating segment is called as reportable segment.

Quantitative threshold:

a) Its reported revenue, from both external customers and intersegment sales or transfers, is

10% or more of the combined revenue, internal and external, of all operating segments;

or

b) The absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (1) the combined reported profit of all operating segments that did not report a loss and (2) the combined reported loss of all operating segments that reported a loss;
or

c) Its assets are 10% or more of the combined assets of all operating segments.

If the total revenue attributable to all reportable segments (as identified by applying the "alternative quantitative thresholds criteria") constitutes less than 75% of the entity's total revenue, the entity should look for additional operating segments to mark as reportable segment until it is satisfied that at least 75% of its revenue is captured through such a segmental reporting.

In identifying the additional operating segments as reportable segments (i.e., for the purposes of meeting the 75% threshold), the requirements of meeting the "alternative quantitative thresholds" criteria is not required. The entity should include the operating segment (s) as reportable segment (s) until at least 75% of the entity's revenue is included in reportable segments.

Disclosure Requirements

This Standard prescribes extensive segmental reporting disclosures.

The required disclosures include:

- General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues
- Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities, and the basis of measurement
- Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities, and other material items to corresponding items in the entity's financial statements

This Standard clarifies that certain entity-wide disclosures are required even when an entity has only one reportable segment**.** These disclosures include information about each product and service or groups of products and services.

The additional disclosures required under this Standard include-

- Analyses of revenues and certain noncurrent assets by geographical area, with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of identification of the operating segments
- Information about transactions with "major customers" (i.e., those customers that individually account for revenues of 10% or more of the entity's revenues)

IFRS 16: Leases

The IASB published IFRS 16 Leases in January 2016 with an effective date of 1 January 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.

Leasing is an important and widely used financing solution. It enables companies to access and use property and equipment without incurring large cash outflows at the start. It also provides flexibility and enables lessees to address the issue of obsolescence and residual value risk. In fact sometimes, leasing is the only way to obtain the use of a physical asset that is not available for purchase.

Impact on Lessees Account:

- Entities leasing 'big-ticket' assets – including real estate, manufacturing equipment, aircraft, trains, ships, and technology – are expected to be greatly affected. The impact for entities with numerous small leases, such as tablets and personal computers, small items of office furniture and telephones might be less as the IASB offers an exemption for low value assets (assets with a value of $5,000 or less when new). Low value assets meeting this exemption do not have to be recognised on the balance sheet.
- The cost to implement and continue to comply with the new leases standard could be significant for most lessees.
- The new standard will affect virtually all commonly used financial ratios and performance metrics such as gearing, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows. These changes may affect loan covenants, credit ratings and borrowing costs, and could result in other behavioural changes. These impacts may compel many organisations to reassess certain 'lease versus buy' decisions.
- Balance sheets will grow, gearing ratios will increase, and capital ratios will decrease. There will also be a change to both the expense character (rent expenses replaced with depreciation and interest expense) and recognition pattern (acceleration of lease expense relative to the recognition pattern for operating leases today).

Impact on Lessors Account:

- Lessees and lessors may need to consider renegotiating or restructuring existing and future leases.
- Lessor accounting remains largely unchanged from IAS 17 however, lessors are expected to be affected due to the changed needs and behaviours from customers which impacts their business model and lease products.

Changes in Accounting for New Lessee Model:

• Balance sheet: - Initially recognises lease assets and liabilities on the balance sheet at Present Value of future lease payments.

• Income statement: - Rent expense will be replaced with depreciation and interest expenses - Recognises amortisation of lease assets and interest on the lease liabilities over the lease term - The overall effect on profit will depend on the portfolio of leases an entity holds

• Cash flow statement: - Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within either operating or financing activities)