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Understanding IFRS: A theoretical perspective

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Abstract
In this paper an attempt is made to understand IFRS in a theoretical perspective. Since the last decade, countries around the world started either adopting IFRS (i.e., International Financial reporting Standards) in total for corporate reporting purposes or converging country specific Accounting standards with IFRS and deriving a new set of accounting standards for reporting purposes. On this background, here, an effort is made to highlight how the IFRS are evolved as global standards that can be adopted by different countries for reporting purposes. It is the combined effort of many organizations dedicated to accounting standards. Many Institutions/ organizations, at global level actively participated in the process of development of IAS/ IFRS. Hence, a background study of these institutions, such as IASC, IASB, FASB, is made in this paper.

Keywords: IFRS, IAS, AISG, IASC, IASB, accounting standards

Introduction

There have been continuous and substantial changes in the business environment. These changes include, among others, substantial increase in the international business and dependence, removal of barriers in the free flow of goods and services and capital flows across the countries in the world, increase in the number of stakeholders, *etc*. As a large number of parties (scattered throughout the world) have started associating with the corporate entities either directly or indirectly, it became necessary for the corporate enterprises to report them as to how the business is conducted, what is the result, *etc*. These reports are required to satisfy the informational requirements of stakeholders by providing (as far as possible) objective and comparable information. To ensure the provision of comparable information, it is necessary for the business entities to observe certain common guidelines, policies and procedure. This necessitated the companies to use the Accounting Standards in the preparation and presentation of their annual reports which comprise, among others, the financial statements. The Accounting Standards assist the business entities in the recognition, measurement, accounting treatment, presentation and disclosure of voluminous transactions which fall into three broad categories *viz.*, operating, financing and investing transactions. The Accounting Standards help in the determination of monetary equivalents of transactions, their recognition in the books of account, and in the presentation of reports ensuring comparability. In the absence of use of Accounting Standards, the same business transaction may be identified, measured and presented differently by different business entities making the reports of these companies non-comparable. This defeats the very purpose of reports. Hence, the Accounting Standards assume importance and this has resulted in the development of country-specific Accounting Standards based on International Accounting Standards (IAS).

Developments at the global level and globalization of business operations by firms have added a new dimension to Accounting. This is in the form of need for adopting common Accounting language which is accepted by, and easily understandable to stakeholders in different parts of the globe. This is more so if a firm wants to mobilize capital from international market as the international financial institutions need financial reports which can be used for the purpose of assessing the creditworthiness of the firm. The need for common set of Accounting Standards applicable for all countries, therefore, emerged on account of many developments (that have taken place) in the global business world especially on account of need for mobilizing the requisite capital from global market. When business entities intend to mobilize capital from international capital market, the financing/lending parties require (common) high quality financial reports which they can use for the purpose of evaluation of credit worthiness of borrower-organizations.

Even other stakeholders need high quality financial reporting.

Institutional Participation for Development of Accounting Standards

Many accounting bodies are engaged in the development and issue of International Accounting Standards (IAS, now, these are termed as, International Financial Reporting Standards, IFRS). Important among them are mentioned here that helps in understanding the way and significance of development of global accounting standards that can be used by corporate entities of different countries. Among these, a profile of a few important bodies such as AISG, IASC, and IASB is presented below.

Accountants International Study Group (AISG)

The Accountants International Study Group (AISG) was formed in the year 1966 by the professionals from Canada, the United Kingdom and the United States. The very purpose of forming the study group of accountants at the international level was to identify and reduce the extent of diversity that existed in the accounting practices among different countries. It, therefore, set the stage for the harmonization of accounting standards across member-countries which made the analysis of financial statements easier. It continuously expanded its membership base and in 1973, it folded into the International Accounting Standards Committee (IASC) which in turn was restructured in April 2001 as International Accounting Standards Board (IASB).

International Accounting Standards Committee (IASC)

For the purpose of tackling the issue of diverse accounting practices, a movement was led (in the year 1966-67) by Sir Henry Benson, senior partner in the Cooper Brothers & Co (UK) and also the president of the Institute of Chartered Accountants in England and Wales (ICAEW). He took the initiative for the establishment of the IASC. As the first step, he was able to persuade, (i) the American Institute of Certified Public Accountants (AICPA), (ii) Canadian Institute of Chartered Accountants (CICA), (iii) the Institute of Accountants of Scotland and (iv) the Institute of Chartered Accountants in Ireland to join with the ICAEW to form the Accountants International Study Group (AISG). He obtained the support from these accounting bodies with the primary objective of identifying and reducing the diversities that existed in the accounting practices in these countries. Hence, these accounting bodies and Sir Henry Benson may rightly be considered as the key players in the harmonization of diverse accounting practices at the international level.

During the 10th International Congress of Accountants at Sydney (1972), the International Coordination Committee for Accounting Profession was formed. This committee was entrusted with the responsibility of making necessary ground work for the establishment of a formal organization for the development and issue of IAS.

In 1973, International Accounting Standards Committee (IASC) was formally launched (on 29 June 1973) with the primary objective of developing and issuing Accounting Standards. These Standards were expected to be applied commonly by the business entities in different countries either in total or after making necessary modifications by the countries concerned. Another important objective was to lessen the differences in the accounting practices that existed in different countries. To put it alternatively, the twin tasks assigned to IASC were as follows.

1. To promote the internationalization of Accounting Standards, and
2. To reduce the differences in the accounting practices in different parts of the world.

In all these cases, Sir Henry Benson played an important role - starting from the constitution of AISG. Formation of IASC was considered as the initial but major step in setting Accounting Standards at international level. In its endeavour to develop Accounting Standards, the committee considered the recommendations of committees and boards of a few advanced countries such as, the US, the UK, Canada, France, Japan, Australia and New Zealand. Sir Henry Benson also invited accounting bodies from nine more countries to join the IASC. These countries are, Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the U.K and Ireland and the US.

After a few months of its establishment, the IASC started its work and this could be considered as the first attempt to develop/establish Accounting Standards internationally. Prior to the formation of IASC, Sir Henry Benson made much ground work through correspondence and meetings with the leaders of accounting bodies from different parts of the world. The IASC's date of formal launching was considered to be two days prior to the formation of Financial Accounting Standards Board (FASB) which was formed on 1 July 1973 [as the successor of Accounting Principles Board (APB), a committee of the AICPA].

The IASC survived for 27 years until 1 April 2001 and on this date, it was restructured, and IASC was replaced by International Accounting Standards Board (IASB). From 29 June 1973 to 1 April 2001, IASC issued 41 International Accounting Standards in a numerical sequence as IAS – 1 to IAS – 41, the last Standard on 'Agriculture' issued in December 2000.

In the year 1997, the Standing Interpretations Committee (SIC) was established by the IASC to consider the contentious accounting issues that needed authoritative guidance to stop widespread variation in practice. Till SIC was renamed in July 2001 (as International Financial Reporting Interpretations Committee, IFRIC), SIC issued 32 interpretations on different contentious accounting issues in the International Accounting Standards.

International Accounting Standards Board (IASB)

On restructuring IASC and renaming it as International Accounting Standards Board (IASB) on 1 April 2001, it (*i.e.*, IASB) is assigned with the greater responsibility of developing and issuing International Financial Reporting Standards (IFRS) as the single set of Accounting Standards for all countries [1] with the objective of ensuring harmonization of accounting practices throughout the world. IASB is also empowered to approve the interpretations developed by IFRIC. IASB is an independent private sector body and it is headquartered in London, UK.

It has adopted all 41 Standards issued by the IASC till 2001 by making necessary revisions and updating in view of the changes in industry. And these Standards are continued to be designated as International Accounting Standards (IAS) but the new Accounting Standards are published as International Financial Reporting Standards (IFRS). For the purpose of developing and issuing IFRS, many councils and working groups are formed. Its nature of working (through supporting councils and working groups) is summarized below.

1 Standards Advisory Council (SAC) - works for the IASB providing its advice on a particular topic to be added to the IASB's agenda.
2 Working Group - to assist the IASB members and staff on the specific project.
3 Publication of Discussion Paper for public comment.
4 Approval of Exposure Drafts (if voted by at least nine members of IASB) [2].
5 Approval of IFRS after considering the comments (and if voted by at least nine members of IASB).

The Standing Interpretations Committee of IASC was replaced/renamed by/as International Financial Reporting Interpretations Committee (IFRIC) in March 2002. It provides timely guidance on the problems in financial reporting that arise beyond IAS/IFRS but within the framework of IASB. Its responsibility also extends to take up the projects as per the specifications of the IASB. Therefore, interpretations issued by the IFRIC are considered as parts of IASB's authoritative literature. That means, compliance with IFRS is complete only when a business entity's financial statements are prepared complying with requirements of both IFRS and relevant Interpretations. The important responsibilities/functions of IFRIC are summarized below.

1 As it works for the assistance of the Board, its responsibility lies in interpreting the application of IFRS and also providing timely guidance on those financial reporting issues that are not specifically addressed in IFRS/IAS.
2 Before finalizing the Interpretation, IFRIC is required to publish the draft of interpretation for public comment.
3 Finally, IFRIC is required to report to the Board (i.e., IASB) and obtains its approval for its final Interpretations.

Therefore, the IFRIC follows a comprehensive procedure for finalizing an Interpretation as summarized below.

1. Identification of an issue (by the IFRIC members and observers) which deserves the issue of an interpretation.
2. Setting up of an agenda including the issue which has been identified and has widespread practical relevance or an issue that leads to improvement in the quality of financial reporting.
3. Conducting meeting and voting.
4. Development of the draft of the interpretation through the process of voting in the IFRIC meeting and reaching consensus on the draft.
5. Sending of draft interpretation (on which consensus has been reached) to IASB members to comment on it.
6. Finalization of the draft through consensus.
7. Getting vote of IASB members on the interpretation.

In October 2002, the IASB and the Financial Accounting Standards Board, FASB - two prominent players in the area of Accounting Standards signed a Memorandum of Understanding (MoU) which is well known as, Norwalk Agreement. Both the accounting bodies agreed to make their financial reporting standards fully compatible. The Securities and Exchange Commission (SEC) of USA also welcomed this agreement. It may be noted here that the SEC was formed by Congressional Securities Act, 1933 to regulate and manage securities operations in the US. This SEC has statutory authority to establish Financial Accounting and Reporting Standards for publicly held companies.

On 12 March 2002, the European Parliament voted in favour of the EU Commission's proposal that all listed companies must follow IFRS issued by the IASB in their consolidated financial statements starting no later than 2005. This decision of European Parliament accepting IFRS is considered as an important development in the process of making IFRS global standards.

Now, IASB manages the responsibility of development/ modification/publication/issuance of accounting standards that can be used for reporting purposes by the entities. At the end of this paper, a list of IAS/ IFRS is given.

Conclusion

In the last two decades, majority of the participants in the capital markets (including the corporate entities and the governments) started accepting IFRS as a single set of global Accounting Standards. IFRS has got much recognition when the importance of using one accounting language for reporting purposes is realized by the corporate entities and the governments around the globe. The world has become much global and the business activities are intertwined. This necessitated the adoption of common Accounting Standards to ensure comparability of financial statements of business entities. Owing to these developments in international accounting framework, more than 140 countries either decided to adopt IFRS in total or converge their local Standards with IFRS. However, many of the countries, including India, not embracing IFRS as they are but converged their national Standards with IFRS due to differences in economic and corporate environments.

It is observed that IFRS as a single set of reporting standards have become much popularized in the last decade, after the world's leading accounting bodies - IASB and FASB have signed a MoU in 2002, called, Norwalk Agreement. Both the accounting bodies agreed to support for the development and promotion of common set of high quality reporting Standards and started working towards achieving this goal. Results of a survey conducted by International Federation of Accountants (IFAC) in the year 2007 reveal that majority of the accounting leaders from around the world agreed that, to achieve worldwide economic growth, globally accepted accounting framework is required. Thought leadership provided by the AICPA to the IASB given more strength in best positioning IFRS as global Standards. Due to the developments in accounting practices at the global level and because of exhibiting IFRS as single set of global Standards, many of the MNCs, having global operations started using IFRS for reporting purposes believing that it will improve comparability of financial results of their reporting entities established in different countries. It is also observed that following a common accounting framework avoids multiple reporting reducing the cost of reporting. Those who support IFRS also believe that using common reporting Standards helps investors to understand investment opportunities and analyze in a better way. It is also agreed that, in a truly globalized economy, if a single set of common Standards are used by business entities around the world, the accounting and finance professionals may serve in different parts of the world. Also their services can be better utilized by corporate entities. It is also understood that capital markets of different countries will become more integrated facilitating business entities to mobilize off-shore funds to fulfill their fund requirements.

Over the years, status of IFRS has changed. Initially, the Standards were presented as a single set of high quality reporting standards and later, in these years, the Standards are being recognized as the single set of high quality common Accounting Standards. One of the reasons for this is the fact that the European Union endorsed IFRS as global Standards by agreeing to comply with these Standards for use in reporting by its entities. Even Securities and Exchange Commission of United States accepted IFRS to be used by the entities listed and giving relaxation in reconciling financial statements prepared using IFRS with that of US GAAPs. It is also because of the joint effort put in by the IASB and FASB trying to reduce the differences between the two accounting framework, US GAAPs and IFRS, with the intention of achieving global convergence.

Table 1: List of IAS/IFRS Adopted/Developed and Issued by IASB

S. No	IAS/IFRS – Number and Title	Month/Year of Issue, Revision and Applicability
1.	IAS - 1: Presentation of Financial Statements	Issued in September 2007 superseding IAS - 1: Presentation of Financial Statements (which was revised in 2003 and again amended in 2005).
		Applicable to annual periods beginning on or after 1 January 2009.
		IAS - 1 (revised 2003) was applicable for annual periods beginning on or after 1 January 2005. Amendment to Capital Disclosures was made applicable for annual periods beginning on or after 1 January 2007.
		Amendment made in June 2005 was applicable for annual periods beginning on or after 1 January 2006.
		Amendment related to Puttable Instruments and Obligation arising out of Liquidation is application for annual periods beginning on or after 1 January 2009.
2.	IAS - 2: Inventories	Issued in March 2004
		Applicable for annual periods beginning on or after 1 January 2005.
3.	IAS - 7: Statement of Cash Flows	Issued in March 2004 superseding the earlier version. Para 9 was amended in the IFRS improvement process. Paras 39 - 42 of this Standard have subsequently been amended.
		Amendments applicable for the annual periods beginning on or after 1 January 2009.
4.	IAS - 8: Accounting Policies, Changes in Accounting Estimates and Errors	Issued in March 2004
		Applicable for annual periods beginning on or after 1 January 2005.
5.	IAS -10: Events after the Reporting Period	Issued in March 2004
		Applicable for annual periods beginning on or after 1 January 2005
6.	IAS - 11: Construction Contracts	Issued in March 2004 superseding the earlier version issued in 1978
7.	IAS - 12: Income Taxes	Issued in 1996 and revised in March 2004
		Applicable for annual periods beginning on or after 1 January 1998.
8.	IAS - 16: Property, Plant and Equipment	Issued in December 2004
		Applicable for annual periods beginning on or after 1 January 2005.
9.	IAS - 17: Leases	Updated in August 2005
		Applicable for annual periods beginning on or after 1 January 2005. If an entity applies the IFRS for a period beginning before 1 January 2005, it shall disclose that fact.
10.	IAS - 18: Revenue	Issued in 1993 and updated in March 2004
		Operative from accounting periods beginning on or after 1 January 1995.
11.	IAS - 19: Employee Benefits	Issued in 1998 and updated in December 2004
		Operative for financial statements covering periods beginning on or after 1 January 1999.
12.	IAS - 20: Accounting for Government Grants and Disclosure of Government Assistance	Issued in March 2004
		Applicable from accounting periods beginning on or after 1 January 2009.
13.	IAS - 21: The Effects of Changes in Foreign Exchange Rates	Issued in December 2005
		Applicable for annual periods beginning on or after 1 January 2005.
14.	IAS - 23: Borrowing Costs	Issued in March 2007 superseding IAS – 23 (which was revised in 1993).
		Applicable for annual periods beginning on or after 1 January 2009.
15.	IAS - 24: Related Party Disclosures	Issued in December 2004
		Applicable for annual periods beginning on or after 1 January 2005.
		Amendment to Para 20 became applicable from annual periods beginning on or after 1 January 2006.
16.	IAS - 26: Accounting and Reporting by Retirement Benefit plans	Issued in1987 and revised in March 2004
		Applicable for annual periods beginning on or after 1 January 1988.
17.	IAS - 27: Consolidated and Separate Financial Statements	Issued in January 2008 superseding IAS - 27: Consolidated and Separate Financial Statements (which was revised in 2003).
		Applicable for annual periods beginning on or after 1 January 2009. If an entity applies this IFRS for earlier periods, it shall disclose that fact.
18.	IAS - 28: Investments in Associates	Issued in March 2004 replacing IAS - 22: Business Combination (which was revised in October 1998).
		Applicable for annual periods beginning on or after 1 January 2005.

19.	IAS - 29: Financial Reporting in Hyper Inflationary Economies	Issued in 1989 and updated in March 2004 Applicable for annual periods beginning on or after 1 January 1990.
20.	IAS - 31: Interests in Joint Ventures	Issued in March 2004 Applicable for annual periods beginning on or after 1 January 2005.
21.	IAS - 32: Financial Instruments: Presentation	Applicable for annual periods beginning on or after 1 January 2009.
22.	IAS - 33: Earnings Per Share	Issued in August 2005 Applicable for annual periods beginning on or after 1 January 2005.
23.	IAS - 34: Interim Financial Reporting	Issued in 1998 and updated in March 2004 Applicable for annual periods beginning on or after 1 January 1999.
24.	IAS - 36: Impairment of Assets	Issued in March 2004
25.	IAS - 37: Provisions, Contingent Liabilities and Contingent Assets	Issued in 1998 and updated in August 2005 Applicable for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for a period beginning before 1 July 1999, it shall disclose that fact.
26.	IAS - 38: Intangible Assets	Issued in December 2004
27.	IAS - 39: Financial Instruments: Recognition and Measurement	Issued in March 2004 superseding IAS - 39 (which was revised in October 2000). Applicable for annual periods beginning on or after 1 January 2005.
28.	IAS - 40: Investment Property	Issued in March 2004 Applicable for annual periods beginning on or after 1 January 2005.
29.	IAS - 41: Agriculture	Issued in April 2001 Applicable for annual periods beginning on or after 1 January 2003
30.	IFRS - 1: First Time Adoption of International Financial Reporting Standards	Originally issued in June 2003 and revised and restructured in November 2008. Applicable to annual periods beginning on or after 1 January 2009. Earlier application is also permitted but disclosure to this effect shall be made in the annual report.
31.	IFRS - 2: Share-based Payments	Originally issued in February 2004; Amended in January 2008 regarding vesting conditions and cancellations. Applicable to annual periods beginning on or after 1 January 2005. If an entity applies the IFRS for a period beginning before 1 January 2005, it shall disclose this fact in the annual report.
32.	IFRS - 3: Business Combinations	Originally issued in 2004 and revised in January 2008. Applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted. However, it shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007. If an entity applies this IFRS before 1 July 2009, it shall disclose that fact.
33.	IFRS - 4: Insurance Contracts	Issued in March 2004; in December 2005, the IASB published revised Guidance on Implementing IFRS - 4. Applicable to annual periods beginning on or after 1 January 2005. If an entity applies this IFRS for an earlier period, it shall disclose this fact.
34.	IFRS - 5: Non-Current Assets held for Sale and Discontinued Operations	Issued in March 2004 replacing IAS – 35: Discontinuing Operations. Applicable to annual periods beginning on or after 1 January 2005. If an entity applies the IFRS for a period beginning before 1 January 2005, it shall disclose the same.
35.	IFRS - 6: Exploration for and Evaluation of Mineral Resources	Issued in December 2004 and amended in June 2005. Applicable to annual periods beginning on or after 1 January 2006. If an entity applies the IFRS for a period beginning before 1 January 2006, it shall disclose that fact.
36.	IFRS - 7: Financial Instruments: Disclosures	Issued in August 2005 replacing IAS - 30: Disclosures in the Financial Statements of Banks and similar Financial Institutions (which was issued in August 1990). And amendment was made in October 2008. Applicable to annual periods beginning on or after 1 January 2007. If an entity applies the IFRS for a period beginning before 1 January 2007, it shall disclose that fact.
37.	IFRS - 8: Operating Segments	Issued in November 2006 replacing IAS - 14: Segment Reporting (which was revised in August 1997). Applicable to annual periods beginning on or after 1 January 2009. If an entity applies the IFRS for a period beginning before 1 January 2009, it shall disclose that fact.
38.	IFRS - 9: Financial Instruments	Issued in November 2009
39.	IFRS - 10: Consolidated Financial Statements	Effective from 1 January 2013
40.	IFRS - 11: Joint Arrangements	Effective from 1 January 2013
41.	IFRS - 12: Disclosure of Interests in Other Entities	Effective from 1 January 2013
42.	IFRS - 13: Fair Value Measurements	Effective from 1 January 2013
43.	IFRS – 14: Regulatory Deferral Accounts	Effective from 1 January 2016
44.	IFRS - 15: Revenue from Contracts with Customers	Issued on 28 May 2014, Applicable to Financial Statements on or after 1 January 2017. Effective date was deferred to 1 January 2018. Early adoption is provided.

Source: http://www.iasplus.com>standardsifrs (http://www.iasplus.com>standards>ias

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