

Conceptual Framework for Financial Reporting
Fai Value
Ind-As Present Scenario
December 15 ,2014 - at ICAI Bhavan

IFRS Foundation is not-for-profit corporation under General Corporation Law of the State Of **Delaware USA** and operates in England & Wales as an overseas company with its Principle office at London. No FC 023235

Its official website is www.ifrs.org

What Are IFRSs ? Definition of IFRSs :

IAS 1.11 defines IFRSs as comprising:

IFRS International Financial Reporting Standards;
IAS International Accounting Standards; and
IFRIC Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or
SIC The former Standing Interpretations Committee (SIC).

IFRS – Just 66 Standards for Large Entities as of February May 2014

IFRS ... (IASB).....	13
IAS ... (IASB).....	28
IFRIC ... (IASB).....	17
SIC (IASB).....	08
Total	66

* IFRS 14 Regulatory Deferral Accounts, effective from January 1, 2016 early adoption permitted - IFRS 15

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Structure of the IFRS Foundation

The Foundation is governed by trustees and reports to monitoring board.

• The Monitoring Board

• There are 22 trustees, appointed as follows :

- i. 6 from North America,
- ii. 6 from Europe,
- iii. 6 from the Asia/ Oceania region, and (Any Guess Indian)
- iv. 4 from any area, subject to establishing overall geographical balance

• The trustees should comprise individuals from different professional backgrounds such as auditors, preparers, users and academicians.

• They should meet at least twice each year, their services renewable every 3 Years. - Indian

Due Process – Stages

IFRS are developed through international consulting process, the due process - involving interested individuals and organizations from around the world

The due process comprises six stages:

- (1) Setting the agenda;
- (2) Project planning;
- (3) Developing and publishing a Discussion Paper;
- (4) Developing and publishing an Exposure Draft;
- (5) Developing and publishing the IFRS and
- (6) Procedures after an IFRS is issued.

Four cardinal Principles of GAAP

- Recognition – including definition of elements of financial statements
- Measurement – preferences for different basis
- Presentation
- Disclosure

Different criteria under GAAPs

The New name for Framework

The Conceptual Framework for Financial Reporting

Earlier it was known as

"Framework for the Preparation and Presentation of Financial Statements"

Conceptual Framework for Financial Reporting* – (Conceptual Framework) – Purpose

- *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements for external users.
- The purpose of the *Conceptual Framework* is:
 - (a) to assist the Board in the development of future IFRSs and in its review of existing IFRSs;
 - (b) to assist the Board in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRSs;
 - (c) to assist national standard-setting bodies in developing national standards;
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Continue

Conceptual Framework

- (d) to assist preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of an IFRS;
- (e) to assist auditors in forming an opinion on whether financial statements comply with IFRSs;
- (f) to assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with IFRSs; and
- (g) to provide those who are interested in the work of the IASB with information about its approach to the formulation of IFRSs.

Conceptual Framework

- *Conceptual Framework* is not an IFRS and hence does not define standards for any particular measurement or disclosure issue.
- Nothing in *Conceptual Framework* overrides any specific IFRS.
- In case of conflict between Conceptual Framework & IFRS, IFRS would prevail over conceptual framework.

Importance of Framework

Para 29 of IFRS Foundation Constitution

"Each full time and part time members of IASB shall agree contractually to act in the public interest and to have regard to the IASB's Framework 9 (as amended from time to time) in deciding on and revising standards."

Reference of Framework in IAS 8

In the absence of an IFRS that specifically applies to a transaction, other event or condition, management **shall use its judgement in developing and applying an accounting policy that results in information that is:**

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects. (Para IAS 8.10)

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Key Reference : IAS 8

In making the judgement management shall refer to and consider the applicability of, the following sources in descending order:

- (a) the requirements in IFRSs dealing with similar and related issues; and
- (b) **the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.**

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'International Accounting Standard 2 Inventories (IAS 2) is set out in paragraphs 1-42 and the Appendix. All... .. IASB.'

*"IAS 2 should be read in the context of its objective and **the Basis for Conclusions, the Preface to International Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements.** IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors provides a basis for selecting and applying accounting policies in the absence of explicit guidance."*

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Scope of Conceptual Framework

- The *Conceptual Framework* deals with:
- (a) the **objective** of financial reporting;
- (b) the **qualitative characteristics** of useful financial information;
- (c) the **definition, recognition and measurement** of the elements from which financial statements are constructed; and
- (d) concepts of capital and capital maintenance.

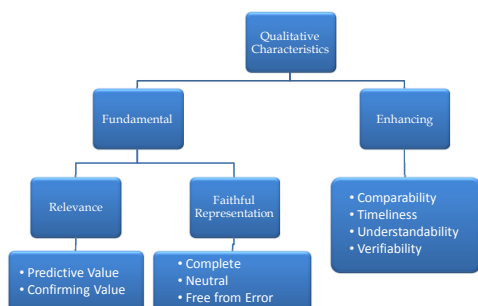
Elements of Financial Position

- (a) **An asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (LO)
- (b) **A liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- (c) **Equity** is the residual interest in the assets of the entity after deducting all its liabilities. *

The elements of income and expenses

- (a) **Income** is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. CMA
- (b) **Expenses** are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Characteristics of Financial Statements



Fundamental Qualitative Characteristics

Relevance &
Faithful Presentation

Thus , Replacing age old

Content	Presentation
Reliable	Understandability
Relevance	Comparability

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Enhancing qualitative characteristics

*Comparability,
Verifiability,
Timeliness and
Understandability*

are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

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True & Fair -?

The Framework **does not specifically** include a **"true and fair"** requirement, but says that application of the specified qualitative characteristics should result in statements that present fairly or are true and fair.

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Fair Value

IFRS 13 defines Fair value as under :

"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Earlier fair value was defined as

"The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."

This IFRS just explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting.

Ind-AS when applicable from ?

Discuss - Codification - Convergence V/s Adoption in Prelude

Appendices , Application Guidance & Illustrative Examples., Basis for Conclusions, Dissenting Opinions.	
Part A	1. Introduction – IN 2. Standard's Paras 3. Application Guidance – Integral Part of the standards
Part B	1. Basis for Conclusions (BC) 2. Dissenting Opinions (DO) 2. Illustrative Examples or Illustrative Guidance (e.g, IFRS 3 > IE, IFRS 1 IG)
Ind-ASs	No > Two parts, Introduction, BC, DO, AG , IG & IE > Retained. Appendix 1 = Differences between Ind-As and IFRS – Not integral part of IFRS

Codification of Ind-AS	
IFRS	Ind-AS
IFRS 1,2,3,4,5,6,7,8,& 9	Ind-As 101,102,103,104,105,106,107,108 & 109.
IAS 1..... 41	Ind-As 1.....40
IFRIC & SIC Separate	No Separate IFRIC & SIC ,in form of Appendix that too forming integral part of the Standard.

Two sets of Accounting Standards

There shall be two separate sets of Accounting Standards notified under the Companies Act, 1956.

First set would comprise the Indian Accounting Standards (Ind-AS) converged with the IFRSs which shall be applicable for preparation of consolidated financial statements as defined in the Companies Act, 2013, of the specified class of companies.

The Second set would comprise the existing notified Accounting Standards (AS) and shall be applicable for preparation of individual financial statements of the companies preparing consolidated financial statements as per Ind-AS and for financial statements of other companies.

Ind-As applicable only to Consolidated Financial Statements

Ind-AS will be applicable only to consolidated financial statements, as defined in the companies Act 2013, of the specified class of companies. Thus, the Ind-AS will not be applicable to individual financial statements of all any companies, whether covered in various phases or not.

Key Note : S 129 of the Companies Act 1956 lays down the requirements for preparation of consolidated financial statements, as per explanation to sub section 3 of section 129, even associates and joint ventures will be considered as "subsidiaries". Thus, even if the company does not have subsidiary but has associates and/or joint ventures, it has to prepare consolidated financial statements.

Proposed Road Map – Criteria

The first set of Accounting Standards i.e. converged Indian Accounting Standards (Ind -AS) shall be applied to the following specified class of companies for preparing their first Indian Accounting Standards (Ind-AS) consolidated financial statements for the accounting period beginning **on or after April 1, 2016, with comparatives for the year ending 31st March 2016** or thereafter.

- (a) Whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India; or
- (b) Companies other than those covered in (a) above, having net worth of Rs. 500 crore or more
- (c) Holding, subsidiary, joint venture or associate companies of companies covered under (a) or (b) above.

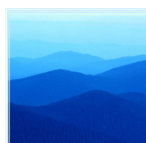
The roadmap for banks, NBFCs and Insurance Companies will be decided in consultation with RBI and IRDA.

Compiled and Presented for ICAI

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Thank You
