Conceptual Framework of IFRS and Recent Updates

By Yagnesh Desai
B.Com.FCA, CPA(USA)

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

History

International Accounting Standard Committee (IASC) Founded in June 1973. Is IAS new to us ?

•IASC operated from 1973 until 2001.

• Purpose: Work towards the improvement and harmonization of accounting standards and reporting.

• In March 2001, as part of a restructuring, the IASC Foundation was set up in Delaware as a not-for-profit entity. The IASC in turn gave approval for the IASB to assume standard-setting responsibilities.

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 …(IASC)………………	28
IFRIC …(IASB)………………	17
SIC ……(IASC)……………..	08
Total	**66**

* IFRS 14 Regulatory Deferral Accounts, effective from January 1,2016 early adoption permitted – **Thus issued including ineffective standards are 67**

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Change Over

IASC Foundation → **IFRS Foundation**

- Formally changed its name on 01st June 2010.
- Represents next step in a process to simplify the names in use.
- International Financial Reporting Interpretations Committee
  - renamed as **IFRS Interpretations Committee – (IFRIC IC**).
- Standards Advisory Council
  - renamed as IFRS Advisory Council.
- The name International Accounting Standards Board remains unchanged.

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

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;

- 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.

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.

Teaser

- What are the Fundamental Assumptions of Financial Statements ?
- What are the elements of Financial Statements ?
- What make up the Complete Set of Financial Statements ? – IAS 1.pdf

Fundamental Assumption- Only One – Going Concern

An entity is a going concern and will continue in operation for the foreseeable future. *(how long ?)*

It is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations;

If such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

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.

Teaser ?

- Re Collect four cardinal principles of accounting ?
- Implication of dropping of fundamental assumptions – accrual and consistency

Recognition - General

- Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in the Conceptual Framework

- An item that meets the definition of an element should be recognised if:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured with reliability.

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Recognition – Assets - Liabilities

- An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

- A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.. (IAS 37 Provisions, contingent liabilities and contingent assets deal)

Recognition – Income & Expenses

- Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.
- Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

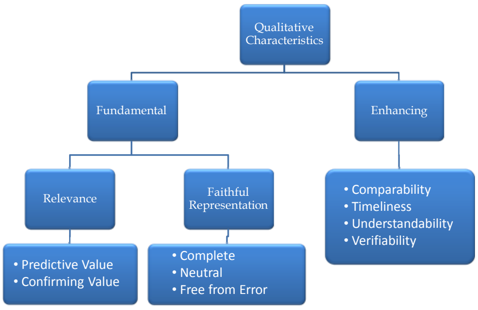
Measurement

- Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement. Initial – Subsequent.
- This involves the selection of the particular basis of measurement – cost , fair value etc.

Different measurement bases

- Historical Cost
- Current Cost
- Realisable value
- Present Value

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 consolidate 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

By Ca Yagnesh Desai.

Email ymdesaiandco@gmail.com

9820133227, 93222 44770

Thank You