St. Lawrence High School

A Jesuit Christian Minority Institution

Study Material 11

Sub: ACCOUNTANCY Class 11

Chapter: Unit 2: Theory Base of Accounting Date: 03/08/2020

Topic: IFRS

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

In the last decade of the past century phenomenal growth in the fields of communication and transportation has created the concept of an economic global village and these has given tremendous trust in trade and commerce worldwide.

In the present scenario, the corporate entities are going for cross the border businesses. More and more countries are opening their doors to foreign investments. Many foreign companies, e.g., Nokia, Toyota, Honda, HP and Dell computers are investing huge amount of capital in India and China. Similarly, many Indian companies are also investing in foreign countries, for example, Tata Motors Ltd, has invested in UK, Korea and Thailand, etc. In the same way Reliance Industries Ltd. has invested in Brazil, Iraq, etc.

In addition, more and more Indian companies are increasingly accessing the global capital market to fulfill their capital needs.

There has been a paradigm shift in the economic environment of our country too, so the need for a country-specific accounting standard has given way to a need global or international accounting standards. In present scenario, the corporate entities are going for cross boarder businesses. As we know about the multinational companies which required huge amount of capital and these can change the economic prospects. So, there is a requirement of uniform accounting standard which is followed by every country taking part in the world-wide trade and commerce.

The International Accounting Standards Board (IASB), has developed and issued The International Financial Reporting Standards (IFRS) which gas been recognized as Global Reporting Standards.

Fundamental Assumptions of IFRS:

1. Accrual Assumption: The transactions are recorded in the books of account on accrual basis, i.e., as and when they occur and not when the settlement of transactions takes place.

2. Going Concern Assumption: The transactions are recorded assuming that the life of the business is infinite, i.e., the entity will continue its operations for an indefinite period.

3. Consistency Assumption: IFRS requires that once accounting policies and practices are adopted, they should be followed consistently year after year unless the law of accounting standards require them to be changed.

Fair Value Concept:
The application of IFRS requires an increased use of fair value for measurement of assets and liabilities. Measuring unit for a valuation of capital under the IFRS is the current purchasing power. It means that assets and liabilities should be reflected at current, i.e., fair value. It however, permits valuation of Property, Plant and Equipment (PPE) at either historical cost or fair value.

IFRS Based Financial Statements

The financial statements produced under IFRS are:
1. Statement of Financial Position:
(a) Asset: Assets are the resources controlled by the enterprise as a result of past events and operations from which the further economic benefits shall flow to the enterprise.
(b) Liability: Liabilities are the obligations of the enterprise from the past events and operations, which shall result in outflow of resources, i.e., assets.
(c) Equity: Equity is the residual interest in the assets of the enterprise after deducting liabilities. It is the real value of shareholders' equity.

2. Statements of Comprehensive Income: A Statement of Comprehensive Income or two separate statements, i.e., Income Statement and a Statement of Comprehensive Income are prepared. The Statement of Comprehensive Income reconciles the income or loss as per Income Statement with total comprehensive income. The elements or contents of the statement are:
(i) Revenue: It is an increase in economic benefits in the forms of inflow during accounting period as a result of business operations or increase in value of assets or decrease in liabilities. It results in increase in the value of shareholders' equity.
(ii) Expense: It is a decrease in economic benefits in the forms of outflows during the accounting period as a result of business operations or decrease in value of assets or increase in liabilities. It results in decrease in the value of shareholders' equity.

3. Statement of Change in Equity.
4. Statement of Cash Flow.
5. Notes and Summary of Significant Accounting Policies.

Measurement of Elements of IFRS Based Financial Statements:

1. Historical Cost: Assets are recorded at the amount of cash or cash equivalent paid or the fair value of the consideration paid to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation.
2. Current Cost: Assets are carried in the Balance Sheet at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset has been acquired currently. Liabilities are carried at undiscounted value that would be required to settle the obligation.

3. Realizable (Settlement) Value: Assets are carried at the amount of cash or cash equivalents that could be realized by selling the assets in an orderly disposal. Assets are carried at the present discounted value of future net cash inflows that assets are expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

India and IFRS:

India is committed to be an IFRS-compliant country. It had two options, i.e., either to adopt IFRS or coverage the Indian Accounting Standards, i.e., bringing them in the line with the IFRS. It decided to coverage its existing accounting standards with IFRS. The converged accounting standards are entitled as Ind-AS.

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