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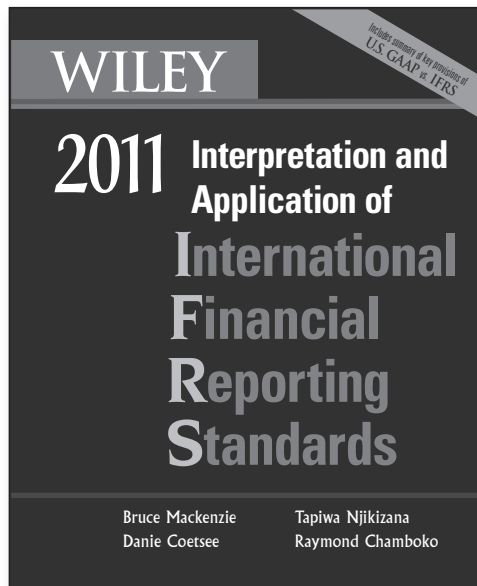
THIRD EDITION

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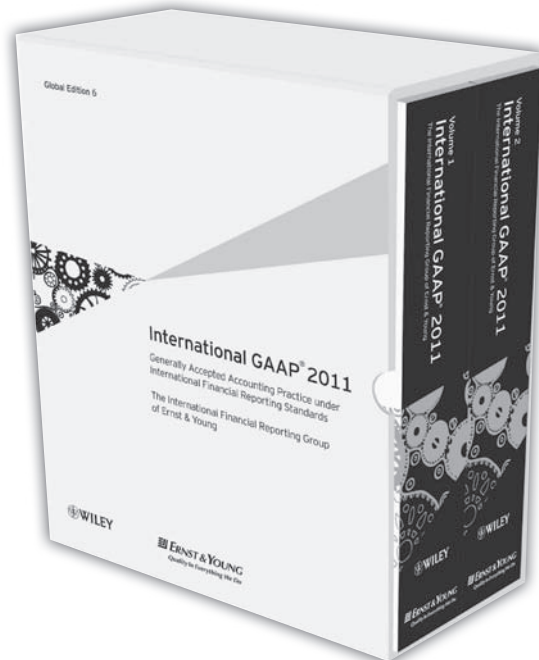
Abbas Ali Mirza Graham J. Holt

Technical reviewer: Liesel Knorr, President of the German Accounting Standards Committee
and former Technical Director of the International Accounting Standards Committee (IASB)

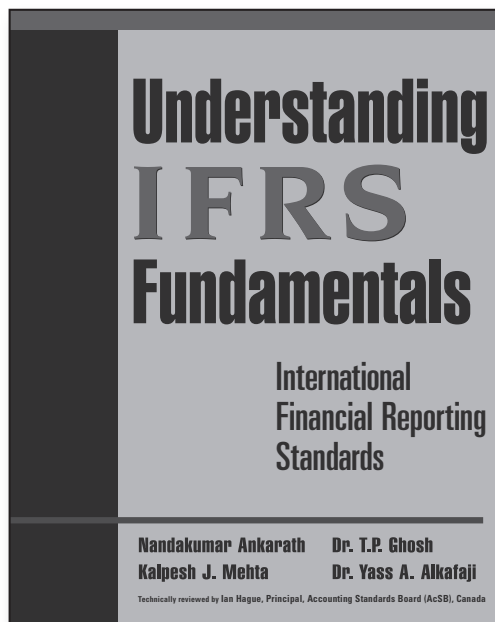
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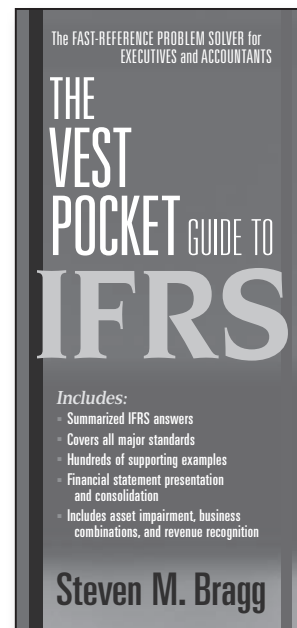
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THIRD EDITION

Abbas Ali Mirza

Graham J. Holt



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**ISBN: 978-0-470-64791-2 (paperback); 978-1-118-01762-3 (ebk); 978-1-118-01763-0 (ebk);
978-1-118-01764-7 (ebk)**

Printed in the United States of America

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FOREWORD

TO THE FIRST EDITION

by the Chairman of IASB

I and my fellow Board members at the International Accounting Standards Board (IASB) are committed to developing high quality, understandable, and enforceable global accounting standards that meet the demands for comparable and transparent information in the world's capital markets. Recently we completed a work program to develop and issue a stable platform of such standards. Those standards, the International Financial Reporting Standards (IFRS), are now being implemented in a large number of countries around the world. This is a major achievement on the road towards the global acceptance of a single set of accounting standards.

The responsibility for achieving high quality financial reporting, however, does not rest solely with IASB. Our role is limited to providing the set of standards that entities should apply to achieve high quality, comparable, and transparent financial reporting. For IFRS to be properly understood, implemented, and applied in practice, education and training of all relevant parties—including financial statement preparers, auditors, regulators, financial analysts, and other users of financial statements as well as accounting students—is essential.

This book should be a helpful tool in this regard. The approach of the book is to discuss core concepts and other key elements of the standards and to provide training material in the form of worked case studies and questions to support successful learning of the material. Consequently, the book should be useful for students who prepare for professional exams and for financial statement preparers, auditors, regulators, financial analysts, and other users of financial statements who in their work need to be familiar with the standards. The book should help practitioners and students alike understand, implement, and apply the key elements of the standards.

Sir David Tweedie
Chairman of IASB
December 2005

FOREWORD

TO THE FIRST EDITION

by the Secretary General of IOSCO

In recent years much has been written about International Financial Reporting Standards (IFRS) so it is opportune that a publication such as this would be released at this time particularly since this initiative helps to bring such clarity and focus to the debate.

Globalization is taking place at an ever more rapid pace. As cross-border financial activity increases, capital markets become more dependent on each other. As financial markets become ever more interdependent, there is a greater need for the development of internationally recognized and accepted standards dealing with capital market regulation.

The development of IFRS can be seen within this broader framework. They represent an especially useful instrument designed to promote a stable and more secure international regulatory environment. At the same time, IFRS deliver on accounting and disclosure objectives as well as the pursuit of improved transparency of global financial reporting.

For the International Organization of Securities Commissions (IOSCO), the development and subsequent progress of IFRS represents a priority outcome. The organization has been a key stakeholder with an active involvement in the process of setting the standards and in continually assessing their quality.

This involvement reflects a long history of commitment by IOSCO to efforts aimed at strengthening the integrity of international markets through the promotion of high quality accounting standards, including rigorous application and enforcement.

At the same time, there is an obligation of international standard setters to be responsive to concerns over the application and interpretation of the standards. This is a key complement to the success of IFRS and one which we take seriously.

Ultimately, accounting standards setting is a continuous process that must respond to changes and developments in the markets and the information needs of investors. Indeed, it has always been the case that effective financial reporting is fundamental to investor confidence as well as good corporate governance.

In the long term, the adoption of IFRS in many countries and their use in numerous cross-border transactions will help to bring about these high quality global accounting standards by providing transparent and comparable information in financial reports.

Although as an international standards setter IOSCO is not in position to endorse external publications, we have always recognized that by helping to promote clear information about the IFRS, publications such as this one serve a particularly useful function both as an educational opportunity and also to encourage confidence in these standards. On that basis it is most welcome.

Philippe Richard
IOSCO Secretary General
March 2006

PREFACE

Achieving consistency in financial reporting worldwide is the need of the hour, especially if meaningful comparisons are to be made of financial information emanating from different countries using accounting standards that, until recently, were vastly different from each other. Thus, there has arisen the urgent need for promulgation of a common set of global accounting standards or, in other words, global convergence into a common language of accounting for the financial world. International Financial Reporting Standards (IFRS), the standards promulgated by the International Accounting Standards Board (IASB), previously known as International Accounting Standards (IAS) that were issued by the International Accounting Standards Committee (IASC), the IASB's predecessor body, appear to be emerging as the global accounting standards and, according to some, could even qualify for the coveted title of "the Esperanto of accounting."

This is a challenging and exciting time to be writing a book on IFRS. Challenging, because it is indeed a daunting task to publish a book on a body of knowledge such as IFRS. This is also an exciting time to be writing a book on a subject of global importance such as IFRS, since the IASB standards are rapidly being adopted in a large number of countries all around the world. The FASB is working with the IASB to align their standards, which may mean that eventually the USA will adopt IFRS.

Whether you are an accountant, auditor, investor, banker, regulator, or financial analyst, understanding and appreciating the fundamental principles and requirements of IFRS has become more important than ever before. In this new financial world, knowledge of the fundamental principles of IFRS is essential to meet the growing demands of a changing regulatory and market environment. Cognizant of that, we embarked on this book project to help users and preparers of IFRS financial statements alike.

We have written this book with the end user in mind, which should make it user-friendly. For instance, if you are an accountant or an auditor working in a country that has adopted IFRS, you are now faced with the challenges of being able to apply these standards and to read and understand financial statements prepared in accordance with them. This book will help you to do that. We believe that this book's real strength lies in the fact that it explains the IASB standards in a lucid manner so even first-time adopters of IFRS can understand the subject. The book illustrates the practical application of the IASB standards, using easy-to-apply illustrations and simple examples. It goes a step further and provides copious learning aids in the form of case studies (with worked solutions), multiple-choice questions (with answers), and practical insights. We hope its simple, step-by-step approach will guide you in the application of IFRS.

In general, the structure and contents of the book are consistent with the order and scope of each standard; each chapter discusses a specific IFRS, and the chapters are ordered consistent with the numbering of the IFRS currently in effect. This structure allows you to use the book as a handbook, side by side with the bound volume of standards issued by IASB. The only exception is the chapter on IAS 39, which is located immediately after the chapter on IAS 32 in this book, since both standards address the same topic: the accounting for financial instruments. Also, the chapters dealing with IAS precede the chapters dealing with IFRS.

We hope that this book will greatly facilitate learning and will also help readers to understand the technical complexities of the standards. Although a great deal of effort has gone into writing this book, we sincerely believe that there is always scope for improvement. *Any suggestions and comments for future editions are therefore encouraged.* We humbly submit that any views expressed in this publication are ours alone and do not necessarily represent those of the firms or organizations we are part of.

Finally, we wish all our readers a very educating journey through the book.

Abbas Ali Mirza
Graham Holt
March 2011

ACKNOWLEDGMENTS

This book would not have seen the light of the day without the help of so many wonderful people around the globe who have helped us to put it together. This IFRS workbook project was conceived and conceptualized way back in 1998, but due to certain unanticipated issues that surfaced later, the project was dropped, only to be revived in 2005. We would be remiss in our duties if we did not thank the editors at John Wiley & Sons, Inc., USA, who had implicit faith in our abilities and greatly helped us in giving shape to this creative endeavor. In particular, we wish to place on record our sincere appreciation of the help provided to us by the following individuals of John Wiley & Sons: David Pugh, for his patronage of this book project; John DeRemigis, for his stewardship of this book project from its incubation stages in 1998 to its completion in 2011 and for his perseverance for these many years; Judy Howarth and Brandon Dust, for their able guidance and patience; Natasha Andrews-Noel and Pam Reh and their editorial staff, for their creative and valuable editorial comments and assistance; and the staff of the marketing department for their outstanding marketing plans and ideas.

We also wish to place on record our sincere appreciation of the untiring efforts of Ms. Liesel Knorr, the current president of the German Accounting Standards Board and formerly technical director of the International Accounting Standards Committee (IASC), the predecessor body to the IASB, for her thorough technical review of the entire manuscript. Her invaluable comments have all been taken into account in writing this book.

We are also grateful to all our friends and colleagues who helped us during the preparation of this book.

Abbas Ali Mirza wishes to place on record his sincere gratitude for all the constructive suggestions offered to him by his friends and family in conceptualizing the idea of such a workbook on IFRS during its formative stages. Furthermore, for their unstinting support, creative ideas, and invaluable contributions, he also wishes to thank his peers and mentors, in particular: Omar Fahoum, chairman and managing partner, Deloitte & Touche (M.E.); and all his partners and colleagues from Deloitte & Touche (M.E.), including but not limited to Joe El Fadl, Graham Lucas, Anis Sadek, Saba Sindaha, Cynthia Corby, Akbar Ahmed, Clovis Karam, Samir Madbak, Mutasem Dajani, Wissam Moukahal, Padmanabha Acharya, Ganesh Vishnampettai and Anish Mehta and Jude Rodrigues for their support and inspiration for the project, and his long-time friend, Graham Martins, managing partner, Pannell Kerr Forster (PKF), United Arab Emirates, for his guidance and support.

Graham Holt wishes to thank everyone who has directly and indirectly helped him in preparing this book, and his wife Joanne for her love and support.

ABOUT THE AUTHORS

Abbas Ali Mirza is a partner at Deloitte & Touche (M.E.) based in Dubai and handles audits as partner in charge of major international clients (including SEC clients) and large business groups of the firm. At Deloitte he is also responsible for regional functions, such as technical consultation on complex accounting issues. He is the designated “IFRS Leader” for Deloitte, Middle East, and has been featured for several years now on Deloitte’s IFRS global public Web site www.iasplus.com in the SPOTLIGHT on Deloitte IFRS Leaders’ section.

Abbas Ali Mirza has had a distinguished career in accounting, auditing, taxation, and business consulting and has worked for international audit and consulting firms in the United States of America, the Middle East, and India. He is a frequent principal/keynote speaker at major global conferences on International Financial Reporting Standards (IFRS) and has chaired world-class events on accounting, such as the World Accounting Summit held in Dubai since its inception in 2005 for seven years now. He has coauthored another book on IFRS published by John Wiley & Sons, Inc., Wiley: *IFRS Interpretations and Application*, for ten years since the book was first published in 1997. He holds or has held many important positions of repute in the accounting business and profession globally including

- 21st Session Chairman, United Nations’ Intergovernmental Working Group of Experts on International Standards on Accounting & Reporting (ISAR), to which position he was elected at the UNCTAD in Geneva in November 2004
- Formerly member of the Developing Nations Permanent Task of the International Federation of Accountants (IFAC), later renamed IFAC’s Developing Nations Committee
- Formerly member of the Accounting Standards Committee, Securities and Exchange Board of India (SEBI), India
- Chairman of Auditors’ Group, Dubai Chamber of Commerce and Industry (DCCI)
- Chairman of the Dubai Chapter of Institute of Chartered Accountants of India for three terms
- Board Member and former President of the Indian Business and Professional Council of Dubai

Graham Holt qualified as a Chartered Accountant (Institute of Chartered Accountants in England & Wales) with Price Waterhouse and is a fellow of the Association of Chartered Certified Accountants (ACCA). He holds B.Com and MA Econ qualifications also. As a current ACCA examiner, he has been prominent in the development of their IFRS stream and their examination structure. He is an Executive Head of the Division of Accounting and Finance at the Manchester Metropolitan University Business School. Graham has given lectures on IFRS throughout the world and has many publications in the subject area. He has also been involved in running training courses on IFRS.

Chapter 1

INTRODUCTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTRODUCTION

Need for a Common Set of Accounting and Financial Reporting Standards

As the oft quoted verse from the world-renowned works of Shakespeare (*Romeo and Juliet*) goes: “What’s in a name? That which we call a rose by any other name would smell as sweet.” One wonders if the same can be said of financial statements prepared in different jurisdictions of the world. Not too far in the distant past, countries and economic regional blocs, such as Europe, would not be swayed by the thought of converging to a single set of global accounting standards and, due to nationalistic approaches to accounting standard setting, a financial statement issued in Japan (under the Japanese accounting standards) was vastly different in terms of accounting treatments and disclosures compared to a financial statement issued in other major parts of the world, say, in Germany where German accounting standards were used. In other words, the “name” that was given to the set of accounting standards used in the preparation of financial statements did matter for several countries since their national standard setters strongly believed that their own (national) accounting standards were suitable for their needs and were compatible to other globally preferred accounting standards.

However, due to the advent of globalization, the falling of the erstwhile insurmountable trade barriers between nations, and more recently the much-awaited response to the global financial crisis, together with calls by world leaders, things have changed dramatically in terms of the preferred set of standards of accounting globally. The accounting and financial world is now seriously considering the notion of using a single set of accounting and financial reporting standards that would be used by most, if not all, the nations around the globe, it appears that in all likelihood the name of that set of global accounting standards may be the International Financial Reporting Standards (IFRS®).

With this transformation of our world into a “flat world” (as some claim) the magical phenomenon of globalization has led to the emergence of a “global village” that we all live in now. The robust waves of globalization surging through the world seem to have transformed businesses across the globe as well as the manner in which they deal with each other across boundaries. If therefore, as the old adage goes, “accounting is the language of business,” then businesses around

the world cannot afford to be speaking in different languages to each other while exchanging and sharing financial results of their international business activities with each other, and also while reporting the results of business and trade to their international stakeholders. As one school of thought believes, since business enterprises around the world are so highly globalized now and need to speak to each other in a common language of business, there is a real need for adopting a single set of accounting standards to unify the accounting world under one canvas and more importantly, solve the problem of diversity of accounting practices across borders.

Historically, countries around the world have had their own national accounting standards (which some countries have treasured for whatever reason, most likely due to the pride of national sovereignty). However, with such a compulsion to be part of the globalization movement, wherein businesses across national boundaries are realizing that it is an astute business strategy to embrace the world as their workplace and marketplace, having different rules (standards) of accounting for the purposes of reporting financial results would not help them at all (rather, it would serve as an impediment to smooth flows of information), and therefore, businesses have realized that they need to talk to each other in a common language. Thus, there is an urgent need for a common set of global, or even universal, accounting and financial reporting standards that are understood, used, and interpreted by different people around the world in the same manner.

The adoption of accounting standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements. Without a common set of accounting and financial reporting standards, it is difficult to compare financial information prepared by entities located in different parts of the world. In an increasingly global economy, the use of a single set of high-quality accounting standards facilitates investment and other economic decisions across borders, increases market efficiency, and reduces the cost of raising capital. International Financial Reporting Standards (IFRS) are increasingly becoming the set of globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets.

What Are IFRS?

IFRS is a set of standards promulgated by the International Accounting Standards Board (IASB), an international standard-setting body based in London, United Kingdom. The IASB places emphasis on developing standards based on sound, clearly-stated principles, on which interpretations may be required (sometimes referred to as **principles-based standards**). This contrasts with sets of standards, like US GAAP, the national accounting standards of the United States, which contain significantly more application guidance. These standards are sometimes referred to as **rules-based standards**, but that is really a misnomer as US standards also are based on principles—they just contain more application guidance (or “rules”). IFRS also generally do not provide “bright lines” in distinguishing between circumstances in which different accounting requirements are specified. This reduces the chances of ‘structuring’ transactions to achieve particular accounting effects.

According to one school of thought, since IFRS are primarily “principles-based” standards, the IFRS-approach to standard setting focuses more on the business or the economic purpose of a transaction and the underlying rights and obligations and therefore, instead of providing prescriptive rules (or guidance), IFRS promulgates Standards that lay down guidance in the form of “principles.”

This significant difference in approach to standard setting between IFRS and US GAAP is responsible for the limited number of pages that the IFRS Standards are spread over compared to US GAAP (US GAAP extends to over 20,000 pages of accounting literature as opposed to IFRS which presently is covered in approximately 2,000 to 3,000 pages).

WORLDWIDE ADOPTION OF IFRS

International Financial Reporting Standards (IFRS), which were initially called International Accounting Standards (IAS), are gaining acceptance worldwide. This section discusses the extent to which IFRS are recognized around the world and includes a brief overview of the history and key elements of the international standard-setting process. In the last few years, the international

accounting standard-setting process has been able to claim a number of successes in achieving greater recognition and use of IFRS.

A major breakthrough came in 2002 when the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005 and applies to more than 8,000 companies in 30 countries, including France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS have replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe.

Outside Europe, many other countries also have been moving to IFRS. By 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America. In addition, countries such as Australia, Hong Kong, New Zealand, Philippines, and Singapore have adopted national accounting standards that mirror IFRS. According to estimates, currently more than 100 countries require or permit IFRS in preparing and presenting financial statements, and many other countries are expected to adopt or apply IFRS in the coming years. In the period 2011–2012 several major players such as Canada and India are expected to adopt IFRS.

The adoption of standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements. Without common standards, it is difficult to compare financial information prepared by entities located in different parts of the world. In an increasingly global economy, the use of a single set of high-quality accounting standards facilitates investment and other economic decisions across borders, increases market efficiency, and reduces the cost of raising capital. IFRS are increasingly becoming the set of globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets.

REMAINING EXCEPTIONS

Measured in terms of the size of the capital markets, the most significant remaining exception to the global recognition of IFRS is the United States. In the US domestic entities continue to follow US GAAP (Generally Accepted Accounting Principles). However, IFRS are being considered for adoption in the United States as well.

The International Accounting Standards Board (IASB), the body responsible for setting IFRS, works closely with the national accounting standard-setting body in the US Financial Accounting Standards Board (FASB), to converge (that is, narrow the differences between) US GAAP and IFRS.

In the United States, the domestic securities regulator (Securities and Exchange Commission, SEC) has dropped its prior requirement for non-US companies that raise capital in US markets to prepare a reconciliation of their IFRS financial statements to US GAAP. This means that non-US companies (foreign private issuers, FPIs) raising capital in US markets no longer are required to reconcile their IFRS financial statement to US GAAP beginning with financial years ending after November 15, 2007. With this important SEC initiative IFRS have already made major inroads into the US capital markets.

The SEC is currently considering whether to permit US companies to use IFRS instead of US GAAP in preparing their financial statements. This is in response to the recognition that the world's rapidly integrating capital markets would benefit from having a set of globally accepted accounting and financial reporting standards and that IFRS have become the primary contender for that title. Additionally, many question why US companies should continue to be required to use US GAAP when non-US companies are permitted to raise capital in US markets without reconciling their IFRS financial statements to US GAAP.

The SEC has announced a Work Plan whereby it will assess and confirm by 2011 whether or not it would recommend that the United States should abandon US GAAP and adopt IFRS, and if they do decide to adopt IFRS, when that would finally happen. The possible timescale for adoption of IFRS according to the initial SEC announcement through a SEC Roadmap (which approach was later modified and replaced with the SEC Work Plan) has been extended and is now expected to be around 2014.

On June 2, 2010, the IASB and the US Financial Accounting Standards Board (FASB), jointly referred to as the Boards, announced a modified strategy for the convergence of IFRS and US GAAP. The Boards first entered into a Memorandum of Understanding (MOU), which was updated in 2008, and a very aggressive work plan was agreed upon in order to complete the MOU projects by 2011. On June 24, 2010, the IASB issued a revised work plan for those MOU and non-MOU projects affected by the joint modified strategy announcement by the Boards, confirming their goal to complete several of these projects by June 2011 while extending the timeline for other nonurgent projects.

THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

From 1973 until 2001, the body in charge of setting the international standards was the International Accounting Standards Committee (IASC). The principal significance of IASC was to encourage national accounting standard setters around the world to improve and harmonize national accounting standards. Its objectives, as stated in its Constitution, were to

- Formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance
- Work generally for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements

IASC and the Accounting Profession

IASC always had a special relationship with the international accounting profession. IASC was created in 1973 by agreement between the professional accountancy bodies in nine countries, and, from 1982, its membership consisted of all those professional accountancy bodies that were members of the International Federation of Accountants (IFAC), that is, professional accountancy bodies in more than 100 countries. As part of their membership in IASC, professional accountancy bodies worldwide committed themselves to use their best endeavors to persuade governments, standard-setting bodies, securities regulators, and the business community that published financial statements should comply with IAS.

IASC Board

The members of IASC (i.e., professional accountancy bodies around the world) delegated the responsibility for all IASC activities, including all standard-setting activities, to the IASC Board. The Board consisted of 13 country delegations representing members of IASC and up to four other organizations appointed by the Board. The Board, which usually met four times per year, was supported by a small secretariat located in London, United Kingdom.

The Initial Set of Standards Issued by IASC

In its early years, IASC focused its efforts on developing a set of basic accounting standards. These standards usually were worded broadly and contained several alternative treatments to accommodate the existence of different accounting practices around the world. Later these standards came to be criticized for being too broad and having too many options.

Improvements and Comparability Project

Beginning in 1987, IASC initiated work to improve its standards, reduce the number of choices, and specify preferred accounting treatments in order to allow greater comparability in financial statements. This work took on further importance as securities regulators worldwide started to take an active interest in the international accounting standard-setting process.

Core Standards Work Program

During the 1990s, IASC worked increasingly closely with the International Organization of Securities Commissions (IOSCO) on defining its agenda. In 1993, the Technical Committee of IOSCO held out on the possibility of IOSCO endorsement of IASC Standards for cross-border listing and capital-raising purposes around the world and identified a list of core standards that

IASB would need to complete in order to gain such an endorsement. In response, IASB in 1995 announced that it had agreed on a work plan to develop the comprehensive set of core standards sought after by IOSCO. This effort became known as the Core Standards Work Program.

After three years of intense work to develop and publish standards that met IOSCO's criteria, IASB completed the Core Standards Work Program in 1998. In 2000, the Technical Committee of IOSCO recommended that securities regulators worldwide permit foreign issuers to use IASB Standards for cross-border offering and listing purposes, subject to certain supplemental treatments.

International Accounting Standards and SIC Interpretations

During its existence, IASB issued 41 numbered Standards, known as International Accounting Standards (IAS), as well as a *Framework for the Preparation and Presentation of Financial Statements*. While some of the Standards issued by the IASB have been withdrawn, many are still in force. In addition, some of the Interpretations issued by the IASB's interpretive body, the Standing Interpretations Committee (SIC), are still in force.

List of IAS Still in Force for 2009 Financial Statements

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, *Consolidated and Separate Financial Statements*
IAS 28, *Investments in Associates*
IAS 29, *Financial Reporting in Hyperinflationary Economies*
IAS 31, *Interests in Joint Ventures*
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 SIC Interpretations Still in Force for 2009 Financial Statements

SIC 7, *Introduction of the Euro*
SIC 10, *Government Assistance—No Specific Relation to Operating Activities*
SIC 12, *Consolidation—Special-Purpose Entities*
SIC 13, *Jointly Controlled Entities—Nonmonetary Contributions by Venturers*
SIC 15, *Operating Leases—Incentives*
SIC 21, *Income Taxes—Recovery of Revalued Nondepreciable Assets*
SIC 25, *Income Taxes—Changes in the Tax Status of an Entity or Its Shareholders*
SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

SIC 29, *Service Concession Arrangements: Disclosures*
 SIC 31, *Revenue—Barter Transactions Involving Advertising Services*
 SIC 32, *Intangible Assets—Web Site Costs*

THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

In 2001, fundamental changes were made to strengthen the independence, legitimacy, and quality of the international accounting standard-setting process. In particular, the IASC Board was replaced by the International Accounting Standards Board (IASB) as the body in charge of setting the international standards.

Key Differences between IASC and IASB

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

- Unlike the IASC Board, 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.
- Unlike the 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.
- 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, United Kingdom.)

The interpretive body of the IASC (SIC) was replaced in 2002 by the International Financial Reporting Interpretations Committee (IFRIC). The latest name of this interpretive arm of the IASB is IFRS Interpretations Committee (which until March 31, 2010 was named International Financial Reporting Interpretations Committee (IFRIC)).

The name of the organization that comprises both the IASB and its Trustees is the IFRS Foundation (which until March 31, 2010, was named International Accounting Standards Committee Foundation). The objectives of the IFRS Foundation, as stated in its Constitution, are

1. To develop, in the public interest, a single set of high-quality, understandable, and enforceable global accepted financial reporting standards based on clearly articulated principles that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help investors and other participants in the various capital markets of the world and other users of the information to make economic decisions.
2. To promote the use and rigorous application of those standards.
3. In fulfilling the objectives associated with 1. and 2., to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
4. To promote and facilitate adoption of IFRS through convergence of national accounting standards and IFRS.

At its first meeting in 2001, IASB adopted all outstanding IAS issued by the IASC as its own Standards. Those IAS continue to be in force to the extent that they are not amended or withdrawn by the IASB. New Standards issued by IASB are known as IFRS. When referring collectively to IFRS, that term includes both IAS and IFRS.

List of IFRS Issued by the IASB to December 31, 2009

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, *Noncurrent Assets Held for Sale and Discontinued Operations*
 IFRS 6, *Exploration for and Evaluation of Mineral Resources*
 IFRS 7, *Financial Instruments: Disclosures*

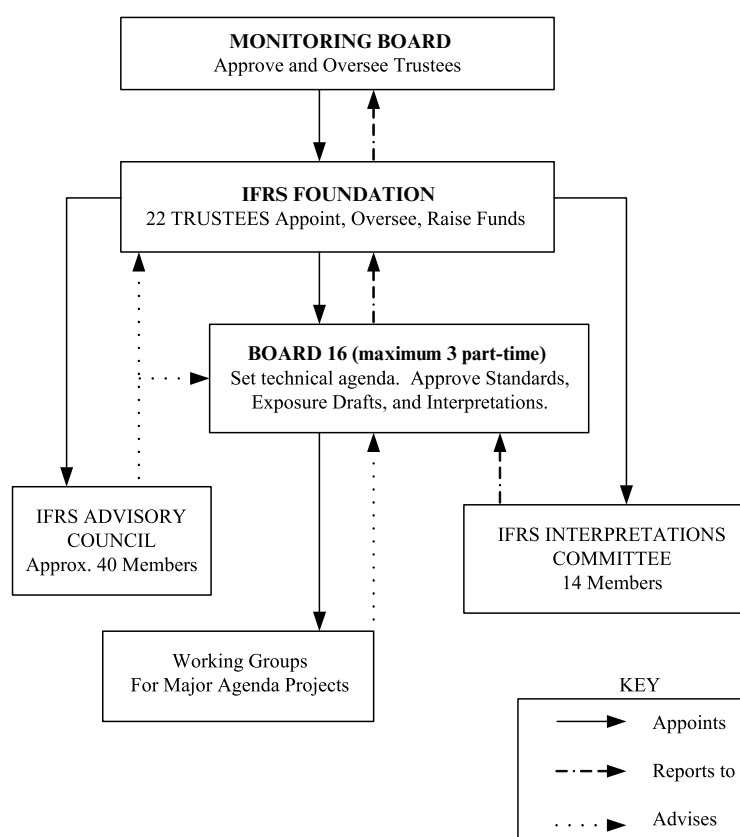
IFRS 8, *Operating Segments*
 IFRS 9, *Financial Instruments*
 IFRS for SMEs*

* NOTE: In July 2009 the IASB promulgated the much-awaited “IFRS for Small and Medium-Sized Enterprises (SMEs).” It provides standards applicable to private entities (that are not publicly accountable as defined in this standard).

One of the initial projects undertaken by IASB was to identify opportunities to improve the existing set of Standards by adding guidance and eliminating inconsistencies and choices. The improved Standards, adopted in 2003, formed part of IASB’s stable platform of Standards for use in 2005 when a significant number of countries around the world moved from national accounting requirements to IFRS, such as all the countries in the European Union.

STRUCTURE AND GOVERNANCE

Diagram of the Current IASB Structure



IFRS Foundation and the Trustees:

The governance of the IFRS Foundation rests on the shoulders of the Trustees of the IFRS Foundation (the “IFRS Foundation Trustees” or, simply, the “Trustees”). The Trustees comprise 22 individuals that are chosen from around the world. In order to ensure a broad international representation it is required that

- Six Trustees are appointed from North America
- Six from Europe
- Six from Asia/Oceanic region
- One from Africa
- One from South America
- Two from any part of the world, subject to maintaining overall geographical balance

The Trustees are independent of the standard-setting activities (which is the primary responsibility of the Board members of the IASB). The Trustees, on the other hand, are responsible for broad strategic issues, such as

- Appointing the members of IASB, the IFRS Interpretations Committee, and the IFRS Advisory Council
- Approving the budget of the IFRS Foundation and determining the basis of funding it
- Reviewing the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda (which if allowed may impair the Trustees' independence of the standard-setting process)
- Establishing and amending operating procedures, consultative arrangements, and "due process" for the IASB, the IFRS Interpretations Committee, and the IFRS Advisory Council
- Approving amendments to the Constitution after consulting the IFRS Advisory Council and following the required "due process"
- Fostering and reviewing the development of the educational programs and materials that are consistent with the objectives of the IFRS Foundation
- Generally, exercising all powers of the IFRS Foundation except those expressly reserved for IASB, the IFRS Interpretations Committee, and the IFRS Advisory Council

Monitoring Board

In order to enhance public accountability of the IFRS Foundation, while maintaining the operational independence of the IFRS Foundation and the IASB, the Monitoring Board, a new body, was created in 2009. The Monitoring Board comprises capital market authorities (e.g. representatives of institutions such as the IOSCO, the US SEC, and the European Commission) and its responsibilities include participating in the appointment of the Trustees of the IFRS Foundation, advising the Trustees in the fulfillment of their responsibilities, and holding meetings with the Trustees to discuss matters referred by the Monitoring Board to the IFRS Foundation or the IASB.

The Board

The Board is responsible for all standard-setting activities, including the development and adoption of IFRS. The Board members are from around the world and are selected by the Trustees based on technical skills and relevant business and market experience. The Board, which usually meets once a month, has currently 15 full-time members. The Board members are from a mix of backgrounds, including auditors, preparers of financial statements, users of financial statements, and academics. According to the IFRS Constitution, the Board shall comprise 14 members, increasing to 16 members at a date no later than July 1, 2012.

IFRS Advisory Council

The Trustees appoint the members of the **IFRS Advisory Council** (which until March 2010 was named the Standards Advisory Council, SAC). The primary responsibility of the IFRS Advisory Council is to provide advice to the IASB on agenda decisions and priorities in the IASB's work. The IFRS Advisory Council provides a forum for organizations and individuals with an interest in international financial reporting. It encompasses diverse geographical and professional backgrounds.

The IFRS Advisory Council shall comprise 40 members approximately. Members are appointed for a three-year renewable term. Currently the membership of the IFRS Advisory Council includes chief financial and accounting officers from some of the world's largest corporations and international organizations, leading financial analysts and academics, regulators, accounting standard setters, and partners from leading accounting firms.

IFRS Interpretations Committee

IASB's interpretive body, IFRS Interpretations Committee (which until March 2010 was named International Financial Reporting Interpretations Committee, IFRIC), is the IASB's interpretive body and is in charge of developing interpretive guidance on accounting issues that are not specifically dealt with in IFRS or that are likely to receive divergent or unacceptable interpretations

in the absence of authoritative guidance. The Trustees select members of the IFRS Interpretations Committee keeping in mind personal attributes such as technical expertise and diversity of international business and market experience in the practical application of IFRS and analysis of financial statements prepared in accordance with IFRS.

The IFRS Interpretations Committee is comprised of 14 voting members. The Trustees, if they deem fit, may also appoint nonvoting observers representing regulatory bodies, who shall have the right to attend and speak at the meetings of the IFRS Interpretations Committee. A member of the IASB, the Director of Technical Activities, or another senior member of the IASB staff, or another appropriately qualified individual, is appointed by the Trustees to chair the IFRS Interpretations Committee. The IFRS Interpretations Committee meets as and when required, and ten voting members present in person or by telecommunication constitute a quorum. Meetings of the IFRS Interpretations Committee (and the IASB) are open to the public but certain discussions may be held in private at the discretion of the IFRS Interpretations Committee. It is important to note that an IFRS Interpretations Committee interpretation requires the IASB's approval before its final issuance.

List of IFRIC Interpretations issued up to December 31, 2009

- IFRIC 1, *Changes in Existing Decommissioning, Restoration, and Similar Liabilities*
- IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*
- IFRIC 3, *Emission Rights* (withdrawn)
- IFRIC 4, *Determining Whether an Arrangement Contains a Lease*
- IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds*
- IFRIC 6, *Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- IFRIC 7, *Applying the Restatement Approach under IAS 29, "Financial Reporting in Hyperinflationary Economies"*
- IFRIC 8, *Scope of IFRS 2* (withdrawn)
- IFRIC 9, *Reassessment of Embedded Derivatives*
- IFRIC 10, *Interim Financial Reporting and Impairment*
- IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (withdrawn)
- IFRIC 12, *Service Concession Arrangements*
- IFRIC 13, *Customer Loyalty Programs*
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and Their Interaction*
- IFRIC 15, *Agreements for the Construction of Real Estate*
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17, *Distribution of Noncash Assets to Owners*
- IFRIC 18, *Transfer of Assets from Customers*
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Standard-Setting Due Process

As part of its due process in developing new or revised Standards, the Board publishes an Exposure Draft of the proposed Standard for public comment in order to obtain the views of all interested parties. It also publishes a "Basis for Conclusions" to its Exposure Drafts and Standards to explain how it reached its conclusions and to give background information. When one or more Board members disagree with a Standard, the Board publishes those dissenting opinions with the Standard. To obtain advice on major projects, the Board often forms advisory committees or other specialist groups and may also hold public hearings and conduct field tests on proposed Standards.

THE WAY FORWARD

IFRS are clearly emerging as a global financial reporting benchmark and most countries have already started using them as their benchmark standards for listed companies. With the recent issuance of "IFRS for SMEs," a stand-alone set of standards for private entities that do not have

public accountability, the global reach of the IASB is further enhanced. However, if these international standards are not applied uniformly across the world due to interpretational differences, then their effectiveness as a common medium of international financial reporting will be in question; especially if different entities within the region apply them differently based on their interpretation of the standards, it would make global comparison of published financial statements of entities using IFRS difficult. Debate still rages amongst accountants and auditors globally on many burning and contentious accounting issues that need a common stand based on proper interpretation of these standards.

According to one school of thought, IFRS are fast emerging as the much-awaited answer to the “billion dollar question” on the minds of accountants, financial professionals, financial institutions, and regulators, that is: *Which set of accounting standards would solve the conundrum of diversity in accounting practices worldwide by qualifying as a single or a common set of standards for the world of accounting to follow and rely upon?*

Undoubtedly, for years US GAAP was leading this much-talked-about international race to qualify as the most acceptable set of accounting standards worldwide. However, due to several reasons, including the highly publicized corporate debacles such as that at Enron in the United States, the global preference (or choice) of most countries internationally has now clearly tilted in favor of IFRS as the most acceptable set of international accounting and financial reporting standards worldwide.

With the current acceptance of IFRS in over 100 countries (and with several more expected to adopt IFRS in the coming years) one can probably argue that IFRS could possibly qualify as an “Esperanto of international accounting” (“Esperanto” referring to the well-known “universal language”). However, some still believe that the race for global acceptance of IFRS is not over yet. While more than 100 countries have adopted IFRS as their national accounting standards, there are some very important jurisdictions in the financial world (such as the United States) which have not yet fully accepted IFRS for financial reporting of their domestic companies. Therefore, unless the United States, the largest economic superpower of the world for years now, accepts IFRS as their national GAAP (replacing US GAAP) it may be difficult to call IFRS the world’s standards.

There is however a good possibility of the US SEC’s accepting IFRS ultimately. Judging from the amazing turnaround in the attitude of the US Securities and Exchange Commission, which has already allowed use of IFRS by foreign private issuers for filings on US stock exchanges, one may expect, that is if the SEC’s Work Plan to convergence with IFRS goes through successfully without any glitches, that by the year 2014 (unless the date of convergence is extended further for whatever reason), the world of accounting may be rejoicing and celebrating under a strong common banner of a global set of accounting and financial reporting standards, namely, the IFRS. However, some may believe that the idea of a single set of standards for the world may be wishful thinking, especially since the US SEC’s Road Map was amended and was replaced with the SEC’s Work Plan. But as things stand presently it may be expected that there is a strong possibility of allowing the use of IFRS in the United States in some form or another.

Chapter 2

IASB FRAMEWORK

INTRODUCTION

The *Framework for the Preparation and Presentation of Financial Statements* (the “*Framework*”) sets out the concepts that underlie the preparation and presentation of financial statements, that is, the objectives, assumptions, characteristics, definitions, and criteria that govern financial reporting. Therefore, the *Framework* is often referred to as the “conceptual framework.” The *Framework* deals with

1. The objective of financial statements
2. Underlying assumptions
3. The qualitative characteristics that determine the usefulness of information in financial statements
4. The definition, recognition, and measurement of the elements from which financial statements are constructed
5. Concepts of capital and capital maintenance

The *Framework* does not have the force of a Standard. Instead, its purposes include, first, to assist and guide the International Accounting Standards Board (IASB) as it develops new or revised Standards and, second, to assist preparers of financial statements in applying Standards and in dealing with topics that are not addressed by a Standard. Thus, in case of a conflict between the *Framework* and a specific Standard, the Standard prevails over the *Framework*.

PRACTICAL INSIGHT
In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event, or condition, IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> , requires management to use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, management is required to refer to, and consider the applicability of, in descending order: (a) the requirements and guidance in Standards and Interpretations dealing with similar and related issues; and (b) the definitions, recognition criteria, and measurement concepts for assets, liabilities, income,

and expenses in the *Framework*. Thus, the *Framework* serves as a guide for preparers to resolve accounting issues in the absence of more specific requirements.

OBJECTIVE OF FINANCIAL STATEMENTS

The objective of financial statements is to provide information about the financial position, performance, and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (e.g., whether to sell or hold an investment in the entity). Users include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public. Because investors are providers of risk capital, it is presumed that financial statements that meet their needs will also meet most of the needs of other users.

UNDERLYING ASSUMPTIONS

Normally, two assumptions underlying the preparation and presentation of financial statements are the accrual basis and going concern.

Accrual Basis

When financial statements are prepared on the *accrual basis of accounting*, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid), and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The accrual basis assumption is also addressed in IAS 1, *Presentation of Financial Statements*, which clarifies that when the accrual basis of accounting is used, items are recognized as assets, liabilities, equity, income, and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Going Concern

When financial statements are prepared on a *going concern* basis, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations, but will continue in operation for the foreseeable future. If this assumption is not valid, the financial statements may need to be prepared on a different basis and, if so, the basis used is disclosed.

The going concern assumption is also addressed in IAS 1, which requires management to make an assessment of an entity's ability to continue as a going concern when preparing financial statements.

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. According to the *Framework*, the four principal qualitative characteristics are

1. Understandability
2. Relevance
3. Reliability
4. Comparability

Understandability

“Understandability” refers to information being readily understandable by users who have a reasonable knowledge of business and economic activities, accounting, and a willingness to study the information with reasonable diligence.

Relevance

“Relevance” refers to information being relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping