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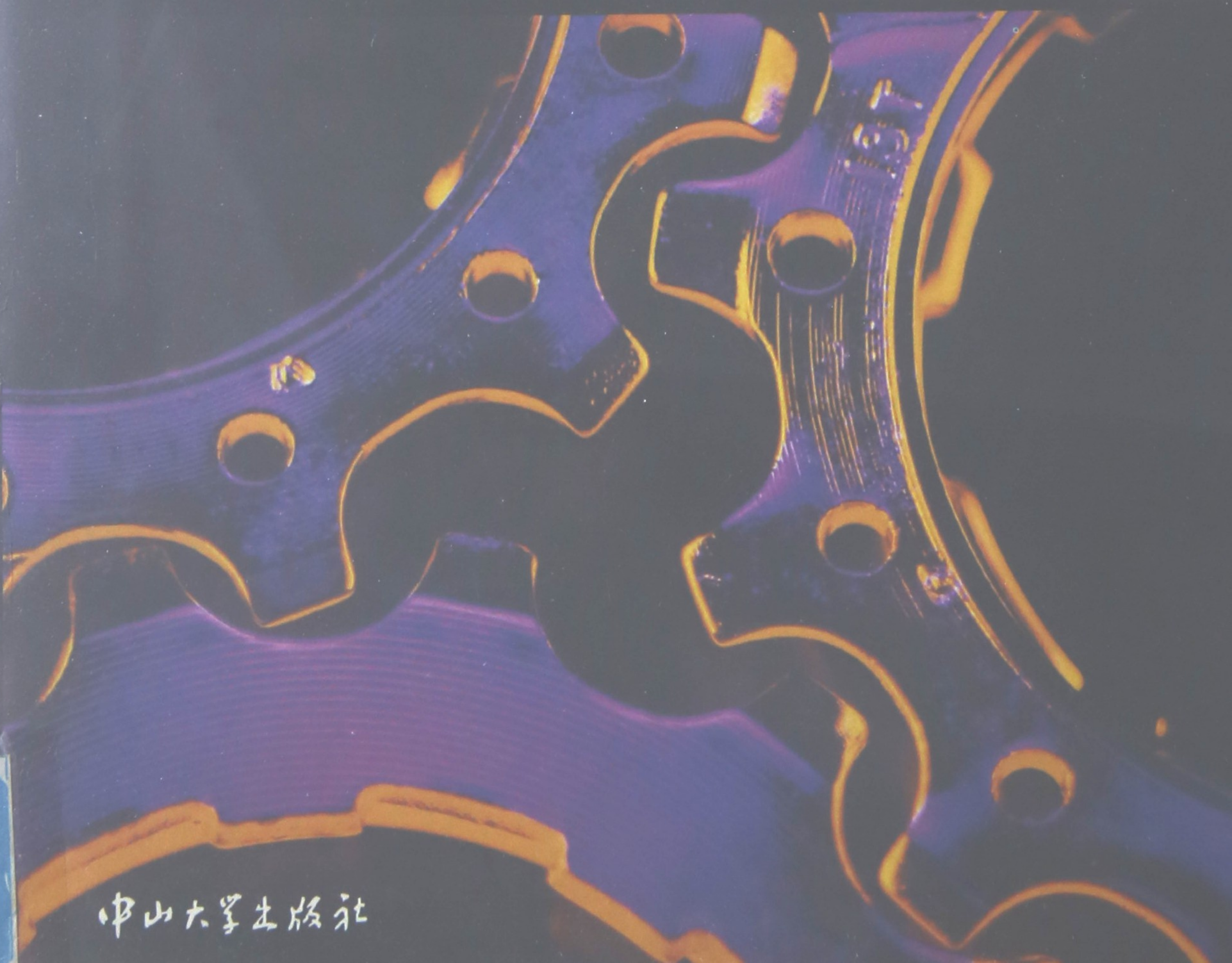
THE ASSOCIATION
OF INTERNATIONAL
ACCOUNTANTS

International Financial Reporting Standards

Robert Greenwood and David Eyles



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Robert Greenwood
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Preface

The Association of International Accountants (AIA) is an international accountancy examining and membership body. Based in the UK, the Association is a Recognised Qualifying Body (RQB) for company auditors under the Companies Act 1989 and is a Designated Body under the European Union Directive on the Mutual recognition of Professional Qualifications in respect of the activity of Company Auditor in the member states of the EU.

Founded in 1928, the Association has been an enduring advocate of International Financial Reporting Standards (IFRSs) and their predecessors, International Accounting Standards (IASs). The majority of accounting malpractice in recent times has been in areas of accounting where there were no authoritative accounting standards. From the early twentieth century experience has shown that financial reporting needs to be regulated to ensure that users of financial reports have the information necessary to enable them to make educated assessments of companies. Accounting standards are essential to foster comparability, consistency and transparency. Good financial reporting cultivates robust financial markets and aids in reducing the cost of capital because investors can trust companies' reports.

Globalisation is a relentless force, with more and more businesses conducting their operating, financing and investing activities on a global scale. Consequently, there is an ever growing demand for a set of internationally accepted accounting standards. A single set of globally agreed standards for financial reporting would aid the generation of capital, improve investor protection and facilitate the comparison of performance. While this concept is not a new one, it is only in recent years that this ideal has become achievable.

There is strong and growing support for IFRSs, which has been reinforced by the commitment of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) to work together to develop the standards. In January 2005, the European Union adopted IFRSs and more countries are set to converge their domestic accounting standards with IFRSs. IFRSs will continue to increase in stature, until ultimately, they are adopted by the majority of countries around the world.

The Association of International Accountants has produced this text in response to the rising demand for accountants with a knowledge of IFRSs and in recognition of the significance of IFRSs to the future of the accounting profession.

Philip J J Turnbull, FAIA FCCA FCPA
Chief Executive, Association of International Accountants

DIPLOMA IN INTERNATIONAL FINANCIAL REPORTING STANDARDS
A QUALIFICATION AWARDED BY THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS (UK)

INFORMATION FOR STUDENTS

Programme Aims

The programme is relevant to practising accountants, financial managers and accountancy students who have an interest to develop their knowledge and understanding of the Framework of International Accounting Standards (IAS).

Any reference to IAS should be taken as including IFRS, unless there is a specific statement to the contrary.

Structure and Duration of the Programme

Candidates joining the Programme will receive a textbook which will provide a complete learning guide covering all the current International Accounting Standards.

The normal duration of the Programme is a maximum of six months depending on the teaching provider.

You are expected to have a detailed knowledge of a selection of IAS which will normally be assessed but you are required to have an overview of the remaining.

Assessment

You will be assessed by a Three Hour Examination which will test your learning and enable you to make a judgement about your knowledge and skills.

You will Pass or Fail in accordance with the Marking Criteria designed by the Examiners. You can self-test your knowledge and understanding of the IAS using the example questions and past examination papers.

INTRODUCTION

Introduction from the Authors

The Accountancy profession is assigned very clear responsibilities to be the gatekeepers for **probity, transparency, accountability and standards**.

If properly complied with, the **IAS and IFRS** will provide the basis for **transparency** and **accountability**, as well as **understandability** and **comparability**.

Any reference to IAS should be taken as including IFRS, unless there is a specific statement to the contrary.

While the **IAS** themselves provide the basis for financial accounting, reporting and disclosure, national legislation and regulations, influenced by law and culture will influence the **financial accountability framework** and the adoption and incorporation of the **IAS**.

Nevertheless business entities should ensure that as part of their Corporate Governance, financial reporting and disclosure of information in financial statements comply with the **IAS** to demonstrate the effectiveness of the **financial accountability systems** to immediate stakeholders and society at large in order to provide the comfort and assurance that encourage investment which emerging Capital Markets and Economies in transition rely on.

Although the **IAS** is the basis for **transparency** and **accountability**, they require clarifying so that users of these standards may interpret and apply them to their preparation of Financial Statements.

The Authors have set out in a readable format those Key Accounting Standards which focus on and link closely to GAAP, so that Accountants inexperienced with applying **IAS** can obtain a broad understanding of the relationship between a Key Standard and the fundamental accounting principles and concepts.

The authors have structured the text in the following way to facilitate understanding of the Key Standards

Objectives—identifies what you should be able to accomplish after studying the Standard

Scope of the Standard—identifies the specific transactions and events covered by the Standard

Accounting Treatment—lists the specific accounting recognition and measurement principles, bases, conventions, rules and practices that should be adopted by an enterprise for compliance with a particular standard

Disclosure—describes the manner in which the financial and non-financial items should be presented in the financial statements as well as aspects that should be disclosed in these financial statements

TRANSPARENCY IN FINANCIAL STATEMENTS
PRIMARY OBJECTIVES OF FINANCIAL STATEMENTS

To provide a fair presentation of

- Financial position
- Financial performance
- Cash flows

FAIR PRESENTATION

- Fair presentation is achieved by providing useful information (full disclosure) that secures transparency.
- Fair presentation equals transparency.

SECONDARY OBJECTIVE OF FINANCIAL STATEMENTS

To secure **transparency** through a fair presentation of **useful** information (full disclosure) for decision-making purposes

ATTRIBUTES OF USEFUL INFORMATION

· Relevance	**Constraints**
= Nature	
= Materiality	
· Reliability	
= Faithful representation	Timeliness
= Substance over from	
= Neutrality	Benefit vs. Cost

- = Prudence
- = Completeness

balancing the qualitative characteristics

- · Comparability
- · Understandability

UNDERLYING ASSUMPTIONS	
Accrual basis	Going concern

LIST of IAS / IFRS included in the Textbook

Detailed below is a complete list of the IAS and IFRS included in this textbook. The textbook is arranged in IAS / IFRS sequence and each IAS considered includes worked examples. In addition, for some but not all of the IAS, further exercises and solutions are also provided.

Periodically, the list will be revised with new ones being added, some removed and others amended in order that they may reflect the ever changing IASs.

SUMMARIES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Accounting Standards (IASs) were issued by the International Accounting Standards Committee (IASC) from 1973 to 2000. The International Accounting Standards Board (IASB) replaced the IASC in 2001. Since then, the IASB has amended some IASs, has proposed to amend other IASs, has proposed to replace some IASs with new International Financial Reporting Standards (IFRSs); and has adopted or proposed certain new IFRSs on topics for which there was no previous IAS. Through committees, both the IASC and the IASB also have issued Interpretations of Standards. Financial statements may not be described as complying with IFRSs unless they comply with all of the requirements of each applicable standard and each applicable interpretation.

While not a standard, the IASB Framework for the Preparation and Presentation of Financial Statements serves as a guide to resolving accounting issues that are not addressed directly in a standard. Moreover, in the absence of a standard or an interpretation that specifically applies to a transaction, IAS 8 requires that an entity must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgement, IAS 8.11 requires management to consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income, and expenses in the Framework. The IASB adopted the Framework in April 2001. It had originally been adopted by the IASC in 1989.

The Preface to IFRSs sets out IASB's objectives, the scope of IFRSs, due process, and policies on effective dates, format, and language for IFRSs.

The IASB publishes individual copies of its standards, an annual "Bound Volume" of all existing standards and interpretations, and a CD ROM with standards and Interpretations. Subscribers also get access to publications via the Internet. These may be ordered on IASB's website www.iasb.org.

The IASB has announced that it intends to post on its website, for free public access, all of its standards (including mandatory guidance but not including non-mandatory guidance or bases for conclusions). When IASB standards are endorsed by the Accounting Regulatory Committee of the European Commission for use in the European Union, they (minus the non-mandatory guidance and bases for conclusions) are published in the Official Journal of the European Union in all of the EU languages.

The term International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning. Narrowly, IFRSs refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor IASC.

International Financial Reporting Standards and International Accounting Standards

	Last Revised
Preface to International Financial Reporting Standards	May 2002
IFRS 1 First-time Adoption of International Financial Reporting Standards	June 2003
IFRS 2 Share-based Payment	February 2004
IFRS 3 Business Combinations	March 2004
IFRS 4 Insurance Contracts	March 2004
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	March 2004
IFRS 6 Exploration for and Evaluation of Mineral Assets	December 2004

IAS 1 Presentation of Financial Statements	December 2003
IAS 2 Inventories	December 2003
IAS 3 Consolidated Financial Statements	No longer effective
IAS 4 Depreciation Accounting	Withdrawn in 1999
IAS 5 Information to Be Disclosed in Financial Statements	No longer effective
IAS 6 Accounting Responses to Changing Prices	Superseded by IAS 15
IAS 7 Cash Flow Statements	1992
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	December 2003
IAS 9 Accounting for Research and Development Activities	Superseded by IAS 38
IAS 10 Events after the Balance Sheet Date	1999
IAS 11 Construction Contracts	1993
IAS 12 Income Taxes	2000
	Last Revised
IAS 13 Presentation of Current Assets and Current Liabilities	Superseded by IAS 1
IAS 14 Segment Reporting	1997
IAS 15 Information Reflecting the Effects of Changing Prices	Withdrawn December 2003
IAS 16 Property, Plant and Equipment	December 2003
IAS 17 Leases	December 2003
IAS 18 Revenue	1993
IAS 19 Employee Benefits	December 2004
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	1983
IAS 21 The Effects of Changes in Foreign Exchange Rates	December 2003
IAS 22 Business Combinations	Superseded by IFRS 3 effective 31st March 2004
IAS 23 Borrowing Costs	1993
IAS 24 Related Party Disclosures	December 2003
IAS 25 Accounting for Investments	Superseded by IAS 39 and IAS 40 effective 2001
IAS 26 Accounting and Reporting by Retirement Benefit Plans	1987
IAS 27 Consolidated and Separate Financial Statements	December 2003
IAS 28 Investments in Associates	December 2003
IAS 29 Financial Reporting in Hyperinflationary Economies	1989
IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1990
IAS 31 Interests in Joint Ventures	December 2003
IAS 32 Financial Instruments: Disclosure and Presentation	December 2003

IAS 33 Earnings per Share	December 2003
IAS 34 Interim Financial Reporting	1998
IAS 35 Discontinuing Operations	Superseded by IFRS 5 effective 2005
IAS 36 Impairment of Assets	March 2004
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1998
IAS 38 Intangible Assets	March 2004
IAS 39 Financial Instruments: Recognition and Measurement	December 2004
IAS 40 Investment Property	March 2004
IAS 41 Agriculture	2001

Bob Greenwood

Acknowledgements from David Eyles

IAS that will be normally assessed by the examination

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IFRS 3 Business Combinations

IFRS 5 Disposal of Non-current Assets and Presentation of Discontinued Operations

IAS 7 Cash Flow Statements

IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

IAS 10 Events after the Balance Sheet Date

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 23 Borrowing Costs

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

IAS 28 Accounting for Investments in Associates

IAS 31 Financial Reporting of Interests in Joint Ventures

IAS 33 Earnings per Share

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IAS 38 Intangible Assets

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SECTION E REPORTING AND DISCLOSURES

SECTION F OTHER INTERNATIONAL ACCOUNTING STANDARDS

SECTION G EXAMPLE QUESTIONS

SECTION A THE CONTEXT OF FINANCIAL REPORTING

This section contains

The IAS Framework for the Preparation and Presentation of Financial Statements
IFRS 1 First-time Adoption of IFRS

THE IAS FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Objectives

On completion of this Introduction you should be able to

- understand the nature and purpose underlying the international harmonisation of financial reporting.
- demonstrate knowledge of the regulatory and institutional structure within which the IASB operates and of the major bodies within that structure.
- understand the purpose and role of accounting standards.
- understand the standard-setting process applied by the IASB.
- understand the context for financial reporting.

Introduction

This section looks at the background to the development and application of international harmonisation through financial reporting standards. It includes the process by which harmonisation has arisen and, more specifically, a description of the structure and bodies within which the International Accounting Standards Board (IASB) operates.

Background

Accounting standards are effectively the 'user manual' for how to translate an entity's financial performance into a set of coherent and succinct financial statements. The end result is designed to be a set of financial statements that is the basis for a variety of users to make informed economic investment decisions.

Entities across the world prepare financial statements with this same objective in mind. However the 'user manual' in each national jurisdiction may vary to take account of the local environment in which entities operate. Consequently the same business transaction may be accounted for in a number of different ways de-