AUDIT STAFF TRAINING
Overview of IFRSs

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Agenda

- What is IFRSs
- The Conceptual Framework
- Elements of Financial statements
- Major principles of key standards

What is IFRS

- International Accounting Standards Board (IASB) is the standard-setting body of the IFRS Foundation.

- IFRS Standards are mandatory pronouncements and comprise:
  - International Financial Reporting Standards
  - International Accounting Standards; and
  - Interpretations developed by the IFRS Interpretations Committee (IFRIC) or its predecessor body, the Standing Interpretations Committee (SIC Interpretations)

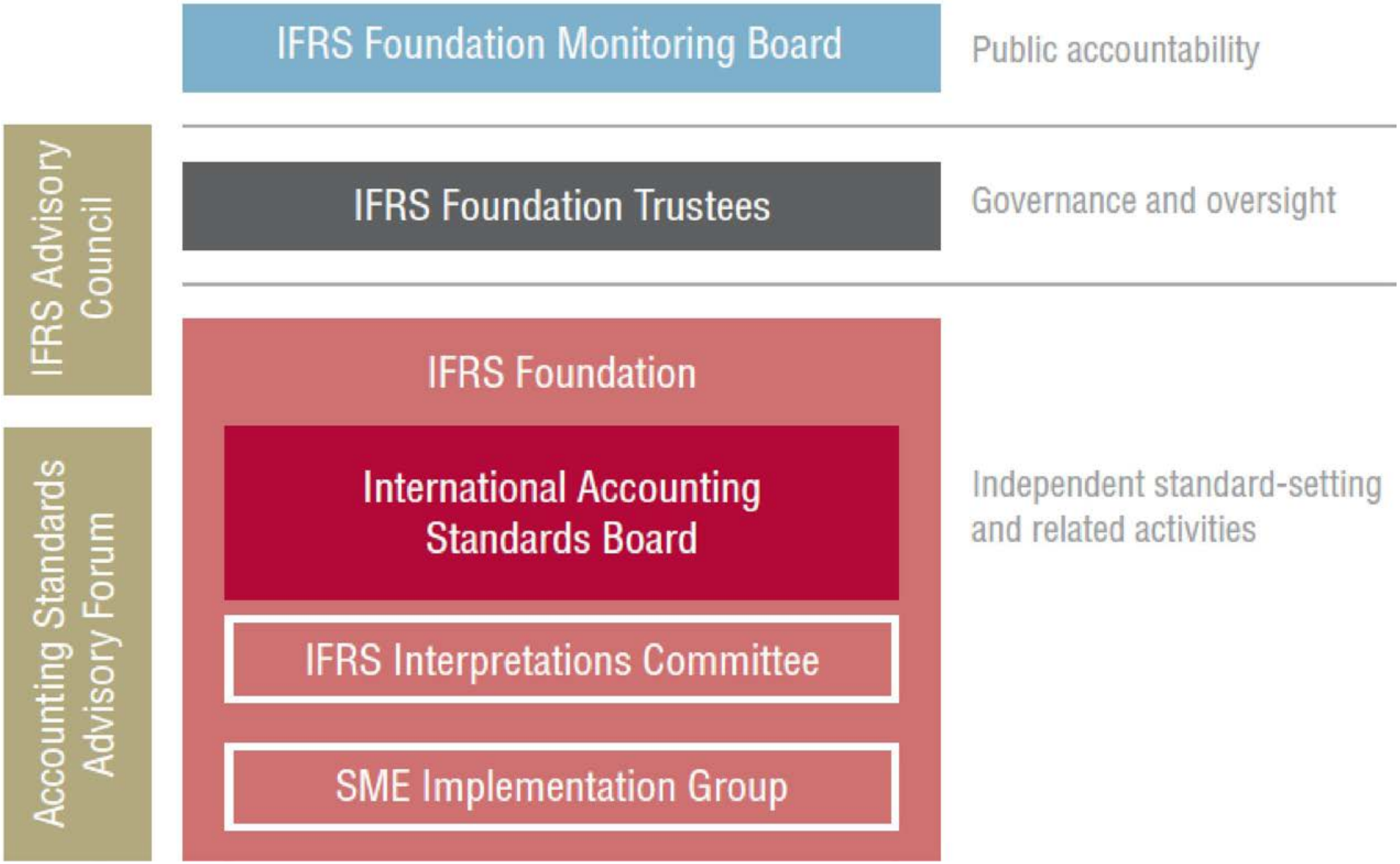
Scope and authority of IFRSs

- IFRSs apply to the general purpose financial statements (GPFS) and other financial reporting of profit-oriented entities.

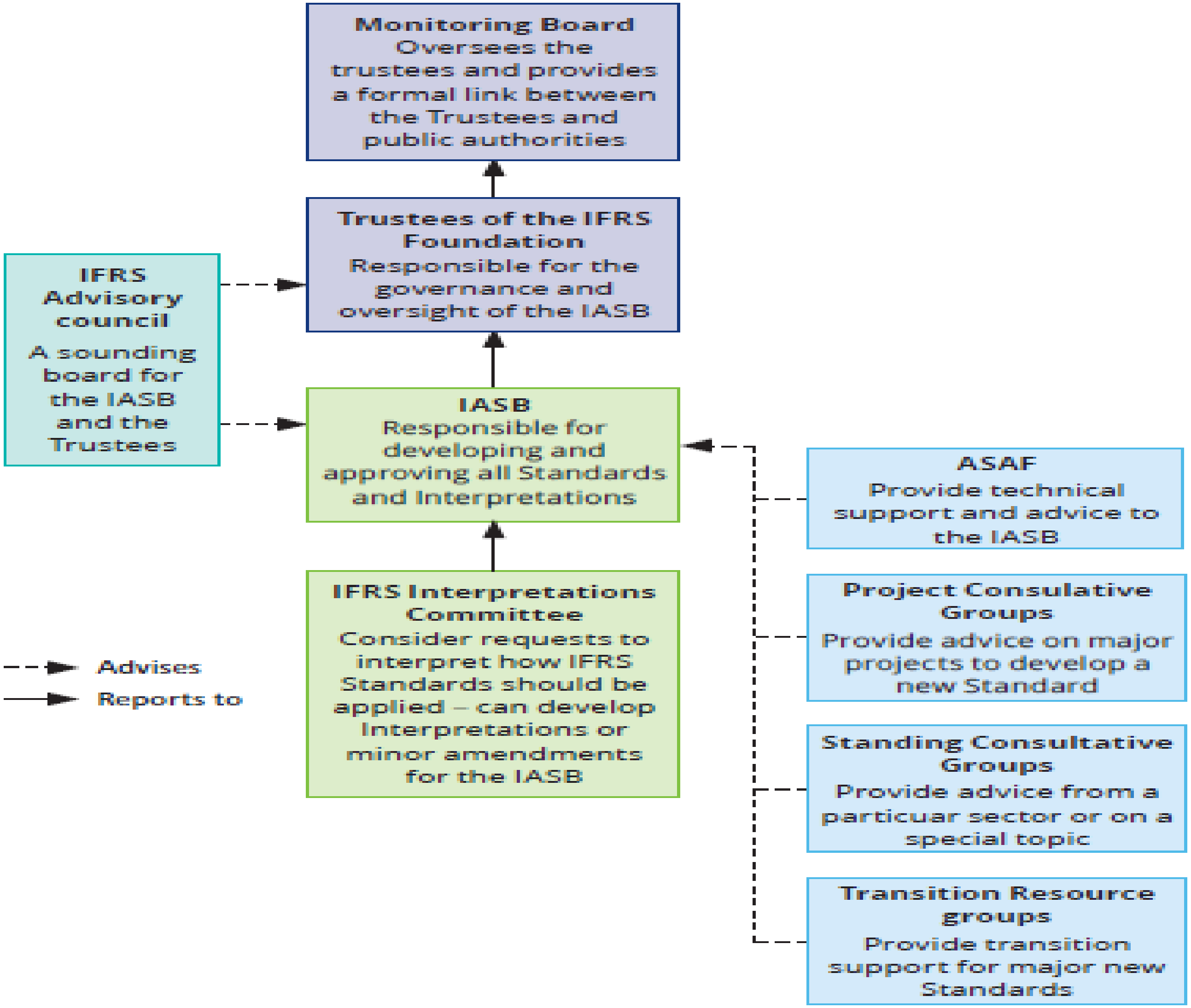
- The objective of GPFS is to provide financial information about the reporting entity that is useful to existing an potential stakeholders in making decisions relating to providing resources to the entity

- IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in the GPFS.

Structure of IFRS Foundation



Governance of IASB



Standards development process

Agenda consultation	• Request for information • 3–5 year plan
Research programme	• Research • Discussion Paper • Agenda proposal
Standards development	• Exposure Draft • Final Standard
Implementation	• Interpretation or narrow-scope amendment • Post-implementation Review

The 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

d) Concepts of capital and capital maintenance

Qualitative Characteristics of useful financial information

Fundamental Qualitative Characteristics

1) **Relevance -** capable of making a difference in users' decisions. It has predictive value, confirmatory value and considers materiality.

2) **Faithful representation -** faithfully represents the phenomena it purports to represent. To be a faithful representation, it would have to be **complete**, **neutral** *(unbiased) and* **free from error** *(accurate in all respects)*

Qualitative Characteristics of useful financial information

Enhancing Qualitative Characteristics

- **Comparability -** Information is more useful if it can be compared with similar information about other entities and information about the same entity for another period.
- **Verifiability -** Knowledgeable and independent observers could reach consensus, but not necessarily complete agreement, that a depiction is a faithful representation
- **Timeliness -** Having information available to decision-makers in time to be capable of influencing their decisions
- **Understandability -** Classify, characterize, and present information clearly and concisely

Underlying assumption- Going Concern

- GPFS are prepared on the assumption that an entity is a going concern and will continue in operations for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.
- If intention to cease operation or to liquidate exist, financial statements have to be prepared on a different basis and, the basis used be disclosed.

Elements of financial statements

Asset:

- 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.
- 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.

Liability.

- 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.
- 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

Elements of financial statements

Income

- Recognised 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.
- In effect, the recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities.

Expenses

- Recognised 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.
- In effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

Elements of financial statements

Equity - The residual interest in the assets of the entity after deducting all its liabilities.

Recognition - The process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria for recognition.

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item's cost or value can be measured with reliability.

Major principles of key IFRSs

Standard	Initial Measurement	Subsequent measurement	Key disclosures
Inventories IAS 2	Cost	Lower of cost and net realizable value	▪ Inventory expensed ▪ Classes of inventory
Income taxes IAS 12	▪ At tax rates expected to apply when the liability is settled or the asset is realised, based on tax rates enacted or substantively enacted at the reporting date.		▪ Aging of tax losses
Property, Plant and Equipment IAS 16	Cost	Cost or revaluation less impairment and accumulated depreciation	▪ PPE Movement schedule ▪ Revaluation method & assumptions

Major principles of key IFRSs

Standard	Initial Measurement	Subsequent measurement	Key disclosures
Government grants IAS 20	Fair Value or Nominal Value	Fair Value or Nominal Value	▪ Terms and Conditions for grants
Investment in associates and JVs IAS 28	The equity method is used to account for investments in associates and joint ventures.		▪ IAS 24 disclosures
Intangible assets IAS 38	Cost	Cost or revaluation less impairment and amortization	▪ Impairment loss ▪ Revaluation assumptions
Investment property IAS 40	Cost	Fair value model or cost model	▪ Fair value assumptions

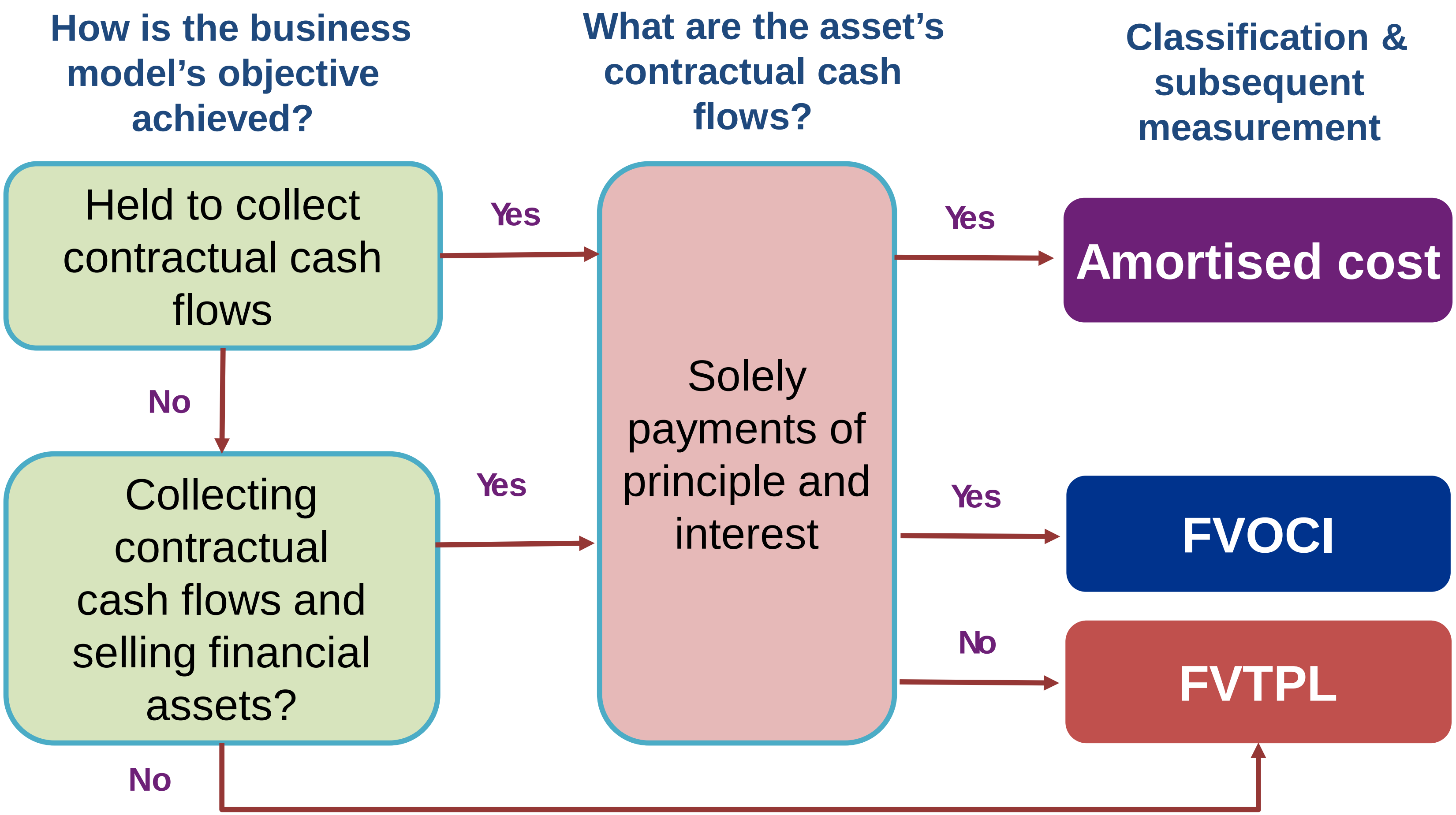
Major principles of key IFRSs

Standard	Initial Measurement	Subsequent measurement	Key disclosures
Biological Assets IAS 41	Fair value	Fair value less costs to sell	FV assumptions
Share-based payments IFRS 2	Fair value	Fair value in profit or in equity for equity-settled payments	FV assumptions
Business Combinations IFRS 3	Fair value at date control is obtained	Per respective Standards	Nature and effect of the business combination
Non-current assets held for sale & Disposal groups IFRS 5	▪ lower of carrying value and fair value less costs to sell ▪ The non-current assets are no longer depreciated.		Fair values

Major principles of key IFRSs

Standard	Initial Measurement	Subsequent measurement	Key disclosures
Exploration and Evaluation of mineral assets IFRS 6	Cost (IAS 16 or IAS 38)	Cost model or revaluation model less impairment and depreciation	Amounts arising from exploration and evaluation of mineral resources.
Financial Instruments IFRS 9	Fair value	▪ Amortised cost ▪ Fair value through profit or loss ▪ Fair value through other comprehensive income (see next slide)	IFRS 7 disclosures

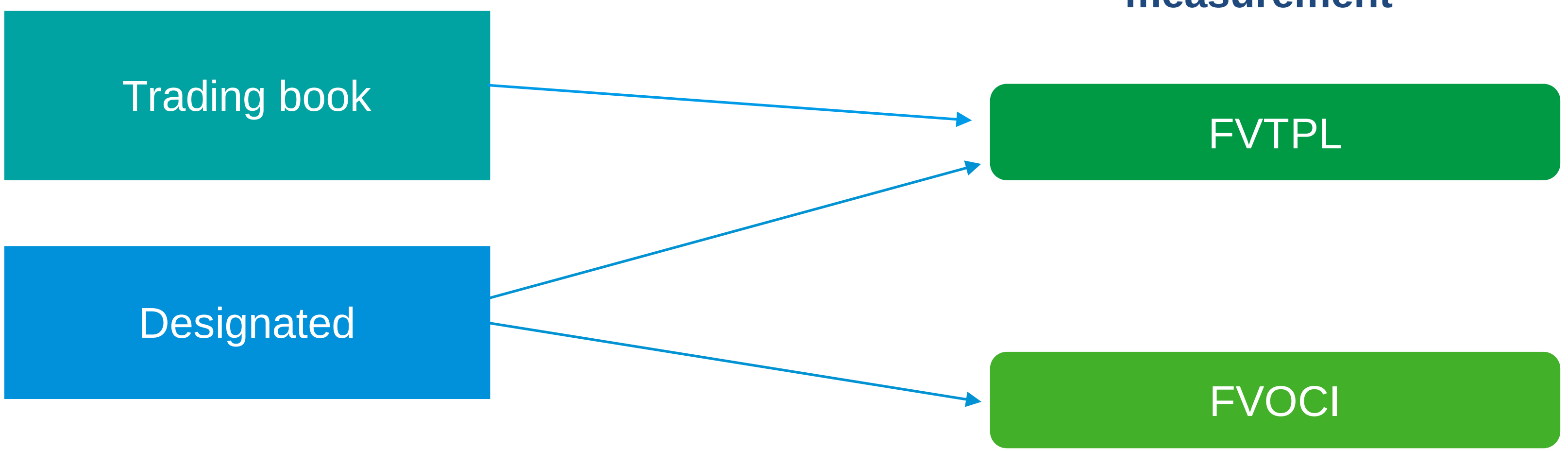
IFRS 9- Financial assets (debt instrument)



IFRS 9- Financial assets (equity instrument)

Business objective & intention

Classification & subsequent measurement



Major principles of key IFRSs

Standard	Initial Measurement	Subsequent measurement	Key disclosures
Financial Instruments IFRS 9 (Financial liabilities)	Fair value	Amortised cost except: ▪ Financial liabilities at FVTPL such as derivatives; ▪ Financial guarantee contracts; ▪ Loan commitments below market rates; or ▪ Financial liabilities at FVTPL to eliminate accounting mismatch.	IFRS 7 disclosures

THANK YOU