University of Miskolc
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Accounting on international level

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Accounting on international level

- accounting is a regulated activity
- traditionally regulation was carried out on national (country) level
- globalization made companies more complex
- need for international regulation

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Europe

- destroyed in WWs
- economies had to be rebuilt
- role of the state and banks
- family businesses
- computation of income & profit (dividends, income tax)
- conservatism, realization principle
- light disclosure requirements
- fiscal influence over accounting
- Directives

America

- no destructions
- economy was booming
- role of stock exchange in providing finance
- liberal capitalism
- computation of shareholder value;
- fair presentation for all users
- relevance, reliability, comparability
- full disclosure requirements
- no fiscal influence over accounting
- US-GAAP

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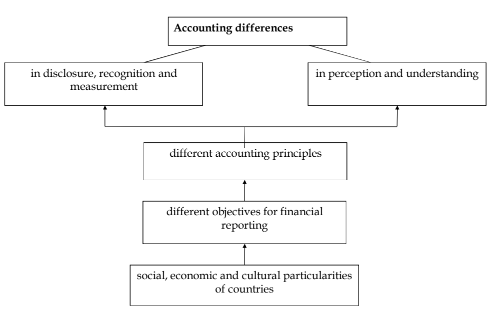
Internationalization of accounting



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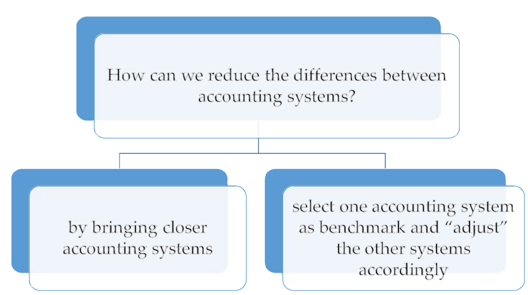
- Harmonization.



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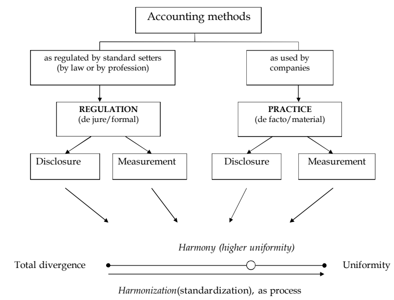
Harmonization (convergence)



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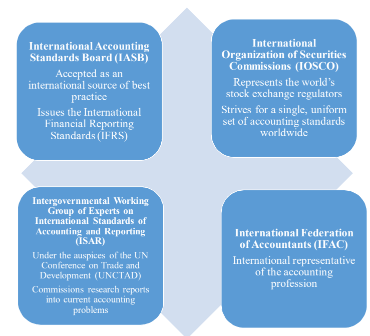
International bodies



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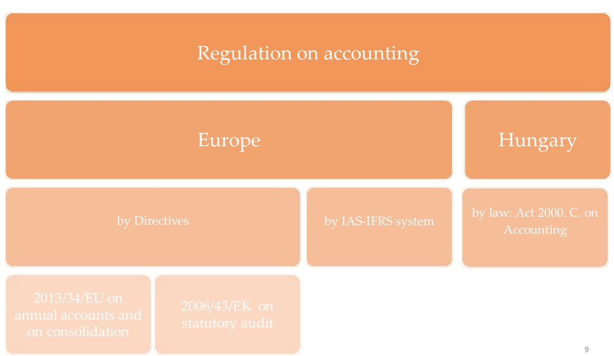

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Internationalization of accounting

- International standardization since 1973
  - by International Accounting Standards Board (IASB, formerly IASC)
  - It's main goal: harmonization of accounting
    - to ensure high quality standards worldwide
    - to establish a common language for financial reporting
  - How can this be achieved?
    - An independent standard-setting board, overseen by a geographically and professionally diverse body of Trustees, publically accountable to a Monitoring Board of capital market authorities
    - A thorough, open and transparent due process
    - Engagement with investors, regulators, business leaders and the global accountancy profession at every stage of the process
    - Collaborative efforts with the worldwide standard-setting community

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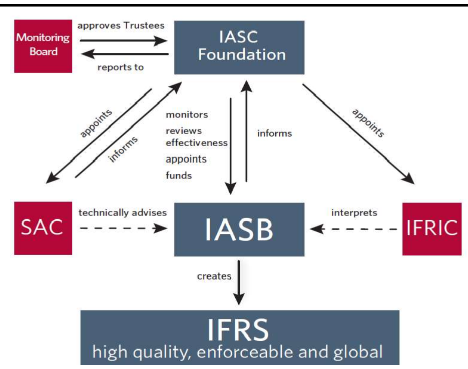

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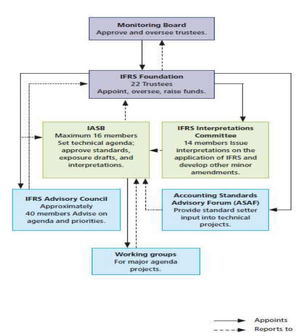
IASB structure



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International Accounting Standards Board

- A private sector body
- Operates under the International Accounting Standards Committee Foundation (IASCF)
- Has no responsibility to any governmental organization
- Has no enforcement authority
- Develops and issues both main standards (IAS / IFRS) and interpretations (SIC / IFRIC)

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History of IASB

- 1973
  - IASC was founded in London on the initiative of Lord Henry Benson (Coopers&Lybrand) by 9 countries (professional accountancy bodies)
- 1997
  - The Standing Interpretations Committee (SIC) was established to consider contentious accounting issues that needed authorative guidance to stop widespread variation in practice.
- 2001
  - The IASC restructured their organisation at the end of the twentieth century, which resulted in the formation of the International Accounting Standards Board (IASB). These changes came into effect on 1 April 2001.
  - At the time the IASB stated that they would adopt the body of standards issued by the Board of the International Accounting Standards Committee (which would continue to be designated 'International Accounting Standards'), but any new standards would be published in a series called International Financial Reporting Standards (IFRS)

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History of IASB

- 1973-1988 search for common agreement
  - extensive research on several topics
  - many choices in IASs (“democracy”)
  - collaboration initiated with IOSCO
    - International Organization of Securities Commissions
- 1989-1993 search for comparability
  - Framework (both for standard setting and application!)
  - in 1993 IASC revised 10 standards
    - benchmark treatment vs other allowed alternative
  - significant new projects
    - financial instruments, income taxes, intangibles

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History of IASB

- 1994 the year of difficulties
  - IOSCO rejected the set of 10 standards
  - problems reported by companies
  - EU was hesitating
- 1995-2000 large(r) scale recognition
  - French standard setter: use on voluntary basis
  - Germany: Bayer, Schering, Hoechst
  - new agreement with IOSCO in Paris, July 1995
  - SIC was established in 1997
  - positive decision by EU in 2000
  - no change from SEC (USA)

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History of IASB

- 2001-2008 convergence
  - radical change in the structure of IASC, which became IASB
  - IASs become IFRSs
    - International Financial Reporting Standards
  - Norwalk Agreement
    - with FASB (American standard setter)
  - SEC accepts IFRS for foreign registrants (no reconciliation) in 2008

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IFRS – Standard-setting due process

The IASB’s standard-setting procedures have to ensure that

- resulting IFRS are of high quality and
- are issued only after giving IASB’s constituencies opportunities to make their views known at several points in the standard-setting due process

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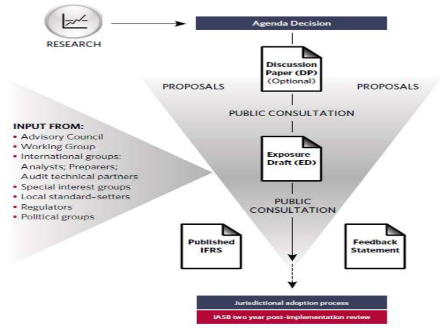

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What is IFRS?

It is a global GAAP

IFRS Defined in (IAS 1.7, IAS 8.5 ,IFRS 1 Appendix A)

Standards and Interpretations adopted by the International Accounting Standards Board (IASB).

They comprise

1. Framework
2. International Financial Reporting Standards
3. International Accounting Standards; and
4. Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and
5. Former Standing Interpretations Committee (SIC)

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As of 2018:

there are 195 independent sovereign nations in the world

approximately 126 of them require the use of International Financial Reporting Standards (IFRS), with another 12 permitting its use.

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What is IFRS?

1. Framework

2. International Financial Reporting Standards
3. International Accounting Standards; and
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History of the Framework

April 1989: *Framework for the Preparation and Presentation of Financial Statements* (the Framework) was approved by the IASC Board

July 1989: Framework was published

April 2001: Framework adopted by the IASB.

September 2010: *Conceptual Framework for Financial Reporting 2010* (the IFRS Framework) approved by the IASB

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Purpose and status

Assists the IASB to develop Standards that are based on consistent concepts; preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and all parties to understand and interpret the Standards.

It is not a Standard and sits outside of IFRS Standards. Nothing in the Framework overrides any Standard or any requirement in a Standard.

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Scope

The **IFRS Framework** addresses:

a) the objective of **General Purpose Financial Reporting**
b) the qualitative characteristics of useful financial information
c) **Financial Statements and the Reporting Entity**
d) **The Elements of Financial Statements**
e) **Recognition and Derecognition**
f) **Measurement**
g) **Presentation and Disclosure**

[IFRS Framework, Scope]

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The Objective of General Purpose Financial Reporting

- The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in

  making decisions relating to providing resources to the entity.

- Those decisions include buying, selling or holding equity and debt instruments, providing or settling loans and other forms of credit, exercising rights to vote on, or otherwise influence, management.

- General purpose financial reports provide information about the resources of, and claims against, an entity and the effects of transactions and other events on those resources and claims.

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Qualitative Characteristics of Useful Financial Information

- For financial information to be useful, it needs to meet the qualitative characteristics set out in the Framework.
- The fundamental qualitative characteristics are relevance and faithful representation.

- Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent.

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- Faithful representation means the information must be complete, neutral and free from error. Neutrality is supported by exercising caution when making judgements under conditions of uncertainty, which is referred to in the Framework as prudence.

- Such prudence does not imply a need for asymmetry, for example, a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses. Such asymmetry is not a qualitative characteristic of

  useful financial information.Financial information is also more useful if it is comparable, verifiable, timely and understandable.

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Financial Statements and the Reporting Entity

- Financial statements are prepared from the perspective of an entity as a whole, rather than from the perspective of any particular group of investors, lenders or other creditors (the entity perspective).

- Financial statements are prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future.

- A reporting entity is an entity that chooses, or is required, to prepare financial statements. Obvious examples include a single legal structure, such as an incorporated company, and a group comprising a parent and its subsidiaries.

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- A reporting entity need not be a legal entity, although this makes it more difficult to establish clear boundaries when it is not a legal entity, or a parent-subsidiary group. When a reporting entity is not a legal entity, the boundary should be set by focusing on the information needs of the primary users.

- A reporting entity could also be a portion of a legal entity, such as a branch or the activities within a defined region.

- The Framework acknowledges combined financial statements. These are financial statements prepared by a reporting entity comprising two or more entities that are not linked by a parent-subsidiary relationship. However, the Framework does not discuss when or how to prepare them.

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The Elements of Financial Statements

- This chapter extensively deals with the definitions of individual elements of the financial statements.There are five basic elements

An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a set of rights – the right to use, sell, or pledge the object, as well as other undefined rights.

In principle, each right could be a separate asset. However, related rights will most commonly be viewed collectively as a single asset that forms a single unit of account.

Control links a right to an entity and is the present ability to direct how a resource is used so as to obtain the economic benefits from that resource (power and benefits). An economic resource can be controlled by only one party at any point in time.

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- **A liability** is a present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty or responsibility that an entity has no practical ability to avoid.
- **An entity** may have no practical ability to avoid a transfer if any action that it could take to avoid the transfer would have economic consequences significantly more adverse than the transfer itself.

The going-concern basis implies that an entity has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or by ceasing to trade.

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- If new legislation is enacted, a present obligation arises only when an entity obtains economic benefits, or takes an action, within the scope of that
- legislation. The enactment of legislation is not in itself sufficient to give an entity a present obligation.
- The focus is on the existence of an asset or liability. It does not need to be certain, or even likely that the asset will produce (or the obligation will require an entity to transfer) economic benefits. It is only necessary that in at least one circumstance it would produce (or require an entity to transfer) economic benefits, however remote that occurrence might be.

The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.

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- The unit of account, recognition and measurement requirements for a particular item are linked and the IASB will consider these aspects together when developing Standards. It is possible that the unit of account for recognition will differ from that used for measurement for a particular matter – e.g. a Standard might require contracts to be recognised in dividually but measured as part of a portfolio.
- **Equity** is the residual interest in the assets of the entity after deducting all its liabilities.
- **Income** is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of
- equity claims.
- **Expenses** are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of
- equity claims.

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Recognition and Derecognition

- **Recognition** is the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses.
- The Framework requires recognition when this provides users of financial statements with relevant information and faithful representation of the underlying transaction.

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- The recognition criteria do not include a probability or a reliable measurement threshold. Uncertainty about the existence of an asset or liability or a low probability of a flow of economic benefits are circumstances when recognition of a particular asset or liability might not provide relevant information.
- There is also a trade-off between a more relevant measure that has a high level of estimation uncertainty and a less relevant measure that has lower estimation uncertainty. Some uncertainties could lead to more supplementary information being required. In limited circumstances the measurement uncertainty associated with all relevant measures could lead to the IASB concluding that the asset or liability should not be recognised.

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- **Derecognition** is the removal of all or part of a recognised asset or liability from an entity's statement of financial position and normally occurs when that item no longer meets the definition of an asset or of a liability.
- The derecognition principles aim to represent faithfully any assets and liabilities retained, and any changes in the entity's assets and liabilities, as a result of that transaction. Sometimes an entity will dispose of only part of an asset or a liability, or retain some exposure.
- The Framework sets out the factors that the IASB should consider when assessing whether full derecognition is achieved, when derecognition supported by disclosure is necessary and when it might be necessary for an entity to continue to recognise the
- transferred component.

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Measurement

- Describes two measurement bases: historical cost and current value. It asserts that both bases can provide predictive and confirmatory value to users but one basis might provide more useful information than the other under different circumstances.
- Historical cost reflects the price of the transaction or other event that gave rise to the related asset, liability, income or expense.
- A current value measurement reflects conditions at the

  measurement date. Current value includes fair value, value in use (for assets) and fulfilment value (for liabilities), and current cost.

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- In selecting a measurement basis it is important to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement of financial performance. The relative importance of the information presented in these statements will depend on facts and circumstances.
- The characteristics of the asset or liability and how it contributes to future cash flows are two of the factors that the IASB will consider when it decides which measurement basis provides relevant information. For example, if an asset is sensitive to market factors, fair value might provide more relevant information than historical cost.
- However, depending on the nature of the entity's business activities, and thus how the asset is expected to contribute to future cash flows, fair value might not provide relevant information. This could be the case if the entity holds the asset solely for use or to collect contractual cash flows rather than for sale.

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Presentation and Disclosure

- Presentation and disclosure objectives in Standards can support effective communication . The Framework requires the IASB to consider the balance between giving entities the flexibility to provide relevant information and requiring information that is comparable.
- The statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period. The Framework presumes that all income and expenses are presented in profit or loss. Only in exceptional circumstances will the IASB decide to exclude an item of income or expense from profit or loss and include it in OCI (other comprehensive income),and only for income or expenses that arise from a change in the current value of an asset of liability.
- The Framework also presumes that items presented in OCI will eventually be reclassified from OCI to profit or loss, but reclassification must provide more relevant information than not reclassifying the amounts.

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Components of financial statements

A complete set of financial statements includes:

1. a statement of financial position (**balance sheet**) at the end of the period
2. a statement of profit or loss and other comprehensive income for the period (presented as a single statement, or by presenting the profit or loss section in a separate statement of **profit or loss**, immediately followed by a statement presenting **comprehensive income** beginning with profit or loss)
3. a statement of **changes in equity** for the period
4. a statement of **cash flows** for the period
5. **notes**, comprising a summary of significant accounting policies and other explanatory notes comparative information prescribed by the standard.

- All financial statements are required to be presented with **equal prominence**.
- Reports that are presented outside of the financial statements – including financial reviews by management, environmental reports, and value added statements – are outside the scope of IFRSs.

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Structure and content of financial statements in general

IAS 1 requires an entity to clearly **identify**:

- the financial statements, which must be distinguished from other information in a published document
- each financial statement and the notes to the financial statements.

In addition, the following **information** must be displayed prominently, and repeated as necessary:

- the **name** of the reporting entity and any change in the name
- whether the financial statements are a **group of entities** or an **individual** entity
- information about the **reporting period**
- the presentation **currency**
- the **level of rounding** used (e.g. thousands, millions).

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Reporting period

- There is a presumption that financial statements will be prepared at **least annually**.
- If the annual reporting period changes and financial statements are prepared for a different period, the entity must
  - disclose the reason for the change and
  - state that amounts are not entirely comparable.

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