

INTERNATIONAL FINANCIAL REPORTING STANDARDS

prof. Ing. Viktória Čejková, PhD., Ing. Eva Hýblová, PhD.
Faculty of Economics and Administration, Masaryk University in Brno

A fundamental change in the preparation of financial statements is taking place for those enterprises in European Union Member States which are issuers of securities listed on EU stock exchanges. When preparing their consolidated and non-consolidated financial statements for 2005, all such enterprises are required to use International Financial Reporting Standards instead of national accounting regulations¹.

International Financial Reporting Standards (IFRSs) are set by the International Accounting Standards Board (IASB), which was established in 2001 to replace the International Accounting Standards Committee (IASC). IASB members are accounting organisations that are members of the International Federation of Accountants (IFAC).

The main objectives of the IASB are:

- to formulate and publish accounting standards to be observed in the presentation of financial statements
- to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.

IFRSs are at present being used:

- as a basis for national regulations on accountancy,
- as an international benchmark for countries which are developing their own national regulation,
- as a uniform benchmark for multinational and international enterprises,
- by companies listed on world stock exchanges.

IFRSs include:

- an introduction and preface,
- a framework,
- IFRSs and International Accounting Standards (IASs),
- interpretations by the International Financial Reporting Interpretations Committee, previously called the Standing Interpretations Committee (SIC).

International Accounting Standards was the name used for all the standards until the end of 2002, and International Financial Reporting Standards has been used since 2003.

Both standards are applicable until the time that the IASs have been replaced by the IFRSs.

¹ Commission Regulation (EC) 1725/2003 of 29.9.2003 adopting certain International Accounting Standards in accordance with Regulation 1606/2002 of the European Parliament and of the Council.

Table 1 – List of standards applicable as at 1 January 2005.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates, and Errors
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
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 Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 35	Discontinuing Operations
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Assets and Contingent Liabilities
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
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	Non-current Assets Held for Sale and Discontinued Operations



In addition to the standards themselves, interpretations are issued in order to clarify certain provisions of an original standard. Interpretations for IASs were developed by the Standing Interpretations Committee (SIC) and those for IFRSs are developed by the International Financial Reporting Interpretations Committee).

Table 2 – List of interpretations applicable as at 1 January 2005

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 – Non-Monetary Contributions by Venturers
SIC	15	Operating Leases – Incentives
SIC	21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC	25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC	27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC	29	Disclosure – Service Concession Arrangements
SIC	31	Revenue – Barter Transactions Involving Advertising Services
SIC	32	Intangible Assets – Website Costs
IFRIC	1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC	2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC	3	Emission Rights
IFRIC	4	Determining Whether an Arrangement Contains a Lease
IFRIC	5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The standards are divided into four main parts:

- definitions
- measurement of the elements of financial statements
- recognition of the elements of financial statements
- disclosure requests

For certain standards, an enterprise may choose from two treatments of a particular issue, either a "benchmark" treatment or an "allowed alternative" treatment.

Framework

The framework defines the terms used as the basis for the preparation and presentation of financial statements. The framework is not a standard and it does not define the standard treatment of any issue. Should a conflict arise between the concept framework and a particular standard, the requirements of the standard take precedence.

The framework defines:

- the objective of financial statements,
- basic conditions for the preparation and presentation of financial statements,
- qualitative characteristics,

- the measurement and recognition for basic elements of financial statements,
- the capital maintenance concept.

The framework is designed for financial statements, including consolidated ones. It may be used for any enterprises focused on commerce, industry or entrepreneurial activity, whether in the private sector or state sector.

The objective of financial statements is to provide information on the Financial Position, Performance, and Changes in the Financial Position of an Enterprise.

The assumptions made for the preparation and presentation of financial statements are Accrual Basis and Going Concern.

Those features which make the financial statements comprehensible for the user are the qualitative characteristics. They include Understandability, Relevance, Reliability, and Comparability.

The basic elements of financial statements related to the financial position are Assets², Liabilities³ and Equity⁴. The basic elements related to performance are Expenses⁵ and Income⁶.

The elements of financial statements are valued at Historical Cost, Current Cost, Realisable-Settlement Value and Present Value.

The choice of capital concept is determined by the requirements of those who use the financial statements of an enterprise. A distinction is made between Financial Capital Maintenance and Physical Capital Maintenance.

Preparation for the implementation of the IFRSs

To ensure that the transition to IFRSs is managed successfully, The Committee of European Securities Re-

² The assets of an accounting entity represent future economic benefits; they may contribute directly or indirectly to the future growth of an enterprise's funds; they are the result of past transactions; having title to assets is not important, but having control over the benefit they bring is; the certainty of the future economic benefit and the reliability of its valuation are conditions for the presentation of assets.

³ The liabilities of an enterprise are the current obligations which arose from past events and which in future will cause an outflow of economic benefits; a sufficient probability of the future outflow of economic resources and the reliability of their valuation are conditions for the presentation of liabilities.

⁴ Equity represents the residual interest in the assets of an enterprise.

⁵ Expenses represent the decrease in economic benefits, expressed as the loss of or decrease in the useful life of assets or as growth in debt, which in the given period leads to a fall in equity other than through withdrawal by the owners. Reliability of measurement and a sufficient degree of certainty are conditions for their presentation.

⁶ Income represents an increase in economic benefits, expressed either as an increase in assets or as a decrease in debt, which occurred during the course of the accounting period and which leads to an increase in equity other than by a contribution from the owners. Reliability of measurement and a sufficient degree of certainty are conditions for their presentation.



gulators (CESR) has issued a recommendation aimed at both facilitating the transition to IFRSs and providing investors with easily understandable financial information.

Transition phases:

- Annual report for 2003 – wherein enterprises should explain how they plan to implement the transition to IFRSs – presentation of plans for achieving conformity, explanation of differences between the national concept of accountancy and the concept used in IFRSs.
- Annual report for 2004 – where an enterprise is able to quantify the effects of the transition to IFRSs, it needs to present this information (and its positive and negative consequences).
- For enterprises issuing accounting reports every half-year and quarter, it is recommended that from 1 January 2005 they begin to use IAS 34 – Interim Financial Reporting – or the applicable IFRSs principles of recognition and valuation.
- Presentation of first complete financial statements in compliance with IFRS for 2005.

IFRS 1⁷

IFRS 1 deals with the first-time adoption of IFRS. The standard defines the entities to which first-time adoption relates. They comprise accounting entities which are preparing financial statements in full compliance with IFRS (the compliance with IFRS must be declared expressly) and which are presenting financial statements. When preparing financial statements, an enterprise is to follow the rules applicable as at the date of the first accounting statements compiled in accordance with IFRSs.

The enterprise must prepare an opening balance sheet as at the transition date. The balance sheet reports those assets and liabilities whose recognition is required by IFRSs and which are valued in accordance with IFRSs. To this end, it is necessary to reclassify the assets and liabilities that were reported in accordance with the national concept of accountancy. The enterprise presents the effects of changes in accountancy policies in the item of retained earnings (or in another equity item). The approach to the changeover in accountancy will be to a considerable extent retrospective since enterprises will report assets and liabilities as if they had been using IFRS in the past.

Should the expenses for recalculating certain transactions be greater than the benefit acquired, a number of exceptions may be applied to the standard (in busi-

ness combinations, for example, there may be stated the fair value or cumulative exchange-rate differences). It may happen, on the other hand, that these exceptions distort the information value and the meaningfulness of the financial statements.

In first-time financial statements, an enterprise is to present information in comparison with at least one past period. The enterprise must explain the impact of the transition to IFRSs on its financial position and performance, with supporting information on the equity acquired under the previous accounting policies and in accordance with IFRSs, and with substantiation of the differences in net profit.

Consequences of the transition to IFRS

The transition to financial statements that comply with IFRSs will be significant. The number of enterprises that will have to prepare financial statements in compliance with IFRS will increase sharply, bringing about a qualitative shift in financial reporting. The new method of reporting will in certain cases also affect the financial position and performance of an enterprise. There will be value changes in basic elements of financial statements, as assets, liabilities, equity, expenses and income are reported in accordance with both national regulations and IFRSs.

There will be demanding preparation for the enterprises affected by these provisions. They face a number of questions in regard to the first-time adoption of IFRS. Each enterprise making the transition to the international standards needs to define those areas of the transition which will bring about significant changes in their assets, equity items or external funds and which affect the meaning of the financial statements.

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⁷ IFRS 1 – First-time Adoption of IFRSs, issued on 19 June 2003.