CHAPTER 1

PREFACE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

1 INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

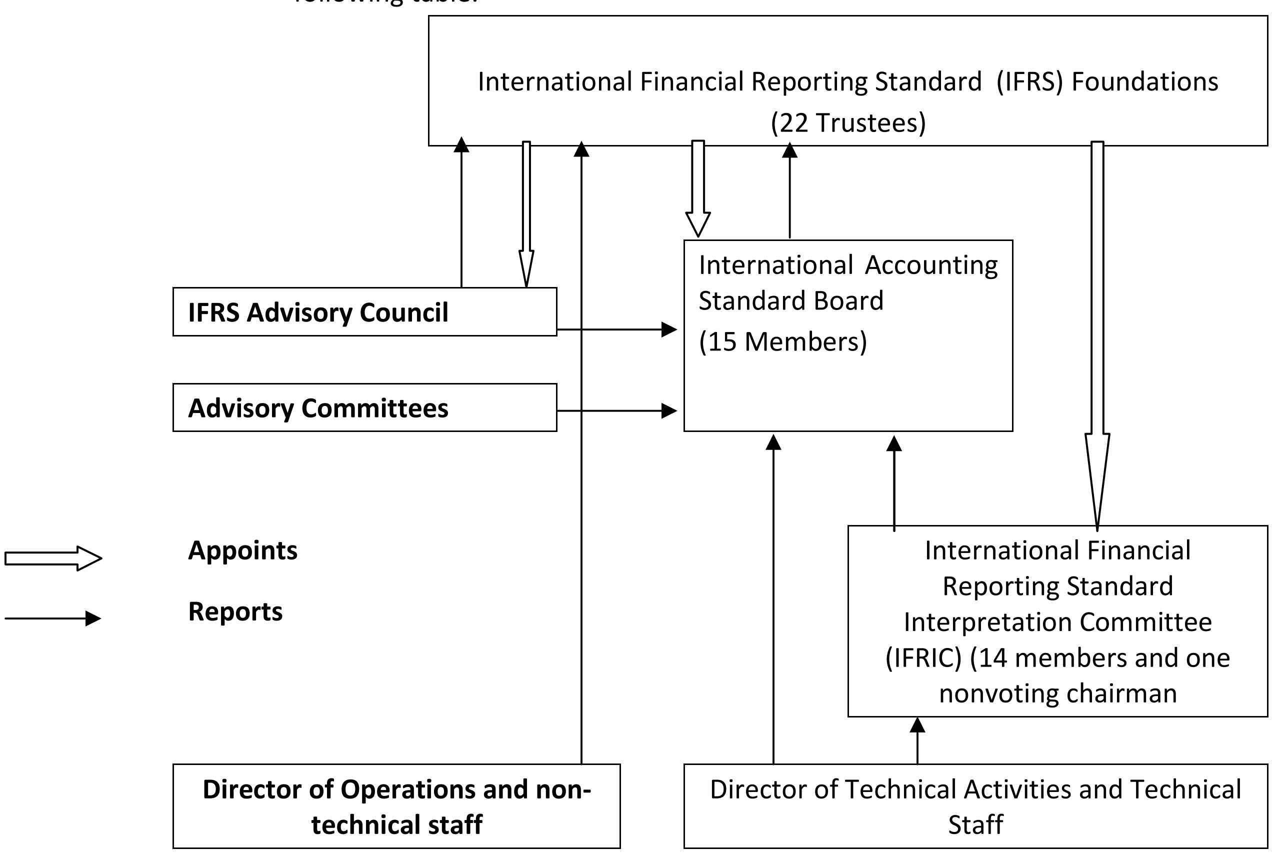
1.1 INTRODUCTION

The IASB was established in 2001 as part of International Accounting Standard Committee (IASC) Foundation. The IASB was preceded by the board of IASC, which came into existence on June 29, 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. In 1982 the old IASC joined hands with the International Federation of Accountants (IFAC), which resulted in all the members of IFAC becoming members of IASC.

1.2 STRUCTURE OF IASB

a) The IASB was established in 2001 as part of IFRS Foundation. The governance of IFRS Foundation rests with the 22 Trustees. The trusties appoint the members of the IASB and associated council. The Board comprises of fifteen full-time members.

b) The IASB has two advisory committees namely The International Financial Reporting Interpretations Committee (IFRIC) and Standard Advisory Council (SAC). The structure of IASC Foundation can be summarized through the following table.



1.3 OBJECTIVE

The objectives of IASB as set out in its Constitution are: -

a) To formulate and publish in the public interest a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statement and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

b) To promote the use and rigorous application of those standards.

c) To work actively with national standard-setters to bring about convergence of national accounting standards and IFRSs to high quality.

2 IFRS FOUNDATION

The parent entity of the IASB is the International Financial Reporting Standards (IFRS) Foundation, a not-for-profit corporation incorporated in the State of Delaware, United States. The Trustees of the IFRS Foundation appoint the 14 Board members and Chairman of the IASB, and the members of the other organizations, and seek funding for the organizations' activities. The Chairman of the IASB is currently **Hans Hoogervorst**.

3 THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (IFRS IC)

The role of IFRS IC is to prepare interpretations of IFRSs for approval by the IASB and, in the context of the *Framework,* to provide timely guidance on financial reporting issues not specifically addressed by IFRSs.

Interpretations of IFRS are prepared to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment in the absence of such guidance. In developing interpretations, IFRIC works closely with similar national committees.

4 THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ADVISORY COUNCIL (IFRS AC)

The IFRS AC provides a formal vehicle for participation by organizations and individuals with an interest in international financial reporting. Its objective is to give advice to the IASB on priorities and on major standard-setting projects. The participants have diverse geographical and functional backgrounds.

5 SCOPE AND APPLICATION OF IFRS

5.1 Scope

Any limitation of the applicability of a specific IFRS is made clear within that standard. IFRS are not applied to immaterial items, nor are they retrospective.

5.2 Application of IFRS

i) Within each country the local regulations govern to a greater or lesser extent the issue of financial statements.

ii) The IASB concentrates on essentials when producing IFRS. This means that IASB tries not to make IFRS too complex, because otherwise they would be impossible to apply on a worldwide basis. Applicable to commercial, industrial or business enterprise

iii) The IFRS do not override local regulations on financial statements. Members of IASB should simply disclose the fact where IFRS is complied with in all material respects. The members of IASB in individual countries will attempt to persuade local authorities, where current regulations deviate from IFRS.

6 **WORKING PROCEDURE** the IASB prepares in accordance with due process.

- The staff is asked to identify and review all the issues associated with topic and to consider the application of the Framework to the issue
- Study national standards and practices and exchange views about the issues with national standard setting bodies.
- Consulting the IFRS AC about the advisability of adding the topic to the IASB's agenda.
- Formation of an advisory group to give advice to the IASB on the project.
- Publishing for public comment a discussion document.
- Publishing for public comment an exposure draft approved by at least nine votes of the IASB, including any dissenting opinions held by the IASB members.
- Publishing within an exposure draft a basis of conclusions.
- Consideration of all comments received within the comment period on discussion documents and exposure drafts.
- Consideration of desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests.
- Approval of a standard by at least nine votes of the IASB and inclusion in the published standard of any dissenting opinions.
- Publishing within a standard a basis for conclusions, explaining among other things, the steps in the IASB's due process and how the IASB dealt with public comments on the exposure draft.

7 **TIMING OF APPLICATION**

IFRS apply from a date mentioned in the IFRS. The IFRS also sets out transitional provisions for their initial application.

8 **LANGUAGE**

The IFRS is issued in English language however; the members are authorized to issue the IAS in their own language. However, this fact should be disclosed in the standard

9 **CONCLUSION**

If the IAS's are applied to financial statements, their comparability, creditability and usefulness will enhance though out the world.

10 **THE IASB'S RELATIONSHIP WITH OTHER STANDARD SETTERS**

10.1 **US Financial Accounting Standards Board**

The IASB now works in close partnership with the US's FASB (Financial Accounting Standards Board). This has developed in stages:

(a) In October 2002 the two Boards signed the 'Norwalk' agreement to undertake a short term convergence project aimed at removing a variety of individual differences between US GAAP and International standards. The first standard resulting from this project was IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(b) In March 2003, the Boards agreed an 'identical style and wording' approach to standards issued on joint projects. A project to revise the business combinations standards is currently underway.

(c) In October 2004 the Boards agreed to develop a common conceptual framework which would be a significant step towards harmonization of future standards.

(d) In February 2006, the two Boards signed a 'Memorandum of Understanding'. This laid down a 'roadmap of convergence' between IFRS and US GAAP in the period 2006-2008. However, the time frame has been extended to 2014 and also subject to various conditions. The convergence process has resulted many changes to IFRS e.g. IAS- 23, 24, 27, 28, 31 & IFRS- 3, 7 and 8.

10.2 Partner standard setters

The IASB maintains a policy of dialogue with other key standard setters around the world, in the interest of harmonizing standards across the globe. Partner standard setters are often involved in the development of Discussion Papers and Exposure Drafts on new areas. For example, the IASB is undertaking a joint project with the UK's Accounting Standards Board on reporting performance.

11 THE NEED FOR A REGULATORY FRAMEWORK

A regulatory framework for accounting is needed for two principal reasons:

(a) To act as a **central source of reference** of generally accepted accounting practice (GAAP) in a given market, and

(b) To designate a **system of enforcement** of that GAAP to ensure consistency between companies in practice.

The aim of a regulatory framework is to narrow the areas of difference and choice in financial reporting and to improve comparability. This is even more important when we consider how different financial reporting can be around the world. Compliance with IFRSs cannot be required without their adoption in national or regional law.

12 Principles-based versus rules-based approach

a) IFRSs are written using a 'principles-based' approach. This means that they are written based on the definitions of the elements of the financial statements, recognition and measurement principles, as set out in the *Framework for the Preparation and Presentation of Financial Statements*.

b) In IFRSs, the underlying accounting treatments are these 'principles', which are designed to cover a wider variety of scenarios without the need for very detailed scenario by scenario guidance as far as possible.

c) Other GAAPs, for example US GAAP, are 'rules-based', which means that accounting standards contain rules which apply to specific scenarios.

d) The US announced its intention in March 2003 to switch to a principles-based approach following a number of corporate accounting scandals, where the existence of rules, which could be avoided, rather than principles which cover multiple scenarios, were identified as one of the causes.

12.1 Advantages and disadvantages of a principles VS rules-based approach

12.1.1 Advantages

(a) A principles-based approach based on a single conceptual framework ensures standards are consistent with each other.

(b) Rules can be broken and 'loopholes' found. Principles offer a 'catch all' scenario.

(c) Principles reduce the need for excessive detail in standards.

12.1.2 Disadvantages

(a) Principles can become out of date as practices (e.g. the current move towards greater use of 'fair values') change.

(b) Principles can be overly flexible and subject to manipulation.