FINANCIAL ACCOUNTING II

II. IASB

1. Role of IASB
2. IAS 1

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1. Role of IASB

IASB – International Accounting Standards Board

- Private and independent organization that gathers about 120 institutions and 90 countries;
- Headquarters: London;
- Created in 1973 with the name: IASC – *International Accounting Standards Commitee*;
- 1989-93: Quality Improvement programme;
- 1995-1998: Programme of standards IOSCO;
- 2001: restructuration.

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IASB - Mission

Elaborate a set of high quality accounting standards;

Cooperate with the national institutions that define the accounting standards in order to obtain the convergence of the standards all around the world.

IASB - Objectives

- Formulate and publish the IAS;
- Promote the acceptance and accomplishment of IAS at world level
- Support the improvement and harmonization, at international level, of the IAS.

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Need of an accounting harmonization:

- Globalization;
- Creation of common economic spaced;
- Freedom of capital circulation;
- Heterogeneity of accounting standards
- Presentation of different financial statements according to each market, with different results for the same period.
- Need to increase confidence in investors that use the financial statements

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Reinforce of the role of IASB acting through other institutions or countries

- IOSCO – *International Organization of Securities Commissions;*
- UE – European Union;
- Australia;
- EUA (IFRS-GAAP reconciliation rule);
- India and China;
- …
- In Portugal: CNC – Comissão de Normalização Contabilística

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Accounting Standards:

Framework for the Preparation and Presentation of Financial Statements (the IASB Framework);

International Financial Reporting Standards and *International Accounting Standards*);

Interpretations of International Accounting Standards (SIC-IFRIC).

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Introduction of IAS in Portugal

Regulamento CE nº 1606/2002 and Decreto-Lei 35/2005

- Beginning 2005: consolidated accounts of firms listed in the stock market
- Beginning 2007: Firms listed in the stock market;
- Presentation for fiscal purposes

SNC

- NCRF
- NCFR- PE
- Decreto-Lei n.º 158/2009

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- Conceptual Structure
- IAS 1 – Presentation of financial accounts
- IAS 2 – Inventories
- IAS 16 – Fixed Tangible Assets
- IAS 36 – Impairments of Assets
- IAS 37 – Provisions, Contingent Liabilities and Assets
- IAS 38 – Intangible Assets

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Conceptual Structure

- Set of fundamental concepts de that guide the process of preparation and presentation of then financial statements;
- Base for IFRS/IAS;
- It is not a standard itself. It prevails on top of all standards.

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Summary

- Objective of financial;
- Qualitative characteristics that determine the utility of information of the financial statements
- Definition, Recognition and Measurement of the elements that underline the construction of the financial statements
- Concepts of capital and maintenance of capital

Users of Financial Statements and their Needs

- Users: Investors, Employees, Suppliers, Clients, Public Sectors, Banks, etc;
- Some needs of information are similar to all these users, so the managers are responsible to prepare and present the financial statements

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Objectives of financial statements

- Present information about the financial and economic performance of a certain firm to a different set of users;
- Financial Position
  - Balance Sheet
  - Affected by the economic resources own by the firm and by the liquidity and solvency of the firm.

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Objectives of financial statements (cont.)

- Economic performance:
  - Income statement
  - To evaluate the return that the firm obtains using the resources that controls.
- Alterations of the Financial position:
  - Cash Flow statement
  - It permits to evaluate the way the firms obtains and uses the cash flow

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Assumptions

- Accrual
- Going on concern

Characteristics of financial information

1. **Easy to understand**
2. **Relevance and Materiality (it has impact in the decion making process)**

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3 **Reliability** - it does not contain errors or judgments

- True representation of the events
- Substance over the form (economic reality and not legal reality);
- Neutrality (be like Swiss; does not contains any judgments and opinions);
- Precaution (provisions, but not the creations of reserves with no undelying event)
- It contains ALL information needed

4 **Comparability** – to compare within the form with previous years and with other firms

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- Restrictions for the relevant and reliable information
  - On time ;
  - Trade-off between cost and benefit;
  - Trade-off between all qualitative information characteristics
- **True and appropriate picture => main goal of the IAS**

Elements and Measurement

- Assets, Liabilities and Owners Equity;
- Revenues and Expenses.

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- Assets
  - Resources controlled by the firm in results of past events from which flow future economic benefits;
  - An asset can be:
    - Used alone or in conjunction with other assets to produce goods or services;
    - Exchange by other assets;
    - Used to liquidate liabilities;
    - Distributed to shareholders.

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- Liabilities
  - Present obligations of the firm that result from past events. To liquidate this obligations it is expected that will be an outflow of resources from the firm.
- Owners Equity
  - Residual value of the assets of the firm after deducting all the liabilities

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- Expenses
  - Decreasing in the future economic benefits during an accounting period in the form of reduction of the assets or increase in liabilities that originate decreasing in owners equity, and it is not related to the distribution of assets to shareholders.
  - Expenses include losses and expenses from the normal activity of the firm.

- Revenues
  - Increases in future economic benefits during the acounting period in the form of obtaining or increase assets or decreasing liabilities that result in increases in owners equity, that are not related to the contribution of shareholders.
  - Revenues include gains and expenses from the nornal activity of the firm.

Recognition

Form to incorporate an item in the financial statements:

- Element definition
- Probable that some economic benefit will flow to the firm
- Possible to measure with reliability

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Measurement of the elements in the financial statements:

Process to determine the monetary amounts of the elements that appear in the financial statements

- Historical Value – amount paid in the moment of acquisition;
- Current cost – amount that would ne necessary to pay to acquire at the present moment;
- Realizable amount – amount that could be obtained from the alienation at the present;
- Present value– present amoutn (discounted amount) of the cash flows

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Published Standads

- IAS 1: Presentation of the financial statements
- IAS 2: Inventories
- IAS 7: Cash Flow statement
- IAS 8: Net Income of the Period, errors and changes in accounting policies
- IAS 10: Events after the Balance sheet
- IAS 11: Construction contracts
- IAS 12: Income Tax

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- IAS 16: Fixed Tangible Assets
- IAS 17: Leasing
- IAS 18: Revenue
- IAS 19: Employees Benefit
- IAS 20: Governmental Grants

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- IAS 21: Changes in Foreign Exchange Rates
- IAS 23 Borrowing Expenses
- IAS 24: Related Party Disclosures
- IAS 26: Retire Benefit Plans
- IAS 27: Consolidated and Separate Financial Statements
- IAS 28: Investments in Associates

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- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 31: Interest in Joint Ventures
- IAS 32: Financial Instruments presentation
- IAS 33: Earnings per Share
- IAS 34: Interim Financial Reporting

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- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IAS 40: Investment Property
- IAS 41: Agriculture

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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

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

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IAS 1 – Presentation of financial statements

- Establish the base for the presentation of the financial statements in order to assure comparability;
- Establish the global requirements for the presentation of the financial statements, its structure and content requirements.

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IAS 1 – Components of FS:

A complete set of financial statements should include:

- a statement of financial position (balance sheet) at the end of the period
- a statement of comprehensive income for the period (or an income statement and a statement of comprehensive income)
- a statement of changes in equity for the period
- a statement of cash flows for the period
- notes, comprising a summary of accounting policies and other explanatory notes

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IAS 1 – Goal

__Objective__. The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions.

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IAS 1 – Fair Presentation and Compliance with IFRSs

- Comparability
- Going concern
- Accrual Basis of Accounting
- Consistency of Presentation
- Offsetting
- Materiality and Aggregation

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Current assets are cash; cash equivalent; assets held for collection, sale, or consumption within the entity's normal operating cycle; or assets held for trading within the next 12 months. All other assets are noncurrent. [IAS 1.66]

Current liabilities are those to be settled within the entity's normal operating cycle or due within 12 months, or those held for trading, or those for which the entity does not have an unconditional right to defer payment beyond 12 months. Other liabilities are noncurrent. [IAS 1.69] .

IAS 1 –Structure of FS

- There is two methods of classification of expenses:
  - By nature
  - By function
- The choice of the method must be based in terms of presenting the most appropriate way to present the financial and performance od the firm.

IAS 1 – Structure of FS

The elements to present are:

a) Revenues;
b) Financial expenses;
c) Participation in losses or profits in associates;
d) Tax expenses
e) Result of discontinuous activities;
f) Profit or losses;
g) Each component of the income classified by its nature
h) Participation in other gains in associates and others
i) Total income

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IAS 1 – Owners Equity Variations

- The variations in Owners equity of a firm reflects the increase or decrease in its liquid assets during a period.
- The global variation in owners equity represents the total gains and losses generated by the activities of a firm in one period.

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IAS 1 – Owners Equity Variations

- It shows
  - The net income of the period;
  - Each item of revenues or expense, gain or loss in accordance with the other IAS and that have effect on owners equity;
  - Accumulated effect of the changes in the accounting policies and the correction of fundamental errors.

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IAS 1 – Cash Flow Statement

- A IAS 7 establish the minimum requisites to presentation.
- Cash Flow statement show the capacity of the firm to generate cash and its equivalents and the necessities of it.

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IAS 1 – Notes

- The notes are narratives or exams more in detail of the amounts that are shown in the financial statements and in the additional information.

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IAS 1 – Notes

- Notes should show:
  - Being in accordance with the IAS
  - Show the measurement and accounting policies
  - Information about the elements presented

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IAS 1 – Notes

- Notes must:
  - Give additional information that was not presented at the financial statements
  - Report the information required by the IAS and that is not report in other place