Ind AS & INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Introduction:

Multinational and global Companies across the world prepare financial statements for each country in which they did business, in accordance with each country's GAAP evolved from International Accounting Standard (IAS) issued by International Accounting Standards Committee (IASC) from 1973 to 2001. During this period 41 Accounting Standards were released. IASC lasted for 27 years till the year 2001. When it was restructured to become International Accounting Standards Board (IASB). At the time of establishment of IASB they agreed to adopt the revised set of standards issued by IASC. But any standards to be published after that would follow series known as International Financial Reporting Standard (IFRS).

Causes for Differences in International Accounting

The environment in which a country operates shapes its Accounting Practices according to Nobes "Just as nations have different histories, values, and political systems, they also have different patterns of financial accounting development". According to Roberts et al. there are not two countries, which have the same accounting practices.

Factors influencing variations in national practices and regulation of financial reporting:

1. Differences in the way that legal systems operate.
2. Different political systems, for example the degree of central government control.
3. Different capital markets.
4. International variation in the type and scale of economic activity, from agricultural to financial services and from developing economies to industrialised economies.
5. The degree of international influence and openness of an economy.
6. The stability of the economy and inflation rates.
7. Cultural differences.
8. The influence of the accounting profession; and
9. National differences in corporate governance, structures and practices.

While national variations in accounting practices have endured for many years, more recentlythere has been pressure to harmonise financial reporting practice and regulation on a global basis in order to reduce such inconsistencies. In short, it is becoming less acceptable to report the same transactions differently according to where they occur. Accounting practices and financial reporting should be a universal language. There have been a number of primary drivers encouraging worldwide harmonisation of financial reporting, including increased globalisation of trade and capital markets. The rapidpace at which information technology has developed has, amongst other things, led to theeasing of the electronic movement of funds across national boundaries and increased investor willingness to invest across national borders.

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The business community has admitted that the accounting is “the language of business”. They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for the economical entities. Financial information is a form of a language and if the language of financial information is to be putted to use, so that investment and credit decisions can more readily be taken, it should not only be intelligible, it should also be comparable.

Anderson said “a set of international accounting standards will allow new horizons of evolution due to the fact that comparative analysis of the rates of returns established based on the balance sheets and profit and loss account between the companies being in competition become relevant”.

To improve the comparability of financial statements, harmonization of accounting standards is advocated.

Over time, different practices and regulations have evolved to meet the requirements of national economic, financial and legal systems. The challenge of international harmonisation is to reduce or eliminate the differences, to produce a level playing field for financial reporting and to help create more efficient international capital markets. As a reflection of the movement towards international harmonisation of financial reporting there has been increased usage of International Financial Reporting Standards (IFRS) worldwide.

Meaning of IFRS

IFRS is an acronym for International Financial Reporting Standards and covers full set of principles and rules on reporting of various items, transactions or situations in the financial statements. Often they are referred to as “principles based” standards because they describe principles rather than dictate rigid accounting rules for treatment of certain items.

In simple words, IFRS are a set of international accounting standards, stating how particular types of transaction and other events should be reported in the financial statements. They are the guidelines and rules set by IASB which the company and organization can follow while preparing their financial statements.

IFRS includes:

1. International Financial Reporting Standards (IFRSs) issued by IASB
2. International Accounting Standards (IASs) issued by IASC
3. Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs)
4. Interpretations originated Standing Interpretations Committee (SICs)

Features of IFRS:

1. IFRS are principle based standards as compared to the rule based GAAP. This means that they have distinct advantage that transactions cannot be manipulated easily.
2. IFRS lays down treatments based on the economic substance of various events and transactions rather than their legal form.

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3. Under the IFRS, the historical cost concept has been abandoned and replaced by a current cost system for more accurate financial reporting. The concept of fair value accounting has taken over historical cost accounting in financial reporting to improve the relevance of the information contained in financial reports and getting the balance sheet right.
4. Presentation of financial statements is significantly different from presentation of financial statements in GAAP. Which follows the schedule III of the companies Act, 2013. For example, IFRS requires clean segregation of assets and liabilities into current and non-current groups. At present the liquidity basis is preferred as per the companies Act.
5. Indian Entities prepare financial statements in Indian rupees. Under IFRS, an entity measures its assets and liabilities and revenues and expenses in its functional currency functional currency is the currency of the primary environment in which the entity operates which may be different from the local currency of a country.
6. IFRS requires annual reassessment of useful life of the assets. Earlier depreciation was stopped once asset is retired from active use. But under IFRS depreciation is to be allowed till the time of actual de-recognition of asset from the books.
7. IFRS mandates Component Accounting. Under this approach each major part of an item of equipment with a cost that is significant in relation to the total cost of an item has to be maintained and depreciated separately.

Relevance of IFRS in India:
The Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs) has increased significantly.

The forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalization, India cannot insulate itself from the developments taking place worldwide.

In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards.

The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial

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statements, deviations from IFRSs were made where it was consideredthat these were not consistent with the laws and business environment prevailing within the country.

Indian Accounting Standards (Ind. AS)
These are a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. With India deciding to converge with IFRS and not to adopt IFRS, Ind.AS is certainly the way forward for Indian Companies.

In simple terms, Convergence with IFRS means that India would not be following the IFRS as issued by the IASB but would issue its own accounting standards in sync with the International Financial Reporting Standards. And these synced Indian Accounting Standards are popularly referred to as 'Ind-AS'.As on date, the Ministry of Corporate Affairs notified 35 Accounting Standards that have been synced with IFRS.

Merits of IFRS
Major advantages of IFRS can be summarized according to benefited groups which are as follows:
Advantages for companies:
Companies prepare financial statements. Therefore, the following advantages can be seen fromthe standpoint of preparers of financial reports. It is quite obvious to understand thatinternational companies are not interested in dealing with a new set of Accounting Standardsin each country they invest.

1. Uniform Accounting Standards provide efficiency gains bothinternally and externally.
2. Internally multinational companies would make savings if all their subsidiaries could use the same Accounting System.
3. A similar internal reporting system gives the chance of better comparisons, less confusion and mistakes between the parts of the company.
4. It allows uncomplicated communication and transfers of finance personnel.
5. One set of Accounting Standards could be used in various jurisdictions and capital markets.
6. With one set of Accounting Standards as well the credibility of the externally reporting could be raised.
7. Further cost savings can be realized, because the preparation of consolidated financial statements will be easier for companies. Because there are no longer costly changes from several different Accounting Systems of each subsidiary necessary, when the parts of the company are consolidated to one.
8. No longer are different performance figures shown for the same company in different countries.
9. Furthermore, international companies can realize significant cost savings if they do not have to change their financial statements to conform to each country's rules, when listing on security exchanges. In other words the access to main financial markets will become easier for global acting companies.

Advantages for users:

From the standpoint of the users of financial statements onecan see the following advantages.

1. Investors, banks or owners are interested in obtaining information, which enables them to make buy/sell/hold investment decisions. But the thing here is similar financial statements would make it possible for users of financial statements to make useful comparisons between countries and companies.
2. Similar Accounting Standards lead to a better comparability between companies.
3. It would enable investors, banks or financial analysts to make better decisions. Therefore, greater comparability results in better understanding lower risks and more efficient selections of investments.
4. For the society at large it can be said that harmonized and converged Accounting Standards are important, because they lead to a well-developed and good functioning capital market.

There are many beneficiaries of convergence with IFRSs such as the economy, investors, and industry and accounting professionals

Advantages to the Economy:

As the markets expand globally the need for convergence increases. The convergencebenefits the economy by increasing growth of its international business. It facilitatesmaintenance of orderly and efficient capital markets and also helps to increase the capitalformation and thereby economic growth. It encourages international investing and therebyleads to more foreign capital flows to the country.

Advantages to the Investors:

A strong case for convergence can be made from the viewpoint of the investors who wishto invest outside their own country. Investors want the information that is more relevant,reliable, timely and comparable across the jurisdictions. Financial statements prepared usinga common set of standards help investors better understand investmentopportunities as opposed to financial statements prepared using a different set of national standards. For better understanding of financial statements, global investorshave to incur more cost in terms of the time and efforts to convert the financial statements sothat they can confidently compare opportunities. Convergence with IFRSs contributes toinvestors' understanding and confidence in high quality financial statements.

Advantages to the industry:

A major force in the movement towards convergence has been the interest of theindustry. The industry is able to raise capital from foreign markets at lower cost if it cancreate confidence in the minds of foreign investors that their financial statements complywith globally accepted accounting standards. With the diversity in accounting standardsfrom country to country, enterprises which operate in different countries face a multitude ofaccounting requirements prevailing in the countries. The burden of financial reporting islessened with convergence of accounting standards because it simplifies the process ofpreparing the individual and group

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financial statements and thereby reduces the costs ofpreparing the financial statements using different sets of accounting standards.

Advantages to the Accounting professionals:

Convergence with IFRSs also benefits the accounting professionals in a way that they areable to sell their services as experts in different parts of the world. The thrust of themovement towards convergence has come mainly from accountants in public practice. Itoffers them more opportunities in any part of the world if same accounting practices prevailthroughout the world. They are able to quote IFRSs to clients to give them backing forrecommending certain ways of reporting. Also, for accounting professionals in industry aswell as in practice, their mobility to work in different parts of the world increases.

Challenges of convergence with IFRS:

1. Wide gap

IFRS is very much different from present accounting policies being followed. There are big differences expected in accounting for financial instruments deferred taxes, business combinations and employees benefits.

2. Increased responsibility

The change to IFRs opens up certain choices a company will have in flow to account for some items. This carries with it the responsibility to investors the reasons for the choices and the impact on financial statements.

3. Tax implications

IRFS convergence will have a significant impact on the financial statements and consequently tax liabilities tax authorities should ensure that there is clarity on the tax treatment of items arising from convergence of IFRS

4. Distributable profits

IFRS is fair value driven which often results in unrealized gains and losses. Whether this can be considered for the purpose of computing distributable profit, is still to be debated.

Process of setting IFRS:

The IASB has a formal due process which is set out in the Preface to IFRS, and The Due Process Handbook of the IASB. At a minimum, a proposed standard should be exposed forcomment, and these comments should be reviewed before issuance of a final standard, withdebates open to the public. However, this formal process is rounded out in practice, with widerconsultation taking place on an informal basis. The IFRS Foundation has a committee, theTrustees' Due Process Oversight Committee, which regularly reviews and updates the dueprocess.

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The IASB's agenda is determined in various ways. Suggestions are made by the Trustees, the IFRS Advisory Council, liaison standard setters, the international audit firms, and others. These are debated by IASB and tentative conclusions are discussed with the various consultative bodies. The IASB also has a joint agenda committee with the FASB. Long-range projects are first put on the research agenda, which means that preliminary work is being done on collecting information about the problem and potential solutions. Projects can also arrive on the current agenda outside that route.
Once a project reaches the current agenda, the formal process is that the staff (a group of about 20 technical staff permanently employed by the IASB) drafts papers which are then discussed by IASB in open meetings. Following that debate, the staff rewrites the paper, or writes a new paper which is then debated at a subsequent meeting. In theory there is an internal process where the staff proposes solutions, and IASB either accepts or rejects them. In practice the process is more involved: sometimes (especially for projects such as financial instruments) individual Board members are delegated special responsibility for the project, and they discuss the problems regularly with the relevant staff, helping to build the papers that come to the Board. Equally, Board members may write or speak directly to the staff outside of the formal meeting process to indicate concerns about one thing or another.

The due process comprises six stages:

1. Setting the agenda
2. Project planning
3. Developing and publishing a discussion paper
4. Developing and publishing an Exposure Draft
5. Developing and publishing the IFRS and
6. Procedures after an IFRS are issued.

The process also includes discussion of Staff Papers outlining the principal issues and analysis of comments received on Discussion Papers and Exposure Drafts. A pre-ballot draft is normally subject to external review. A near final draft is also posted on the limited access website. If all outstanding matters are resolved, the final ballot is applied
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Final ballots on the standard are carried out in secret, but otherwise the process is quite open, with outsiders able to consult project summaries on the IASB Web site and attend Board meetings if they wish. Of course, the informal exchanges between staff and Board on a day-today basis are not visible to the public, nor are the meetings where IASB takes strategic and administrative decisions.
The basic due process can be modified in different circumstances. The Board may decide not to issue Discussion Papers or to reissue Discussion Papers and Exposure Drafts. The IASB also has regular public meetings with the Analyst Representative Group (ARG) and the Global Preparers Forum (GPF), among others. Special groups such as the Financial Crisis Advisory Group are set up from time to time. Formal working groups are established for certain major projects to provide additional practical input and expertise. Apart from these formal consultative processes, IASB also carries out field trials of some standards (as it recently did on performance reporting and insurance), where volunteer preparers apply the

proposed new standards. The IASB may also hold some form of public consultation during the process, such as roundtable discussions. The IASB engages closely with stakeholders around the world such as investors, analysts, regulators, business leaders, accounting standard setters, and the accountancy profession.

The IASB Foundation is in the process of updating the due process and issued the Exposure Draft, this ED combines the due process of the IASB and the IFRS Interpretations Committee and describes how they are related. An introduction section is included dealing with oversight, which identifies the responsibilities of the Due Process Oversight Committee. The proposal is also that the work of the IASB should be divided in development and maintenance projects. Developments are comprehensive projects such as major changes and new IFRSs. Maintenance is narrow scope amendments. A research program is also described that should form the development base for comprehensive projects.

Advantages to India by converging with IFRS:

The main advantages of converging with IFRS are as follows:

1. Common basis of comparison

Most of the countries of the European Union have switched over to IFRS. If companies in India also switched over to IFRS, it would make transitions and dealings with companies of other countries who operate under IFRS much easier. It would also give stock holders and other interested parties a common basis of comparability.

2. Clarity and productivity

Under IFRS, financial makers use their own professional judgment as to how to handle a specific transaction. This will lead to less time being spent trying to follow all rules that are coupled with rule based accounting.

3. Consistent financial Reporting Basis

A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries worldwide which would improve internal communication, quality of reporting and group decision making.

4. Improved Access to international capital markets

Many Indian entities are expending and making significant acquisitions in the global market for which large amount of capital is required. The majority of the stock exchanges require financial information prepared under IFRS

5. Lower cost of capital

Migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing dual sets of financial statements. It will also reduce accountant's fees abolish risk premiums and will enable access to all major capital markets as IFRS is globally acceptable.

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6. Escape multiple Reporting

Convergence to IFRS will eliminate the need for multiple reports and significant adjustments for preparing consolidated financial statements.

7. Reflect True value of acquisition

In Indian GAAP business combinations are recorded at carrying values rather than fair value of net assets in the acquirer's books is not reflected separately in the financial statements, instead the amount gets added to the goodwill. IFRS will overcome this flow as it is mandates accounting of net assets taken over in a business combination at fair value.

8. Benchmarking with global peers

Adoption of IFRS will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

Challenges in the implementation of converged standards in India

Accounting Professionals in India and across the world have listed various benefits of convergence with IFRS. Convergence with IFRS in India is difficult task and faces many challenges. In spite of these benefits, adoption of IFRS in India is difficult task and faces many challenges. Few of these have been listed as below:

Awareness of International Financial Reporting Practices:

Convergence with IFRS means a set of converged reporting standards have to bring in. The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, Stock Exchanges, and Commodity Exchanges etc., To bring a complete awareness of these standards among these parties is a difficult task.

Training:

Professional Accountants are looked upon to ensure successful convergence with IFRS. Along with these Accountants, Government officials, Chief Executive Officers, Chief Information officers are also responsible for a smooth adoption process. India lack training facilities to train such a large group. It has been observed that India does not have enough number of fully trained professionals to carry out this task of convergence with IFRS in India.

Amendments to the Existing Laws:

In India, Accounting Practices are governed mainly by Companies Act 1956 and Indian Generally Accepted Accounting Principles (GAAP). Existing laws such as SEBI regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognize the presence of these laws and the Accountants will have to follow the IND AS fully with no overriding provisions from these laws. Indian Lawmakers will have to make necessary amendments to ensure a smooth transition to IFRS.

Unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted generally.

Taxation:

IFRS convergence will affect most of the items in the Financial Statements and consequently, the tax liabilities would also undergo a change. Currently, Indian Tax Laws do not recognize the Accounting Standards. A complete overhaul of Tax laws is the major challenge faced by the Indian Law Makers immediately. Enough changes are to be made in Tax laws to ensure that tax authorities recognize IND AS compliant financial statements otherwise it will duplicate the administrative work for the Firms.

Use of Fair Value as Measurement Base:

IFRS uses fair value to measure majority items in financial statements. The use of Fair Value Accounting can bring a lot of volatility and subjectivity to the financial statements. Adjustments to fair value result in gains or losses which are reflected in the Income Statements and valuation is reflected in Balance Sheet. Indian Corporate World which has been preparing its Financial Statements on Historical Cost Basis will have tough time while shifting to Fair Value Accounting.

Financial Reporting System:

IFRS provide complete set of reporting system for companies to make their Financial Statements. In India, various laws and acts provide the financial reporting system but not as comprehensive as provided by the IFRS. Indian Firms will have to ensure that existing business reporting model is amended to suit the requirements of IFRS.

The amended reporting system will take care of various new requirements of IFRS. Enough control systems have to be put in place to ensure the minimum business disruption at the time of transition.

Other Challenges

- Increase in cost initially due to dual reporting requirement which entity might have to meet till full convergence is achieved.
- Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collate data necessary for meeting the new disclosures and reporting requirements.
- Differences between Indian GAAP and IFRS may impact business decision / financial performance of an entity.
- Limited pool of trained resource and persons having expert knowledge on IFRSs.

Components of IFRS:

IFRS comprise the following components:

1. **International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)**

Both IAS and IFRS are standards themselves that prescribe rules or accounting treatments for various individual items or elements of financial statements. IASs are the standards issued **before2001** and IFRSs are the standards issued **after 2001.** There used to be 41 standards named IAS 1, IAS 2, etc., however, several of them were superseded, replaced or just withdrawn.

2. Standing Interpretations Committee (SIC) and Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)

SICs and IFRICs are interpretations that supplement IAS / IFRS standards. SIC were issued **before 2001** and IFRIC were issued **after 2001.** They deal with more specific situations not covered in the standard itself, or issues that arose after publishing of certain IFRS.

List of International Financial Reporting Standards (IFRS):

Standard	**Title**	**Originally issued**	**Effective Date**
IFRS 1	First-time Adoption of International Financial Reporting Standards	2003	01/01/2004
IFRS 2	Share-based Payment	2004	01/01/2005
IFRS 3	Business Combinations	2004	01/04/2004
IFRS 4	Insurance Contracts	2004	01/01/2005
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004	01/01/2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	2004	01/01/2006
IFRS 7	Financial Instruments: Disclosures	2005	01/01/2007
IFRS 8	Operating Segments	2006	01/01/2009
IFRS 9	Financial Instruments	2009 (Updated 2014)	01/01/2018
IFRS 10	Consolidated Financial Statements	2011	01/01/2013
IFRS 11	Joint Arrangements	2011	01/01/2013
IFRS 12	Disclosure of Interests in Other Entities	2011	01/01/2013
IFRS 13	Fair Value Measurement	2011	01/01/2013
IFRS 14	Regulatory Deferral Accounts	2014	01/01/2016
IFRS 15	Revenues from Contracts with Customers	2014	01/01/2016

Theoretical frame work of IFRS

IFRS 1 – First Time Adoption of International Financial Reporting Standards

IFRS 1 sets out the rules and procedures that an entity must follow when it reports in accordance with IFRSs for the first time. The main aim is to ensure that entity's first financial statements and related interim financial reports are in line with IFRS and can be generated at a cost not exceeding the benefits.

IFRS 1 prescribes how the opening statement of financial position shall be prepared for the first-time adopters and what accounting policies shall be used.

Then it discusses the exceptions to the retrospective applications of other IFRSs (for example, estimates, de-recognition of financial assets and financial liabilities, hedge accounting, non-controlling interests and classification and measurement of financial assets) and exemptions from other IFRSs (certain provisions for business combinations, share-based payment transactions, insurance contracts, deemed costs, lease accounting, and many more).

Necessary comparative information is prescribed:

1. At least 3 statements of financial position.
2. 2 statements of comprehensive income.
3. 2 separate income statements if presented.
4. 2 statements of cash flow.
5. 2 statements of changes in equity. and
6. Related notes including comparative information.

IFRS 1 then orders that an entity must explain how transition to IFRSs affected its reported financial statements and prepare reconciliations of equity and total comprehensive income.

IFRS 2 – Share Based Payments

IFRS 2 sets out the rules for reporting the share-based payment transactions in entity's profit or loss and financial position, including transactions in which share options are granted to employees.

IFRS 2 deals with 3 types of share-based payment transactions.

1. The first type is equity-settled share-based payment transactions where an entity receives goods or services in exchange for equity instruments. For example, providing share options to employees as a part of their remuneration package.
2. The second type is cash-settled share-based payment transactions in which the entity receives or acquires goods or services in exchange for liabilities to these suppliers. Liabilities are in amounts based on the price or value of entity's shares or other equity instruments. For example, a company grants share appreciation rights to their employees, whereby employees will be entitled to future cash payment based on increase of company's share price over some specified period of time.
3. The third type is share-based payment transactions with cash alternatives, where entity receives or acquires goods or services in exchange for either cash settlement or equity instrument.

Separate attention is dedicated to share-based payment transactions among group entities. IFRS 2 prescribes how various transactions shall be measured and recognized, lists all necessarydisclosures and provides application guidance on various situations.

IFRS 3 – Business Combinations

IFRS 3 provides rules for recognition and measurement of business combinations when an acquirer acquires assets and liabilities of another company (acquiree) andthose constitute a business (parent – subsidiary company situation).

Note: IFRS 3 does NOT set out the rules for preparation of consolidated financial statements for business combination, such as group of companies under the control of parent, etc. This is the scope of IFRS 10.

IFRS 3 clarifies how to identify business combination and prescribes to apply the acquisition method in accounting for it.

Applying the acquisition method comprises 4 steps:

1. Identifying the acquirer.
2. Determining the acquisition date.
3. Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
4. Recognizing and measuring goodwill or a gain from a bargain purchase.
   IFRS 3 sets out the details for all of these steps.

IFRS 3 gives also additional guidance for applying the acquisition method to particular types of business combinations, such as achieved in stages or achieved without the transfer of consideration.

IFRS 4 – Insurance Contracts

IFRS 4 is the first standard dealing with insurance contracts. It defines the rules of financial reporting for insurance contracts (including reinsurance contracts) by entity who issues such contracts (insurer, for example, any insurance company) and also for reinsurance contracts by entity who holds them.

Note: IFRS 4 does NOT apply to other assets and liabilities of an insurer. Also, IFRS 4 does NOT apply to policy holders (insured entities, etc.).

IFRS 4 defines insurance contracts and establishes accounting policies applied to them, including recognition and measurement rules. It addresses some specific issues, such as embedded derivatives in insurance contracts, situations when insurance contract contains both insurance and deposit component (e.g. some type of life insurance with capital part), “shadow accounting” practice, etc.

It also discusses discretionary participation features in insurance contracts or financial instruments (contracts in which except for a guaranteed element, policy holder is entitled to a profit share whose timing and/or amount is at the insurer’s discretion).

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IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 specifies the accounting for assets or disposal groups held for sale (those whose carrying amount will be recovered principally through a sale transaction rather than continuing use) and the presentation and disclosure of discontinued operation (component of an entity – subsidiary, line of business, geographical area of operations,etc. – that either has been disposed of or is classified as held for sale).

In relation to assets or disposal groups held for sale, IFRS 5 establishes conditions when the entity shall classify a non-current asset or a disposal group as held for sale.

Then it sets out the rules for measurement of assets or disposal groups held for sale, recognition of impairment losses and their reversals, and rules for the situation when an entity makes changes to a plan of sale and asset or disposal group can no longer be classified as held for sale.

In relation to presenting discontinued operations, IFRS 5 explains the term "discontinued operation" and prescribes what shall be reported in the statement of comprehensive income and statement of cash flows with regard to it. Additional disclosures in the notes to the financial statements are also required.

IFRS 6 – Exploration for and Evaluation of Mineral Resources

IFRS 6 specifies financial reporting of the expenditures for the exploration for and evaluation of mineral resources, that are minerals, oil, natural gas and similar non-regenerativeresources.

IFRS 6 prescribes that exploration and evaluation assets shall be measured at cost. It permits the entity to determine accounting policy specifying which expenditures are recognized as exploration and evaluation assets and gives examples of acceptable types of expenditures (acquisition of rights to explore, exploratory drilling, trenching, sampling, etc.).

IFRS 6 then prescribes the rules for subsequent measurement, changes in accounting policies and impairment of these assets. The impairment rules related to the mineral resources differ from those in IAS 36, as they set the different impairment indicators and allow testing on an aggregate level.

In relation to presentation, IFRS 6 describes classification and reclassification of exploration and evaluation assets and finally number of disclosures is prescribed.

IFRS 7 – Financial Instruments: Disclosures

IFRS 7 prescribes what disclosures an entity shall provide about financial instruments in its financial statements and thus it complements standards IAS 32 onpresentation and IAS 39 / IFRS 9 on recognition and measurement of financialinstruments. Before, standard IAS 32 dealt also with disclosures, but IAS 32's part ondisclosures was superseded by IFRS 7.

IFRS 7 requires disclosures in 2 main categories:

The first category represents disclosures about significance of financial instruments for financial position and performance. Within this category, an entity is required to disclose the followinginformation related to the statement of financial position:

1. Information by categories of financial assets and liabilities.
2. Specific disclosures about financial assets or financial liabilities at fair value through profit or loss and financial assets valued at fair value through other comprehensive income.

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3. Reclassification of financial instruments among categories.
4. De-recognition.
5. Collaterals.
6. Allowances for credit losses.
7. Compound financial instruments with multiple embedded derivatives.
8. Defaults and breaches of loan agreement terms, etc.

Information to be disclosed in relation to statement of comprehensive income is items of income, expense, gains or losses by categories, etc. Other required disclosures refer to accounting policies applied, hedge accounting, fair value information etc.

The second category represents disclosures about nature and extent of risks arising from financial instruments. An entity is required to present qualitative and quantitative disclosures for each type of the risk. IFRS 7 then prescribes specific disclosures about credit risk, liquidity risk and market risk. Next, standard IFRS 7 sets guidelines related to disclosures about transfer of financial assets. It states which information shall be disclosed when transferred financial asset is derecognized in its entirety and which information shall be disclosed when transferred financial asset is not derecognized in its entirety.

IFRS 8 – Operating Segments

IFRS 8 replaced the standard IAS 14 – Segment reporting with effective date for periods beginning 1 January 2009 or later. It prescribes the information that an entity must disclose about its business activities – operating segments, products and services, the geographical areas in which it operates and its major customers. Standard IFRS 8 applies only to entities whose debt or equity instruments are traded in a public market (or filed or in the process of filing its financial statements with a security commission or other regulatory organization for that purpose).

IFRS 8 defines operating segments and explains what can be deemed operating segment. Then it prescribes criteria for reportable segments, including aggregation criteria and quantitative thresholds for segment to be reported separately. IFRS 8 also prescribes number of disclosures in relation to operating segments, such as general information, information about profit or loss and assets and liabilities, information about basis for measurement, information about products and services, geographical areas and major customers.

The first version of IFRS 9 was issued in November 2009 and then it was amended in October 2010 and November 2013. Once it is fully finalized, it will replace standard IAS 39 in the future. IASB still works on several projects related to financial instruments and after these projects are completed, standard IFRS 9 will be further amended and expanded.

IFRS 9 – Financial Instruments

IFRS 9 deals with recognition, classification, measurement and de-recognition of financial instruments. as well as with the hedge accounting rules. The current version of IFRS 9 does NOT include mandatory effective date, butentities can adopt it voluntarily. IASB will add the mandatory effective date later whenall phases are completed. IFRS 9 consists of 7 chapters and 3 appendices. Chapters sets objectivesto establish principles for the financial reporting of financial assets and financial liabilities, to be applied to all items within the scope of IAS 39 and recognition and de-recognition. IFRS 9 defines when a financial asset and financial

liability shall be recognized in the financial statements. Then, IFRS 9 addresses de-recognition of financial assets – it sets rules when the financial asset shall be derecognized in its entirety, or just partially. Basically, financial asset shall be derecognized when the contractual rights to the cash flows from the financial asset expire, or the entity transfers the financial asset as set out and the transfer qualify for de-recognition. Rules for transfer of financial assets are also outlined: standard explains how to report transfers when they qualify for de-recognition and when they do not qualify for de-recognition. Concept of continuinginvolvement of transferred assets is explained. With regard to de-recognition of financial liabilities, an entity can remove financial liability from the statement of financial position when it is extinguished— i.e. when the obligation specified in the contract is discharged or cancelled or expires.

IFRS 9 also deals with classification of financial assets and financial liabilities. Financial assets are divided into 2 categories – those measured at amortized cost and those measured at fair value. IFRS 9 prescribes rules for categorizing financial assets into one of these 2 categories. There is also the third subcategory: financial asset measured at fair value through other comprehensive income. Financial liabilities shall all be classified as subsequently measured at amortized cost using effective interest method, except for:

1. Financial liabilities at fair value through profit or loss,
2. Financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition or when the continuing involvement approach applies,
3. Financial guarantee contracts and
4. Commitments to provide a loan at a below-market interest rate.

IFRS 10 – Consolidated Financial Statements

The objective of IFRS 10 is to establish principles for consolidation related to all investees based on control that parent exercises over the investee rather than the nature of investee. Therefore, also special purpose entities are subject of a consolidation according to this standard.

IFRS 10 defines when investor controls the investee:

1. When the investor is exposed, or has rights, to variable returns from its involvement with the investee and
2. Has the ability to affect those returns through its power over the investee.

    Investor controls the investee when the he has all three elements:

    1. Power over the investee.
    2. Exposure, or rights, to variable returns from its involvement with the investee, and
    3. The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 then sets the accounting requirements for preparation of consolidated financial statements, consolidation procedures, reporting non-controlling interests and treatment of changes in ownership interests. Standard does not set any requirements for disclosures, as those are covered by IFRS 12.

IFRS 10 also contains special accounting requirements for investment entities (see below). Where an entity meets the definition of an “investment entity”, it does NOT consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity.

Instead, an investment in a subsidiary is measured at fair value through profit or loss in accordance with IFRS 9 or IAS 39. These requirements related to investment entities are new and apply for the periods starting 1 January 2014 or later.

An investment entity is an entity that:

1. Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
2. Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and
3. Measures and evaluates the performance of substantially all of its investments on a fair value basis.

IFRS 11 – Joint Arrangements

IFRS 11 sets principles for reporting of joint arrangements – arrangements of which two or more parties have joint control. This standard effectively amends IAS 27 and IAS 28.

IFRS 11 explains characteristics of joint control:

1. The parties are bound by a contractual arrangement and
2. The contractual arrangement gives two or more of those parties joint control of the arrangement.

Then, it gives guidance for assessment whether the joint control exists. IFRS 11 classifies joint arrangements into 2 categories: joint operation and joint venture and prescribes how each of these forms shall be recognized and reported in the financial statements of parties to a joint arrangement. This standard applies for the periods starting 1 January 2013 or later and transitional guidance was issued, too.

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 prescribes what disclosures shall be provided in the financial statements with regard to interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 sets extensive disclosure requirements related to interests in other entities. Reporting entity must present disclosures about significant judgments and assumptions made in determining the existence of control over another entity, the type of such control and existence and type of joint arrangement.

IFRS 12 then sets broad range of disclosures for interests in subsidiaries, interests in joint arrangements and associates and interests in unconsolidated structured entities (entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity).

IFRS 12 also requires disclosures for interests in unconsolidated subsidiaries in line with the newest amendment of IFRS 10. Unconsolidated subsidiaries represent the investment entity consolidation exemption and as a result, they are carried at fair value through profit or loss and not consolidated in line with IFRS 3.

IFRS 13 – Fair Value Measurements

IFRS 13 represents the framework for fair value measurement required throughout other IFRS standards (for example, IFRS 9). IFRS 13 defines fair value, provides guidance for its measurement as well as sets disclosure requirements with respect to fair value.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("exit price").

In order to increase consistency of fair value measurement, IFRS sets "fair value hierarchy" which classifies inputs used in valuation techniques into 3 levels:

1. Quoted prices in active markets for identical assets or liabilities that an entity can access at the measurement date.
2. Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. quoted prices of similar assets).
3. Unobservable inputs for the asset or liability. IFRS 13 then outlines a fair value measurement approach by stating what an entity shall determine when assessing fair value. Further guidance on measurement is given, including characteristics of asset or liability being measured, the highest and best use of non-financial assets, market transactions and many more.

With reference to valuation, IFRS 13 discusses 3 valuation techniques:

1. Market approach: it utilizes the information from market transactions.
2. Cost approach: it involves current replacement cost.
3. Income approach based on future cash flows, income or expenses discounted to present value.

IFRS 13 sets broad range of disclosures related to fair value measurement, including identification of classes, specific disclosures for each class of assets and liabilities measured at fair value, and many more, both in a descriptive and quantitative format.

IFRS 14 – Regulatory Deferral Accounts

IFRS 14 is to specify the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.

IFRS 14 is designed as a limited scope Standard to provide an interim, short-term solution for rate-regulated entities that have not yet adopted IFRS. Its purpose is to allow rate-regulated entities adopting IFRS for the first-time to avoid changes in accounting policies in respect of regulatory deferral accounts.

IFRS 14 is permitted, but not required, to be applied where an entity conducts rate-regulated activities and has recognized amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to 'regulatory assets' and 'regulatory liabilities'). When applied, the requirements of IFRS 14 must be applied to all regulatory deferral account balances arising from an entity's rate-regulated activities.

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Presentation in financial statements:

The impact of regulatory deferral account balances are separately presented in an entity's financial statements. This requirement applies regardless of the entity's previous presentation policies in respect of regulatory deferral balance accounts under its previous GAAP. Accordingly:

1. Separate line items are presented in the statement of financial position for the total of all regulatory deferral account debit balances, and all regulatory deferral account credit balances.
2. Regulatory deferral account balances are not classified between current and non-current, but are separately disclosed using subtotals.
3. The net movement in regulatory deferral account balances are separately presented in the statement of profit or loss and other comprehensive income using subtotals

IFRS 15: Revenue from Contracts with Customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for leases within the scope of IAS 17 Leases. financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. insurance contracts within the scope of IFRS 4 Insurance Contracts. and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Accounting requirements for revenue: The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Presentation in financial statements:

Contracts with customers will be presented in an entity’s statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity’s performance and the customer’s payment. A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer.

Where the entity has performed by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of the entity's right to consideration. A contract asset is recognized when the entity's right to consideration is conditional on something other than the passage of time, for example future performance of the entity. A receivable is recognized when the entity's right to consideration is unconditional except for the passage of time.

Contract assets and receivables shall be accounted for in accordance with IFRS 9. Any impairment relating to contracts with customers should be measured, presented and disclosed in accordance with IFRS 9. Any difference between the initial recognition of a receivable and the corresponding amount of revenue recognized should also be presented as an expense.

List of International Accounting Standards (IAS):

Standard	**Title**	**Originally issued**	**Effective Date**	**Fully withdrawn**
IAS 1	Presentation of Financial Statements(1997)	1975	01/01/1975	--
IAS 2	Inventories (1993)	1976	01/01/1976	
IAS 3	Consolidated Financial Statements	1976	01/01/1977	01/01/1990
IAS 4	Depreciation Accounting	1976	01/01/1977	01/07/1999
IAS 5	Information to Be Disclosed in the Financial Statements	1976	01/01/1977	01/07/1998
IAS 6	Accounting Responses to Changing Prices	1977	01/01/1978	01/01/1983
IAS 7	Statement of Cash Flows	1977	01/01/1979	--
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1978	01/01/1979	--
IAS 9	Accounting for Research and Development Activities	1978	01/01/1980	01/07/1999
IAS 10	Events after the Reporting Period	1978	01/01/1980	--
IAS 11	Construction Contracts	1979	01/01/1980	--
IAS 12	Income Taxes	1979	01/01/1981	--
IAS 13	Presentation of Current	1979	01/01/1981	01/07/1998

	Assets and Current Liabilities			
IAS 14	Segment Reporting	1981	01/01/1983	01/01/2009
IAS 15	Information Reflecting the Effect of Changing Prices	1981	01/01/1983	01/01/1005
IAS 16	Property Plant and Equipment	1982	01/01/1983	--
IAS 17	Leases	1982	01/01/1984	--
IAS 18	Revenue	1982	01/01/1984	--
IAS 19	Employee Benefits	1983	01/01/1985	--
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1983	01/01/1984	--
IAS 21	The Effects of Changes in Foreign Exchange Rates	1983	01/01/1985	--
IAS 22	Business Combinations	1983	01/01/1985	01/04/2004
IAS 23	Borrowing Costs	1984	01/01/1986	--
IAS 24	Related Party Disclosures	1984	01/01/1986	--
IAS 25	Accounting for Investments	1986	01/01/1987	01/01/2001
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1987	01/01/1988	--
IAS 27	Separate Financial Statements	1989	01/01/1990	
IAS 28	Investments in Associates	1989	01/01/1990	
IAS 29	Financial Reporting in Hyperinflationary Economies	1989	01/01/1990	
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1990	01/01/1991	01/01/2007
IAS 31	Interests in Joint Ventures	1990	01/01/1992	01/01/2013
IAS 32	Financial Instruments: Presentation	1995	01/01/1996	--

IAS 33	Earnings per Share	1997	01/01/1999	--
IAS 34	Interim Financial Reporting	1998	01/01/1999	--
IAS 35	Discontinuing Operations	1998	01/01/1999	01/01/2005
IAS 36	Impairment of Assets	1998	01/07/1999	--
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1998	01/07/1999	--
IAS 38	Intangible Assets	1998	01/07/1999	--
IAS 39	Financial Instruments: Recognition and Measurement	1998	01/01/2001	--
IAS 40	Investment Property	2000	01/01/2001	--
IAS 41	Agriculture	2000	01/01/2003	--

Theoretical frame work of IAS

IAS 1 – Presentation of Financial Statements

IAS 1 forms the skeleton of IFRS, since it defines basis for presentation of financial statements. It sets the requirements for presentation of financial statements, gives guidance on the structure and form of financial statements and sets the minimum requirements for their content.

IAS 1 does NOT deal with recognition, measurement and specific disclosures for various types of transactions – these aspects are covered by other IASs / IFRSs.

IAS 1 defines a complete set of general purpose financial statements that contains 5 basic components:

1. Statement of financial position.
2. Statement of profit or loss and other comprehensive income.
3. Statement of changes in equity.
4. Statement of cash flows. and
5. Notes with summary of significant accounting policies and other explanatory information.

IAS 1 then describes general features of financial statements: fair presentation and compliance with IFRSs, going concern, accrual basis of accounting, materiality and aggregation, offsetting, frequency of reporting, comparative information and consistency of presentation.

Then, standard IAS 1 sets requirements for the structure and content of financial statements. It starts with general identification of financial statements and prescribes minimum content and structure for each component separately. IAS 1 contains also implementation guidance and presentation of each component of financial statements.

IAS 2 – Inventories

IAS 2 prescribes accounting treatment of inventories, guidance on the determination of cost and subsequent recognition as an expense, guidance on write-down of inventories and cost formulas used to assign costs to inventories.

IAS 2 defines inventories and specifies what the cost of inventories shall comprise:

1. Cost of purchase.
2. Costs of conversion and
3. Other costs to bring the inventories to their present location and condition.

IAS 2 also deals with cost formulas that an entity might use to assign costs to inventories and allows 2 of them: FIFO and weighted average. Standard IAS 2 then outlines the rules of writing down the inventories to their net realizable value and defines when inventories shall be recognized as an expense.

IAS 7 – Statement of Cash Flows

IAS 7 sets out the requirements for presenting information about historical changes in cash and cash equivalents of an entity by means of statement of cash flows during the period. IAS 7 defines cash and cash equivalents in the first instance and explains what is and what is NOT included in cash flow movements.

IAS 7 requires reporting cash flows during the period classified by operating, investing and financing activities. Each category is then described in more details. IAS 7 requires reporting cash flows from operating activities either by direct or indirect method.

In relation to reporting cash flows from investing and financing activities, IAS 7 asks to report gross receipts and payments with several exceptions where net basis is allowed. Standard then deals with several specific transactions, such as foreign currency cash flows, interest and dividends, taxes on income, investments in subsidiaries, associates and joint ventures, changes in ownership interests in subsidiaries and other businesses, non-cash transactions etc.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8 prescribes the criteria for selecting and changing accounting policies. It also deals with the accounting and disclosure of changes in accounting policies, changesin accounting estimates and correction of errors.

IAS 8 provides a number of definitions of key terms, such as change in accounting policy, change in accounting estimate, retrospective application, retrospective restatement, prospective application, prior period errors, etc.

Then, IAS 8 prescribes how to select an accounting policy and apply it consistently, when an entity may change applied accounting policy, what is and what is NOT a change in accounting policy and how to apply changes in accounting policy, together with disclosures related to the change.

IAS 8 also explains what is a change in accounting estimate, how to recognize the effect of such a change in the financial statements and what to disclose.

When an entity made an error in the prior period financial statements, IAS 8 provides rules on how to correct it and what to disclose. Finally, IAS 8 touches the issue of impracticability in respect of retrospective application and retrospective restatement.

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IAS 10 – Events after the Reporting Period

IAS 10 sets the rules when an entity should adjust its financial statements for events after the reporting period together with the necessary disclosures.IAS 10 defines the events after the reporting period and classifies them into adjusting and non-adjusting. For adjusting events after the reporting period, the standard requires an entity to adjust the amounts recognized in the financial statements to reflect such an event and gives the examples of adjusting events.

For non-adjusting events after the reporting period, the standard requires an entity NOT to adjust its financial statements. IAS 10 prescribes a number of disclosures, such as updating disclosure about conditions at the end of the reporting period, disclosures related to non-adjusting events, etc.

IAS 11 – Construction Contracts

IAS 11 prescribes the accounting treatment of revenue and costs associated with construction contracts. As beginning and completion of construction contracts usually fall into different accounting periods, the primary issue is allocation of contract revenue and contract costs into the individual periods when construction work is performed.

First of all, IAS 11 defines a construction contract and its 2 main types: a fixed price contract and a cost plus contract. Then standard clarifies rules for combining and segmenting construction contracts(contracts related to number of assets, group of contracts, construction of additional assets, etc.).IAS 11 prescribes rules for contract revenue and contract costs. It defines what contract revenue comprises, how it is measured and what to do with variations, claims and incentive payments in the contract.

IAS 11 also defines what contract cost comprises and what can and can NOT be attributed to contract activity. Then, IAS 11 sets requirements for recognition of contract revenue and expenses, recognition of expected losses and changes in estimates.

IAS 12 – Income Taxes

IAS 12 prescribes the accounting treatment of income taxes including deferred taxes. IAS 12 sets a number of definitions, such as accounting profit, taxable profit / loss, current tax, deferred tax, temporary differences etc. It clearly explains what a tax base is and brings examples of tax base computation. Then, IAS 12 sets recognition criteria of current and deferred tax liabilitiesand tax assets:

1. In relation to deferred tax liabilities arising from taxable temporary differences, IAS 12 requires recognition of deferred tax for all of them with certain exceptions and provides examples and guidance on them.
2. In relation to deferred tax assets arising from deductible temporary differences, unused tax losses and unused tax credits, IAS 12 requires recognition of deferred tax only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized, with certain exceptions.

IAS 12 prescribes rules on measurement of deferred tax assets and liabilities, recognition of current and deferred tax income and expense and presentation of current and deferred tax in the financial statements.

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IAS 16 – Property, Plant and Equipment

IAS 16 deals with accounting treatment of property, plant and equipment with focus on recognition of assets, determination of their carrying amounts or revalued amounts, depreciation charge and impairment losses to be recognized.

IAS 16 prescribes when the cost of an item of property, plant and equipment shall be recognized as an asset and what to do with costs incurred initially and subsequently after asset has already been recognized.

IAS 16 deals with measurement of property, plant and equipment at recognition and outlines what items can and can NOT be included in the cost of an asset.

In relation to measurement after recognition, 2 basic models are allowed:

1. Cost model: The asset is carried at its cost less accumulated depreciation and impairment loss.
2. Revaluation model: The asset is carried at a revalued amount calculated as fair value at the date of revaluation less subsequent accumulated depreciation and impairment loss.

IAS 16 describes both models in a greater detail, sets their specific rules and outlines depreciation of property, plant and equipment including depreciation methods. IAS 16 touches also impairment of property, plant and equipment (although this is subject of IAS 36 – Impairment of Assets) and sets clear rules for de-recognition.

IAS 17 – Leases

IAS 17 prescribes accounting policies to be applied in relation to finance and operating leases for both lessees and lessors.First of all, IAS 17 brings a number of definitions related to leases, such as lease, finance lease, operating lease, minimum lease payments, interest rate implicit in the lease, guaranteed and unguaranteed residual value, etc.

Then, it prescribes when the lease shall be classified as finance or operating and sets out classification criteria. Situations that normally lead to the lease being classified as a finance lease include the following:

1. The lease transfers ownership of the asset to the lessee by the end of the lease term.
2. The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised.
3. The lease term is for the major part of the economic life of the asset, even if title is not transferred.
4. At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
5. The lease assets are of a specialized nature such that only the lessee can use them without major modifications being made.

IAS 17 names also further 3 indicators that lead to the lease being classified as a finance lease. IAS 17 then outlines the rules for presenting the leases in the financial statement of lessees, including both finance and operating leases. It deals with initial recognition of finance leases, their subsequent measurement, accounting treatment of lease payments under operating leases and disclosures for both types of leases. Then, rules for presenting the leases in the financial statements of lessors follow with about the same volume and depth of details.

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IAS 18 – Revenue

IAS 18 prescribes the accounting treatment for revenues that arise from various types of transactions, such as sale of goods, rendering of services or receiving interest, dividends and royalties. First of all, IAS 18 prescribes general rules for measurement of revenue, including exchanges of goods or services. Revenue can be recognized when:

1. It is probable that any future economic benefit associated with the item of revenue will flow to the entity, and
2. The amount of revenue can be reliably measured.

Then, standard sets the criteria of revenue recognition separately for:

1. Sale of goods - revenue can be recognized when all of the following criteria are satisfied:
   a. The seller has transferred to the buyer the significant risks and rewards of ownership.
   b. The seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
   c. The amount of revenue can be measured reliably.
   d. It is probable that the economic benefits associated with the transaction will flow to the seller, and
   e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.
2. Rendering of services – revenue can be recognized by reference to the stage of completion when all of the following criteria are met:
   a. The amount of revenue can be measured reliably.
   b. It is probable that the economic benefits will flow to the seller.
   c. The stage of completion at the balance sheet date can be measured reliably. And
   d. The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.
3. Interest, royalties and dividends – provided that general criteria of revenue recognition are met, the revenue can be recognized as follows:
   a. Interest: by using the effective interest method in line with IAS 39 / IFRS 9.
   b. Royalties: on an accrual basis in line with the substance of the relevant agreement.
   c. Dividends: when the shareholder’s right to receive dividend is established.

IAS 19 – Employee Benefits

IAS 19 prescribes the accounting treatment and disclosures for all types of employee benefits. An entity shall recognize appropriate liability when employee has provided service in exchange for benefits to be paid in the future. and expense when entity consumes the benefit from service provided by employee.

IAS 19 classifies employee benefits into 4 main categories:

1. Short-term employee benefits.
2. Post-employment benefits.
3. Other long-term employee benefits. and
4. Termination benefits.

For each category, IAS 19 establishes separate requirements as each category has different characteristics.

For short-term employee benefits, such as wages and salaries, compensated absences, free or subsidized goods or services for current employees, etc., straightforward rules for recognition and measurement are set. More clarification is given to short-term compensated absences and profit sharing and bonus plans.

For post-employment benefits, such as pensions, post-employment life insurance or medical care, or other retirement benefits, the rules are a bit more complicated. Standard makes clear distinction between defined contribution plans and defined benefit plans and sets separate rules for recognition and measurement for both of them:

1. Defined contribution plans: the accounting treatment is straightforward as the risk stays with the employee. Contributions made by the employer are recognized to profit or loss directly.
2. Defined benefit plans: The risk stays with the employer and therefore, certain actuarial valuations are required. Standard IAS 19 establishes rules for application of various actuarial assumptions. it explains how to recognize and measure present value of defined benefit obligation, current service cost, past service cost and items in profit or loss. Then, IAS 19 deals with plan assets, curtailments and settlements, presentation and disclosures.

For the last 2 categories, that are other long-term benefits (long-term compensated absences, jubilee benefits, etc.) and termination benefits, standard sets measurement, recognition and disclosure requirements.

IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance

IAS 20 prescribes the accounting treatment of various government grants and other form of government assistance together with related disclosure requirements. IAS 20 defines government grants, government assistance, government, grant related to assets, grants related to income and forgivable loans.

Basically, the grant is recognized as income over the period necessary to match the grant with the related costs, for which the grant is intended to compensate, on a systematic basis.

Then IAS 20 states conditions for recognition of grants and measurement of non-monetary government grants. Presentation rules are outlined for:

1. Grants related to assets – these grants may be presented in two ways:
   - As a deferred income. or
   - As a deduction of the grant from the asset's carrying amount.
2. Grants related to income – these grants may be presented:
   - As other income. or
   - As a deduction from the related expense.

Standard also prescribes how to deal with repayments of government grants. It also explains that government grants do not include government assistance, whose value cannot be reasonably measured, such as technical or marketing advice.

IAS 21 – The Effects of Changes in Foreign Exchange Rates

IAS 21 prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. It defines which exchange rates to use andhow to report the effect of changes in exchange rates in the financial statements. IAS 21 brings necessary definitions, such as foreign operation, foreign currency, functional currency, presentation currency, exchange difference etc. and provides deeper guidance on several items with focus on functional currency, net investment in a foreign operation and monetary items.

Standard then sets rules for reporting foreign currency transactions in the functional currency:

1. It initially requires recording foreign currency transaction by applying spot exchange rate between functional currency and foreign currency at the date of transaction.
2. In relation to subsequent reporting period, it requires to translate:
    a. Monetary items by the closing rate.
    b. Non-monetary items measured in historical cost by the historical rate. and
    c. Non-monetary items measured in fair value by the exchange rate at the date of fair value determination.

Standard also deals with recognition of exchange differences arising on monetary items and change in functional currency. In the next part, standard IAS 21 prescribes rules for use of a presentation currency other than a functional currency. It explains how to translate financial statements into a different presentationcurrency:

1. Assets and liabilities at the closing rate.
2. Income and expenses at the rates at the dates of transaction. and
3. To recognize the resulting exchange differences in other comprehensive income.

IAS 21 also prescribes how to translate foreign operation and how to treat disposal or partial disposal of a foreign operation.

IAS 23 – Borrowing Costs

IAS 23 prescribes the accounting treatment of borrowing costs that may include interest expense, finance charges in respect of finance leases, exchange differences from foreign currency borrowings regarded as an adjustment of interest costs, etc.

Core principle of IAS 23 is that borrowing costs directly attributable to acquisition, construction or production of qualifying asset form part of that asset and other borrowing costs are expensed. IAS 23 defines both borrowing costs (interests, finance lease charges, etc.) and qualifying asset (inventories except for manufactured ones, manufacturing plants, intangible assets, investmentproperties).

IAS 23 sets criteria when borrowing costs are eligible for capitalization and requires including these costs into cost of an asset (immediate expensing is not allowed). Then, rules for commencement of capitalization, suspension of capitalization and cessation of capitalization of borrowing costs are prescribed.

IAS 24 – Related Party Disclosures

IAS 24 outlines number of disclosures for related party transactions so that financial statements contain the information that entity's financial position and profit or loss may have been affected by the existence of related parties, transactions and outstanding balances with them.

IAS 24 brings detailed definition of a related party and lists who is seen as a related party to an entity:

1. A person or a close member of that person's family is related to a reporting entity if that person:
4. Has control or joint control over the reporting entity.
5. Has significant influence over the reporting entity. or
6. Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
2. An entity is related to a reporting entity if any of the following applies:
7. The entity and the reporting entity are member of the same group.
8. One entity is an associate or joint venture of the other entity (or a group).
9. Both entities are joint ventures of the same third party.
10. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
11. The entity is a post-employment defined benefit plan for the benefit or employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
12. The entity is controlled or jointly controlled by a person identified in (1).
13. A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
14. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Standard also defines related party transaction, close members of the family of an individual, compensation, control, joint control, key management personnel and significant influence.

IAS 24 then prescribes necessary disclosures of all related party transactions, such as relationships between parents and subsidiaries, management compensation, and related party transactions (amount, outstanding balances, etc.

IAS 26 – Accounting and Reporting by Retirement Benefit Plans

IAS 26 prescribes measurement rules and necessary disclosures for reporting of retirement benefits plans (pension schemes, retirement benefit schemes, etc.).

IAS 26 defines key terms such as retirement benefit plans, funding, vested benefits, etc. Standard then prescribes measurement for 2 basic types of retirement benefit plans: defined contribution plans and defined benefit plans.

1. For defined contribution plans, standard requires financial statements to contain a statement of net assets available for benefits and description of funding policy.
2. Defined benefit plans are a more complex issue. Standard requires financial statements to contain statement of net assets available for benefits with actuarial

present value of promised retirement benefits distinguishing between vested and non-vested benefits. IAS 26 then gives guidance on calculation of actuarial present value of promised retirement benefits, frequency of actuarial valuation and content of financial statement in relation to those issues.

For all plans, IAS 26 sets valuation at fair value and prescribes number of disclosures.

IAS 27 –Separate Financial Statements

IAS 27 prescribes the rules for accounting for investments in subsidiaries, joint ventures and associates when preparing separate financial statements. IAS 27 usedto deal also with consolidated financial statements, but this part was superseded byIFRS 10 and IFRS 12. Here, the summary of revised IAS 27 is brought as effective forperiods starting 1 January 2013.

IAS 27 defines both:

1. Consolidated financial statements: Financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
2. Separate financial statements: Financial statements presented by a parent (i.e. an investor with control of a subsidiary), an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with the standard IFRS 9.

The investment entity consolidation exemption was introduced to the standard IFRS 10 for the annual periods beginning 1 January 2014 or later. As a result, IAS 27 states that if a parent investment entity is required in line with IFRS 10 to measure its investment in a subsidiary at fair value through profit or loss (IAS 39 / IFRS 9), then it is required also to account for its investment in a subsidiary in the same way in its separate financial statements.

IAS 27 outlines how the dividends shall be recognized and specifies accounting treatment in the case of group reorganizations. Number of disclosures is required, especially in the case when a parent elects not to prepare consolidated financial statements and instead prepares separate financial statements (exemption according to IFRS 10)

IAS 28 – Investments in Associates and Joint Ventures

IAS 28 prescribes accounting for investments in associates (in which an entity exercises significant influence) and specifies application of equity method for accounting of investments in associates as well as investments in joint ventures.

IAS 28 provides guidance on identification of significant influence (holding 20% or more than voting power in investee, representation on the board of directors, material transactions between investor and investee, etc.).

The equity method is then described: basic principle is to recognize investment in associate or joint venture at cost and subsequently, to increase or decrease a carrying amount to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Standard then deals with distributions and other adjustments to carrying amount, potential voting rights, interaction with IFRS 9, classification of investment as a non-current asset, etc.

Application of the equity method is outlined – what procedures shall be performed (how to deal with mutual transactions, accounting policies to apply, what to do with losses in excess of investment, etc.).
Standard then lists when an entity is exempt from applying the equity method, when the equity method shall be discontinued, how to treat changes in ownership interests and many more.
With regard to separate financial statements, standard IAS 27 shall be applied (investor accounts for investment in associate either at cost or in line with IFRS 9).

IAS 29 – Financial Reporting in Hyperinflationary Economies
IAS 29 prescribes rules for financial reporting of any entity whose functional currency is the currency of hyperinflationary economy. Basic principle of IAS 29 is that financial statement of an entity in hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period.
The comparative figures for the previous period required by IAS 1 and any information in respect of earlier periods shall be restated to the same current measurement unit. Restatement of historical cost financial statements shall be made by applying general price index.
IAS 29 then prescribes how to deal with monetary and non-monetary items, and gives guidance on gain or loss on net monetary position. Standard also prescribes certain rules for current cost financial statements, tax effect of restatement, statement of cash flows, consolidated financial statements and selection and use of general price index.
IAS 29 prescribes the reporting for situation when economy stops being hyperinflationary. Number of disclosures is required.

IAS 32 – Financial Instruments: Presentation
IAS 32 establishes principles for presenting financial instruments as liabilities orequity and for offsetting financial assets and financial liabilities. Together withstandards IAS 39, IFRS 7 and IFRS 9 create complex group of mutuallycomplementing rules on financial instruments. IAS 32 applies to all financialinstruments with several exceptions.
IAS 32 brings definitions of key terms, such as financial instrument, financial asset, financial liability, equity instrument, fair value, puttable instrument, etc. Then, standard deals with presentation of various financial instruments.
In relation to liabilities and equity, IAS 32 prescribes to classify the instrument either as:

1. A financial liability.
2. A financial asset.
3. Or an equity instrument.

According to substance of the contractual agreement (not its legal form) with 2 exceptions: certain puttable instruments meeting specific criteria and certain obligations arising on liquidation. IAS 32 gives specific guidance on instruments with various conditions and circumstances, contingent settlement provisions, settlement options, etc.
IAS 32 also sets rules for compound financial instruments that contain both a liability and an equity components (e.g. debt convertible to equity, etc.), for treasury shares, interest dividends, losses and gains relating to a financial instruments.

IAS 33 – Earnings per Share

IAS 33 prescribes principles for the determination and presentation of earnings per share in order to improve performance comparison between different entities at thesame date, or between different reporting periods of the same entity. Standard IAS 33applies to all entities whose share are publicly traded or are in process of issuingsecurities to public.

IAS 33 establishes rules for calculation of both:

1. Basic earnings per share. And
2. Diluted earnings per share.

Both of them have to be presented on the face of the statement of profit or loss and other comprehensive income.

Basic EPS is calculated by dividing profit or attributable to equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. IAS 33 then sets rules for calculation of earnings and weighted average number of shares, both in a greater detail.

Diluted EPS are calculated similarly as basic EPS, but an entity is required to adjust profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of shares outstanding for the effect of all dilutive potential ordinary shares.

Rules for calculation of earnings and weighted average number of shares are set in a detail, with specific guidance on options, warrants and their equivalents, convertible instruments, contingently issuable shares, contracts that may be settled in ordinary shares or cash, purchased options and written put options.

IAS 33 sets rules on retrospective adjustments when the number of shares changes as a result of a capitalization, bonus issue, share split, etc.

IAS 34 – Interim Financial Reporting

IAS 34 prescribes minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period. The standard does NOT mandate which entities have to publish interim financial reports, how frequently and when – this is left to governments, stock exchanges, securities regulators and accounting bodies.

IAS 34 requires that an interim financial report shall include at minimum:

1. A condensed statement of financial position.
2. A condensed statement of comprehensive income or a condensed statement of other comprehensive income and a condensed income statement.
3. A condensed statement of changes in equity.
4. A condensed statement of cash flows. And
5. Selected explanatory notes.

Condensed financial statements shall include at minimum each of the headings and subtotals that were included in the most recent annual financial statements.

Selected explanatory notes shall contain the information if material and not disclosed elsewhere in the financial statements. IAS 34 provides guidance on events or transactions that are material to understanding of the current interim period (e.g. accounting policies and their change, seasonality or cyclicality of interim operations, etc.).

Standard prescribes periods for which interim financial statements are required to be presented, rules for assessment of materiality, recognition and measurement rules (on the same accounting policies as annual, revenues received seasonally, cyclically or occasionally, costs incurred unevenly during the financial year, use of estimates, etc.), disclosure in annual financial statements and restatement of previously reported interim periods.

IAS 36 – Impairment of Assets

IAS 36 prescribes the procedures that ensure that entity's assets are carried at no more than their recoverable amount. If carrying amount of asset exceeds its recoverableamount, the asset is impaired and IAS 36 prescribes how to recognize an impairment loss.

IAS 36 defines key terms such as impairment loss, recoverable amount, cash-generating unit, corporate assets, etc.

IAS 36 also establishes procedures for identification that an asset might be impaired – it requires an entity to assess at the end of each reporting period whether there is an indication that an asset might be impaired, considering indications from internal and external sources.For intangible assets with an indefinite useful life or not yet available for use, and for goodwill, impairment tests are required.

Then, standard sets rules for measuring recoverable amount being higher of asset's or cash generating units (CGU) fair value less costs to sell and its value in use. Guidance on how to establish fair value less costs to sell and value in use is provided, including estimation of future cash flows and discount rate for calculation value in use. IAS 36 also prescribes how to measure and recognize an impairment loss in the financial statements.

Cash-generating units and goodwill are separately considered with focus on identifying CGU, determination of recoverable amount and carrying amount of CGU, issues related to goodwill and corporate assets. Allocation of impairment loss for a cash generating unit is outlined.

IAS 36 deals also with reversals of impairment loss for individual assets as well as for CGU

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

IAS 37 sets the recognition criteria and measurement basis of provisions, contingent liabilities and contingent assets, together with necessary disclosures about theirnature, timing and amount.

IAS 37 gives definitions of a provision, contingent liability, contingent asset, etc., it gives guidance on distinguishing provisions from other liabilities and on relationship between provisions and contingent liabilities. Then it deals with recognition of both provisions and contingencies.

Provision shall be recognized when the following 3 conditions are met:

1. An entity has a present obligation as a result of past event.
2. Outflow of economic benefits to settle the obligation is probable and
3. Reliable estimate of the amount of obligation can be made.

Standard then discusses present obligation, past event, probable outflow and reliable estimate in a detail. Contingent liabilities and contingent assets shall not be recognized.

IAS 37 sets rules for measurement of provisions and discusses several factors to take into account in reaching the best estimate of provision: risk and uncertainties, present value, future events and expected disposals of assets.

Standard also deals with reimbursements of provisions by another party, changes in provisions, use of provisions and establishes application rules for recognition and measurement of 3 specific cases:

1. Future operating losses.
2. Onerous contracts. And
3. Restructuring.

Number of disclosures is required. In its appendices, standard summarizes main requirements of the standard in transparent table, decision tree, examples of recognition and disclosures.

IAS 38 – Intangible Assets

IAS 38 prescribes the accounting treatment for intangible assets that are not dealt with specifically in another IAS / IFRS. IAS 38 defines intangible asset as an identifiable non-monetary asset without physical substance. At the same time, an asset must meet 2 recognition criteria:

1. It is a resource controlled by the entity. and
2. Future economic benefits are expected from the asset.

IAS 38 gives further guidance on all 3 aspects: identifiability, control and future economic benefits related to intangible assets.

IAS 38 establishes general rules for recognition and measurement of intangible assets. Then it deals with acquisition of intangibles under specific circumstances, such as separate acquisition, acquisition as a part of a business combination, acquisition by way of a government grant, exchanges of assets, internally generated goodwill and internally generated intangible assets. In relation to internally generated intangibles, IAS 38 gives further guidance on classification of generation of the asset into research phase and development phase and sets rules on determination of cost of an internally generated asset.

Standard also prescribes rules for measurement after recognition and permits 2 models:

1. Cost model and
2. Revaluation model.

While it outlines setting of useful life in more detail. In relation to intangibles with finite useful life, standard explains concepts of amortization period, amortization method, residual value and review of amortization period and amortization method.

IAS 38 then deals with intangible assets with indefinite useful life, review of useful life assessment, recoverability of carrying amount, retirements and disposals.

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39 establishes principles for recognizing and measuring financial liabilities and some contracts to buy or sell non-financial items. IAS 39 is being replaced graduallyover a period of time. The first installment of replacement dealing with financial assetswas issued as IFRS 9 in November 2009 and therefore, IAS 39 became obsolete in thispart. Further replacements were issued by the end of 2010 and in November 2013.

IAS 39 provides definitions and rules in 2 key categories: recognition and measurement (amortized cost of a financial asset or financial liability, the effective interest method, transaction cost) and hedgeaccounting (hedged item, firm commitment, forecast transaction, hedging instrument, hedge effectiveness).

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IAS 39 classifies the financial assets into 4 categories:

1. Financial assets at fair value through profit or loss.
2. Available-for-sale financial assets.
3. Loans and receivables. and
4. Held-to-maturity investments.

IAS 39 classifies financial liabilities into 2 categories:

1. Financial liabilities at fair value through profit or loss. This category has 2 subcategories:
    a. Designated on initial recognition at fair value through profit or loss. And
    b. Held for trading.
2. Other financial liabilities measured at amortized cost using the effective interest method.

IAS 39 then prescribes rules for the measurement of financial assets and financial liabilities in line with their classification.

Then, IAS 39 establishes rules for dealing with impairment and un-collectability of financial assets measured at amortized cost – evidence of impairment loss, measurement of impairment loss,subsequent changes in impairment loss.

IAS 39 deals with de-recognition issues and outlines de-recognition decision tree to help decide whether a financial asset shall be derecognized or not. Rules for de-recognition of financial liabilities are more simple than those related to financial assets.

The standard prescribes the rules for accounting of embedded derivatives. An embedded derivative is a component of a hybrid contract whose cash flows behave in a manner similar to stand-alone derivative.

IAS 39 establishes also rules for accounting for hedging. Standard describes hedging instruments with explanation of qualifying instruments and designation of hedging instruments. Hedged items are also explained with focus on qualifying items, designation of financial and non-financial items as hedged items and designation of groups of items as hedged items. Then, standard prescribes accounting rules for 3 types of hedge relationships:

1. Fair value hedge.
2. Cash flow hedge. and
3. Hedge of a net investment in a foreign operation.

Standard gives general rules for hedge to qualify for hedge accounting and then deals with all 3 types of hedges separately.

IAS 40 – Investment Property

IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements.

IAS 40 defines investment property as property (land, building, part of a building or both) held to earn rentals or for capital appreciation or both, regardless the way of holding it (by the owner or under the finance lease as the lessee).

Examples of investment property are:

1. Land held for capital appreciation.
2. Land held for future undetermined use.
3. Building leased out under one or more operating leases.
4. Vacant building held to be leased out under an operating lease.

5. Property that is being constructed or developed for future use as investment property.

Standard brings also examples of what is NOT an investment property and therefore out of its scope:

1. Property held for sale in the ordinary course of business.
2. Property being constructed on behalf of third parties.
3. Owner-occupied property, etc.

Further classification issues are addressed, e.g. property partially earning rentals and partially held for own use, ancillary services, intercompany rentals, etc. Standard then prescribes rules for recognition and measurement of investment property. Investment property shall be at its recognition measured at cost.

For subsequent measurement, 2 accounting policies are allowed:

1. Fair value model – investment property is carried at fair value. or
2. Cost model – investment property is carried in line with IAS 16.

IAS 40 gives extensive guidance with focus on fair value model. IAS 40 deals also with transfers of investment property and disposals of investment property.

IAS 41 – Agriculture

IAS 41 prescribes the accounting treatment and disclosures related to agricultural activity.IAS 41 applies to biological assets, agricultural activity and government grants related to biological assets measured at fair value less costs to sell. Standard provides definitions of agricultural activity (and its examples: raising livestock, cropping, cultivating orchards and plantations, etc.), biological transformation, biological asset (living animal or plant), agricultural produce (harvested product of entity's biological assets), etc.

IAS 41 sets 3 recognition criteria for biological asset or agricultural produce:

1. Control of an asset by the entity as a result of past events.
2. Probable future economic benefits will flow to the entity. and
3. Fair value or cost of the asset can be measured reliably.

In relation to measurement, a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Further guidance on determination of fair value is provided.

IAS 41 then deals with gains and losses, inability to measure fair value reliably, provides rules for government grants related to biological assets and finally, it requires number of disclosures.

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