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The CPA Ireland Skillnet provides excellent value CPE (continual Professional Education) in accountancy, law, tax and strategic personal development to accountants working both in practice and in industry. However our attendees are not limited to the accountancy field as we welcome all interested parties to our events.

The CPA Ireland Skillnet is funded by member companies and the Training Networks Programme, an initiative of Skillnets Ltd. funded from the Department of Education and Skills.

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Trainee Accountant Webinar

The Financial Reporting Framework

Presented By: Professor Robert Kirk

Users and their Information Needs

- **Existing and Potential Investors** “Primary User”
- **Existing and Potential Loan Creditors**
  i.e. Lenders “Primary User”
- **Suppliers and other trade payables** “Primary User”
- **Existing, Potential and Past Employees**
- **Customers**

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Users and their Information Needs

- **Analysts/Advisers** e.g. economists, trade unions, credit rating agencies
- **Governments and their agencies** e.g. Revenue, Regulatory Departments
- **Public** e.g. taxpayers, consumers, community groups

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The Regulatory Framework

- Framework set up to regulate the format and content of financial reports
- Company Law (all listed entities in EU to prepare their consolidated financial statements in accordance with IFRS for all accounting periods beginning on or after 1 January 2005
- The Stock Exchange (Listing Rules or Yellow Book issued by the Council of the Stock Exchange)
- Accounting Standards (local and international)

The Regulatory Framework

<u>Need for Regulation</u>

- Protect the users of financial reports
- Ensure consistency in financial reporting
- Ensure comparability between the financial reports of different companies
- Ensure that financial reports give a true and fair view of a company's financial performance and position

Company Law

- EU Council of Ministers adopted regulation passed by the European Parliament required all EU listed companies to prepare their consolidated financial statements in accordance with the International Accounting Standards by 1 Jan 2005 at the latest
- Statutory instruments effected to bring this into legislation in Ireland
- All other companies have the option of either of two financial reporting frameworks
  - Company law based financial statements
  - IFRS based financial statements

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The Stock Exchange

- Stock Exchange Regulations contained in the Listing Rules or Yellow Book issued by the Council of the Stock Exchange
- Disclosure of accounting information, which is more extensive than the disclosure requirements of companies' legislation

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Why are standards needed?

The increased globalisation of corporations and finance has spurred a trend to harmonize accounting standards between countries. This move aims to enhance consistency and in turn ease the process of comparison of performance between companies registered in different territories.

Accounting standards are needed so that financial statements will fairly and consistently describe financial performance. Without standards, users of financial statements would need to learn the accounting rules of each company, and comparisons between companies would be difficult.

Accounting Standards - Overall

- An Accounting Standard is a rule or set of rules which prescribes the method by which accounts should be prepared and presented
- They are issued by a national or international body of the accounting profession and they are intended to apply to all financial accounts which are intended to give a true and fair view of the financial position and profit/loss
- International Standards vs. Local Accounting Standards in Britain and Ireland

Accounting Standards- IFRS

- IFRSs (International Financial Reporting Standards) issued by the IASB
- IASs (International Accounting Standards) originally issued by the former International Accounting Standards Committee (IASC) (1973 - March 2001) and subsequently adopted and in many cases amended by the IASB
- Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC's)

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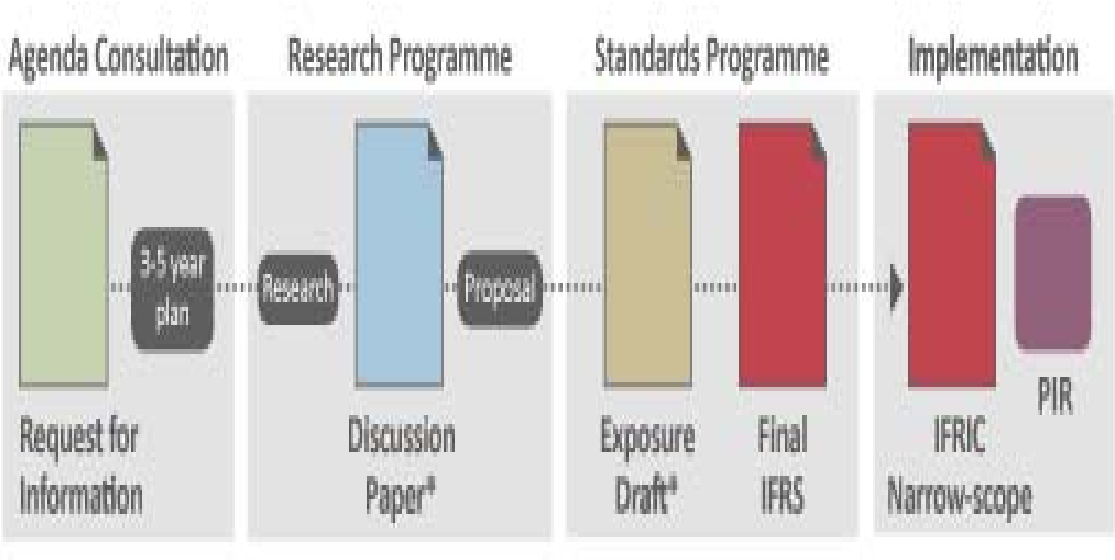
Accounting Standards - IFRS

IASB (International Accounting Standards Board)

- Private sector body established in April 2005
- Its predecessor, the International Accounting Standards Committee (IASC) was founded in 1973
- Affiliated to the International Federation of Accountants (IFAC) and as at in 130 countries representing 2.5 million accountants

IASB – Standard Setting Procedure



IASB Objectives

There are 3 formal objectives of the IASB:

Globalisation

– to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in the financial statements and other financial reporting

Corporate Governance

– to promote the use and rigorous application of those standards

– to bring about convergence of national accounting standards (GAAP) and IFRSs to high quality solutions

The Standard Setting Process - IFRS

The process for the development of a standard involves the following steps

- During the early stages the IASB may establish an Advisory Committee to advise on the issues arising in the project. Consultation with this committee and the standards advisory council occurs throughout the project
- IASB may develop and publish discussion documents for public comment
- Following receipt and review of comments, IASB develops and publishes and Exposure Draft for public comment
- Following the receipt and review of comments, IASB issues a final IFRS

1. Setting the Agenda

- **The IASB evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of investors.**

- **The IASB considers:**
  - **the relevance to users of the information and the reliability of information that could be provided**
  - **whether existing guidance available**
  - **the possibility of increasing convergence**
  - **the quality of the standard to be developed.**
  - **resource constraints.**

1. Setting the Agenda

- To help the IASB in considering its future agenda, its staff are asked to identify, review and raise issues that might warrant the IASB's attention.
- New issues may also arise from a change in the IASB's conceptual framework.
- In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.
- The IASB receives requests from constituents to interpret, review or amend existing publications. The staff consider all such requests, summarize major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda.

2. Project planning

- When adding an item to its active agenda, the IASB also decides whether to:
  - conduct the project alone,
  - or jointly with another standard-setter.
- Similar due process is followed under both approaches.
- After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage.

2. Project Planning (Cont'd)

- A team is selected for the project by the two most senior members of the technical staff:
  - The Director of Technical Activities;
  - and The Director of Research.
- The project manager draws up a project plan under the supervision of those Directors.
- The team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

3. Development and Publication of Discussion Paper

- **Although a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents.**
- **If the IASB decides to omit this step, it will state why.**
- **Typically, a discussion paper includes:**
  - **a comprehensive overview of the issue;**
  - **possible approaches in addressing the issue;**
  - **the preliminary views of its authors or the IASB;**
  - **and an invitation to comment.**

4. Development and publication of an exposure draft

- **Publication of an exposure draft is a mandatory step in due process. Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB's main vehicle for consulting the public.**

- **Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed standard (or amendment to an existing standard)**

4. Development and publication of an exposure draft (Cont'd)

- The development of an exposure draft begins with the IASB considering:
  - issues on the basis of staff research and
  - Recommendations; comments received on any discussion paper; and suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters, and arising from public education sessions.

- **After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, the IASB publishes it for public comment.**

5. Development and publication of an IFRS standard

The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.

5. Development and publication of an IFRS standard (Cont'd)

- In considering the need for re-exposure, the IASB:
  - identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered
  - assesses the evidence that it has considered
  - evaluates whether it has sufficiently understood the issues and actively sought the views of constituents
  - considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions.

6. Procedures after an IFRS is issued

- After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its proposals.

- The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

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6. Procedures after an IFRS is issued (Cont'd)

- After a suitable time, the IASB may consider initiating studies in the light of:
  - its review of the IFRS's application,
  - changes in the financial reporting environment and regulatory requirements, and
  - comments by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.
- Those studies may result in items being added to the IASB's agenda and a post implementation review of the standard after a year or two of operation

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IFRIC

IFRIC (International Financial Reporting Interpretations Committee)

- Formerly known as the Standing Interpretation Committee (SIC) this committee's role are twofold:
  - o to interpret existing IASs/IFRSs in light of the Framework document in order to prevent confusion and
  - o to provide authoritative guidance on issues that would otherwise be developed by other parties leading to differing practices
- The Committee works closely with similar national committees

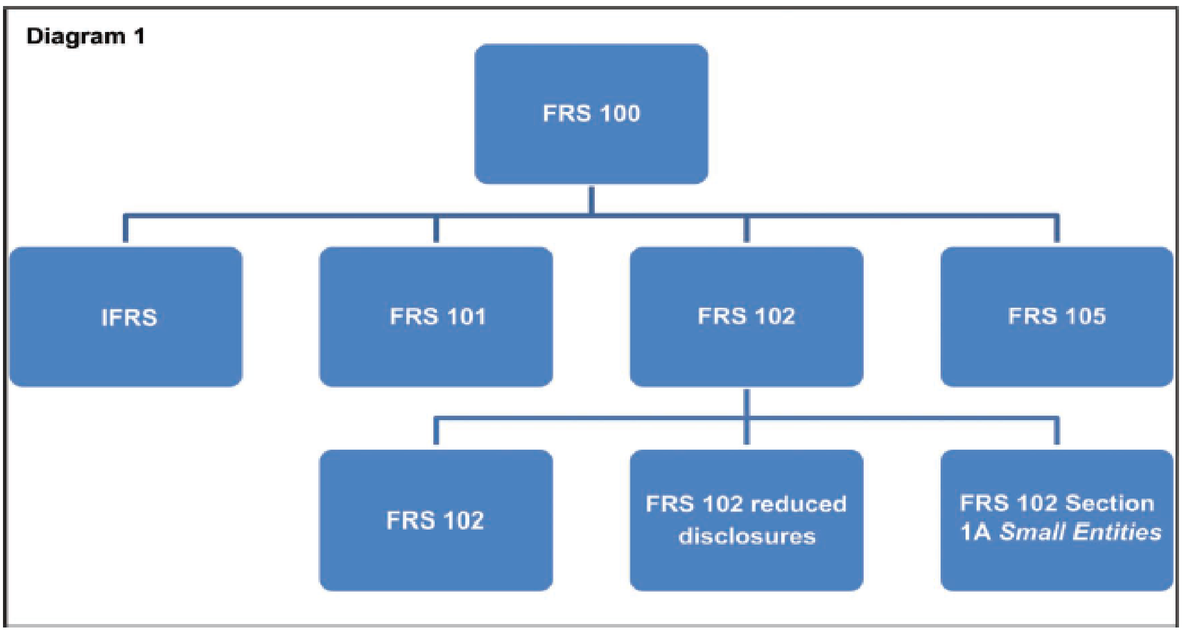
The IFRS Advisory Committee

This Committee provides a formal vehicle for participation by organisations and individuals with an interest in international financial reporting. Its objective is to give advice to the IASB on priorities and on major standard-setting projects

Accounting Standards - UK & Ireland

- Primarily non-listed entities
- Pre 1 January 2015 SSAPs and FRS's (Financial Reporting Standards) issued by the Financial Reporting Council (FRC)
- Post 1 January 2015 FRS 100 - 105

The New Reporting Framework from 1.01.2016 (July 2015)



The Conceptual Framework ("IFRS Framework")

- Not an International Financial Reporting Standard
- It does not override any IFRS, but instead forms the conceptual basis for the development of IFRS
- Sets out the concepts that underlie the preparation and presentation of financial statements for external users
- In the absence of a standard dealing with a specific issue management are expected to base their accounting treatment on the principles contained in the IFRS Framework

The Conceptual Framework ("IFRS Framework")

- IASB and the US Financial Accounting Standards Board (FASB) set up a joint project to develop a common Conceptual Framework
- Based on the Framework for the Presentation of Preparation of Financial Statements, 1988
- 8 phases

Due to be finalised Summer 2017

IFRS Framework

- During late 2010 it was decided to defer further work on this joint project until after, more urgent convergence projects were finalised

- In December 2012, the IASB decided to reactivate the IFRS Framework project as an IASB only project and that:
  - it should focus on elements of financial statements, measurement, reporting entity, presentation and disclosure

Note:
An exposure draft was issued by the IASB in June 2015

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The Proposed IFRS Framework

THE EIGHT CHAPTERS

1. Objectives
2. Qualitative characteristics
3. Elements (includes recognition)
4. Measurement
5. Recognition
6. Derecognition
7. Presentation and disclosure
8. Reporting entity

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Chapter 1: The Objectives of General Purpose Financial Reporting

- To provide information about a reporting entity's economic resources, claims and changes in resources and claims for decision making purposes
- Show the results of the stewardship of management or the accountability of management for the resources entrusted in it
- Statement of Financial Position
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Cash Flows
- Statement of Changes in Equity

Chapter 2: Qualitative Characteristics of Useful Financial Information

Primary Characteristics

- Relevance including Materiality
- Faithful representation
  - Completeness
  - Neutrality
  - Freedom from error

Secondary Characteristics

- Comparability
- Verifiability
- Substance over form
- Prudence
- Timeliness
- Understandability

Chapter 3: The Elements

- The Framework defines elements of financial statements. If an item is not one of the defined elements of financial statements it should not feature in the financial statements
- The building blocks with which financial statements are constructed
- The 5 elements of financial statements
  - Asset
  - Liability
  - Equity (ownership interests and distributions to owners)
  - Income (including gains)
  - Expenses (including losses)

Chapter 4: Measurement

- Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Balance Sheet and Income Statement
- The most common method of measurement under Irish GAAP is historical cost although there are variations on this.
- The choices are:
  - Historical cost
  - Realisable value
  - Current cost
  - Present value

Chapter 5: Recognition

- Recognition is the process of showing an item in the financial statements, with a description in words and a number value
- An item is recognised when;
  - It meets the definition of an element of the financial statements and
  - It is probable that any future economic benefit associated with the item will flow to or from the entity and
  - The item has a cost or value that can be measured with reliability

Chapter 6 Derecognition

The Exposure Draft proposes guidance aimed at providing a faithful representation of:

(a) the assets and liabilities retained after a transaction or other event that led to derecognition; and
(b) the change in the entity's assets and liabilities as a result of that transaction or other event.

Normally decisions about derecognition are straightforward. However, some derecognition decisions are more difficult when the two aims described above conflict with each other. The discussion in the Exposure Draft concentrates on these cases.

Chapter 7: Presentation and disclosure

Implementation projects

- IAS 1 *Presentation of Financial Statements* amended in 2014

Research projects

- Materiality
- Principles of Disclosure
  - — Nature and role of 'primary' statements
  - — Nature and role of the notes
- Standards-level review of disclosure

Chapter 8: Reporting Entity