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IFRS

**International Financial
Reporting Standards**

WORKBOOK AND GUIDE

- **Practical insights**
- **Case studies**
- **Multiple-choice questions**
- **Illustrations**

Abbas Ali Mirza Graham J. Holt Magnus Orrell

Technically reviewed by Liesel Knorr, Secretary General of the German Accounting Standards Committee and former technical director of the International Accounting Standards Committee (IASC)

Forewords by:

Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB)

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FOREWORD

by the Chairman of IASB

I and my fellow Board members at the International Accounting Standards Board (IASB) are committed to developing high quality, understandable, and enforceable global accounting standards that meet the demands for comparable and transparent information in the world's capital markets. Recently we completed a work program to develop and issue a stable platform of such standards. Those standards, the International Financial Reporting Standards (IFRS), are now being implemented in a large number of countries around the world. This is a major achievement on the road towards the global acceptance of a single set of accounting standards.

The responsibility for achieving high quality financial reporting, however, does not rest solely with IASB. Our role is limited to providing the set of standards that entities should apply to achieve high quality, comparable, and transparent financial reporting. For IFRS to be properly understood, implemented, and applied in practice, education and training of all relevant parties—including financial statement preparers, auditors, regulators, financial analysts, and other users of financial statements as well as accounting students—is essential.

This book should be a helpful tool in this regard. The approach of the book is to discuss core concepts and other key elements of the standards and to provide training material in the form of worked case studies and questions to support successful learning of the material. Consequently,

the book should be useful for students who prepare for professional exams and for financial statement preparers, auditors, regulators, financial analysts, and other users of financial statements who in their work need to be familiar with the standards. The book should help practitioners and students alike understand, implement, and apply the key elements of the standards.

Sir David Tweedie
Chairman of IASB
December, 2005

FOREWORD

by the Secretary General of IOSCO

In recent years much has been written about International Financial Reporting Standards (IFRS) so it is opportune that a publication such as this would be released at this time particularly since this initiative helps to bring such clarity and focus to the debate.

Globalization is taking place at an ever more rapid pace. As cross-border financial activity increases, capital markets become more dependent on each other. As financial markets become ever more interdependent, there is a greater need for the development of internationally recognized and accepted standards dealing with capital market regulation.

The development of IFRS can be seen within this broader framework. They represent an especially useful instrument designed to promote a stable and more secure international regulatory environment. At the same time, IFRS deliver on accounting and disclosure objectives as well as the pursuit of improved transparency of global financial reporting.

For the International Organization of Securities Commissions (IOSCO), the development and subsequent progress of IFRS represents a priority outcome. The organization has been a key stakeholder with an active involvement in the process of setting the standards and in continually assessing their quality.

This involvement reflects a long history of commitment by IOSCO to efforts aimed at strengthening the integrity of

international markets through the promotion of high quality accounting standards, including rigorous application and enforcement.

At the same time, there is an obligation of international standard setters to be responsive to concerns over the application and interpretation of the standards. This is a key complement to the success of IFRS and one which we take seriously.

Ultimately, accounting standards setting is a continuous process that must respond to changes and developments in the markets and the information needs of investors. Indeed, it has always been the case that effective financial reporting is fundamental to investor confidence as well as good corporate governance.

In the long term, the adoption of IFRS in many countries and their use in numerous cross-border transactions will help to bring about these high quality global accounting standards by providing transparent and comparable information in financial reports.

Although as an international standards setter IOSCO is not in position to endorse external publications, we have always recognized that by helping to promote clear information about the IFRS, publications such as this one serve a particularly useful function both as an educational opportunity and also to encourage confidence in these standards. On that basis it is most welcome.

Philippe Richard
IOSCO Secretary General
March 2006

PREFACE

Achieving consistency in financial reporting worldwide is the need of the hour, especially if meaningful comparisons are to be made of financial information emanating from different countries using accounting standards that, until recently, were vastly different from each other. Thus, there has arisen the urgent need for promulgation of a common set of global accounting standards or, in other words, global convergence into a common language of accounting for the financial world. International Financial Reporting Standards (IFRS), the standards promulgated by the International Accounting Standards Board (IASB), previously known as International Accounting Standards (IAS) that were issued by the International Accounting Standard Committee (IASC), the IASB's predecessor body, appear to be emerging as the global accounting standards and, according to some, could even qualify for the coveted title of "the Esperanto of accounting."

This is a challenging and exciting time to be writing a book on IFRS. Challenging, because it is indeed a daunting task to publish a book on a body of knowledge such as IFRS, which is undergoing significant changes at an unprecedented pace. In some cases, changes were made to certain IASB standards within the same year, and thus we, as authors, had to revise chapters when amendments to existing standards were announced. In certain cases, even after chapters were initially written and finalized, in order to keep the book current, we had to rewrite parts. Yet this is also an exciting time to be writing a book on a subject of global importance such as IFRS, since the IASB standards are rapidly being adopted in a large number of countries all

around the world. For instance, by the time this book goes to print, most countries in Europe, including all of the 25 member states of the European Union, will require listed companies to prepare their consolidated financial statements in accordance with IFRS instead of local requirements, and many countries in Africa, Asia, Australia, and the Americas are adopting IFRS as their national accounting standards. Knowing full well that the book will have to cater to the requirements of users globally made the task of writing even more challenging.

Whether you are an accountant, auditor, investor, banker, regulator, or financial analyst, understanding and appreciating the fundamental principles and requirements of IFRS has become more important than ever before. In this new financial world, knowledge of the fundamental principles of IFRS is essential to meet the growing demands of a changing regulatory and market environment. Cognizant of that, we embarked on this book project to help users and preparers of IFRS financial statements alike.

We have written this book with the end user in mind, which should make it user-friendly. For instance, if you are an accountant or an auditor working in a country that has recently adopted IFRS (say, one of the countries in the European Union), you are now faced with the challenges of being able to apply these standards and to read and understand financial statements prepared in accordance with them. This book will help you to do that. We believe that this book's real strength lies in the fact that it explains the IASB standards in a lucid manner so even first-time adopters of IFRS can understand the subject. The book illustrates the practical application of the IASB standards using easy-to-apply illustrations and simple examples. It goes a step further and provides copious learning aids in the form of case studies (with worked solutions), multiple-choice questions (with answers), and practical insights. We hope its

simple, step-by-step approach will guide you in the application of IFRS.

In general, the structure and contents of the book are consistent with the order and scope of each standard; each chapter discusses a specific IFRS, and the chapters are ordered consistent with the numbering of the IFRS currently in effect. This structure allows you to use the book as a handbook, side by side with the bound volume of standards issued by IASB. The only exception is the chapter on IAS 39, which is located immediately after the chapter on IAS 32 in this book, since both standards address the same topic: the accounting for financial instruments. Also, the chapters dealing with IAS precede the chapters dealing with IFRS.

We hope that this book will greatly facilitate learning and will also help readers to understand the technical complexities of the standards. Although a great deal of effort has gone into writing this book, we sincerely believe that there is always scope for improvement. *Any suggestions and comments for future editions are therefore encouraged.* We humbly submit that any views expressed in this publication are ours alone and do not necessarily represent those of the firms or organizations we are part of.

Finally, we wish all our readers a very educating journey through the book.

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We also wish to place on record our sincere appreciation of the untiring efforts of Ms. Liesel Knorr, the current secretary general of the German Accounting Standards Board and formerly technical director of the International Accounting Standards Committee (IASC), the predecessor body to the IASB, for her thorough technical review of the entire manuscript. Her invaluable comments have all been taken into account in writing this book.