INTRODUCTION TO IFRS
Beyond Debits and Credits
WHAT IS IFRS?

- International Financial Reporting Standards
  - www.iasb.org
  - 15 members (2 from U.S.)

- A Framework of Accounting that has been adopted in many of the Major Developed Countries Across the world.

- Similar to GAAP in many ways, but also very different in many ways.
  - Similar objectives and concepts
  - Perhaps more variation in implementation
IFRSs around the world

As the work of the IASC Foundation has gained growing acceptance and its standards have been adopted by increasing numbers of national jurisdictions, there has been a commensurate interest in its activities.

More than 100 countries now require or permit the use of IFRSs or are converging with the International Accounting Standards Board's (IASB) standards.

The picture below shows the level of IFRS adoption at present. Blue areas indicate countries that require or permit IFRSs. Grey areas are countries seeking convergence with the International Accounting Standards Board (IASB) or pursuing adoption of IFRSs.
WHY DO WE WANT TO KNOW ABOUT IFRS?

- Flow of Capital Across the Borders
- Need for financial statements that are comparable across countries and across companies.
- IFRS differs from GAAP in its approach. We should understand how and why.
CHAPTER 1-5: BLACK AND WHITE

- Debit
- Asset
- Prepaid Expenses
- General Journal

- Credit
- Liability
- Wages Payable
- General Ledger
- Sale of Merchandise

- Purchase of Merchandise
• How much is that asset worth?

• High-tech Co. - Is R&D an asset?

• Waste Mgmt. - What is the useful life of a garbage truck?

• How much are we really going to collect from our customers?
US GAAP (rules) vs. IFRS (principles)

**Examples**

1. Goodwill – can be written down, but not back up
2. R&D, capitalized only when it is technologically feasible

**Examples**

1. Goodwill can be written down, adjusted back up when conditions improve.
2. R&D – an investment in the future of the business, capitalized when occurred and matched against product-related revenue.
WHY NOT JUST KEEP IT THIS WAY?

THE GLOBAL WEB OF CROSS-BORDER INVESTMENTS, 2006
Lines show total value of cross-border investments between regions*
Figures in bubbles show size of total domestic financial assets, $ billion

0.5-1% of world GDP
1-5% of world GDP
5-10% of world GDP
10%+ of world GDP
World GDP, 2006 = $48 trillion

* includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment

Source: McKinsey Global Institute Cross-Border Investments Database
WHAT IS IFRS?

- Stands for International Financial Reporting Standards
- Goal: Single set of high-quality, common accounting standards used around the world
- Result of convergence of international viewpoints
No matter what type of standard, management will still have to make choices
   - Example: expected life of a garbage truck, a factory, etc.

No matter what set of standards (IFRS, GAAP), relevance, reliability, consistency, and comparability are key

Which system provides more useful information for users of financial statements?
   - What are the key aspects of usefulness?
**QUESTIONS**

- Define the terms “principles-based” and “rules-based”.
  - Can you identify a “principles-based vs rule based decision in real life (outside of accounting)?
  - What works best?

- Do you think culture will affect the interpretation of principles - even in accounting? Why or why not?
What are the advantages and disadvantages of having more “principles-based” compared to “rules-based” standards?
- Which one do you believe might be more susceptible to manipulation?

Some worry that a principles-based approach to accounting, e.g. IFRS, will lead to a “race to the bottom” in accounting quality. How do we prevent such an event?
We do not expect you to be an expert on IFRS, but you should know it exists and how it might differ in key areas from U.S. GAAP.

Future exercises to demonstrate differences:
- Valuation of Inventory
- Recognition of Liabilities which may be contingent upon future events.

Other Issues: how do we get to comparable judgments - in order to make financial statements comparable.