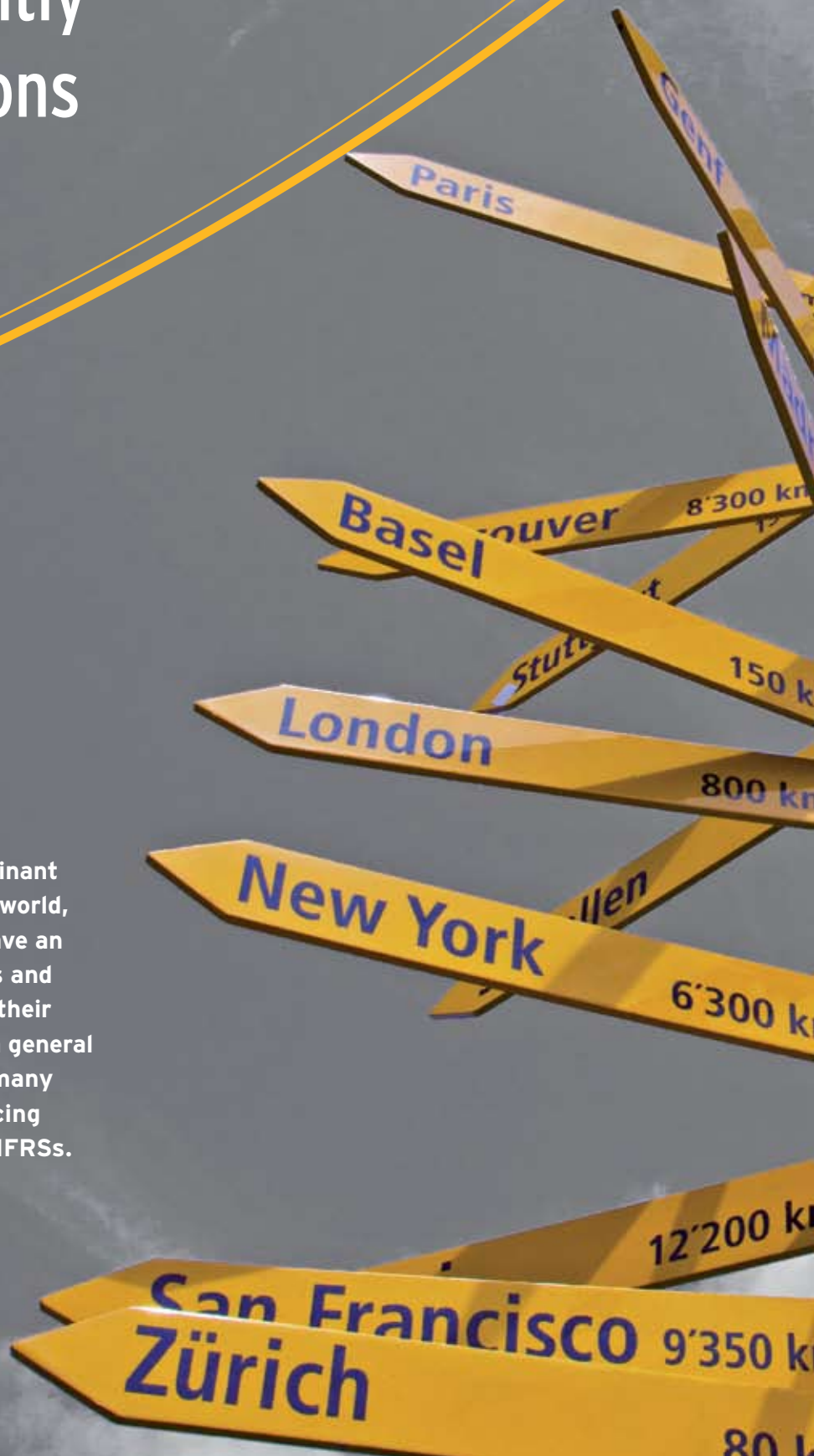


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# IFRSs Frequently Asked Questions

With IFRSs becoming the predominant financial reporting system in the world, it is important that companies have an understanding of these standards and how adopting them could impact their business. This short guide gives a general overview of IFRSs and answers many of the fundamental questions facing companies looking to implement IFRSs.



# IFRSs Frequently Asked Questions

## 1. What are IFRSs?

International Financial Reporting Standards (IFRSs) are a set of financial reporting standards based upon clearly articulated principles.

The term 'International Financial Reporting Standards' includes IFRSs (published by the International Accounting Standards Board (IASB) since 2001), IASs (issued until 2001 by the International Accounting Standards Committee (IASC)), IFRIC Interpretations (developed by the IFRS Interpretations Committee (IFRIC)) and SICs (interpretations developed by the IFRIC's predecessor).

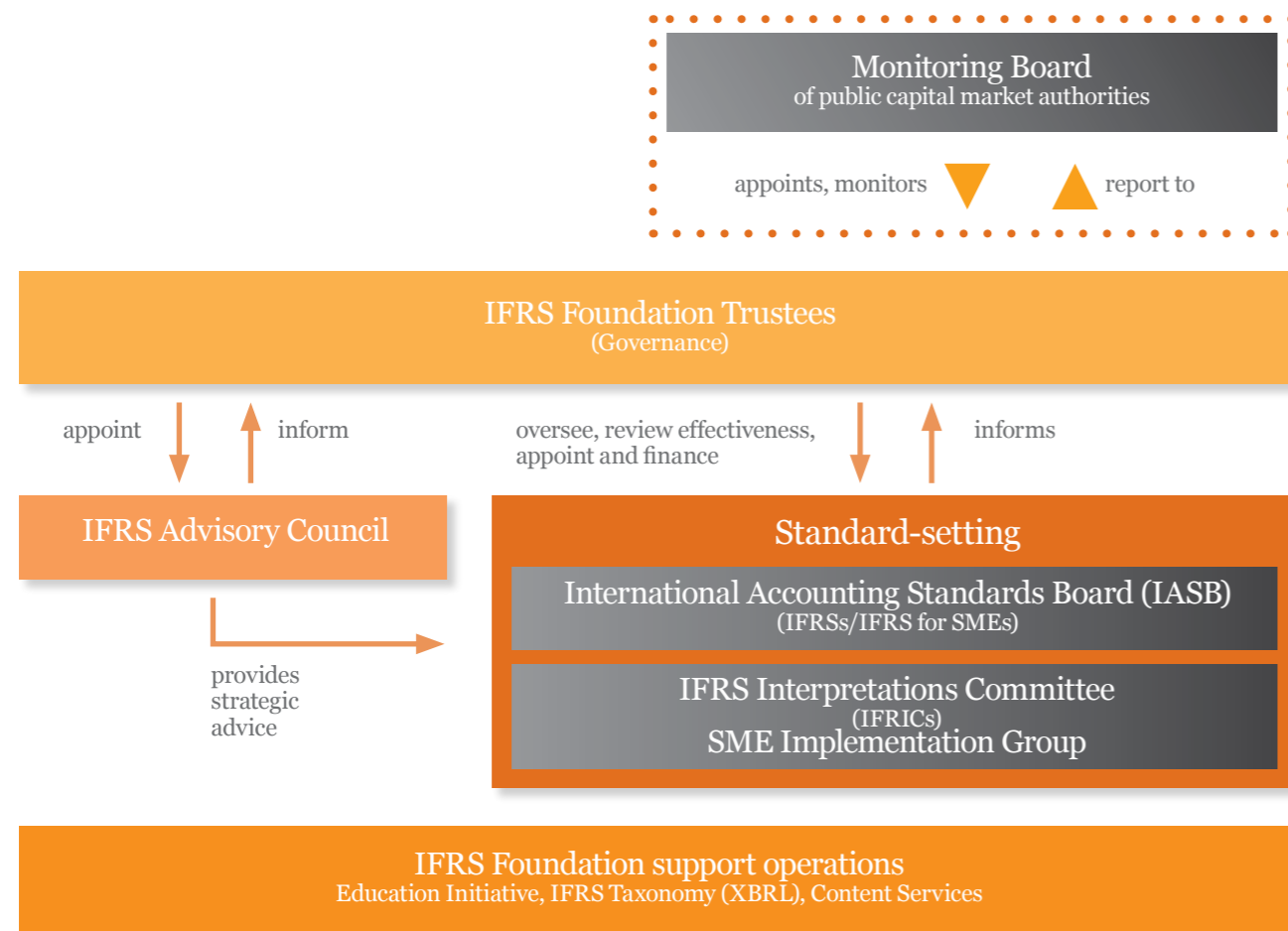
## 2. Who develops IFRSs and how?

IFRSs are developed by the International Accounting Standards Board (IASB), an independent standard-setter. The IASB is overseen by a geographically and professionally diverse body of trustees (the IFRS Foundation) and is publicly accountable to a monitoring board of public capital market authorities.

The IASB is supported by an external IFRS Advisory Council and an IFRS Interpretations Committee to offer guidance where divergence in practice occurs.

The IASB develops IFRSs following a thorough, open, participatory and transparent due process (research, discussion paper, public consultation, exposure draft, standard), ensuring engagement with investors, regulators, business leaders and the global accountancy profession at every stage of the process.

Interpretations of IFRSs (i.e. IFRICs) are developed by the IFRS Interpretations Committee through a similar formal system of due process and broad international consultation. The diagram below summarises the structure:



# IFRSs Frequently Asked Questions

## 3. How widespread is the acceptance of IFRSs around the world?

Currently, almost 120 countries require or permit the use of IFRSs. All remaining major economies have established time lines to converge with or adopt IFRSs in the near future.

- **In Europe** - since 2005, all EU companies listed on a regulated market are required to follow IFRSs (as endorsed in Europe) in their consolidated financial statements. Also, nearly all Member States permit some or all non-listed companies to use IFRSs in their consolidated statements, and the majority permit it in separate statements.
- **In the USA** - since 2007, foreign private issuers are allowed to submit to the SEC financial statements prepared under IFRSs without reconciliation to US GAAP. In the US, a timeline has been established to allow domestic issuers to report under IFRSs by 2016 (subject to achievement of certain milestones).
- **In Asia Pacific** - approaches vary from one jurisdiction to another. In some countries IFRSs are fully adopted, in others national standards are virtually word-for-word IFRSs and yet in others there remain significant differences between local standards and IFRSs.

## 4. What do IFRSs financial statements look like?

A complete set of IFRSs financial statements comprises a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows (collectively described as the primary financial statements) and explanatory notes (including accounting policies). Although there is no prescribed format for the IFRSs financial statements, there are

minimum disclosures to be made in the primary financial statements as well as in the notes. Also, IFRSs financial statements are required to disclose corresponding information for the preceding period (comparatives).

## 5. What are the main advantages and disadvantages of adopting IFRSs?

Adopting IFRSs may present the following advantages:

- Businesses across jurisdictions can be assessed on the same basis under IFRSs, making comparisons of foreign competitors easier
- International groups may have subsidiaries that are reporting using local GAAP for local reporting and then converting to IFRSs for consolidation purposes. Adopting IFRSs would allow the company to adopt an international set of accounting policies and reduce the costs of consolidated financial reporting
- Where there is one set of IFRSs worldwide, the number of highly skilled financial reporting and accounting professionals that can be accessed by companies will increase, which will in turn increase the skills and accessibility of professionals and decrease the cost
- Where companies wish to raise capital from international investors, preparing financial reports under local GAAP may restrict the comparability and usability for investors

Despite these advantages, companies without significant customers, investments or operations outside their territory may not benefit from applying IFRSs because they do not have a market incentive to prepare IFRSs financial statements. They may believe that the significant costs associated with adopting IFRSs outweigh the benefits.

## 6. Is the conversion from local GAAP to IFRSs solely a financial reporting issue?

Conversion to IFRSs is much more than an accounting exercise and companies tend to underestimate the required efforts. A successful conversion to IFRSs needs to be a full project management exercise involving many aspects of a company's operations.

In fact, one of the biggest challenges hidden in an IFRSs conversion project is the management of the collateral effects of the changeover. Seeing the adoption of IFRSs as an accounting project that only affects the figures can be a very big mistake. Conversion to IFRSs also affects other corporate functions that prepare, utilise or are otherwise linked to an entity's financial information in some way, such as information technology, treasury and finance, tax, legal, investor relations, human resources, audit committee, etc.

## 7. What are the costs of converting to IFRSs?

There is no single formula for determining the cost of conversion to IFRSs. The cost of conversion will be highly dependent on:

- The differences between existing GAAP and IFRSs
- The complexity of transactions the financial statements currently contains
- The flexibility of reporting systems and accounting packages
- The size of the company or consolidated group

Initial costs of conversion may include identification of reporting differences, training staff and modifying or purchasing new reporting systems.

# IFRSs Frequently Asked Questions

## 8. How should first-time adopters of IFRSs approach their conversion project?

The following steps are highly recommended:

- Determine how closely aligned IFRSs are to the GAAP currently applied for the preparation of your financial statements
- Build up IFRSs knowledge by reading the Standards, attending conferences, taking courses, etc.
- Focus on the key areas of difference between IFRSs and current GAAP requirements which are of most importance to your own financial statements
- Take time to understand and apply IFRS1 *First-time Adoption of International Financial Reporting Standards*
- Consider and plan for the collateral effects of conversion on the organisation as a whole

Experience has shown that IFRSs conversion is not an easy task and the most common mistake made by first-time adopters is starting the process too late. With sufficient time however, an IFRSs conversion can be managed and approached in the same manner as any other large-scale project.

## 9. What might cause some private companies to adopt IFRSs?

The eventual adoption of IFRSs by small businesses and not-for-profit organisations is likely to be market driven. The IASB has developed the standard IFRS for Small and Medium-sized Entities (IFRS for SMEs) in order to minimise complexity and reduce the cost of financial statements' preparation, yet allow users of those entities' financial statements to assess financial position, cash flows and performance.

## 10. What is the IFRS for SMEs?

International Financial Reporting Standard for Small and Medium-sized Entities, promulgated by the IASB, is a modification and simplification of full IFRSs. It is aimed at meeting the needs of private company financial reporting users and easing the financial reporting burden on private companies through applying a cost-benefit approach. IFRS for SMEs is a self-contained global accounting and financial reporting standard applicable to the general-purpose financial statements of, and other financial reporting by, entities that in many countries are known as small and medium-sized entities.

The term 'small and medium-sized entities' has different meanings in different territories. The definition in the context of the IFRS for SMEs is entities that do not have public accountability and publish general purpose financial statements. Every entity has some form of accountability, if only to its owners and the local tax authorities. Public accountability is defined to cover entities with, or seeking to have, securities traded in a public market or that hold assets in a fiduciary capacity as their main business activity. The definition is therefore based on the nature of an entity rather than on its size.

## 11. How can RSM International assist you?

RSM member firms offer a wide range of IFRSs services with the benefit of practical experience accumulated from working with clients on IFRSs issues over a number of years.

In addition to accounting experts, our member firms' IFRSs teams also comprise business valuers, corporate financiers and those with industry-specific knowledge, who provide proactive, practical and timely responses to your IFRSs queries. For a full listing of all IFRSs services please visit the RSM International website ([www.rsmi.com](http://www.rsmi.com)).

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