International Accounting Standards

- Summaries of the Standards -

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As of: January 2004
| IAS 1: | PRESENTATION OF FINANCIAL STATEMENTS | 3 |
| IAS 2: | INVENTORIES | 3 |
| IAS 7: | CASH FLOW STATEMENTS | 3 |
| IAS 8: | NET PROFIT OR LOSS FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES | 4 |
| IAS 10: | EVENTS AFTER THE BALANCE SHEET DATE | 4 |
| IAS 11: | CONSTRUCTION CONTRACTS | 4 |
| IAS 12: | INCOME TAXES | 4 |
| IAS 14: | SEGMENT REPORTING | 4 |
| IAS 15: | INFORMATION REFLECTING THE EFFECTS OF Changing PRICES | 5 |
| IAS 16: | PROPERTY, PLANT AND EQUIPMENT | 5 |
| IAS 17: | LEASES | 5 |
| IAS 18: | REVENUE | 5 |
| IAS 19: | EMPLOYEE BENEFITS | 5 |
| IAS 20: | ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE | 6 |
| IAS 21: | THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES | 6 |
| IAS 22: | BUSINESS COMBINATIONS | 6 |
| IAS 23: | BORROWING COSTS | 7 |
| IAS 24: | RELATED PARTY DISCLOSURES | 7 |
| IAS 26: | ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS | 7 |
| IAS 27: | CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES | 7 |
| IAS 28: | ACCOUNTING FOR INVESTMENTS IN ASSOCIATES | 7 |
| IAS 29: | FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES | 8 |
| IAS 30: | DISCLOSURES IN THE FINANCIAL STATEMENTS OF BANKS AND SIMILAR FINANCIAL INSTITUTIONS | 8 |
| IAS 31: | FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES | 8 |
| IAS 32: | FINANCIAL INSTRUMENTS: PRESENTATION AND DISCLOSURE | 8 |
| IAS 33: | EARNINGS PER SHARE | 8 |
| IAS 34: | INTERIM FINANCIAL REPORTING | 9 |
| IAS 35: | DISCONTINUING OPERATIONS | 9 |
| IAS 36: | IMPAIRMENT OF ASSETS | 9 |
| IAS 37: | PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS | 9 |
| IAS 38: | INTANGIBLE ASSETS | 9 |
A Short Summary of IAS 1 through IAS 41

The following brief presentation of the individual International Accounting Standards (IAS) should provide easy orientation for anyone who encounters an individual standard in the context of their work or who simply wants to obtain a quick overview. The explanatory texts don't intend to completely describe the complex regulations. Their intent is to foster an initial understanding by providing an introduction to the content of the standards. The standards, IAS 1 through IAS 41, which are currently in force, are covered. Those not mentioned are already superseded.

The current IAS can be found in the following publication: International Accounting Standards Committee (ed.): International Accounting Standards 2001. London 2001.

IAS 1: Presentation of Financial Statements

This standard describes the preparation and presentation requirements of financial statements. It defines the requirements which a financial statement has to observe to achieve a fair presentation (i.e. to provide a picture that corresponds to the actual economic conditions). According to IAS a complete financial statement has to contain the following components: a balance sheet, an income statement, a statement showing changes in equity, a cash flow statement and explanatory notes. In the Appendix to IAS 1 an illustrative structure for a financial statement is presented which, unlike the one given in the 4. European Council Directive, is not obligatory.

IAS 2: Inventories

The accounting treatment of inventories is carried out according to the historical cost system. IAS 2 defines how to determine the costs of purchase and conversion and states that the inventories "should be measured at the lower of cost and net realisable value". In addition, it describes treatments which are permitted for calculating the costs of inventories.

IAS 7: Cash Flow Statements

The cash flow statement is a required component of an IAS financial statement. IAS 7 explains this requirement by the benefits of cash flow information which it provides. It defines cash and cash equivalents and stipulates the rough structure of a cash flow statement. The cash flows are to be differentiated into those obtained from operating, investing and financing activities.

IAS 8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

This standard is supposed to guarantee that all enterprises present their income statement in a consistent form. It defines ordinary business activities and requires disclosing extraordinary items separately. The disclosure of single items of income and expense is dependent upon how relevant the information is for explaining the
performance of the enterprise. In addition, it regulates how to handle fundamental balancing errors from prior accounting periods and under which circumstances changes in the accounting policy are permitted.

**IAS 10: Events After the Balance Sheet Date**

If the enterprise receives information after the balance sheet date which leads to an adjustment in the amounts recognised in the financial statement, it has to follow the instructions of this standard. This could, for example, be the bankruptcy of a customer shortly after the balance sheet date, which leads to a retroactive adjustment of the corresponding trade receivable account, or also the discovery of an error or fraud. IAS 10 provides information about which events should be adjusted and which are not.

**IAS 11: Construction Contracts**

Construction contracts often span several accounting periods. IAS 11 determines how the revenue and costs of a contract should be recognised and how they should be allocated to the accounting periods.

**IAS 12: Income Taxes**

This standard establishes how current taxes for the accounting period and deferred tax liabilities have to be accounted. Deferred taxes arise due to temporary differences between the carrying amount of an asset and its tax base.

**IAS 14: Segment Reporting**

To be able to better judge the risks and returns of individual business areas, segment reporting is helpful. IAS 14 distinguishes between business and geographical segments for which separate reports should be given. In addition, the different disclosures for the primary and secondary reporting formats are identified.

**IAS 15: Information Reflecting the Effects of Changing Prices**

Since no consensus could be reached concerning the application of this standard, it isn't obligatory. The purpose of IAS 15 is to bring clarity about the effects of changing prices on the measurement of balance sheet items. Therefore corresponding disclosures are required, such as the amount of depreciation or cost of sales adjustments.

**IAS 16: Property, Plant and Equipment**

This standard determines which assets may be accounted as property, plant and equipment, under which conditions their recognition is carried out, how they are to be measured, and which depreciation method should be chosen. In addition it describes, what the financial statement should disclose.
IAS 17: Leases

IAS 17 distinguishes between finance and operating leases. The respective assignment has considerable consequences for the way in which the leased asset is balanced. In addition, it establishes how to deal with any excess of sales proceeds and leaseback transactions.

IAS 18: Revenue

The date at which revenue is recognised is important for the accurate determination of the enterprise's success. According to IAS 18 the revenue should be recognised "when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably". There are requirements for the measurement of revenue, for the identification of the transactions and for recognising revenue from different business activities.

IAS 19: Employee Benefits

Employees receive various benefits: salaries and wages, supplementary payments, pensions, specific leaves, termination and equity compensation benefits. IAS 19 standardises the recognition and measurement of all short-term and long-term employee benefits as well as post-term employment benefits. The treatment of obligations resulting from retirement benefits are of increasing importance.

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

If an enterprise receives direct government grants, then, according to the standard, these are to be recognised as income and assigned to the accounting periods in which they are intended to provide compensation for corresponding expenses by the enterprise.

IAS 21: The Effects of Changes in Foreign Exchange Rates

Business transactions in foreign currencies carry the risk of fluctuations in the exchange rate. IAS 21 regulates the initial recognition of a foreign currency transaction and the subsequent reportage, particularly the determination of the correct exchange rate that applies to later balance sheet dates. Furthermore it determines how to deal with exchange differences.

IAS 22: Business Combinations

A business combination can occur either in the form of an acquisition of an enterprise or a uniting of interests. IAS 22 establishes the procedure for preparing a financial statement according to these two forms. For example, it determines that the purchase method should be applied in accounting for an acquisition and that goodwill
(the difference between the cost of purchase and the fair value of the acquired assets) should be amortised on a systematic basis over its useful life.

**IAS 23: Borrowing Costs**

Interest charges and other costs which arise in connection with the borrowing of funds are recognised under IAS 23 as an expense. The capitalisation of borrowed funds as part of the acquisition or production costs of so-called "qualifying assets" is alternatively permitted. "Qualifying assets" are those which take a substantial period of time for the conversion into a serviceable or marketable condition.

**IAS 24: Related Party Disclosures**

Related enterprises or individuals which exert a significant influence or even control over the reporting enterprise could have an effect on its financial position and operating results. For example, they could carry out transactions with the enterprise which a third party wouldn't do. IAS 24 requires detailed information about links to related enterprises and persons, provided that there exists control. If business was carried out between related parties, the type of transaction and the nature of the related party relationship should be disclosed.

**IAS 26: Accounting and Reporting by Retirement Benefit Plans**

If the employer guarantees retirement benefits, then their balancing under IAS 26 is dependent upon whether the retirement benefit plan is a defined contribution plan (usually a pension fund) or a defined benefit plan. The latter is processed via funds or provisions for pension fund liabilities. Accounting and disclosure requirements for retirement benefit plans are specified in this standard.

**IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries**

According to IAS 27 all domestic and foreign subsidiaries are in principle to be included in the consolidated financial statement of the parent company, unless the subsidiary is solely held for the purpose of subsequent disposal or it is significantly impaired by severe long-term restrictions in its ability for funds transfer to the parent. IAS 27 also establishes the procedures regarding consolidation.

**IAS 28: Accounting for Investments in Associates**

If the reporting enterprise has significant influence in, but not control over, another enterprise, then it is considered an associate. IAS 28 requires the equity method be applied in balancing such enterprises. The investment in these enterprises should be recorded at cost and, thereafter, to be adjusted for the change in the investor's share of the profit or losses.
**IAS 29: Financial Reporting in Hyperinflationary Economies**

Without the necessary adjustments, the reporting in hyperinflationary economies can be misleading due to a severe loss in purchasing power. IAS 29 characterises the concept of "hyperinflationary economies" and establishes that the measuring unit has to reflect the price levels, respectively the purchasing power at the balance sheet date. So the historical costs are to be adjusted to the current costs at the balance sheet date.

**IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions**

Due to their economic significance and the special character of their business operation, specific requirements exist for the financial statements of banks. That's why in this standard - amongst other issues - a detailed breakdown of the income statement is required with regard to the interest, dividend income, fee and commission income and expense, gains less losses arising from dealing securities, investment securities and foreign currencies. The listing of the assets and liabilities, reflecting their relative liquidity, is characteristic for a bank balance sheet. Also of great importance are the instructions for stating the contingencies and risks of banking.

**IAS 31: Financial Reporting of Interests in Joint Ventures**

Joint ventures are jointly controlled operations, enterprises or assets. IAS 31 stipulates that jointly controlled entities should be reported by proportionate consolidation (the equity method is, however, permitted as an alternative).

**IAS 32: Financial Instruments: Disclosure and Presentation**

A financial instrument is defined by IAS 32 as a contract which both gives rise to a financial asset of one enterprise and a financial liability or an equity instrument of the other. These can be both traditional primary financial instruments, such as bonds, or also derivative financial instruments, such as interest rate or currency swaps. Derivative instruments are frequently undertaken to protect the business activities against currency or interest rate risks; however, they can also serve as speculation. IAS 32 standardises the presentation and the disclosure of the financial instruments. Additionally detailed information is required concerning interest rate and credit risks as well as the risk management policies of the enterprise.

**IAS 33: Earnings Per Share**

An important figure for enterprises, whose shares are traded publicly, is the measurement EPS (earnings per share), by which the performance of the enterprise can be compared with other enterprises. Undiluted, basic earnings (the net profit or loss after deducting preference dividends attributable to ordinary shareholders) are distinguished from diluted earnings (the net profit or loss adjusted for the effects of all potential ordinary shares).
IAS 34: Interim Financial Reporting
The interim financial report provides timely information within the accounting period, particularly for the investors, creditors etc. IAS 34 doesn't mandate interim reports, but merely requires that such reports by enterprises conform to IAS. Therefore an interim financial report should, at a minimum, include a condensed balance sheet, income statement, change in equity statement, cash flow statement and selected explanatory notes. Furthermore it is stipulated that in the interim financial report the same accounting practices and treatments should be employed as are found in the annual financial statement.

IAS 35: Discontinuing Operations
This standard describes how to balance an enterprise's operations which are intended to be disposed of or discontinued.

IAS 36: Impairment of Assets
An asset is regarded as impaired if its carrying amount exceeds the amount which could be recovered through use or sale of the asset. IAS 36 stipulates how the impairment is identified and how the impairment loss is to be recognised and measured. If an impairment loss decreases or no longer exists it is mandatory to carry out a reversal of an impairment loss.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets
Under IAS 37 provisions are liabilities which are uncertain with regard to their timing or amount. IAS 37 defines under which circumstances provisions have to be recognised and to what amount they have to be balanced. Contingent liabilities and contingent assets should not be recognised. However, details regarding these can be required, provided that the realisation of contingent liabilities or assets is probable.

IAS 38: Intangible Assets
Every enterprise is in possession of intangible assets, such as patents, licenses, computer software, copyrights, trademarks, customer lists or supplier relationships. Provided that an intangible asset is clearly identifiable and the enterprise has control over it, it is required to be accounted according to IAS 38 if it is probable that a future economic benefit will flow to the enterprise from the asset and its costs can be reliably measured. The asset should be "allocated on a systematic basis over the best estimate of its useful life".

IAS 39: Financial Instruments, Recognition and Measurement
IAS 39 amends IAS 32 particularly with instructions related to so-called "derivatives". These are, e.g. swaps, option contracts, futures, forwards or complex, hybrid financial instruments which frequently serve for speculation purposes. IAS 39 regulates
the recognition and measurement of these instruments. The distinctive feature of the relatively new IAS 39 is the subsequent measurement of financial assets at their fair values.

**IAS 40: Investment Property**
IAS 40 should be applied in the recognition, measurement and disclosure of investment property. This can be land or a building or a part of a building held to earn rentals or for capital appreciation rather than for the purposes of other business processes. This standard provides the possibility to choose between two models, the fair value model and the cost model.

**IAS 41: Agriculture**
This standard concerns accounting of biological assets, agricultural produce at the point of harvest and governmental grants related to a biological asset. Basis for recognition and measurement of biological assets is the fair value model.