

Introduction to Financial Reporting

Introduction to Financial Reporting Standards

Purpose: Provide a concise, organized overview for students or professionals new to the field.

1. What Are Financial Reporting Standards?

Aspect	Description
Definition	A set of principles, rules, and guidelines that dictate how an entity prepares and presents its financial statements.
Goal	Ensure relevance , faithful representation , comparability , verifiability , timeliness , and understandability of financial information.
Scope	Covers recognition, measurement, presentation, and disclosure of assets, liabilities, equity, income, and cash flows.

2. Why Do They Matter?

- Investor Confidence** – Consistent reporting helps investors assess risk and return.
- Capital Allocation** – Lenders and regulators can evaluate creditworthiness more accurately.
- Cross-Border Comparability** – Global investors need comparable data from companies in different jurisdictions.
- Legal & Regulatory Compliance** – Failure to follow standards can lead to penalties, litigation, and loss of market access.

3. Main Global Frameworks

Framework	Governing Body	Primary Users	Key Characteristics
IFRS (International Financial Reporting Standards)	International Accounting Standards Board (IASB)	Multinational corporations, listed companies, investors	Principles-based, high comparability, adopted by >140 jurisdictions.

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Framework	Governing Body	Primary Users	Key Characteristics
Standards			
U.S. GAAP (Generally Accepted Accounting Principles)	Financial Accounting Standards Board (FASB)	U.S. public and private entities	Rules?heavy, detailed industry guidance, required for SEC?registered companies.
Other National Standards (e.g., ASPE in Canada, IND?AS in India)	National standard? setting bodies	Domestic firms, SMEs	Often converge with IFRS/GAAP but retain local nuances.

Note: Many countries have transitioned from local GAAP to IFRS for listed entities; SMEs may use simplified frameworks.

4. Structure of a Complete Set of Financial Statements (IFRS Model)

1. **Statement of Financial Position** (Balance Sheet) – Assets, liabilities, equity at a point in time.
2. **Statement of Comprehensive Income** – Profit or loss and other comprehensive income (OCI).
3. **Statement of Changes in Equity** – Movements in share capital, reserves, and retained earnings.
4. **Statement of Cash Flows** – Cash inflows/outflows classified as operating, investing, and financing activities.
5. **Notes to the Financial Statements** – Detailed disclosures, accounting policies, assumptions, and contingencies.

5. Core Concepts & Principles

Concept	IFRS Reference	Brief Explanation
Accrual Basis	IAS 1	Transactions are recorded when they occur, not when cash changes hands.

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Concept	IFRS Reference	Brief Explanation
Standards		
Going Concern	IAS 1	Assumes the entity will continue operating for the foreseeable future.
Materiality	IAS 1	Information is material if omitting or misstating it could influence decisions.
Faithful Representation	IAS 1	Information must be complete, neutral, and free from error.
Consolidation	IFRS 10	Parent and subsidiaries are presented as a single economic entity.
Revenue Recognition	IFRS 15	Revenue is recognized when control of goods/services transfers to the customer.
Leases	IFRS 16	Lessees recognize a right-of-use asset and a lease liability for most leases.
Financial Instruments		