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**NOTE
On
The impact of IFRS implementation on banking regulations
Some of the Main Changes Brought In Europe by Implementing IFRS**

- I. **Alternative Accounting Treatments in IFRS.**
- II. **Asset Valuation Under IFRS.**

I. Alternative Accounting Treatments in IFRS.

There are no major conflicts between European Directives and IFRS. One of the areas of greatest conflict in the process of adoption of IFRS relates to those accounting treatments which give the option of choosing between two alternatives. This is perhaps still the most controversial aspect of IFRS, although the IASB worked in 2003 to reduce these alternatives, since it gives a margin of discretion to preparers of financial statements when preparing their accounts, with the danger that entails.

The accounting treatments which envisage alternatives are the following:

- Calculation of the **cost of inventory** using the FIFO or weighted average cost formulas, IAS 2.

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- **Identification of geographical or business segments** as primary segments of the entity, in the presentation of financial information by segment, IAS 14¹.
- **Subsequent measurement of property, plant and equipment** at cost or at revalued amount, IAS 16.
- Accounting for non-monetary **government grants** received at the fair value of the assets received or at nominal value, IAS 20.
- Consideration of **government grants** relating to assets as reducing the value of the asset or as deferred income (on the liabilities side), IAS 20.
- Treatment of **grants relating to income** as other income or as deductions from the related expense, IAS 20.
- According to the revised IAS 23, **interest costs** must be compulsory accounted for as part of the cost of the relevant asset in case certain conditions are met. Those not meeting these requirements shall be treated as an expense.
- Recognition of an interest in a **jointly controlled entity** (joint venture) in consolidated
- Financial statements using proportionate consolidation or the equity method (alternative treatment), IAS 31².
- **Subsequent measurement of intangible assets** at cost or at revalued amount, IAS 38.
- **Subsequent measurement of investment property** at cost or fair value, IAS 40.

In addition to these alternative accounting treatments, IFRS also envisage different options for the **presentation of the financial statements**. Income statement can be defined by function or by nature (IAS 1), the cash flow statement may be presented using the direct, the indirect, or the alternative indirect model (IAS 7), and the statement of changes in equity can be prepared on an aggregate basis or highlighting solely the profits and losses not recognised in the current period's results³ (IAS 1). These alternatives even exist for the balance sheet, since IAS 1 allows the items to be presented according to their function within the operations of the enterprise (distinguishing the current from the non-

¹ IFRS 8, not yet endorsed by EU, removes this option by allowing reporting entities to freely define their segments.

² The exposure draft ED9 - Joint arrangements, issued in September 2007, removes this option by only allowing the equity method.

³ The revised IAS 1 issued in September 2007 modifies the set of financial statements to be disclosed, including a statement of other recognised income and expenses for those recognised directly in equity as well as the statement of changes in equity.

current) or else according to their liquidity, though this last criterion should be rarely used, only when the current-non current is less reliable.

II. Asset Valuation Under IFRS

The table below discloses the different methods of valuation of the main asset items allowed by IFRS.

Type of asset	IAS	Method 1	Method 2
Inventories 2	2	The lower of cost and net realizable value	--
Property, plant and equipment	16	Acquisition cost, less accumulated depreciation	Revalued amount, less subsequent accumulated depreciation and impairment
Leases	17	The lower the fair value of the asset and the present value of the minimum lease payment	--
<ul style="list-style-type: none"> • Lessee • Lessor 		Receivable at an amount equal to the net investment in the lease	--
Financial assets ⁴			
Loans and receivables	39	Amortized cost (those with a fixed maturity) or cost	---
Held-to-maturity investment	39	Amortized cost (those with a fixed maturity) or cost	---
Available-for-sale financial assets	39	Fair value	If fair value cannot be estimated (unlikely to happen), at cost
Financial assets held for trading	39	Fair value	If fair value cannot be estimated (unlikely to happen), at cost
Investment property	40	Fair value	Acquisition cost, less accumulated depreciation and impairment losses
Biological assets	41	Fair value, less estimated point-of-sale costs	If fair value cannot be estimated (unlikely to happen), at acquisition cost, less accumulated depreciation and impairment losses

⁴ IAS 39 also allows valuation of every financial asset (with some restrictions) at fair value, with fair value changes through income statement.