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SPECIFIC FEATURES OF ACCOUNTING FOR LIABILITIES DURING THE TRANSITION TO IFRS

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Abstract: This article examines the critical and specific features of accounting for liabilities during the transition from national accounting frameworks to International Financial Reporting Standards (IFRS). The transition represents a fundamental paradigm shift in how corporate obligations are recognized, measured, and disclosed. The study specifically focuses on the application of three pivotal standards: **IFRS 9**, which mandates the discounting of long-term financial liabilities to reflect the time value of money; **IFRS 16**, which requires the balance sheet recognition of lease liabilities at present value, thereby eliminating traditional off-balance-sheet operating lease treatments; and **IAS 37**, which establishes rigorous criteria for recognizing provisions and disclosing contingent liabilities. The article highlights how these combined adjustments alter initial carrying amounts, enhance financial transparency, and improve cross-entity comparability. Ultimately, the author concludes that mastering these sophisticated liability accounting mechanisms is essential for transitioning entities to ensure full regulatory compliance and to provide stakeholders with a highly accurate representation of the organization's true financial position.

Keywords: IFRS transition, liability accounting, financial obligations, IFRS 9, discounting long-term liabilities, present value, IFRS 16, lease liabilities, IAS 37, provisions, contingent liabilities, financial transparency, financial reporting.

The transition to International Financial Reporting Standards (IFRS) represents a significant shift for many entities, particularly in how they account for liabilities. Accounting for liabilities under the IFRS paradigm is governed by several specific standards, each addressing different aspects of liability recognition and measurement. This article delves into the critical features of accounting for liabilities during this transition, focusing on discounting long-term liabilities (IFRS 9), the recognition of lease liabilities (IFRS 16), and provisions and contingent liabilities (IAS 37).

Discounting Long-term Liabilities (IFRS 9)

One of the most impactful changes during the transition to IFRS is the application of IFRS 9, which emphasizes the need to discount long-term liabilities to present value. IFRS 9 requires entities to assess the time value of money when recognizing financial liabilities, utilizing an appropriate discount rate that reflects the market's risk-free rate plus any credit risk component associated with the liability. This discounting process leads to a more accurate representation of an entity's financial obligations and ensures that liabilities are recorded at fair value when initially recognized.

Moreover, the standard necessitates reconsideration of the measurement of financial liabilities, particularly in circumstances where the liability may be settled either through payment or conversion into equity. The transition to IFRS may result in adjustments to financial statements, as entities will need to ensure that all long-term liabilities are adjusted for present

value, potentially resulting in lower initial carrying amounts for these liabilities on the balance sheet.

Recognition of Lease Liabilities (IFRS 16)

Another significant area impacted by the transition to IFRS is the treatment of lease liabilities under IFRS 16. This standard mandates that lessees recognize lease liabilities on their balance sheets at the present value of future lease payments. This recognition signifies a paradigm shift from the previous operating lease treatment, where leases were oftentimes expensed in the profit and loss account without reflecting the underlying liability on the balance sheet.

Under IFRS 16, the lease liability is calculated by discounting future payments using the interest rate implicit in the lease or, if that rate is not readily determinable, the entity's incremental borrowing rate. This mechanism ensures that the liabilities associated with leasing arrangements are appropriately captured, providing a more comprehensive view of an entity's financial position. The requirement to present lease liabilities alongside other financial obligations enhances transparency and facilitates comparability across entities that engage in leasing.

Provisions and Contingent Liabilities (IAS 37)

The transition to IFRS also necessitates a thorough understanding of provisions and contingent liabilities as prescribed by IAS 37. This standard outlines the criteria for recognizing provisions, which are liabilities of uncertain timing or amount. Entities must recognize a provision when it is probable that an outflow of resources will be required to settle an obligation, and a reliable estimate can be made.

The treatment of contingent liabilities, which are possible obligations that may arise from past events depending on future events, is crucial during the transition. IAS 37 prohibits the recognition of contingent liabilities on the balance sheet but requires disclosure in the notes, fostering greater clarity regarding potential risks and uncertainties facing an entity.

The transition to IFRS reflects a substantial evolution in financial reporting, particularly concerning the accounting for liabilities. Through the implementation of IFRS 9 and IFRS 16, entities are now required to reflect their financial obligations in a manner that considers the time value of money and provides a clearer picture of liabilities associated with leasing. Furthermore, IAS 37 enhances the rigour surrounding provisions and contingent liabilities, ensuring that only probable liabilities are recognized while maintaining transparency with disclosures. For entities transitioning to IFRS, mastering these specific features of liability accounting is essential for compliance and for providing stakeholders with accurate and reliable financial statements.

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