IAS 1

INTERNATIONAL ACCOUNTING STANDARD 1

PRESENTATION OF FINANCIAL STATEMENTS

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Objective

This standard prescribes the guide lines to be used by the entity, in the presentation of general purpose financial statements, to make sure that financial statement of the entity are comparable both with its previous periods financial statement and with the financial statements of the other entity. For this purpose, it provides overall requirements for the structure and contents of financial statements along with some general features.

Scope

This Standard shall be applied to all general purpose financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs).

- General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IAS 27 *Consolidated and Separate Financial Statements*.

- This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities in the private sector, public sector or government seeking to apply this Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.
- Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the presentation in the financial statements of members' or unit holders' interests.

Purpose of financial statements

- Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) other changes in equity; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Components of financial statements

- A complete set of financial statements comprises:

(a) a balance sheet;

(b) A statement of profit and loss and other comprehensive income;

(c) a statement of changes in equity showing either:

(i) all changes in equity, or

(ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

(d) a cash flow statement; and

(e) notes, comprising a summary of significant accounting policies and other explanatory notes

- Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(b) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(c) the entity's resources not recognised in the balance sheet in accordance with IFRSs.

- Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.

Definitions

The following terms are used in this Standard with the meanings specified:

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

International Financial Reporting Standards (IFRSs) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the balance sheet, Comprehensive income, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Overall considerations

Fair presentation and compliance with IFRSs

- Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.
- An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.

- A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

- Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.
- In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

- When an entity departs from a requirement of a Standard or an Interpretation, it shall disclose:

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable Standards and Interpretations, except that it has departed from a particular requirement to achieve a fair presentation;

(c) the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

- When an entity has departed from a requirement of a Standard or an Interpretation in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the necessary **disclosures**
- for example, when an entity departed in a prior period from a requirement in a Standard or an Interpretation for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.
- In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the title of the Standard or Interpretation in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

- an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Multiple Choice n.1

Under IAS 1, how often should financial statements be prepared

- At least annually
- No more than annually
- As often as the company requires
- Monthly

Multiple Choice n.2

Which of the following is not a requirement in the financial statements under IAS 1?

- Name of the entity
- Whether accounts cover a single entity or a group
- Chairman’s commentary on performance
- The accounting period
- Presentation currency

Multiple Choice n.3

Which sections of an annual report do IFRS apply to?

- ○ Management report
- ○ Financial statements
- ○ Auditors report
- ○ Entire annual report

Multiple Choice n.4

Which of the following is true?

- IAS 1 Stipules the order in which items should be presented
- IAS 1 Stipules that material items that are different in nature must be presented separately
- IAS 1 Stipules that material items may be aggregated
- All of the above

Multiple Choice n.5

Which of the following is not a required disclosure under IAS 1?

- Number of employees
- Assets held for sale
- Provisions
- Intangible assets

Multiple Choice n.6

An entity which complies with IFRS may depart from the requirements of an international standard?

- If compliance cost would be excessive
- Whenever it wishes to do so
- Never
- If compliance would produce misleading information

Going concern

- When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

- In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

- **An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**
- When the accrual basis of accounting is used, items are recognised as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Consistency of presentation

- The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or

(b) a Standard or an Interpretation requires a change in presentation.

Materiality and aggregation

- **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**
- Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the balance sheet, Comprehensive income, statement of changes in equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes.

An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

- Applying the concept of materiality means that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material.

Offsetting

- **Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.**
- It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the Comprehensive income or the balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

IAS 18 *Revenue* defines revenue and requires it to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

- Gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

Comparative information

- Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.

- In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and about the steps that have been taken during the period to resolve the uncertainty.
- When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

- When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

- Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.
- IAS 8 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Multiple Choice n.7

When is offsetting permitted under IAS 1?

- Always
- Never
- When required or permitted under an IFRS
- When approved by the board of directors

Multiple Choice n.8

Which of the following would generally not be classified as a current asset?

- An asset held for the purpose of being traded
- A cash equivalent
- An asset intended for consumption within the entity's normal operating cycle
- An asset held for long-term use within the entity

Multiple Choice n.9

Items of financial information are material if:

- They could influence the economic decisions made by the users of financial statements
- They are insignificant
- They could not influence the economic decisions made by the users of financials statements
- They are aggregated with other items

Structure and content

Introduction

- This Standard requires particular disclosures on the face of the balance sheet, Comprehensive income and statement of changes in equity and requires disclosure of other line items either on the face of those statements or in the notes. IAS 7 *Cash Flow Statements* sets out requirements for the presentation of a cash flow statement.
- This Standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing items presented on the face of the balance sheet, Comprehensive income, statement of changes in equity and cash flow statement, as well as in the notes. Disclosures are also required by other Standards and Interpretations. Unless specified to the contrary elsewhere in this Standard, or in another Standard or Interpretation, such disclosures are made either on the face of the balance sheet, Comprehensive income, statement of changes in equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the financial statements

- The financial statements shall be identified clearly and distinguished from other information in the same published document.
- IFRSs apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.
- Each component of the financial statements shall be identified clearly.

In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(a) the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;

(b) whether the financial statements cover the individual entity or a group of entities;

(c) the balance sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;

(d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and

(e) the level of rounding used in presenting amounts in the financial statements.

Reporting period

- Financial statements shall be presented at least annually. When an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period; and

(b) the fact that comparative amounts for the Comprehensive income, statement of changes in equity, cash flow statement and related notes are not entirely comparable.

Balance sheet

Current/non-current distinction

- An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.
- Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.

Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the balance sheet date.

Current assets

- An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the balance sheet date; or

(d) it is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets shall be classified as non-current.

- This Standard uses the term ‘non-current’ to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity’s normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the balance sheet date. Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

Current liabilities

- A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the balance sheet date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

- In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with IAS 10 *Events after the Balance Sheet Date*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan agreement; and

(c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

Information to be presented on the face of the balance sheet

- As a minimum, the face of the balance sheet shall include line items that present the following amounts :

(a) property, plant and equipment;
(b) investment property;
(c) intangible assets;
(d) financial assets (excluding amounts shown under (e), (h) and (i));
(e) investments accounted for using the equity method;
(f) biological assets;
(g) inventories;
(h) trade and other receivables;
(i) cash and cash equivalents;
(j) trade and other payables;
(k) provisions;
(l) financial liabilities (excluding amounts shown under (j) and (k));
(m) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;
(n) deferred tax liabilities and deferred tax assets, as defined in IAS 12;
(o) minority interest, presented within equity; and
(p) issued capital and reserves attributable to equity holders of the parent.

- This Standard does not prescribe the order or format in which items are to be presented. Simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

- The judgment on whether additional items are presented separately is based on an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

- The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.

Information to be presented either on the face of the balance sheet or in the notes

- **An entity shall disclose, either on the face of the balance sheet or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**
- The detail provided in subclassifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved.

The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are subclassified, in accordance with IAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated into provisions for employee benefits and other items; and

(e) contributed equity and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

- **An entity shall disclose the following, either on the face of the balance sheet or in the notes:**

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

- An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required previously, showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

Multiple Choice n.10

Which of the following is not a liability?

- o Government grants repayable
- o Amounts owed to shareholders as capital
- o Debentures
- o Rebates payable

Multiple Choice n.11

Which of the following is a current liability?

- Bank overdraft
- Mortgage
- Preference shares
- Retained earnings

Multiple Choice n.12

A current asset or liability is expected to be recovered or settled within…?

- Three months
- Six months
- Twelve month
- Twenty four months

Multiple Choice n.13

Which of the following items is used to describe an asset held for more than 12 months?

- Non-current asset
- Fixed assets
- Long-term asset
- All of the above

<u>Multiple Choice n.14</u>

<u>What type of asset is:</u>

- Expected to be realized in the normal course of business
- Held for trading purposes
- Cash or cash equivalent

o Current asset

o Non-current asset

o Intangible asset

o Long term investments

Multiple Choice n.15

Under IAS 1, which of the following must be disclosed on the face of the statement of financial position :

- Property, plant and equipment
- Provisions
- Non-controlling interests
- All of the above

Comprehensive Income

Definitions

Comprehensive income

Comprehensive income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners

Net income

+ Other comprehensive income

Comprehensive income

Information to be presented on the face of the statement of P/L and OCI

In June 2011 the ISAB published an amendment to IAS called "Presentation of items of other comprehensive income". This changed the name of the "Statement of comprehensive income" to "the statement of profit or loss and other comprehensive income".

Format:

IAS 1 allows income and expenses items to be presented either:

1- In a single statement of profit or loss and other comprehensive income; or

2- In two statements: a separate statement of profit or loss and statement of other comprehensive income.

Statement of P/L:

- As a minimum, the face of the P/L shall include line items that present the following amounts for the period:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(f) profit or loss.

- Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of P/L, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. Factors to be considered include materiality and the nature and function of the components of income and expenses. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. Income and expense items are not offset unless the criteria previously are met.
- **An entity shall not present any items of income and expense as extraordinary items, either on the face of the P/L statement or in the notes.**

Information to be presented either on the face of the statement P/L or in the notes

- **When items of income and expense are material, their nature and amount shall be disclosed separately.**
- Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

- **An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.**
- Entities are encouraged to present the analysis on the face of the P/L statement.
- Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.
- The first form of analysis is the nature of expense method. Expenses are aggregated in the P/L statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Net income before taxes		
Income tax expense		
Net Income		**X**

- The second form of analysis is the function of expense or ‘cost of sales’ method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Income before taxes	**X**
Income Tax expenses	**X**
Net Income	**X**

Net Income	**X**
+ Other comprehensive income	
Unrealized gains and losses on available for sale securities	X
Translation gains and losses on foreign currency	X
Others	X
Other comprehensive income	**X**
Comprehensive income	**X**

- **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.**
- The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used.,'Employee benefits' has the same meaning as in IAS 19 *Employee Benefits*.

- An entity shall disclose, either on the face of the P/L statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.

Other comprehensive income

Other comprehensive income items are revenues, expenses, gains and losses that are included in comprehensive income but excluded from net income.

An entity must classify the specific items by their nature, such as:

Examples of items recognized outside of P/L

1- Changes in revaluation surplus where the revaluation method is used under IAS 16 Property, Plant and Equipment and ISA 36 Intangible Assets.

2- Remeasurements of a net defined benefit liability or asset recognized in accordance with IAS 19 Employee Benefits

3- Exchange differences from translating functional currencies into presentation currency in accordance with IAS 21 The effect of Changes in Foreign Exchange Rates

4- The effective portion of gains and losses on hedging instruments in a cash flow hedge under IAS 39 or IFRS 9 Financial Instruments

Reclassification adjustments

Reclassification adjustments move other comprehensive income items from accumulated other comprehensive income to the income statement.

Accumulated OCI

Accumulated OCI is a component of equity that includes the total of OCI for the current period and all previous periods. OCI for the current period is closed to this account, which is reconciled each period similar to the manner in which retained earnings are reconciled.

Required disclosures

1- The tax effects of each component includes in (current) other comprehensive income, either as part of the statement presentation or in the notes to the financial statements.

2- The changes in the accumulated balances of each component of OCI (Ex. Pension adjustments, unrealized holding gains and losses on available for sale securities, foreign currency items, the effective portion of cash flows hedges, and revaluation surplus)

3- Total accumulated OCI in the balance sheet as an item of equity

4- The reclassification adjustments.

Multiple Choice n.16

Which of the following is not a minimum item on the face of the statement of comprehensive income?

- Revenue
- Finance costs
- Deferred tax
- Profit or loss
- Total comprehensive income

Multiple Choice n.17

Accumulated profits (minus any losses) held by an entity are called

- Provisions
- Equity
- Retained earnings
- Shareholders fund

Multiple Choice n.18

Which of the following is not a component of a statement of financial positions

- Non-current assets
- Inventories
- Cost of goods sold
- Retained earnings
- Deferred tax

Multiple Choice n.19

The main financial performance statement is:

- The statement of financial position
- The statement of profit or loss and other comprehensive income
- The statement of changes in equity
- The statement of cash flows

Statement of changes in equity

- **An entity shall present a statement of changes in equity showing on the face of the statement:**

(a) profit or loss for the period;

(b) each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;

(c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and

(d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8.

A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense.

- **An entity shall also present, either on the face of the statement of changes in equity or in the notes:**

(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;

(b) the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and

(c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.

- Changes in an entity’s equity between two balance sheet dates reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with equity holders acting in their capacity as equity holders (such as equity contributions, reacquisitions of the entity’s own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity’s activities during that period (whether those items of income and expenses are recognised in profit or loss or directly as changes in equity).

- This Standard requires all items of income and expense recognised in a period to be included in profit or loss unless another Standard or an Interpretation requires otherwise. Other Standards require some gains and losses (such as revaluation increases and decreases, particular foreign exchange differences, gains or losses on remeasuring available-for-sale financial assets, and related amounts of current tax and deferred tax) to be recognised directly as changes in equity. Because it is important to consider all items of income and expense in assessing changes in an entity's financial position between two balance sheet dates, this Standard requires the presentation of a statement of changes in equity that highlights an entity's total income and expenses, including those that are recognised directly in equity.

- IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another Standard or an Interpretation require otherwise. IAS 8 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of retained earnings, except when a Standard or an Interpretation requires retrospective adjustment of another component of equity. Disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Multiple Choice n.20

What is another name for a share's "nominal value"

- Share premium
- Par value
- Market value
- Discounted value

Multiple Choice n.21

Which of the following disclosures are not required in relation to share capital on the SOFP

- Number of shares authorized
- Number of share issued and fully paid
- Names of individual shareholders
- Shares in equity held by itself of by related group companies
- Par value of shares

Multiple Choice n.22

When a company issues shares for more than their nominal amount, the excess is called…

- Share excess
- Share premium
- Share markup
- Par value

Multiple Choice n.23

Dividends per share should not be shown in…

- Statement of changes in equity
- Statement of financial position
- Notes to the financial statements

Multiple Choice n.24

The main purpose of the statement of changes in equity is

- To show how each component of an entity's equity has altered during an accounting period
- To show an entity’s total equity at the end of an accounting period
- To show an entity’s income, expenses and profit for an accounting period
- To show an entity’s assets, liabilities and equity at the end of an accounting period

Cash flow statement

- Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

- **The notes shall:**

(a) present information about the basis of preparation of the financial statements and the specific accounting policies must disclose;

(b) disclose the information required by IFRSs that is not presented on the face of the balance sheet, Comprehensive income, statement of changes in equity or cash flow statement; and

(c) provide additional information that is not presented on the face of the balance sheet, Comprehensive income, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them.

- Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) a statement of compliance with IFRSs ;

(b) a summary of significant accounting policies applied ;

(c) supporting information for items presented on the face of the balance sheet, Comprehensive income, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and

(ii) non-financial disclosures, eg the entity’s financial risk management objectives and policies (see IFRS 7).

- In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in profit or loss may be combined with information on maturities of financial instruments, although the former disclosures relate to the Comprehensive income and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.
- Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of accounting policies

- **An entity shall disclose in the summary of significant accounting policies:**

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

- It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

- In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IAS 31 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment. IAS 23 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.

- Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, an entity subject to income taxes would be expected to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When business combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.
- An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs, but is selected and applied in accordance with IAS 8.

- **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations , that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**
- In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. For example, management makes judgements in determining:

(a) whether financial assets are held-to-maturity investments;

(b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

Key sources of estimation uncertainty

- An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and

(b) their carrying amount as at the balance sheet date.

Examples of the types of disclosures made are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Capital

- **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**
- The entity shall disclose the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

- An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

- An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

- An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity’s operations and its principal activities; and

(c) the name of the parent and the ultimate parent of the group.

Effective date

- An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.
- An entity shall apply this standard for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

Multiple Choice n.25

Which of the following is not contained in the notes of the financial statements under IAS 1

- A statement of compliance with IFRS
- Measurement basis used
- Details of specific accounting policies used
- Numbers of employees

Multiple Choice n.26

The notes to the financial statements should provide information

- As required by international standards, if not presented elsewhere in the FS
- About the entity’s accounting policies
- Which is relevant to an understanding of the FS
- All of the above