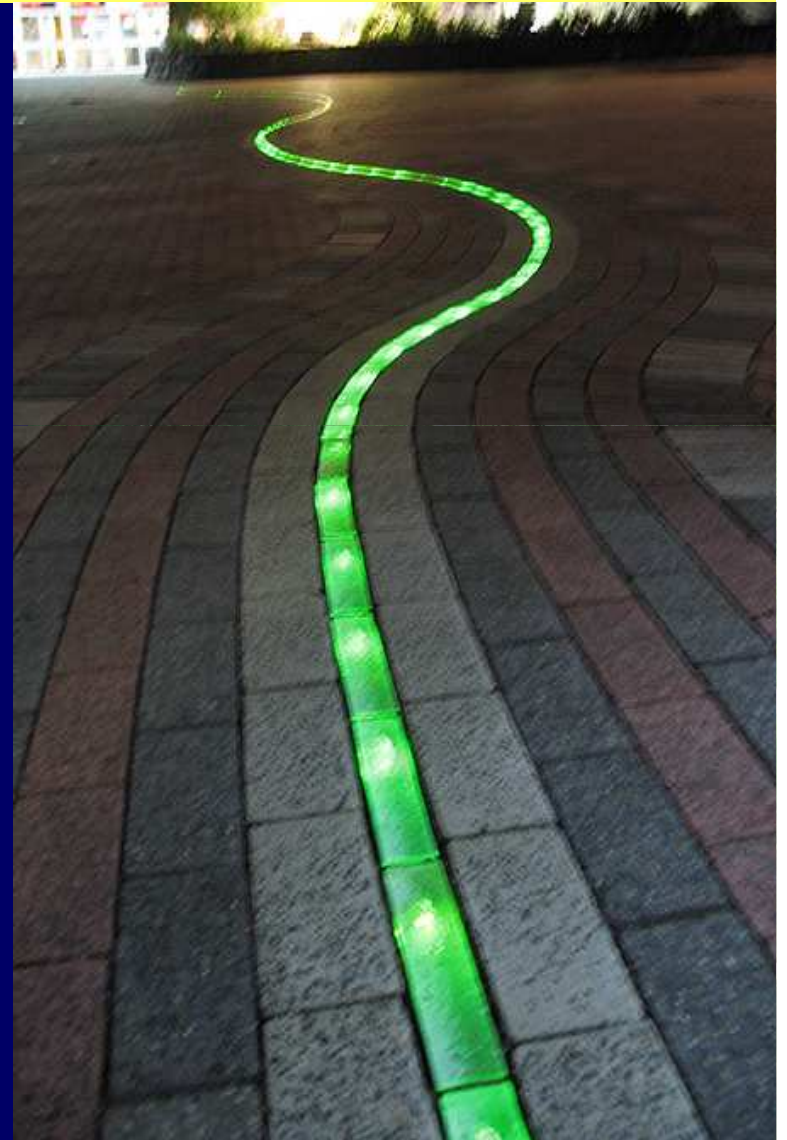


IAS-1R : Presentation of Financial statements

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Pathway

- Introduction
- Objective & scope
- Complete set of Financial statements
- General Features
- Structure & Content

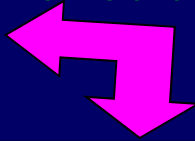


Introduction

- Guidance on overall structure of financial statements
- On 6th September 2007 IAS-1(revised) replaced existing IAS-1(2005) for annual period beginning on or after 1 January 2009
- IAS 1(revised) , part of larger project undertaken jointly by IASB & FASB

Objective and scope

- *to provide information about the financial position, financial performance and cash flows of an entity*



useful to a wide range of users

- *show the results of the management's stewardship of the resources entrusted to it." (IAS revised Para 9)*



Complete Set Of Financial statements

Complete Set of Financial Statements

Statement of Financial Position as at the end of the period	Previous title <u>or changes</u> Previous title: "Balance Sheet"
To use a single statement to present all items of income and expense	To use two statements to present all items of income and expense
Statement of Comprehensive Income for the period	Income Statement for the period Statement of Comprehensive Income for the period
Statement of Changes in Equity for the period	No title change New statement No title change (but restructured)
Statement of Cash Flows for the period	Previous title: "Cash Flow Statement"
Notes	No title change
A statement of financial position as at the beginning of the earliest comparative period, if required	New requirement

General Feature

Fair presentation

Going concern

Accrual basis of accounting

Materiality

Offsetting

Comparative information

Consistency of presentation

General Feature: Fair Presentation

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.

General Feature: Fair Presentation

A fair presentation also requires an entity:

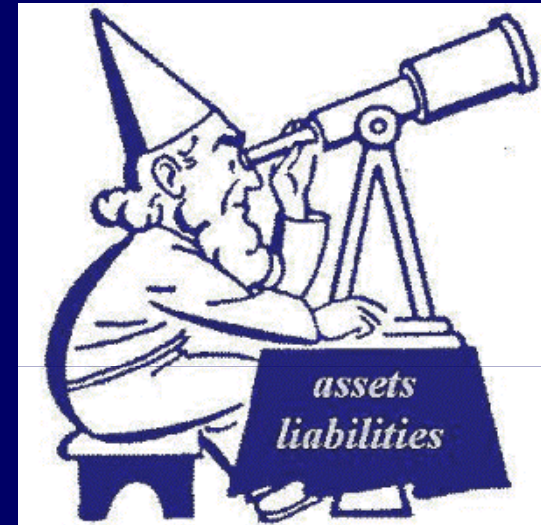
- *(a) to select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*
- *(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.*
- *(c) to provide additional disclosures when required*

General Feature: Fair Presentation override

- *In case of departure disclosure required:*
- *that management has concluded that the financial statements present fairly the **entity's financial position, financial performance and cash flows**;*
- *complied with applicable IFRSs, **except** departed from a particular requirement to achieve a fair presentation;*
- *the **title of the IFRS** from which the entity has departed, **the nature of the departure**, including*
 - ***the treatment** the IFRS require,*
 - ***the reason** why that treatment would be misleading*
 - ***the treatment adopted**; and*
- *for each period presented, the **financial effect of the departure** on each item in the financial statements that would have been reported in complying with the requirement*

General Feature: Going Concern

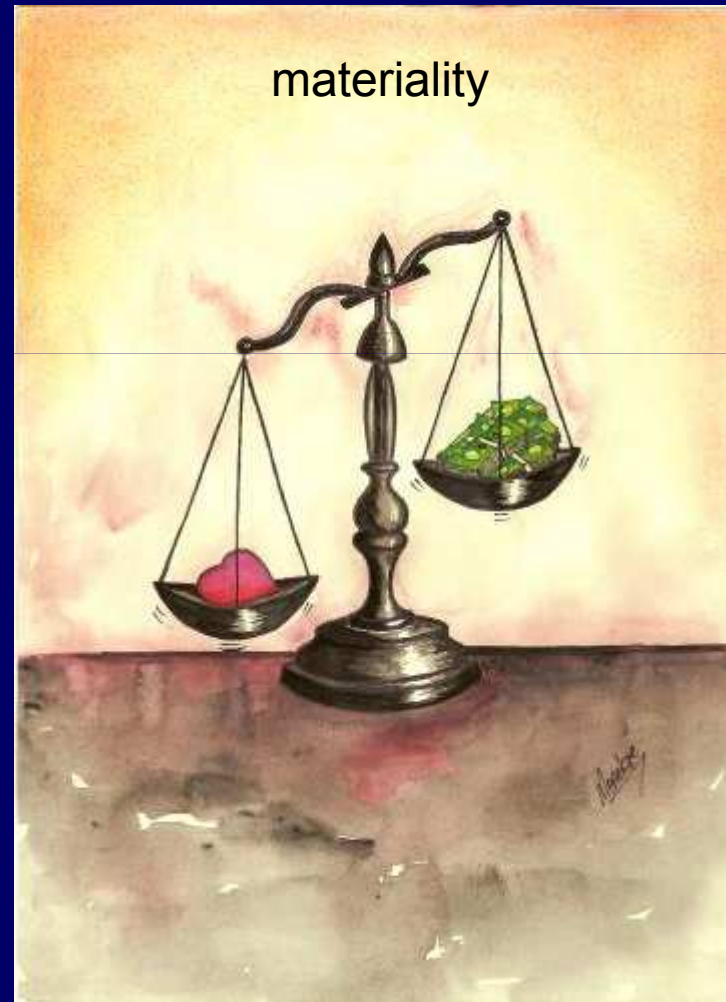
- When preparing financial statements, management shall **make an assessment** of an entity's ability to continue as a going concern
- prepare financial statements on a going concern basis



- unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so

General Features

- Accrual basis of accounting
- Materiality and aggregation
 - material → present separately
 - immaterial → aggregate with other items



General feature

- **Offsetting** : allowed when expressly required or permitted by an accounting standard.

Otherwise offsetting is prohibited



General Feature

- **Frequency Of reporting** : Financial statement are presented at least annually.
- Disclose:
 - reason for using period other than one year
 - that comparative amounts are not comparable
 - financial statements for 52 weeks permitted

General Feature: Comparative information

- *“Except when IFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period’s financial statements.*
- *An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements” IAS 1 revised para 38*

General Feature: Comparative information

- *“When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items or when it reclassifies items in its financial statements,*

- *it shall present, as a minimum,*

three statements of financial position, two of each of the other statements, and related notes.

- *An entity presents statements of financial position as at:*

- *the end of the current period,*
- *the end of the previous period (which is the same as the beginning of the current period), and*
- *the beginning of the earliest comparative period.”*

General Feature : Consistency of presentation

- *Consistency in presentation from one period to the next unless:*
- *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*
- *an IFRS requires a change in presentation.”*



Structure and content

- **Identification :**
- Financial statements should be clearly identified & distinguished from other information in the same published documents
- IFRS applies to only financial statements.

Structure and content: Statement of financial position

- **Current vs. Non Current**

Structure and content: Statement of financial position

An entity shall classify an asset as current when:

- it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects to realise the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current

Structure and content: Statement of financial position

- Assets held for disposal
- Deferred tax assets & Liabilities

Structure and content: Statement of financial position

An entity shall classify a liability as current when:

- it expects to settle the liability in its normal operating cycle;
-
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current

Structure and content: Statement of financial position

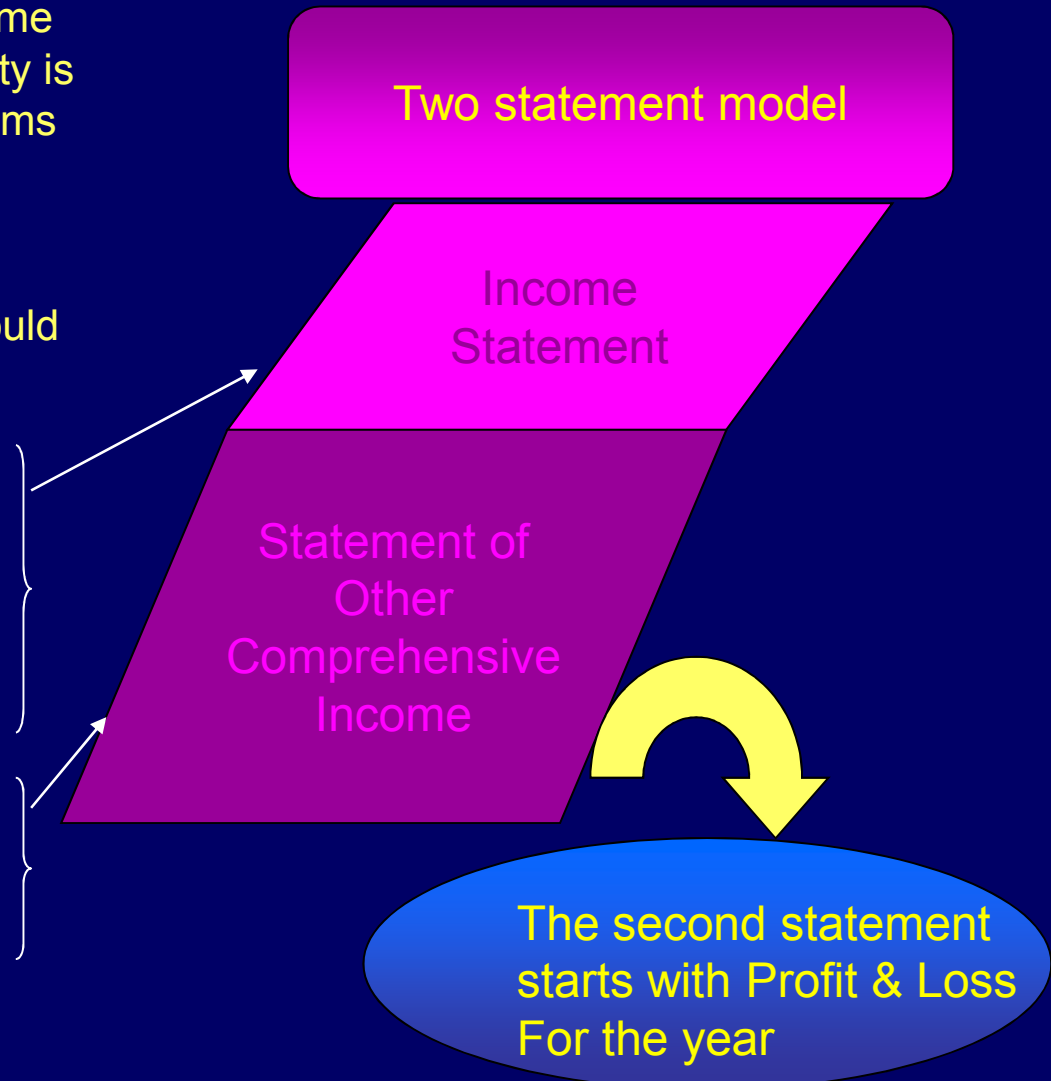
- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
 - (a) the original term was for a period longer than twelve months, and
 - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue

Structure and content: Statement of Comprehensive Income

In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include some line items
Statement of Comprehensive income that present the amounts for the period

For example, the following amounts should be presented:

1. Revenue
2. Finance costs
3. Share of profit/loss of associate or joint venture.
4. Tax expense
5. Profit or loss
4. Each component (net of tax) of other comprehensive income classified by nature
5. Total comprehensive income



Two statement model

Income Statement

Statement of Other Comprehensive Income

The second statement starts with Profit & Loss For the year

Structure and content: Statement of Comprehensive Income

In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include following line items:

- For example, the following amounts should be presented:

1. Revenue
2. Finance costs
3. Share of profit/loss of associate or joint venture.
4. Tax expense
5. Profit or loss
6. Each component (net of tax) of other comprehensive income classified by nature
7. Total comprehensive income

One Statement Model

Statement of comprehensive income



Structure and content: Statement of Comprehensive Income

An entity shall disclose the following items in the statement of comprehensive income as allocations for the period:

profit or loss for the period
total comprehensive income for the period

-
- ```
graph TD; A[profit or loss for the period
total comprehensive income for the period] --> B[non-controlling interests]; A --> C[owners of the parent.];
```
- non-controlling interests
  - owners of the parent.

## Structure and content: Statement of Comprehensive Income

- **Extraordinary**

- Now abolished as part of the “Improvements Projects”

- **Exceptional**

- Not defined but:
- Additional line items, heading & subtotals presented on face where relevant to understanding;
- Separate disclosure of nature & amount of material items of income and expenditure on face or by way of note.

# Structure and content: Statement of Comprehensive Income

## Profit & loss account

### □ classification by nature

- salaries, depreciation, transport, etc

### □ classification by function

- cost of sales, distribution, administration

if by function

→ disclose depreciation, amortisation and staff costs

### □ allocations on face of income statement

profit/loss attributable to minority

profit/loss attributable to majority

## Illustration

| <u>By Nature</u>                                            | <u>Rs.</u> |
|-------------------------------------------------------------|------------|
| • Revenue                                                   | X          |
| • Other income                                              | X          |
| • Changes in inventory of Finished goods & work in Progress | X          |
| • Work performed by entity and capitalised                  | X          |
| • Raw material & Consumable                                 | X          |
| • Staff Cost                                                | X          |
| • Depreciation & Amortisation                               | X          |
| • Other expenses                                            | X          |
| • Finance Cost                                              | X          |
| • Share Of profit from associates                           | <u>X</u>   |
| • Profit before tax                                         | X          |

| <u>By Function</u>                |          |
|-----------------------------------|----------|
| • Revenue                         | X        |
| • Cost of sales                   | <u>X</u> |
| • Gross profit/loss               | X        |
| • Other income                    | X        |
| • Distribution Cost               | (X)      |
| • Administrative cost             | (X)      |
| • Other expenses                  | (X)      |
| • Finance cost                    | (X)      |
| • Share of profit from associates | <u>X</u> |
| • Profit before tax               | X        |
| •                                 |          |

## Structure and content: Statement of Comprehensive Income Other Comprehensive Income

- Includes the following:
- Revaluation gains & losses on property , plant & equipment(IAS16)
- Gains and losses on remeasuring available for sale financial assets (IAS 39)
- The portion of gains and losses on hedging instruments that are effective cash flow hedges. (IAS 39)
- Foreign currency exchange gains & losses arising on translation of the net investment in a foreign operation(IAS21)
- Fully recognized actuarial gains & losses on defined benefit pension schemes (IAS19)
- The current & deferred tax charges or credits in respect of items taken to other comprehensive income. (IAS 12)

## Example

| Year ended 31 <sup>st</sup> March                          | 2010       |                       |     |
|------------------------------------------------------------|------------|-----------------------|-----|
|                                                            | Before tax | Tax(exp.)/<br>benefit | Net |
| • Exchange differences on translation of foreign operation | X          | X                     | X   |
| • Available for sale financial assets                      | X          | X                     | X   |
| • Cash flow hedges                                         | X          | X                     | X   |
| • Gains of property Revaluation                            | X          | X                     | X   |
| • Actuarial gains(losses) on defined benefit pension plans | X          | X                     | X   |
| • Share of other comprehensive income of associates        | X          | X                     | X   |

## Structure and content: Statement of Comprehensive Income

- Reclassification adjustments relating to components of other comprehensive income.
- Items of other Comprehensive income not reclassified. :
  - Revaluation surplus.
  - Actuarial gains & losses on defined pensioned scheme.

## Structure and content: Statement of Changes in equity

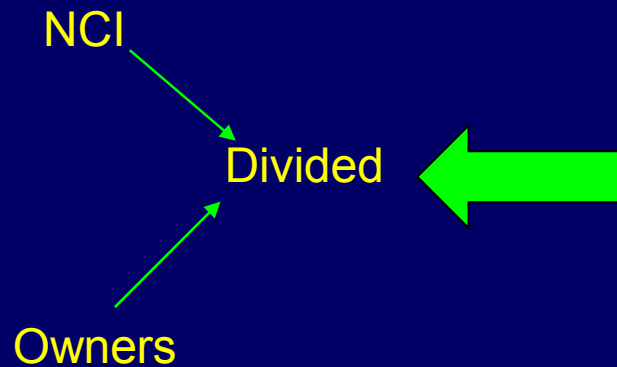
- **Dividend**





# Structure and content: Statement of Changes in equity

## Statement of Changes in equity



- For each component of equity a reconciliation between the opening and closing balances showing:-
  - Effects of retrospective adjustments (IAS 8)
  - Dividends to owners of the parent
  - Profit or loss for the period &
  - Each item of other comprehensive income
  - Transactions with owners in their capacity as owners (e.g. issue of shares)

## Structure and content: Statement of Cash flows

Required in all financial statements

No exemptions from requirement

## Structure and content: Notes to the Financial statements

- basis of preparation of the financial statements and the specific accounting policies adopted
- the information required by IFRSs that is not presented elsewhere in the financial statements; &
- information that is not presented elsewhere in the financial statements, but is relevant

## Structure and content: Notes to the Financial statements

- Disclosures are normally presented in the notes in the following order:
  - statement of compliance with IFRSs ;
  - summary of significant accounting policies applied ;
  - supporting information for items presented in the primary statements
  - other disclosures, including:
    - contingent liabilities (see IAS 37) and unrecognised contractual commitments, and
    - non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

## Structure and content: Accounting Policies , judgment & estimates

- An entity shall disclose in the summary of significant accounting policies:
  - 
  - (a) the measurement basis (or bases) used in preparing the financial statements, &
  - (b) the other accounting policies used that are relevant to an understanding of the financial statements

*•Also requires disclosure of judgments the management has made in the process of applying the accounting policies.*

## Structure and content: Capital Disclosure

- the entity discloses the following

- qualitative information objectives, policies and processes for managing capital, including:
  - a description of what it manages as capital;
    - what if, any capital requirement have been externally imposed; and

- summary quantitative data about what it manages as capital.
  - any changes in above from the previous period.
- whether externally imposed capital requirements are complied with
  - the consequences of such non-compliance.

## Structure and content : Disclosures

- summary quantitative data about the amount classified as equity;
- its objectives, policies and processes for managing its obligation to repurchase or
  - redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
  - the expected cash outflow on redemption or repurchase of that class of financial instruments; and
  - information about how the expected cash outflow on redemption or repurchase was determined.

## Structure and content : Other Disclosures

- Concerning the entity:
  - Domicile and legal form including country of incorporation
  - Description of the nature of operations and principle activities
  - The name of the parent and ultimate parent of the group
- Concerning dividends:
  - Amount proposed or declared but not recognized as a distribution during the period, & related amount per share;
  - Any amount for cumulative preference share not recognized.



# THANKS



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