IFRS Training

IAS 1 – Presentation of Financial Statements

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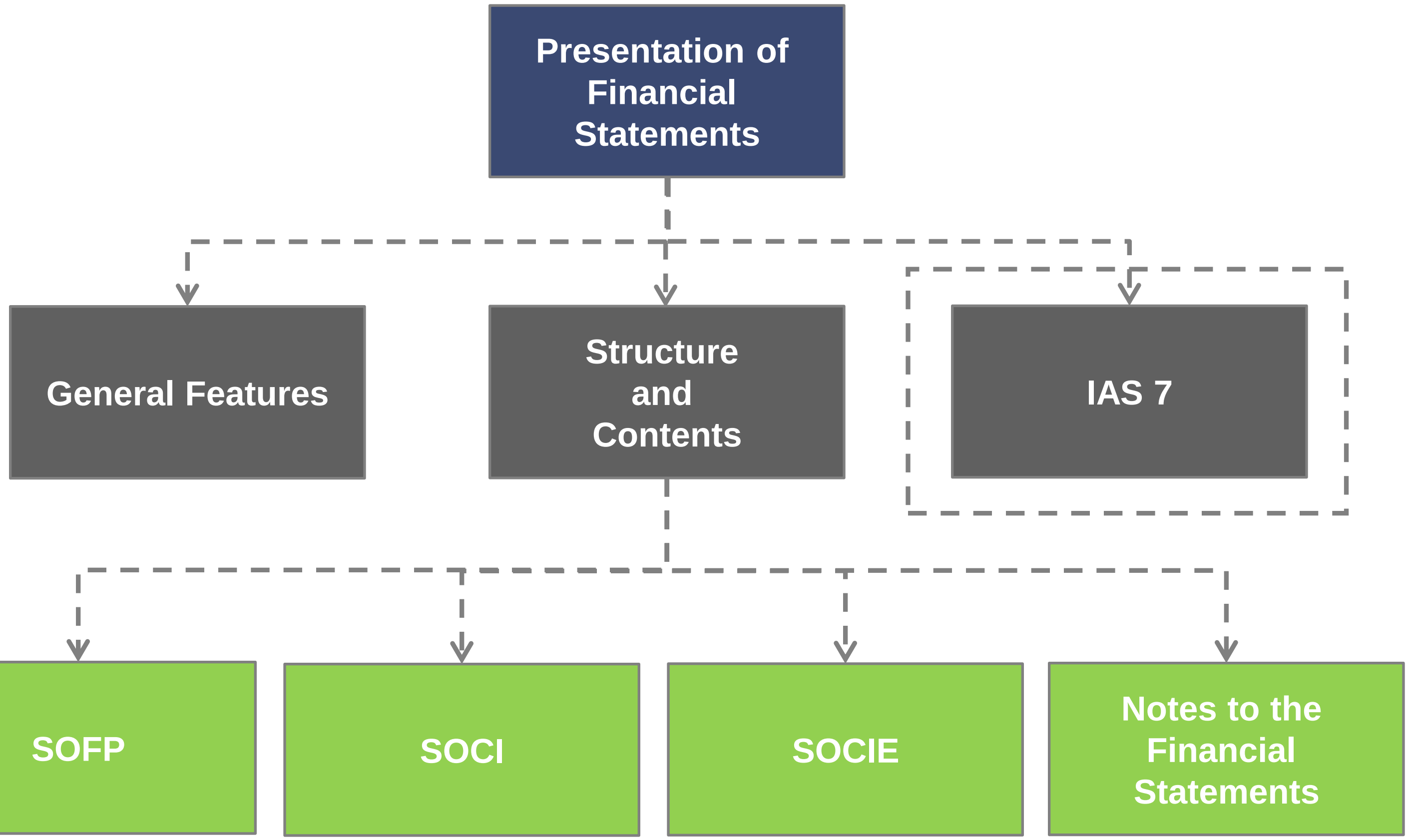
Section 1

Overview

Overview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Section 2

Objectives

Objectives

1	Basis of presentation of general purpose financial statements
2	Ensure comparability (Internally and externally)
3	To meet the needs of users who are not in a position to demand reports tailored to meet their particular information

Objectives

*To prescribe the **basis** for presentation of general purpose financial statements by setting out:*

Overall requirements for presentation of financial statements

Guidelines for their structure (order)

Minimum content requirements

*The **recognition, measurement and disclosure** of specific transactions and other events are dealt with in other standards*

Section 3

Scope

Scope

- IAS 1 **applies** to:
  - Individual entities as well as consolidated accounts
  - All entities with a profit objective
  - All types of commercial entities (public or private), including:
    - Banks and other financial institutions
    - Insurance entities
  - Public sector business entities with a profit objective

*1- IAS 1 **does not apply** to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 or other special purpose financial reports (prospectus)*
2- IAS 1 (not for specific industry) also applies to mutual funds – no equity or shareholders
3- IAS 1 prescribes only minimum content requirements

Section 4

Purpose of Financial Statements

Purpose of Financial Statements

The objective of financial statements is to provide information about:

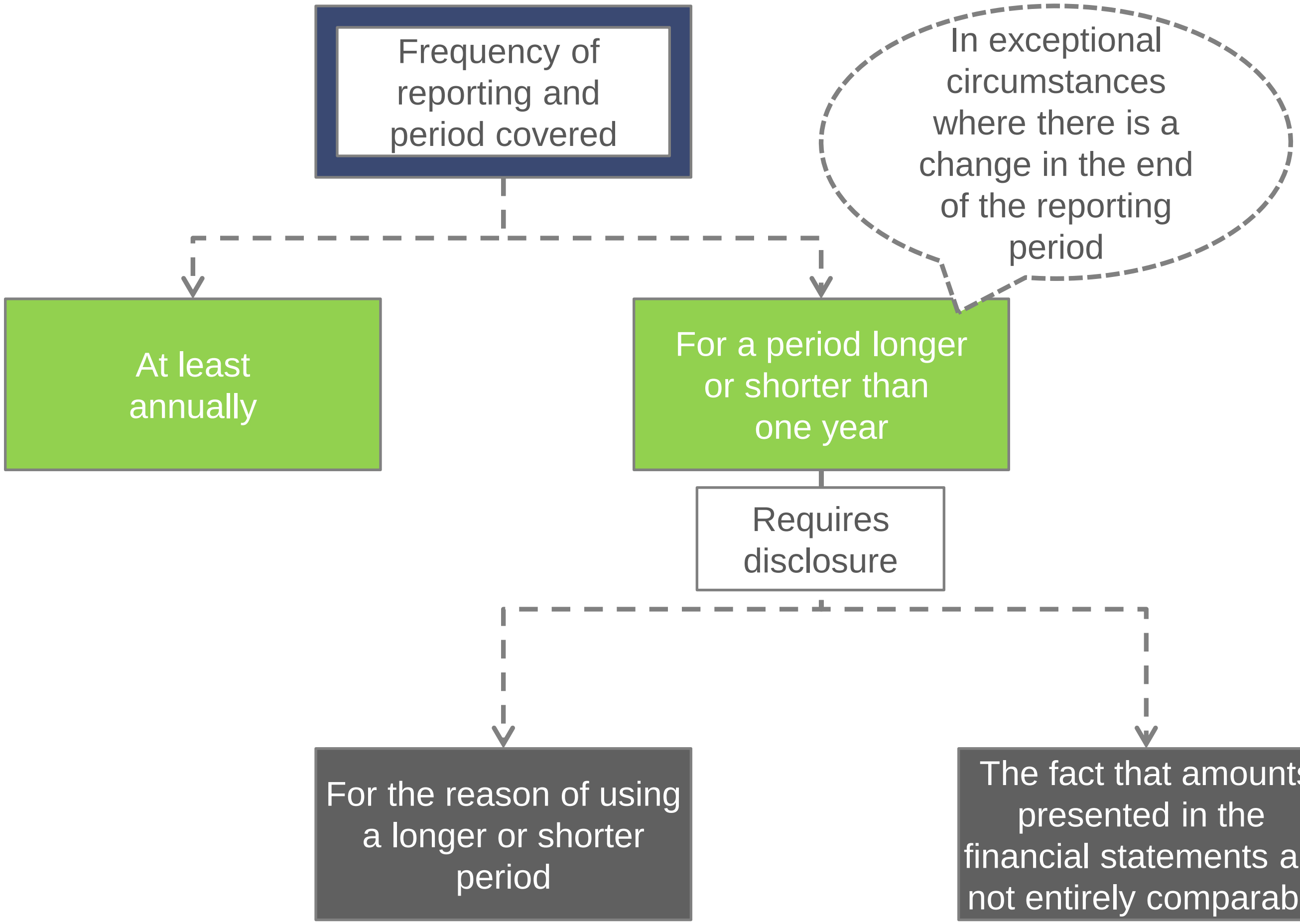
- Financial Position
- Financial Performance
- Cash flows

- ❑ Useful to a wide range of users in making economic decisions
- ❑ Show the results of management stewardship of the entity's resources

Section 5

Frequency of Reporting and Period Covered

Frequency of Reporting and Period Covered



Section 6

Components of Financial Statements

Components of Financial Statements

- ✓ Components
  - SOFP
  - SOCI
  - SOCIE
  - SOCF
  - SOFP as at the **earliest comparative period** (IAS 8) when:
    - An accounting policy has been applied retrospectively
    - A retrospective restatement has been made
    - Items have been reclassified

Components of Financial Statements

- ❑ Significant accounting policies and other explanatory notes (the notes are an integral part of the financial statements **and as important** as the four primary financial statements). They may be presented as a separate statement or incorporated within the notes. There are many items of information which may be presented either in a primary statement or in the notes

- ✓ Entities are encouraged to present additional (voluntary) information **(outside the scope of IFRS)**, such as: financial review by management, environmental reports or value added statements

- ✓ **Other titles may be used** for financial statements:

  - ❑ Statement of Financial Position or Balance Sheet

  - ❑ Statement of Comprehensive Income or Statement of Profit or Loss and Other Comprehensive Income

Components of Financial Statements

- ✓ The preparation and presentation of financial statements is the **responsibility** of the board of directors and/or governing body of an entity; including the **selection** and application of accounting policies

Section 7

General Features

Fair Presentation

- ✓ Financial statements should "**present fairly**" the:
  - ❑ Financial position
  - ❑ Financial performance
  - ❑ Cash flows of an entity
- ✓ **Fair presentation** includes the selection and application of appropriate accounting policies
- ✓ The following points made by IAS 1 expand on this principle:
  - ❑ Compliance with IFRS should be **disclosed**
  - ❑ All relevant IFRS **must be followed** if compliance with IFRS is disclosed
  - ❑ Use of **inappropriate** accounting treatment **cannot be rectified** either by disclosure of accounting policies or notes/explanatory material

Fair Presentation

- ✓ When assessing whether the complying with specific IFRS would be **misleading**, IAS 1 requires consideration of:
  - ❑ Why the **objective** of the financial statements is not achieved in the particular circumstances
  - ❑ How the entity's circumstances differ from those of other entities that comply with the requirement (if other entities comply then you should comply)
- ✓ If there is a **legitimate** need to override a requirement of an IAS, the financial statements can still be described as complying with IFRS
- ✓ **Conflicting** national requirements do not justify a **departure** from standards

Fair Presentation

- ✓ In the **extremely** rare cases in which management concludes that compliance with a requirement in an IFRS standard would be **so misleading**, IAS 1 requires **departure** from the requirement (this is only permitted if the relevant regulatory framework requires, or otherwise does not prohibit such a departure) as follows:

  - Management concluded that the financial statements **present fairly** the entity's financial position, financial performance and cash flows
  - That it has complied in all **material respects** with applicable IFRS **except** that it has departed from a standard in order to achieve a fair presentation
  - The standards from which the entity has departed
  - Details of the **nature** of the departure:
    - The **treatment** that the IFRS would require
    - The **reason** why the treatment would be so misleading in the circumstances
    - The **treatment adopted**
  - For each period presented, **the financial impact** of the departure on each item in the financial statements

Going Concern

- IAS 1 **requires** management to:
  - Assess the entity's ability to **continue as a going concern (considering all information available for the foreseeable future)**
  - Prepare financial statements **on a going concern basis**; unless management:
    - Intends to liquidate the entity
    - Cease trading
  - **Disclose material uncertainties** which may affect the going concern concept
- When financial statements **are not prepared** on a going concern basis, that fact should be disclosed, together with:
  - **The basis** on which the financial statements are prepared
  - **The reason** why the enterprise is not considered to be a going concern

Going Concern

- ✓ If a company is not a going concern the financial statements should be prepared on a **break-up basis**

- ✓ Going concern **assessment** includes:

- History of profitable operation
- Ready access to financial resources
- Debt repayment schedule
- Current and expected profitability

Accrual Basis

- An enterprise should prepare its financial statements, except for cash flow information, under the **accrual basis** of accounting
- Accrual basis / Matching principle

	Revenues	**Expenses**
Cash Basis	When Collected	When Paid
Accrual Basis	When Recognized	When Incurred

Consistency of Presentation

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

  - ❑ A review of its financial statement presentation demonstrates that the change will result in a more **appropriate presentation** (a significant change in the nature of the entity's operations)

  - ❑ A **requirement** by IFRS (such as IFRS 3)

*Change is acceptable with a condition that the change will provide information that is **reliable and more relevant and comparability will not be impaired***

Materiality and Aggregation

Material	Immaterial Items
• Present separately	• Aggregate with amounts of similar nature and function • Need not present separately

*1- Omissions or misstatements of items **are material** if they could, individually or collectively, **influence the economic decisions of the users** of the financial statements*
*2- Materiality depends on both **the size and the nature** of the omission or the misstatement*

Offsetting

- ✓ **Assets and liabilities** and also **income and expenses** should not be **offset** except when offsetting is required or permitted by another IFRS; as follows:
  - IAS 12
  - IAS 18
  - **Gains/losses** on the disposal of non-current assets
  - Expenditures related to a **provision** (IAS 37) and reimbursed
  - Gains and losses from a group of **similar transactions**; such as: Forex or gains and losses arising on financial instruments held for trading (unless such gains or losses are material)
  - **Allowance for doubtful accounts (AFDA), obsolescence allowance of inventory** and others – are not considered as offsetting

Offsetting

- Expenditure related to a recognized provision that is **reimbursed** under a contractual arrangement with a third party may be netted against the reimbursement (for example, where a warranty provision on goods sold will be reimbursed by the supplier/ manufacturer)

IFRS 7 Vs Offsetting with respect to interest income, interest expenses and net finance costs

Comparative Information

Comparative Information

Numerical Information

Disclose unless an IAS permits/requires otherwise (two of each statement is therefore a minimum requirement)

Restatement of Prior Period

Financial position is also required for the beginning of the earliest comparative period (a minimum of three statements of financial position – IAS 8)

Narrative Information

Include where relevant to understand current period's financial statements

Comparative Information

- ✓ When the presentation or classification of items in the financial statements is **amended**, comparative amounts shall be reclassified (**unless the reclassification is impracticable – after making reasonable effort**); accordingly an entity shall disclose:

  - ❑ The nature of the reclassification
  - ❑ The amount of each item or class of items that is reclassified
  - ❑ The reason of classification

  If impracticable, an entity shall disclose reason for not reclassifying and the nature of the adjustments that would otherwise have been made

Section 8

Structure and Content

Structure and Content

- IAS 1 specifies disclosures of **certain items** and certain ways
  - Some items **must appear** on the face of the SOFP or SOCI
  - Other items **must appear** in a note to the financial statements
- Financial statements **should be clearly identified and distinguished** from other information in the same published document (prospectus)
- IFRSs **apply only** to the financial statements and **not** to other information so users must be able to distinguish information prepared using IFRSs from other information not subject to accounting requirements

Prominently Displayed

- ✓ The following information is to be **prominently displayed** and repeated where necessary:
  - Each **financial statement presented**
  - Name of **reporting entity**
  - Whether financial statements relate to an **individual entity or a group**
  - The SOFP date **(reporting date)** or the period covered by the financial statements
  - The **presentation currency**
  - The level of **precision** (rounding) used in the presentation of figures in the financial statements

Statement of Financial Position

✓ Current/Non-Current Distinction

- An entity shall present **current and non-current** assets, and **current and non-current liabilities**, as separate classification on the face of its SOFP

- A presentation based on **liquidity** should only be used where it 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 (financial institutions)

- It is also permitted to present some of the assets and liabilities using current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. This might arise when an entity has diverse operations

Statement of Financial Position

- ✓ Current Assets
  - An asset is classified as **current** when it is:
    - Expected to be realized in, or is held for sale or consumption in, the **normal course** of the entity's operating cycle
    - Held primarily for **trading** purposes
    - Expected to be **realized within 12 months** after the reporting period
    - A cash or cash equivalent (IAS 7) which is not restricted in its use

    Only one of the above criteria needs to be satisfied

    Exception to this: deferred tax assets are never allowed to be classified as current assets

  - All **other assets** are classified as Non-Current Assets

Statement of Financial Position

- Current Liabilities

  - A liability is classified as **current** when it is:

    - Expected to be settled in the **normal course** of the entity's operating cycle
    - Held primarily for **trading** purposes
    - Expected to be **settled within 12 months** after the reporting period
    - The entity does not have an **unconditional right** to defer settlement of the liability for at least 12 months after the end of the reporting period

  Exception to this: deferred tax liabilities are never allowed to be classified as current liabilities

  - All **other liabilities** are classified as Non-Current Liabilities

Statement of Financial Position

- ✓ Current Liabilities (Continued)

  - Refinancing: The assessment of liability as current or non-current is applied very strictly in IAS 1. In particular, a liability should be classified as current when:

    - It is due to be settled within 12 months after the end of the reporting period, even if:
      - The original term was for a period longer than 12 months
      - An agreement to refinance or to reschedule payments on a long term basis is completed after the period end and before the financial statements are authorized to be issued (IAS 10 would be required)
    - An entity has no right to exercise either a roll over or to refinance an obligation for at least 12 months after the reporting period
    - A liability which is payable on demand (breach of contract)

Statement of Financial Position

✓ Overall Structure

- Format 1 (Net Assets)

Assets − Liabilities = Capital

- Format 2

Assets = Liabilities + Capital

Statement of Financial Position

✓ Overall Structure

❑ Format 1 (Net Assets)

Non-Current Assets		50
Current Assets	40	
Current Liabilities	(30)	
Net Current Assets / Liabilities		10
Total Assets Less Current Liabilities		60
Non-Current Liabilities		(10)
		50
Capital and Reserves		**50**

Statement of Financial Position

✓ Overall Structure

❑ Format 2

Assets	
Non-Current Assets	50
Current Assets	40
Total Assets	**90**
Equities and Liabilities	
Capital and Reserves	50
Non-Current Liabilities	10
Current Liabilities	30
Total Equity and Liabilities	**90**

Statement of Financial Position

✓ Line Items

- IAS 16
- IAS 40
- IAS 38
- IAS 39 – Financial Assets
- IAS 28
- IAS 41 – Biological Assets
- IAS 2
- Trade and Other Receivables
- IFRS 5
- Cash and Cash Equivalent (IAS 7)
- Trade and Other Payables
- IAS 37
- IAS 39 – Financial Liabilities
- IAS 12 – Current and Deferred
- IAS 27 – Non-Controlling Interest
- Issued Capital and Reserves (Attributable to Owners of the Parent)

Statement of Financial Position

✓ Line Items (Continued)

IAS 1 requires that the judgment as to whether additional items should be presented separately should be based on an assessment of:

- Nature and liquidity of assets
- The function of assets within the entity
- The amounts, nature and timing of liabilities

Statement of Financial Position

- ✓ Line Items (Continued)

- Items of IAS 16 are disaggregated into classes
- Receivables are disaggregated (Trade, due from related parties, advances, prepayments and others)
- Items of IAS 2 are disaggregated
- Items of IAS 37 are disaggregated
- Capital and reserves are disaggregated
Typically Companies will present the main headings in the SOFP and the details in the notes

Statement of Financial Position

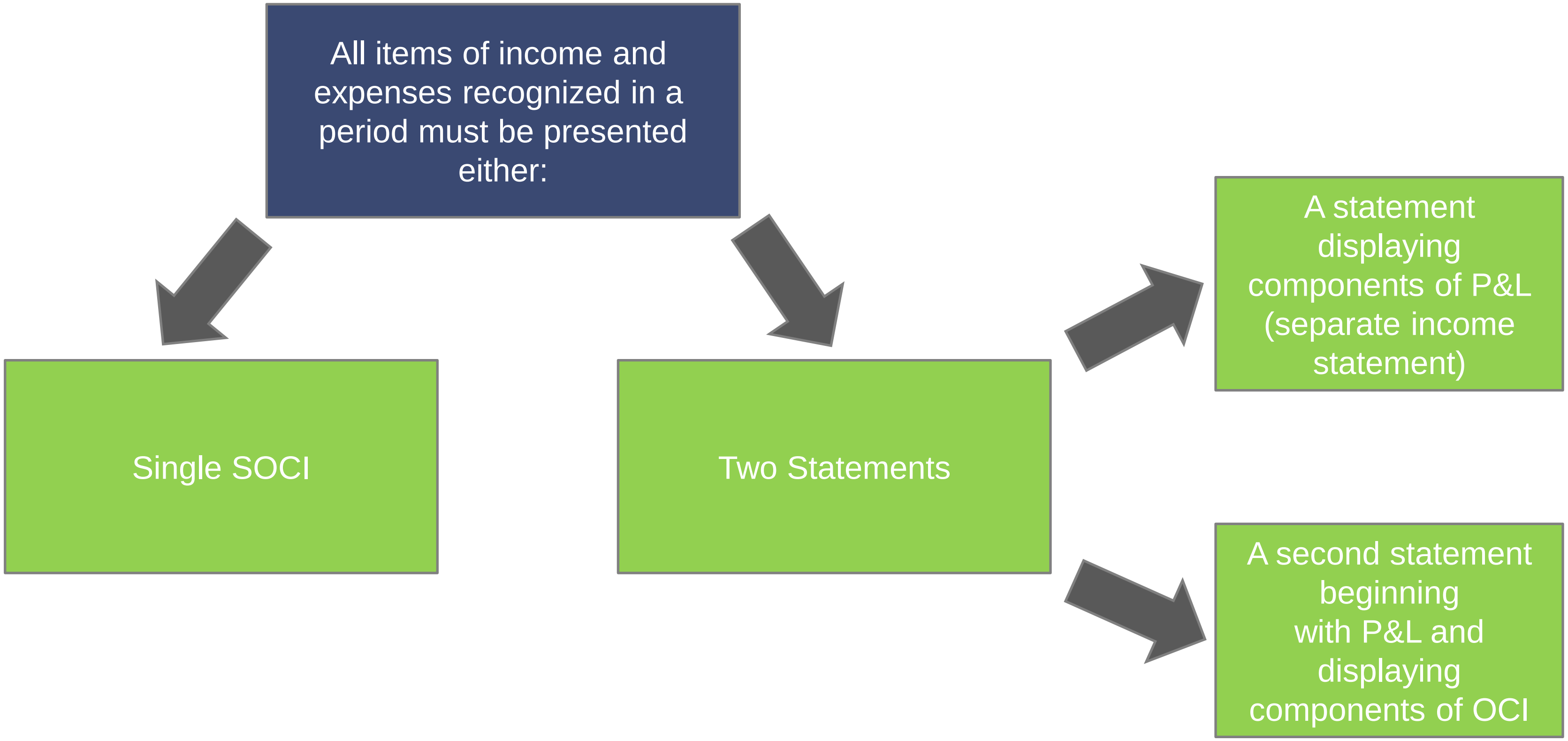
- Capital Disclosures

  - IAS 1 specifically requires the following information regarding equity and share capital to be shown either on the face of the SOFP or in the notes:

    - For each class of share capital:
      - The number of shares authorized
      - The number of shares issued and fully paid and issued but not fully paid
      - Par value per share or that the shares have no par value
      - A reconciliation of the number of shares outstanding (Weighted Average Numbers of Shares Outstanding) at the beginning and at the end of the period
      - The rights, preferences and restrictions (including restriction on the distribution of dividends)
      - Treasury shares
      - Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts
    - A description of the nature and purpose of each reserve within equity

  - An entity without share capital should disclose information equivalent to that required above (showing changes during the period)

Statement of Comprehensive Income



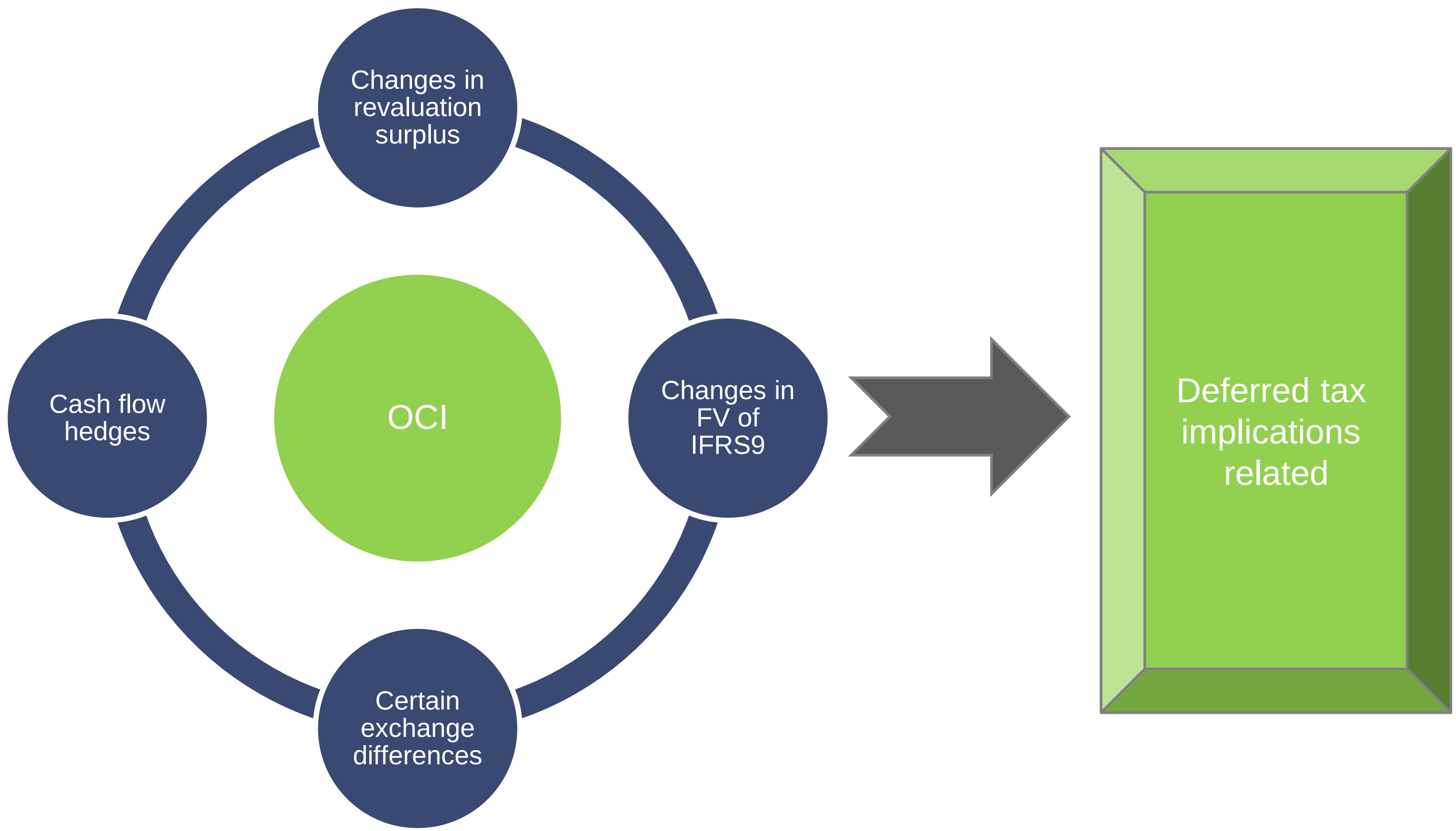
Statement of Comprehensive Income

✓ Line Items: As a minimum, the face of income statement should include the following:

- Revenue
- Finance Costs
- Share of the Profit or Loss of IAS 28
- Tax Expense
- A single Amount Comprising the Total of:
  - Discontinued Operations
  - The Measurement to FV Less Costs to Sell on the Disposal of Assets or Disposal Groups
- **Profit or Loss**
- Each Component of other CI Classified by Nature
- Share of Other CI of Associates and Joint Ventures Accounted for Using Equity Method
- Total CI
- Both Profit or Loss and Total CI must be Attributed to: Owners to the Parent and Non-Controlling Interest

Statement of Comprehensive Income

- ✓ OCI components



Statement of Comprehensive Income

- ✓ Components of OCI may be presented either:

  - ❑ Net of related tax effects
  - ❑ Before related tax effects with one amount shown for the aggregate amount of related tax effects

  (The income tax relating to each component must be disclosed in the notes if not in the SOCI)

Statement of Comprehensive Income

Year Ended 31 December 2012	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Exchange differences on translating foreign operations	X	(X)	X
Available for sale financial assets	(X)	X	(X)
Gain of property revaluations	X	(X)	X
Actuarial losses on defined benefit pension plans	(X)	X	(X)
Share of OCI of associates	X		X
Other Comprehensive Income	**X**	**(X)**	**X**

Statement of Comprehensive Income

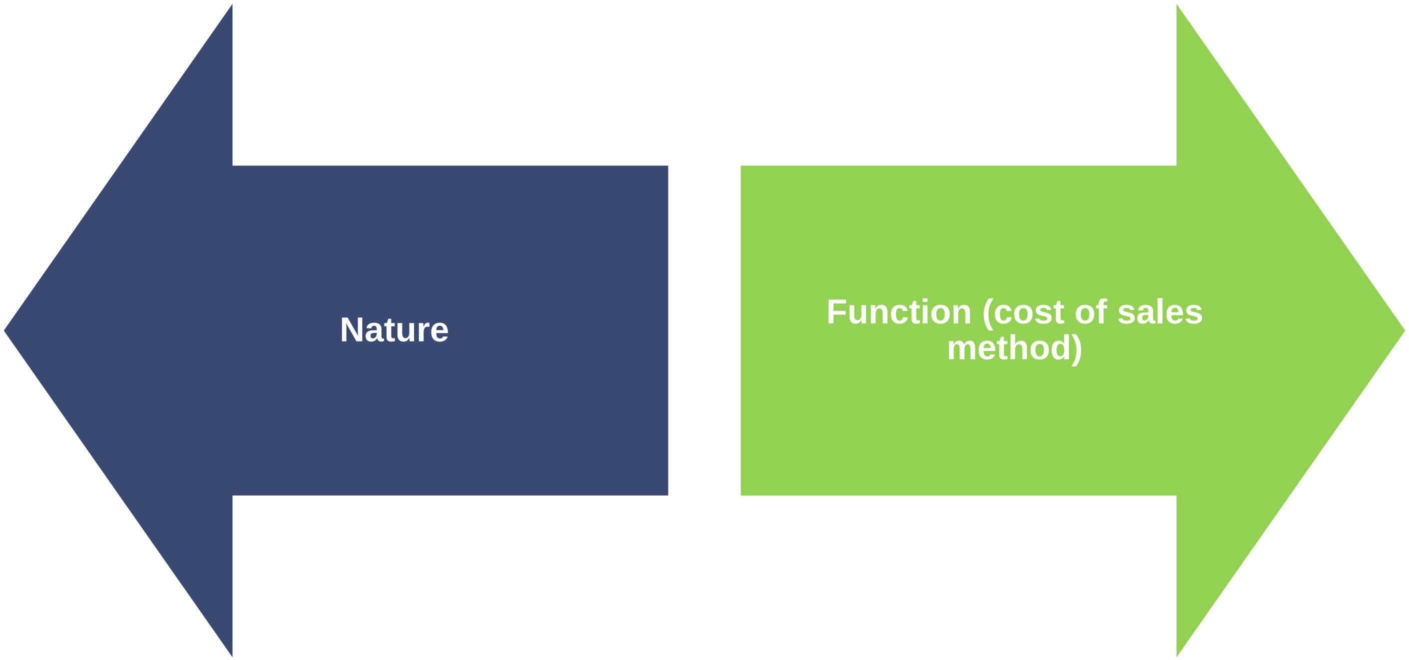
Year Ended 31 December	2012	2011
Exchange differences on translating foreign operations	X	(X)
Available for sale financial assets	(X)	X
Gain of property revaluations	X	X
Actuarial losses on defined benefit pension plans	(X)	(X)
Share of OCI of associates	X	X
Other Comprehensive Income	**X**	**(X)**
Income tax relating to components of other comprehensive income	(X)	X
Other Comprehensive Income for the Year	**X**	**(X)**

Statement of Comprehensive Income

- ✓ Material items: The nature and amount of material items of income and expenses should be disclosed separately; as follows:
  - ❑ Write-downs of Assets
  - ❑ Costs of Restructuring
  - ❑ Asset Disposal
  - ❑ Discontinued Operations
  - ❑ Legal Settlements

Statement of Comprehensive Income

- ✓ Analysis of expenses: An entity should provide an analysis of expenses using a classification based on either:



Statement of Comprehensive Income

- **By Nature**
  - **Revenue**
  - Other income
  - Changes in inventories
  - Raw materials and consumables used
  - Staff costs
  - Depreciation and amortization
  - Repair and maintenance
  - Rent expense
  - Marketing and advertising
  - Other expenses and revenues
  - Finance cost
  - <u>Share of profit from associates</u>

  Income before income taxes
  <u>Income taxes</u>
  <u>Profit for the year</u>

- **By Function**
  - Revenue
  - <u>Cost of sales</u>
  - Gross profit
  - General and administrative expenses
  - Selling and distribution
  - <u>Other operating income (expenses)</u>
  - Operating profit
  - <u>Other revenues (expenses)</u>

  Income before income taxes
  <u>Income taxes</u>
  <u>Profit for the year</u>

Statement of Changes In Equity

	Attributable to Owners of the Parent				NCI	Total Equity
	Share capital	Share Premium	Revaluation Surplus	Retained Earnings		
	US$	US$	US$	US$	US$	US$
Balance at 1 January 2009 as previously stated	X	X	X	X	X	X
Change in accounting policy	-	-	-	(X)	(X)	(X)
Balance at 1 January 2009 as restated	**X**	**X**	**X**	**X**	**X**	**X**
Issue for share capital	X	-	-	-	-	X
Dividends declared	-	-	-	(X)	-	(X)
Total comprehensive income	-	-	X	X	X	X
Transfer to retained earnings	-	-	(X)	X	-	-
Balance at 31 December 2009	**X**	**X**	**X**	**X**	**X**	**X**

Notes to the Financial Statements

- ✓ The notes must:
  - ❑ Present information about the **basis of preparation of the financial statements** and the specific accounting policies used
  - ❑ Disclose any information required by IFRSs that is not presented elsewhere in the financial statements
  - ❑ Provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them
- ✓ Notes should be cross-referenced from the face of the financial statements to the relevant note and should be presented in a systematic manner

Notes to the Financial Statements

- ✓ The notes should normally be presented in the following order:
  - ❑ A statement of compliance with IFRSs
  - ❑ A summary of significant accounting policies applied, including:
    - ❖ The measurement basis used in preparing the financial statements
    - ❖ The other accounting policies used that are relevant to an understanding of the financial statements
  - ❑ Supporting information for items presented on the face of the SOFP, SOCI (and income statement, if presented), SOCIE and SOCF, in the order in which each statement and each line item is presented

- Other disclosures, including:

  - Contingent liabilities (IAS 37) and unrecognized contractual commitments
  - Non-financial disclosures, such as the entity's financial risk management objectives and policies (IFRS 7)

- ✓ Disclosure of judgments. An entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements

Notes to the Financial Statements

- ✓ Examples: management's judgments in determining:
  - Whether financial assets are held-to-maturity investments
  - When substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities
  - Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue
  - Whether the substance of the relationship between the entity and a special purpose entity indicates control

Notes to the Financial Statements

- ✓ **Disclosure of key sources of estimation uncertainty.** An entity must disclose, in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. These disclosures do not involve disclosing budgets or forecasts

Notes to the Financial Statements

- ✓ The following other note disclosures are required by IAS 1, if not disclosed elsewhere in information published with the financial statements:
  - Domicile and legal form of the entity
  - Country of incorporation)
  - Address of registered office or principal place of business
  - Description of the entity's operations and principal activities
  - If it is part of a group, the name of its parent and the ultimate parent of the group
  - If it is a limited life entity, information regarding the length of the life

Notes to the Financial Statements

- ✓ In addition to the distributions information in the SOCIE, the following must be disclosed in the notes: the amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the period, and the related amount per share and the amount of any cumulative preference dividends not recognized