



IFRS Training

IAS 1 – Presentation of Financial Statements



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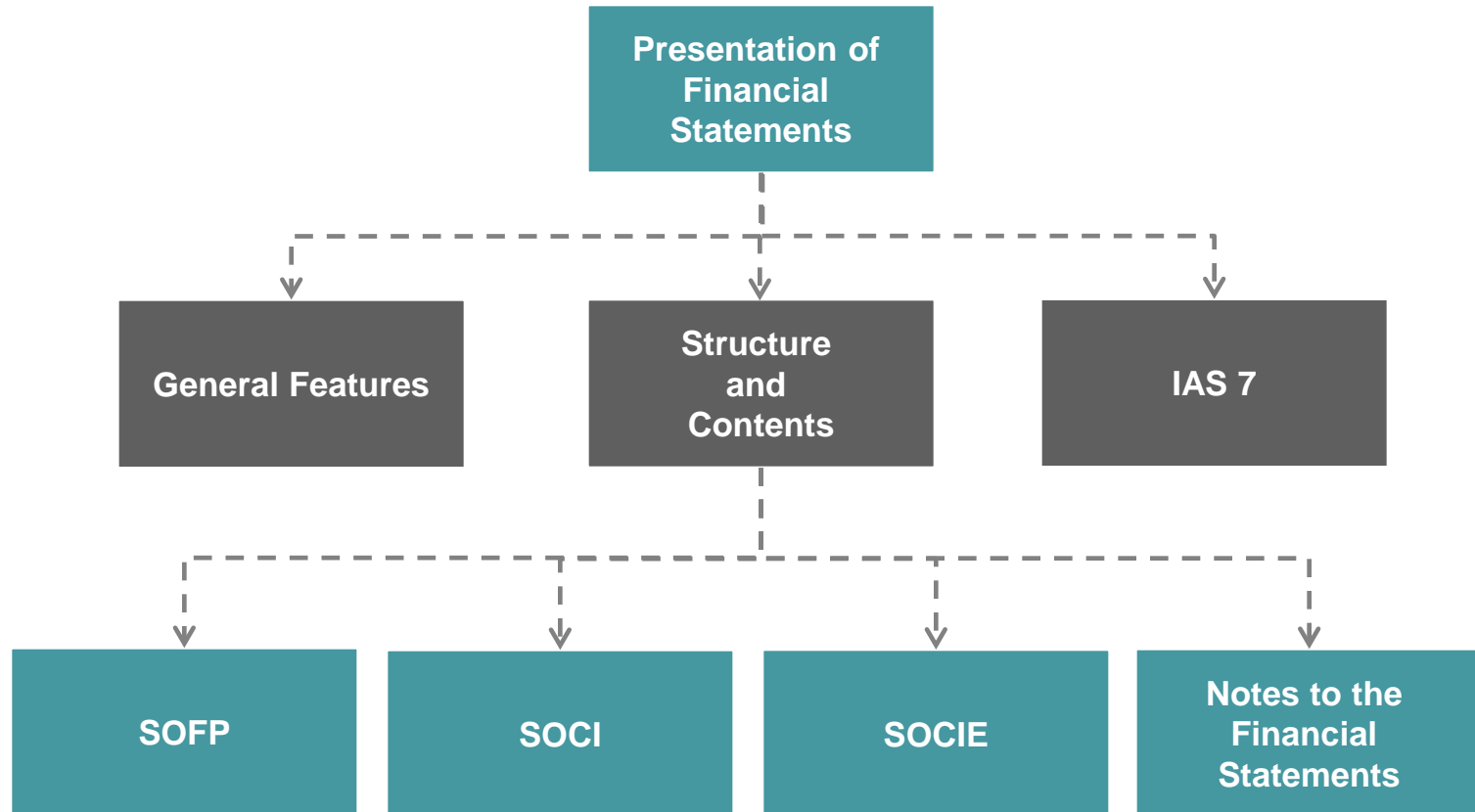


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Section 1

Overview



Section 2

Objectives





1

Basis of presentation of general purpose financial statements to deal with the components of financial statements, fair presentation, accounting concepts, disclosures, structure and content of the 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





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 or interpretations

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Section 3

Scope



- ✓ IAS 1 applies to:
 - ❑ Individual entities as well as consolidated accounts (IAS 27)
 - ❑ All entities with a profit oriented entities
 - ❑ 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

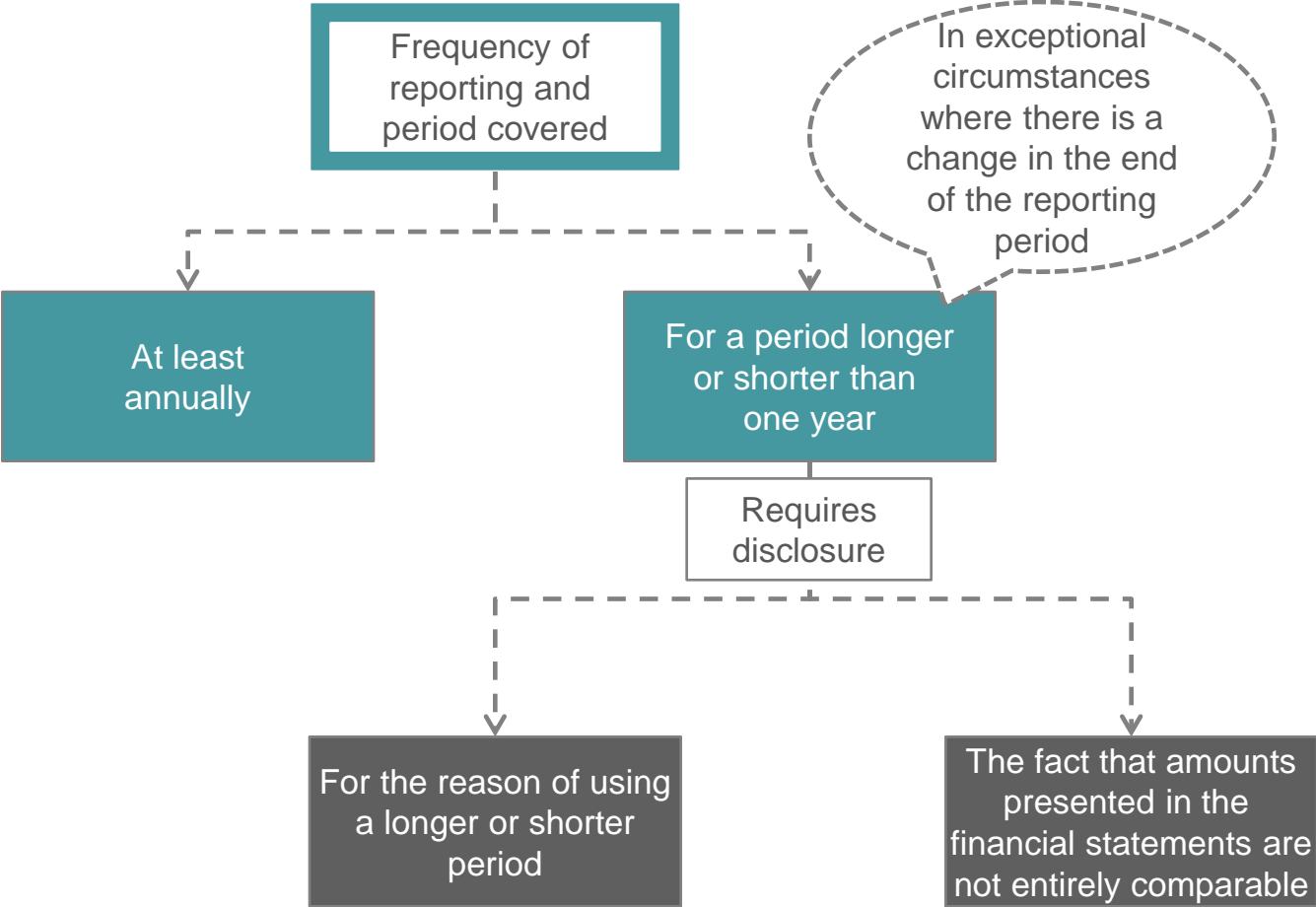
- ☐ Useful to a wide range of users in making economic decisions
- ☐ Show the results of management stewardship of the entity's resources



Section 5

Frequency of Reporting and Period Covered

Frequency of Reporting and Period Covered >>





Section 6

Components of Financial Statements



✓ Components

- ❑ SOFP
- ❑ SOCI
- ❑ SOCIE
- ❑ SOCF
- ❑ 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
- ❑ 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



- ✓ 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
- ✓ 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



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Section 7

General Features



- ✓ 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
- ✓ Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions or events





- ✓ 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 than 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





- ✓ 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



- ✓ 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





- ✓ 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





- ✓ 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***





Material

- Present separately

Immaterial Items

- 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



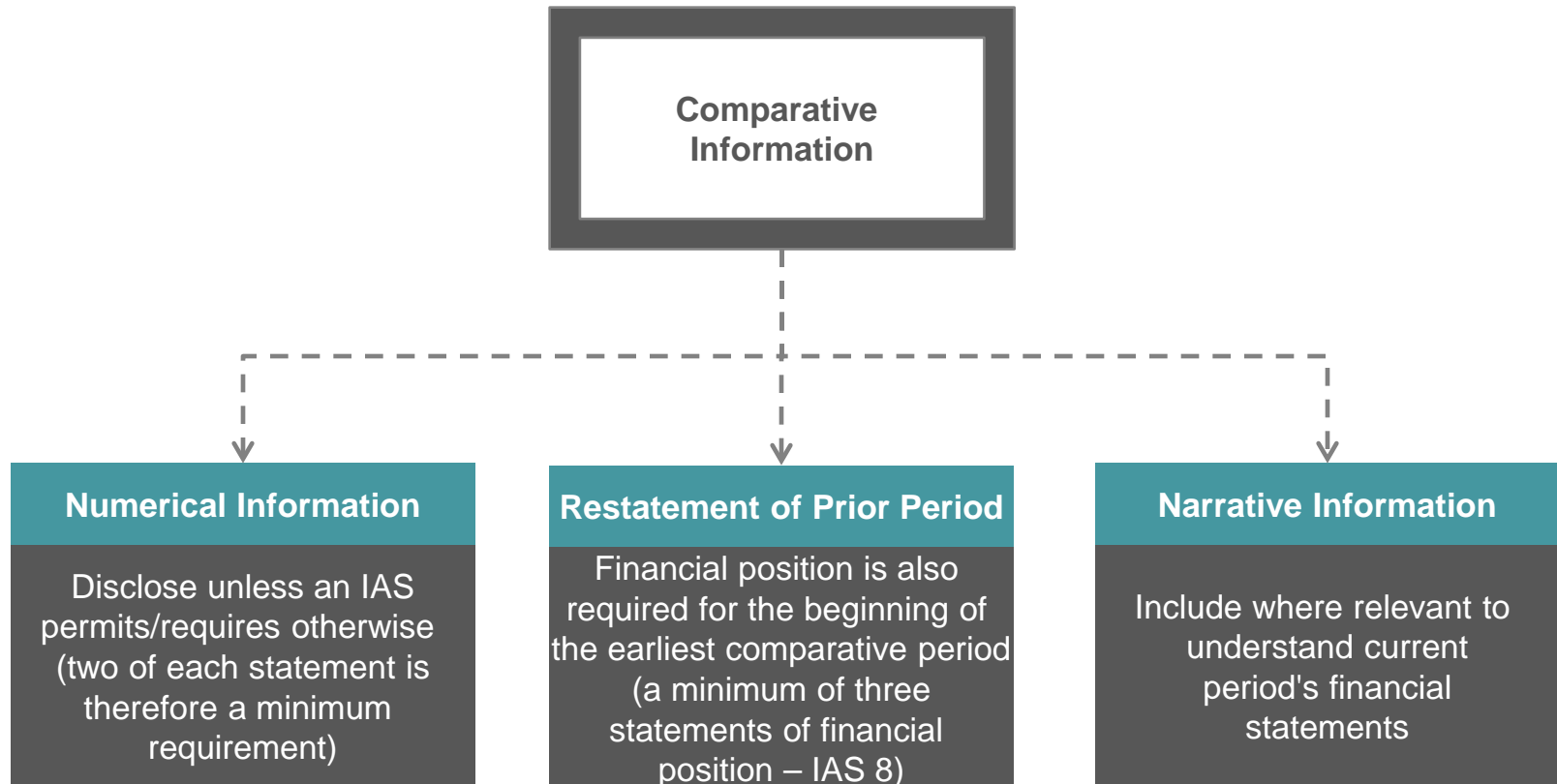


- ✓ Assets and liabilities and also income and expenses should not be offset except when offsetting is required or permitted by another IFRS; as follows:
 - ❑ IAS 12
 - ❑ IAS 18
 - ❑ Gains/losses on the disposal of non-current assets
 - ❑ Expenditures related to a provision (IAS 37) and reimbursed
 - ❑ 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



- ❑ 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*





- ✓ 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



- ✓ 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





- ✓ 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





✓ 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



✓ 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



✓ 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



✓ 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)

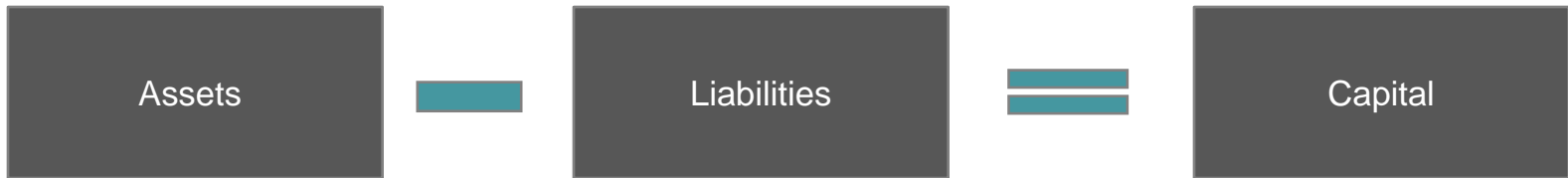


Statement of Financial Position

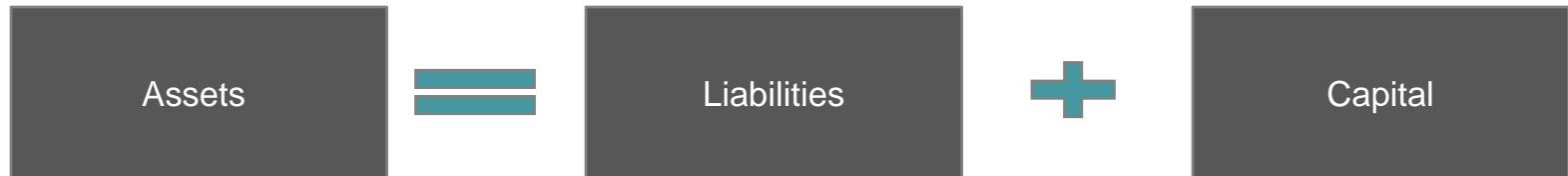


✓ Overall Structure

☐ Format 1 (Net Assets)



☐ Format 2



Statement of Financial Position



✓ Overall Structure

☐ Format 1 (Net Assets)

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

Statement of Financial Position



✓ Overall Structure

☐ Format 2

Assets

Non-Current Assets	50
Current Assets	<u>40</u>
Total Assets	<u>90</u>

Equities and Liabilities

Capital and Reserves	50
Non-Current Liabilities	10
Current Liabilities	<u>30</u>
Total Equity and Liabilities	<u>90</u>

Statement of Financial Position

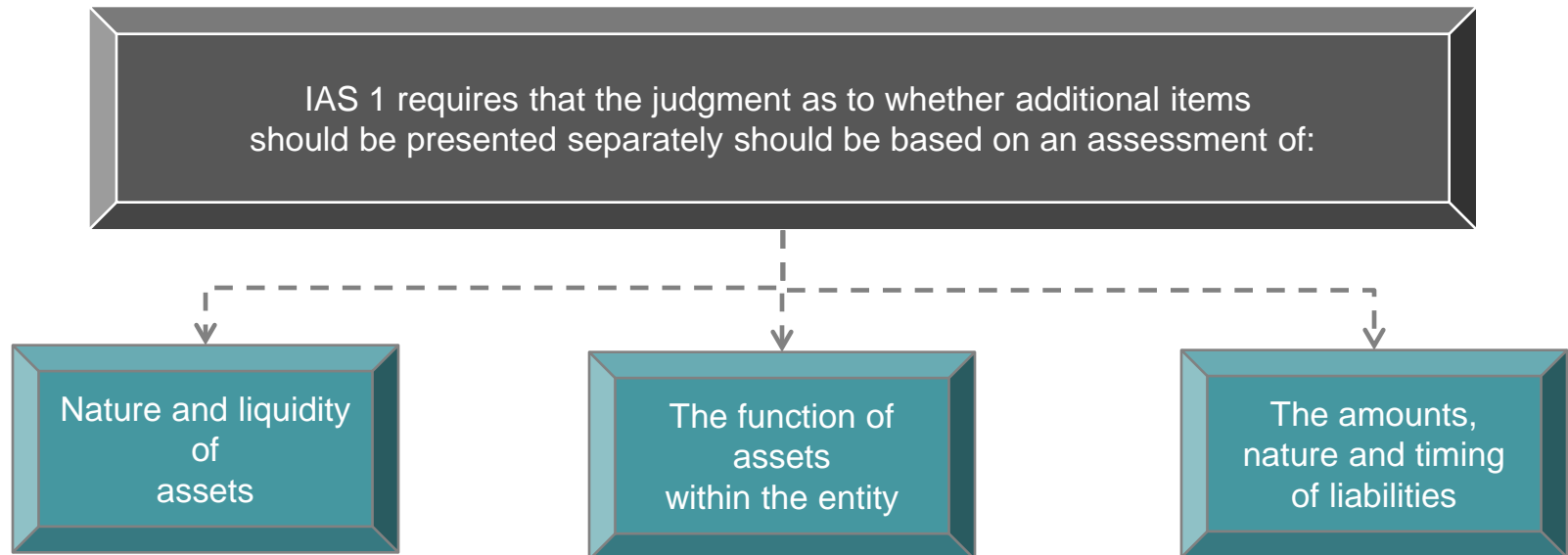


✓ Line Items

- ☐ 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)



✓ Line Items





✓ 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





✓ 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

Statement of Financial Position



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

Statement of Comprehensive Income



All items of income and expenses recognized in a period must be presented either:

Single SOCI

Two Statements

A statement displaying components of P&L (separate income statement)

A second statement beginning with P&L and displaying components of OCI

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

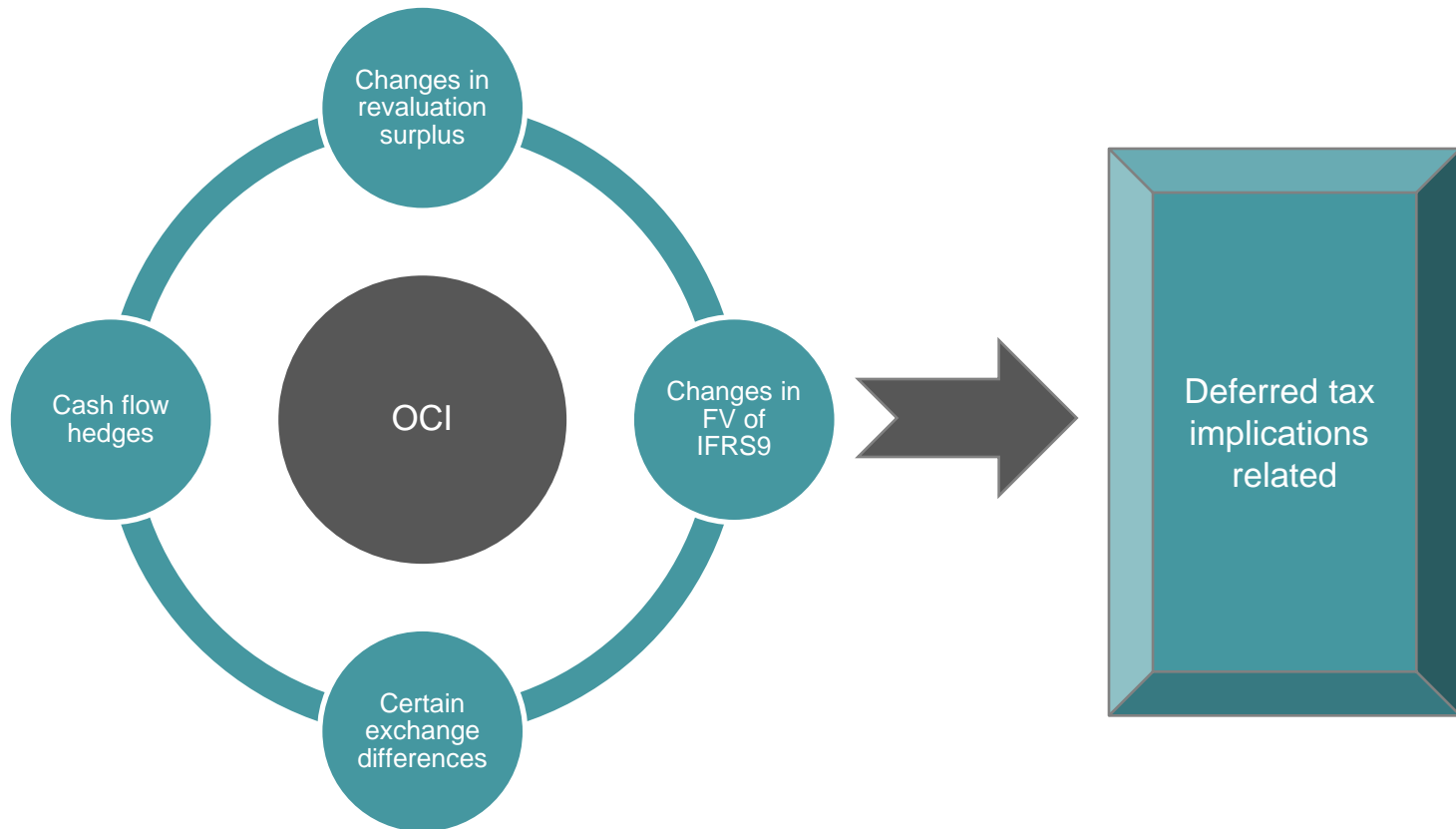
☐ Both Profit or Loss and Total CI must be Attributed to: Owners to the Parent and Non-Controlling Interest

Statement of Comprehensive Income



- ✓ OCI components shall be classified to:
 - ☐ Other comprehensive income to be reclassified to profit or loss in subsequent periods
 - ☐ Other comprehensive income not to be reclassified to profit or loss in subsequent periods

Statement of Comprehensive Income



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 2014	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	2014	2013
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



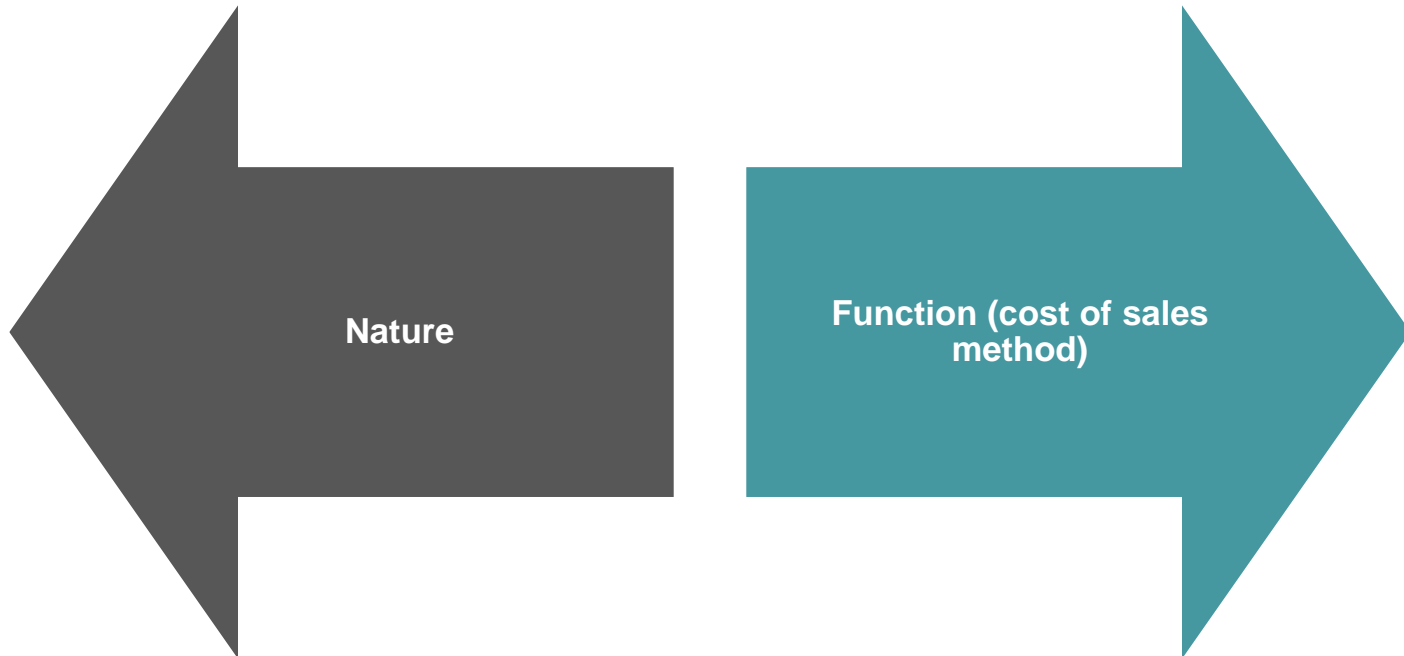
- ✓ Material items: The nature and amount of material items of income and expenses should be disclosed separately; as follows:
 - ☐ Write-downs of Assets
 - ☐ Costs of Restructuring
 - ☐ Asset Disposal
 - ☐ Discontinued Operations
 - ☐ Legal Settlements



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
- ☐ Share of profit from associates

Income before income taxes

Income taxes

Profit for the year

✓ By Function

- ☐ Revenue
- ☐ Cost of sales
- ☐ Gross profit
- ☐ General and administrative expenses
- ☐ Selling and distribution
- ☐ Other operating income (expenses)
- ☐ Operating profit
- ☐ Other revenues (expenses)

Income before income taxes

Income taxes

Profit for the year

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 2013 as previously stated	X	X	X	X	X	X
Change in accounting policy	-	-	-	(X)	(X)	(X)
Balance at 1 January 2013 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 2014	X	X	X	X	X	X



- ✓ 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



- ✓ 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





- ✓ 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
- ✓ 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





- ✓ 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



- ✓ 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

