Presentation of Financial Statements

Credibility . Professionalism . AccountAbility
IAS 1 - Introduction

- IAS 1 sets out overall requirements for presenting financial statements, guidelines for their structure and minimum requirements for content.

- The nature and amount of economic resources (and claims) is useful because different types of resources affect a user’s assessment of the entity’s prospects for future cash flows differently.

- Information about the variability and components of the return produced is useful in assessing the uncertainty of future cash flows.
A complete set of financial statements comprises a statement of financial position, statement of profit or loss and comprehensive income, statement of changes in equity, statement of cash flows & notes (paragraph 10).

Financial statements must present fairly the financial position, financial performance and cash flows of an entity (paragraph 15).

complying with IFRSs (with additional disclosures) is presumed to result in a fair presentation.
The objective of 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. 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) contributions by and distributions to owners in their capacity as owners; and
(f) cash flows.
A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;
(b) a statement of profit or loss and other comprehensive income for the period;
(c) a statement of changes in equity for the period;
(d) a statement of cash flows for the period;
(e) notes, comprising a summary of significant accounting policies and other explanatory information;
(ea) comparative information in respect of the preceding period; and
(f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.
General features

- **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.
- An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes.
- An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.
General features

- **Going concern** - financial statements may only be prepared on this basis if management assess that this is appropriate
- Accrual basis of accounting
- **Materiality**
  - Each material class of similar items is presented separately
  - Dissimilar items are presented separately, unless they are immaterial
  - Materiality is determined by the potential of the information, or its omission, to influence economic decisions made by users of the financial statements
  - Materiality is entity specific
General features

- **Offsetting**
  - not applicable unless required or permitted by IFRS

- **Frequency of reporting**
  - at least annually

- **Comparative information**
  - required unless IFRS specifies not
  - consider comparatives when changing the presentation or classifications of items

- **Consistency of presentation**
  - retain the presentation and classification of items unless IFRS requires a change or due to changes in an entity’s operations another alternative would be more appropriate.
Current /non current distinction

- Presentation of current and non current assets and liabilities as separate classifications on the Statement of Financial Position
- The distinction is based on:
  - timing of realization or settlement of the asset or liability
  - primary purpose for holding the asset or liability
Current/non-current distinction continued

- Make current/non-current distinction unless liquidity presentation is reliable and more relevant
- In liquidity presentation present assets and liabilities in order of liquidity
- Current assets and current liabilities are defined
- All other assets and liabilities are non-current
- Deferred tax balances are non-current
Current assets

Current asset if

- expect to realise, sell or consume in entity’s normal operating cycle
- held for trading
- expects to realise in next 12 months
- cash or equivalent, unless restricted for +12 months
Current liability

Current liability if

- expect to settle in entity’s normal operating cycle
- held for trading
- due to be settled in next 12 months
- entity does not have an unconditional right to defer settlement for at least 12 months after reporting date
Preparing financial statements requires judgement and the use of estimates (eg materiality judgements and going concern assessments—when it is doubtful whether the entity has no realistic alternative but to liquidate).

IAS 1 requires disclosure of: judgements that management has made in the process of applying the entity’s accounting policies that have the most significant effect.

Information about major sources of estimation uncertainty.
Preparing financial statements requires judgement regarding the best way in which to present financial information.

Financial statements are, generally, prepared on the going concern basis—judgement may be required when determining whether this basis is appropriate.
Scope and definitions

An entity shall prepare a statement of cash flows in accordance with the requirements of IAS 7 and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

Users of an entity’s financial statements are interested in how the entity generates and uses cash and cash equivalents.
The following terms are used in this Standard with the meanings specified:
- *Cash comprises cash on hand and demand deposits.*
- *Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*
- *Cash flows are inflows and outflows of cash and cash equivalents.*
- *Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.*
- *Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.*
- *Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.*
Classification of activities

- Cash flows are classified by activities: operating; investing; and financing.
- **Investing activities** are the acquisition and disposal of long-term assets and investments that are not cash equivalents.
- **Financing activities** are changes in the equity capital and borrowings of the entity.
- **Operating activities** are the revenue-producing activities of the entity, and all activities that are not investing or financing.
The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing.

Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
Cash from Operating activities

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Examples of cash flows from operating activities are:
(a) cash receipts from the sale of goods and the rendering of services;
(b) cash receipts from royalties, fees, commissions and other revenue;
(c) cash payments to suppliers for goods and services;
(d) cash payments to and on behalf of employees;
(e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
(g) cash receipts and payments from contracts held for dealing or trading purposes.
The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

- cash payments to acquire property, plant and equipment, intangibles and other long-term assets.
- cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- cash payments to acquire equity or debt instruments of other entities cash receipts from the repayment of advances and loans made to other parties.
Cash from financing activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
(a) cash proceeds from issuing shares or other equity instruments;
(b) cash payments to owners to acquire or redeem the entity’s shares;
(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
(d) cash repayments of amounts borrowed; and
(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
There is a choice of ways of presenting cash flows from operating activities (paragraph 18):

- the direct method—gross cash receipts and gross cash payments are shown (paragraph 19). This method is encouraged.

- the indirect method—profit or loss is adjusted to determine operating cash flow (paragraph 20).
Direct method

Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
(a) from the accounting records of the entity; or
(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of comprehensive income for:
(i) changes during the period in inventories and operating receivables and payables;
(ii) other non-cash items; and
(iii) other items for which the cash effects are investing or financing cash flows.
Indirect method

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:
(a) changes during the period in inventories and operating receivables and payables;
(b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
(c) all other items for which the cash effects are investing or financing cash flows.
IAS 10

Events after the Reporting Period
Introduction

- Specifies accounting and reporting for events (favourable and unfavourable) that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- Those events could affect a user’s resource allocation decision even if they are indicative of conditions that arose after the end of the reporting period.
- How to report the event depends on whether the event is indicative of a condition that existed at the end of the reporting period.
Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).
Principle for adjusting events

- Adjust financial statements for those events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.
  - For example—settling a court case after the end of the reporting period confirms the existence of the present obligation at the end of the reporting period and removes uncertainties about the amount of the obligation.
  - Further examples are contained in paragraph 9.
Principle for non-adjusting events

- Do not adjust recognised amounts for conditions that are indicative of conditions that arose after the end of the reporting period
  - Dividends declared after the reporting period are not a liability at the end of the reporting period because, at that time, there is no obligation.
- However, disclose the nature and estimated financial effect of non-adjusting events
  - For example, changes in the market value of investments or effects of changes in currency exchange rates after the reporting period.
An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.
Example—events after the end of the reporting period

- At 31/12/20X7 when performing its year-end physical ‘stock count’ management observed the entity’s inventory in its newly constructed warehouse was undamaged.
- In early January 20X8 much of the entity’s inventory in its warehouse was damaged by rain water that poured through a gaping crack in the warehouse wall. The crack first became visible in January 20X8.
- Discussion question—are the events described above adjusting or non-adjusting events after the end of the reporting period?
IFRS 5
Non-current Assets Held for Sale and Discontinued Operations
Introduction

- Information about an entity’s non-current assets held for sale and its discontinuing operations assists users assess the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity which is useful to them in making decisions about providing resources to the entity.

- Non-current assets held for sale are to be recovered through proceeds from sale (not use)

- No future cash flows from discontinued operations
Non-current assets held for sale

- The standard comprises classification and presentation requirements and measurement provisions (note measurement scope exclusions in paragraph 5).

- A non-current assets is classified as ‘held for sale’ if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use (paragraph 6).

- Non-current assets held for sale are measured at the lower of fair value less costs to sell and carrying amount—they are not depreciated (paragraph 15).

- Non-current assets held for sale or disposal groups are presented separately as current assets on the statement of financial position. Associated liabilities presented separately from other liabilities (paragraph 38). Refer to IFRS 5 IG: Example 12 in Part B.
Non-current that are abandoned

- An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned.
- This is because its carrying amount will be recovered principally through continuing use.
- An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.
Discontinued operations

- A ‘discontinued operation’ is a component of an entity that either has been disposed of or is classified as held for sale (paragraph 32).
  - The component must be a major line of business, a geographical area of operations, or a subsidiary that was acquired exclusively for resale.
- Discontinued operations are presented separately within profit or loss in the statement of comprehensive income and the statement of cash flows (paragraph 33).
- Refer to IFRS 5 IG: Example 11 in Part B
Disclosure

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).