



FINANCIAL REPORTING WORKSHOP - NAIROBI

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Hilton Hotel

Session 1: External financial statements: Overview

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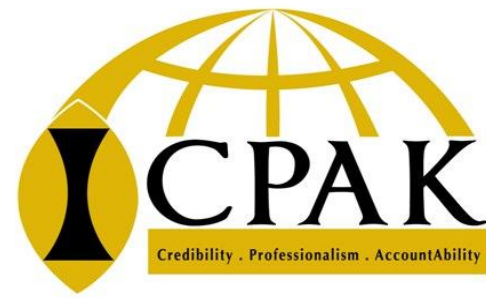
A set of Financial Statements



A complete set of financial statements comprises of:

- (a) A statement of financial position as at the end of the period;
- (b) A statement of profit or loss and comprehensive income for the period;
- (c) A statement of changes in equity for the period;

A set of Financial Statements



- (d) A statement of cash flows for the period;
- (e) Notes, comprising a summary of significant accounting policies and other explanatory information; and,
- (f) A statement of financial position as at the beginning of the earliest comparative period when an organization 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



(i) Fair presentation and compliance with IFRSs:
Financial statements shall present fairly the financial position, financial performance and cash flows of an organization. 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.

General features



- (ii) Going concern:** Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the organization or to cease trading, or has no realistic alternative but to do so.
- (iii) Accrual basis of accounting:** Financial statements shall be prepared using the accrual basis, except for the cash flow statement.
- iv) Materiality and aggregation:** Financial statements shall present separately each material class of similar items.

General features



(v) Offsetting: No offsetting assets and liabilities or income and expenses, unless required or permitted by an IFRS.

(vi) Frequency of reporting: Financial statements shall be presented (including comparative information) at least annually. If financial statements are prepared for a shorter period or longer period than 12 months, then this fact shall be disclosed.

(vii) Comparative information: Financial statements shall be presented for the current and previous financial periods.

In addition if some items in the financial statements are reclassified from one category to the next then this fact shall be disclosed.

General features



(viii) Consistency of presentation: The presentation and classification of items in the financial statements from one period to the next should be consistent unless:

- (a) It is apparent, following a significant change in the nature of the organization'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) An IFRS requires a change in presentation.

Structure and Content



(i) Identification of the financial statements

Financial statements should be clearly distinguished from other information in the annual report.

In addition the following information should be disclosed prominently:

- (a) The name of the reporting organization,
- (b) Whether the financial statements are of an individual organization or a group of entities;

Structure and Content



- (c) The date of the end of the reporting period or the period covered by the set of financial statements or notes;
- (d) The presentation currency, as defined in IAS 21; and.
- (e) The level of rounding used in presenting amounts in the financial statements.

Structure and Content



(ii) Information to be presented in the statement of financial position

The statement of financial position shall present at a minimum:

- (a) Property, plant and equipment;
- (b) Investment property;
- (c) Intangible assets;
- (d) Financial assets (excluding amounts shown under (e), (h) and (i));

Structure and Content



- (e) Investments accounted for using the equity method;
- (f) Biological assets;
- (g) Inventories;
- (h) Trade and other receivables;
- (i) Cash and cash equivalents;
- (j) The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

Structure and Content



- (k) Trade and other payables;
- (l) Provisions;
- (m) Financial liabilities (excluding amounts shown under (k) and (l));
- (n) Liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;
- (o) Deferred tax liabilities and deferred tax assets, as defined in IAS 12;

Structure and Content



- (q) Non-controlling interests, presented within equity;
and
- (r) Issued capital and reserves attributable to owners
of the parent.

Structure and Content



A business shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

(a) For each class of share capital:

(i) The number of shares authorized;

(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;

Structure and Content



(iii) Current/non current distinction

A business shall present current and noncurrent assets, and current and non current liabilities, as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an the business shall present all assets and liabilities in order of liquidity (for example banks and insurance companies).

Structure and Content



(iv) Information to be presented in the statement of profit or loss and other comprehensive income

As a minimum, the statement of comprehensive income 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;

Structure and Content



(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 recognized 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;

Structure and Content



- (f) Profit or loss;
- (g) Each component of other comprehensive income classified by nature (excluding amounts in (h));
- (h) Share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
- (i) Total comprehensive income.

Structure and Content



The following items should be disclosed in the statement of comprehensive income as allocations for the period:

- (a) Profit or loss for the period attributable to:
 - (i) Non-controlling interests, and
 - (ii) Owners of the parent.
- (b) Total comprehensive income for the period attributable to:
 - (i) Non-controlling interests, and
 - (ii) Owners of the parent.

Structure and Content



(v) Information to be presented in the statement of profit or loss and other comprehensive income or in the notes

When items of income or expense are material, disclose their nature and amount separately.

Circumstances that would give rise to the separate disclosure of items of income and expense include:

Structure and Content



- (a) Write-downs of inventories to net realizable 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 organization 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.

Structure and Content



(vi) Statement of changes in equity

A statement of changes in equity should show the following:

- (a) Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) For each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8; and

Structure and Content



(c) For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

- (i) Profit or loss;

- (ii) Each item of other comprehensive income; and transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

Structure and Content



(vii) Notes

Structure

The notes shall:

- (a) Present information about the basis of preparation of the financial statements and the specific accounting policies;
- (b) Disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and IAS 1;
- (c) Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them

Structure and Content



Disclosure of accounting policies

A business should 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.

Structure and Content



(viii) Sources of estimation uncertainty

Disclose information about the assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in 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 end of the reporting period.

Structure and Content



(ix) Capital

A business shall disclose information that enables users of its financial statements to evaluate the organization's objectives, policies and processes for managing capital.

Statement of Cash flows – IAS 7



(1) Introduction

Information about the cash flows of an entity is useful in providing 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 utilize those cash flows. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need **cash to** conduct their **operations**, to pay their **obligations**, and to provide **returns** to their investors.

Statement of Cash flows – IAS 7



(2) Presentation

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

Statement of Cash flows – IAS 7



(2.1) Cash flow from operating activities

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss.

Examples of cash flows from operating activities are:

Statement of Cash flows – IAS 7



- (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;

Statement of Cash flows – IAS 7



- (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.

Statement of Cash flows – IAS 7



An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale.

Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Statement of Cash flows – IAS 7



2.2 Cash flows from Investing activities

Cash flows arising from investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

Examples of cash flows arising from investing activities are:

Statement of Cash flows – IAS 7



- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

Statement of Cash flows – IAS 7



(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

Statement of Cash flows – IAS 7



(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

Statement of Cash flows – IAS 7



(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Statement of Cash flows – IAS 7



2.3 Cash flows from Financing Activities

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;

Statement of Cash flows – IAS 7



- (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.

Statement of Cash flows – IAS 7



3 Cash and Cash equivalents

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.

These Include cash at bank, cash in hand and short term financial assets (E.g. shares and treasury bills and amounts held in fixed deposits that mature within three months).

Statement of Cash flows – IAS 7



Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Statement of Cash flows – IAS 7



4. Presenting cash flows from operating activities

Cash flows from operating activities can be presented:

(a) **Direct method**, whereby major classes of gross cash receipts and gross cash payments are disclosed;
or

(b) **Indirect method**, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Statement of Cash flows – IAS 7



5.Foreign Currency denominated cash flows

- (i) Transactions denominated in foreign currency shall be translated using the exchange rate and resulting cash flows.
- (ii) The same applies in case of a foreign subsidiary only that now an average exchange rate can be used for purpose of consolidation.
- (iii) Unrealized gains and losses on foreign cash balances should be used to reconcile cash and cash equivalents

Statement of Cash flows – IAS 7



6. Dividends and Interest

Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution.

For other entities Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. But more commonly interest paid is classified as operating.

Statement of Cash flows – IAS 7



6. Dividends and Interest

Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments. Dividends received are more commonly classified as Investing.

Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources (Common) or operating.

Statement of Cash flows – IAS 7



7. Taxes Paid

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

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