



ICPAK

Financial Statement Workshop

23 June 2016

IAS 1

Presentation of Financial Statements



Index

1. Objective of IAS 1
2. Scope
3. Objective of Financial Statements
4. Components of Financial Statements
5. Fair presentation and compliance
6. Elements of IAS 1
7. Structure and Content of Financial Statements
8. Notes to the Financial Statements
9. Other Disclosures



IAS 1 Presentation of Financial Statements

Scope and Objective of IAS 1

❑ Scope:

- Applies to all general purpose financial statements based on International Financial Reporting Standards.
- “**General purpose financial statements**” are those intended to serve users who do not have the authority to demand financial reports tailored for their own needs.

❑ Objective:

- To prescribe the basis for presentation of general purpose financial statements,
- To ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
- IAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

IAS 1 Presentation of Financial Statements

Objective of Financial Statements

The objective of general purpose 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 that objective, financial statements provide information about an entity's:

- Assets,
- Liabilities,
- Equity,
- Income and expenses, including gains and losses.
- contributions by and distributions to owners in their capacity as owners; and
- Cash flows.

IAS 1 Presentation of Financial Statements

Components of financial statements

A complete set of financial statements should include:

- a statement of financial position (balance sheet) at the end of the period,
- a statement of comprehensive income for the period,
- a statement of changes in equity for the period,
- a statement of cash flows for the period,
- notes, comprising a summary of accounting policies and other explanatory notes,
- Comparative information in respect of the preceding period, and
- a statement as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement or when it reclassifies item statement.



IAS 1 Presentation of financial statements

Fair Presentation and Compliance with IFRSs

- The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.
- Inappropriate accounting policies not acceptable even with disclosure.
- Caveat where disclosure conflicts with objective of IAS 1. (with detailed disclosure of the nature, reasons, and impact of the departure)

Critical to note:

*IAS 1 requires that an entity whose financial statements comply with IFRSs make **an explicit and unreserved statement** of such compliance in the notes.*

IAS 1 Presentation of financial statements

Test your knowledge

Which of the following components is required in a complete set of IFRS financial statements?

- a) Review of main factors determining financial performance
- b) Report of the entity's source of funding, gearing and risk management policies
- c) A list of resources of the entity that are not recognised in the statement of financial position under IFRS
- d) Notes, comprising a summary of significant accounting policies and other explanatory information

IAS 1 Presentation of financial statements

Solution

Which of the following components is required in a complete set of IFRS financial statements?

- a) Review of main factors determining financial performance
- b) Report of the entity's source of funding, gearing and risk management policies
- c) A list of resources of the entity that are not recognised in the statement of financial position under IFRS
- d) Notes, comprising a summary of significant accounting policies and other explanatory information



IAS 1 Presentation of financial statements

Elements of IAS 1

- **Going concern** - except intent to liquidate, cease trading or no realistic alternative
- **Accrual basis** - except cash flow information
- **Consistency** - unless a change is justified either by a change in circumstances or a requirement of a new IFRS
- **Materiality and aggregation**
- **Offsetting** - not allowed unless required or permitted by an IFRS
- **Comparative Information** – including narratives when it will aid understanding of Current Period's financial statement
- **Reporting Period** - disclose reason(s) and that amounts presented are not entirely comparable
- **Consistency of Presentation of financial statement**-unless required by IFRS or more appropriate presentation

IAS 1 Presentation of Financial Statements

Test your knowledge - Accrual Basis of Accounting

Bank Y entered into a purchase contract to purchase 50 boxes of printing papers from Company Z. At the end of December when it prepares its financial statements under IFRS, only 40 boxes were delivered to Bank Y by Company

At the time, Bank Z had paid for all 50 boxes in advance.

Question – how much of purchases of printing papers can bank Y present in its financial statements?



IAS 1 Presentation of Financial Statements

Accrual Basis of Accounting – Solution

Y entered into a purchase contract to purchase 50 boxes of printing papers from Company Z. At the end of December when it prepares its financial statements under IFRS, only 40 boxes were delivered to Bank Y by Company Z. At the time, Bank Z had paid for all 50 boxes in advance.

Question – how much of purchases of printing papers can bank Y present in its financial statements?

Solution – Bank Y can only recognize amounts for 40 boxes that had been delivered to the bank by Company Z as at the end of the year. Although Bank Y has paid the entire amount for 50 boxes, only 40 boxes had been delivered.

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements

❑ **Identification of the financial statements**

An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

For the information presented to be understandable, an entity shall display the following information prominently, and repeat it when necessary:

- a. the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
- b. whether the financial statements are of an individual entity or a group of entities;
- 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; and
- e. the level of rounding used in presenting amounts in the financial statements.

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of financial position**

Assets shall be classified as **current** and **non-current**.

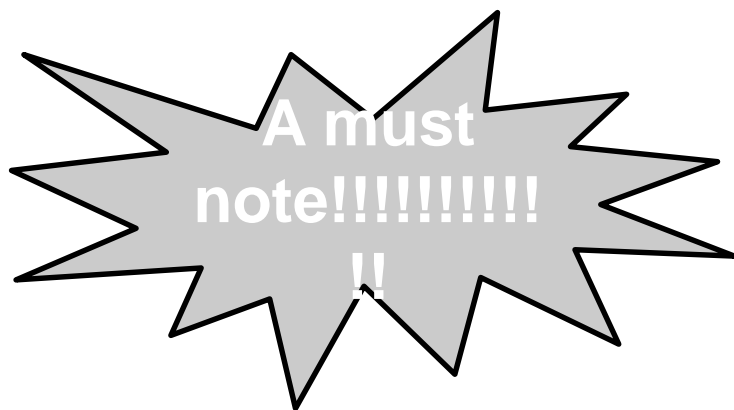
- **Current Assets** are assets the entity:
 - a. expects to realize, consume or sell in its normal operating cycle.
 - b. holds primarily for trading
 - c. expects to realize within 12 months after the reporting period.
 - d. cash or cash equivalent
- **Other assets are non-current, although the use of 'long term' is not prohibited.**

Liabilities shall be classified as **current** and **non-current**

- **Current liabilities** are liabilities the entity:
 - a. Expects to settle in its normal operating cycle
 - b. Holds primarily for trading
 - c. Is due to settle within 12 months after the reporting period.
 - d. Does not have unconditional right to defer for at least 12 months after its reporting period.
- **Other liabilities are non current.**

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)



IAS 1 requires presentation of current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet **except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.**

Since for a bank presentation based on liquidity would ordinarily provide information that is more reliable and more relevant, this is the format that is ordinarily adopted.

Structure and Content of Financial Statements

(cont'd)

COMMERCIAL BANK OF ETHIOPIA CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2013

		Notes	2013 Ethiopian Birr	2012 Ethiopian Birr	
ASSETS					
Cash and bank balances	9		17,493,569,359	15,392,790,370	
Treasury bills	10		110,573,280	-	
Government securities	11		2,394,273,797	2,447,032,618	
Coupon bonds	12		14,231,724,850	13,152,381,741	
Corporate bonds	13		65,100,000,000	48,900,000,000	
Placements with other banks	14		18,004,655,290	9,707,735,619	
Loans to Micro-finance Institutions			508,519,604	487,717,304	
Loans and advances to customers	15		67,856,376,425	56,465,441,769	
Other advances			1,309,877,153	3,987,103,006	
Other investments	16		40,108,718	38,562,997	
Other assets	17		7,149,437,130	7,278,098,615	
Property, plant and equipment	18		1,054,249,474	910,509,395	
Intangible assets	19		101,444,141	-	
Leasehold land	20		88,410,922	86,479,456	
			195,443,220,143	158,853,852,890	
					-

Structure and Content of Financial Statements (*cont'd*)

Balance sheet of Commercial Bank of Ethiopia (Cont'd)

LIABILITIES				-	
Deposits due to other banks				450,978,739	3,531,063,659
Customers' deposits	21			153,987,300,169	116,584,459,255
Current tax liabilities	8 (d)			2,702,027,511	2,482,673,419
Finance lease obligations				49,423,906	49,423,906
Dividend	22			4,364,426,873	4,064,564,723
Deferref tax liability	23			18,556,448	27,772,359
Other liabilities	24			24,671,113,452	24,414,045,485
				186,243,827,098	151,154,002,806
				-	
NET ASSETS				9,199,393,045	7,699,850,084
CAPITAL AND RESERVES					
Capital	25			8,082,416,551	4,000,000,000
Legal reserve	26			966,772,855	3,588,464,212
Retained earnings	27			88,413,464	64,428,813
Foreign currency translation reserve	28			56,229,614	43,755,225
Equity attributable to the owner of the Bank				9,193,832,484	7,696,648,250
Non-controlling interests				5,560,561	3,201,834
				9,199,393,045	7,699,850,084

IAS 1 Compliant?????? – YES!!!!!!

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of financial position (cont'd)**

Items on the face of the statement of financial position (balance sheet) of a bank

- a. Cash and cash equivalents
- b. Treasury Bonds
- c. Treasury Bills
- d. Corporate Bonds
- e. Commercial Paper
- f. Property, plant and equipment;
- g. Investment property;
- h. Intangible assets;
- i. Investments accounted for using the equity method;
- j. Trade and other receivables;
- k. Financial assets (excluding amounts shown above)
- l. Trade and other payables;
- m. Provisions;
- n. Financial liabilities (excluding amounts shown under above and;
- o. Liabilities and assets for current tax;
- p. Deferred tax liabilities and deferred tax assets;
- q. Non controlling interest, presented within equity; and
- r. Issued capital and reserves attributable to equity holders.

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of profit or loss and other Comprehensive Income**

An entity shall present all items of income and expenses recognized in a period either:

- a. In a single statement of comprehensive income or
- b. In two statements :
 - i. Statement of Profit or loss (separate income statement)
 - ii. Statement of comprehensive income.

Minimum items on the face of the statement of profit or loss and other comprehensive income include:

- a. revenue
- b. gains and losses arising from the de-recognition of financial assets measured at amortized cost
- c. finance costs
- d. share of the profit or loss of associates and joint ventures accounted for using the equity method

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of Comprehensive Income (*cont'd*)**

- e. if a financial statement is reclassified so that is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (IFRS 9)
- f. tax expense
- g. 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 recognised on the disposal of the assets or disposal group(s) constituting the discontinued operation
- h. profit or loss
- i. each component of other comprehensive income classified by nature;
- j. share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
- k. total comprehensive income.



IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of Comprehensive Income (cont'd)**

Comprehensive income for a period includes:

- a. profit or loss for that period plus
- b. other comprehensive income recognised in that period.



Components of other comprehensive income include:

- a. changes in revaluation surplus ([IAS 16](#) and [IAS 38](#)).
- b. actuarial gains and losses on defined benefit plans ([IAS 19](#)).
- c. gains and losses arising from translating the financial statements of a foreign operation ([IAS 21](#)).
- d. gains and losses on re-measuring available-for-sale financial assets ([IAS 39](#)).
- e. the effective portion of gains and losses on hedging instruments in a cash flow hedge ([IAS 39](#)).

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Statement of Changes in Equity**

An entity shall present a statement of changes in equity showing:

- a. Total comprehensive income for the period showing amount attributable to owners of the parent and non-controlling interest separately.
- b. For each component of equity; the effect of retrospective application or restatement (IAS 8)

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:

- a. Profit or loss
- b. Each item of other comprehensive income
- c. 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.

An entity shall present, either in the statement of changes in equity or in the notes, the amounts of dividends recognized as distributions to owners during the period, and the related amount per share.

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Notes to the financial statements**

The notes must:

- i. present information about the basis of preparation of the financial statements and the specific accounting policies used;
- ii. disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
- iii. provide information that is not presented elsewhere in the financial statement but is relevant to an understanding of any of them.

As far as practicable, notes shall be presented in a systematic manner and shall cross-reference each item in the financial statement.



IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ **Notes to the financial statements**

Notes should normally be presented in the following order:

- a. a statement of compliance with IFRSs
- b. a summary of significant accounting policies applied
- c. supporting information for items presented in the statement of financial position and of the comprehensive income, in the separate income statement (if presented), and in the statement of changes in equity and of the cash flows, in the order in which each statement and each line item is presented: and
- d. other disclosures, including:
 - contingent liabilities (see IAS 37) and unrecognised contractual commitments
 - non-financial disclosures, such as the entity's financial risk management objectives and policies (see IAS 32)

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ Notes to the financial statements (*cont'd*)

• **Disclosure of judgements**

An entity must disclose, in the summary of significant accounting policies or other notes, the judgements, 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 recognised in the financial statements.

Examples cited in IAS 1.123 include management's judgements 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; and
- whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ Notes to the financial statements (cont'd)

- **Disclosure of key sources of estimation uncertainty**

An entity shall disclose information about the assumptions it makes 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 assets and liabilities, the notes shall include details of:

- Their nature, and
- Their carrying amount as at the end of the reporting period.



IAS 1 Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

❑ Notes to the financial statements (cont'd) – *Other Disclosures*

• Disclosures about Dividends

The following must be disclosed in the notes:

- the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and
- the amount of any cumulative preference dividends not recognised.

• Capital Disclosures

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



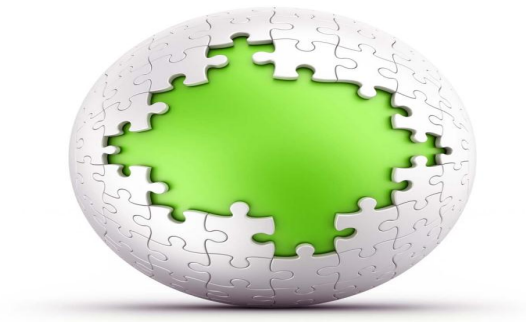
IAS 8
Accounting
Policies, Changes
in Accounting
Estimates
and Errors



IAS 8

Objectives

- To prescribe the criteria for selecting and changing accounting policies;
- State and prescribe the accounting treatment and disclosure of changes in accounting policies, estimates, and correction of errors;
- To enhance the relevance and reliability of the financial statements;
- To enhance the comparability of an entity's financial statements over time and with the financial statements of other entities.



IAS 8

Definitions of Terms

- **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- **Retrospective application** is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
- **Retrospective restatement** is correcting the recognition, measurement and disclosure of amounts of elements of financial statement as if a prior period error had never occurred.
- **Prospective application** is applying a new accounting policy to transactions, other events and other circumstances occurring after the date as at which the policy was changed and recognizing the effect of a change in the accounting estimate in the current and future periods affected by the change.



IAS 8

Definitions of Terms

- **Change in accounting estimate:** A change in accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.

Examples include: Bad debts, Inventory obsolescence, Useful lives of property, plant, and equipment, Provision for warranty obligations etc.

- **Prior period errors:** Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that **was available and could reasonably** be expected to have been obtained and taken into account in preparing those statements.

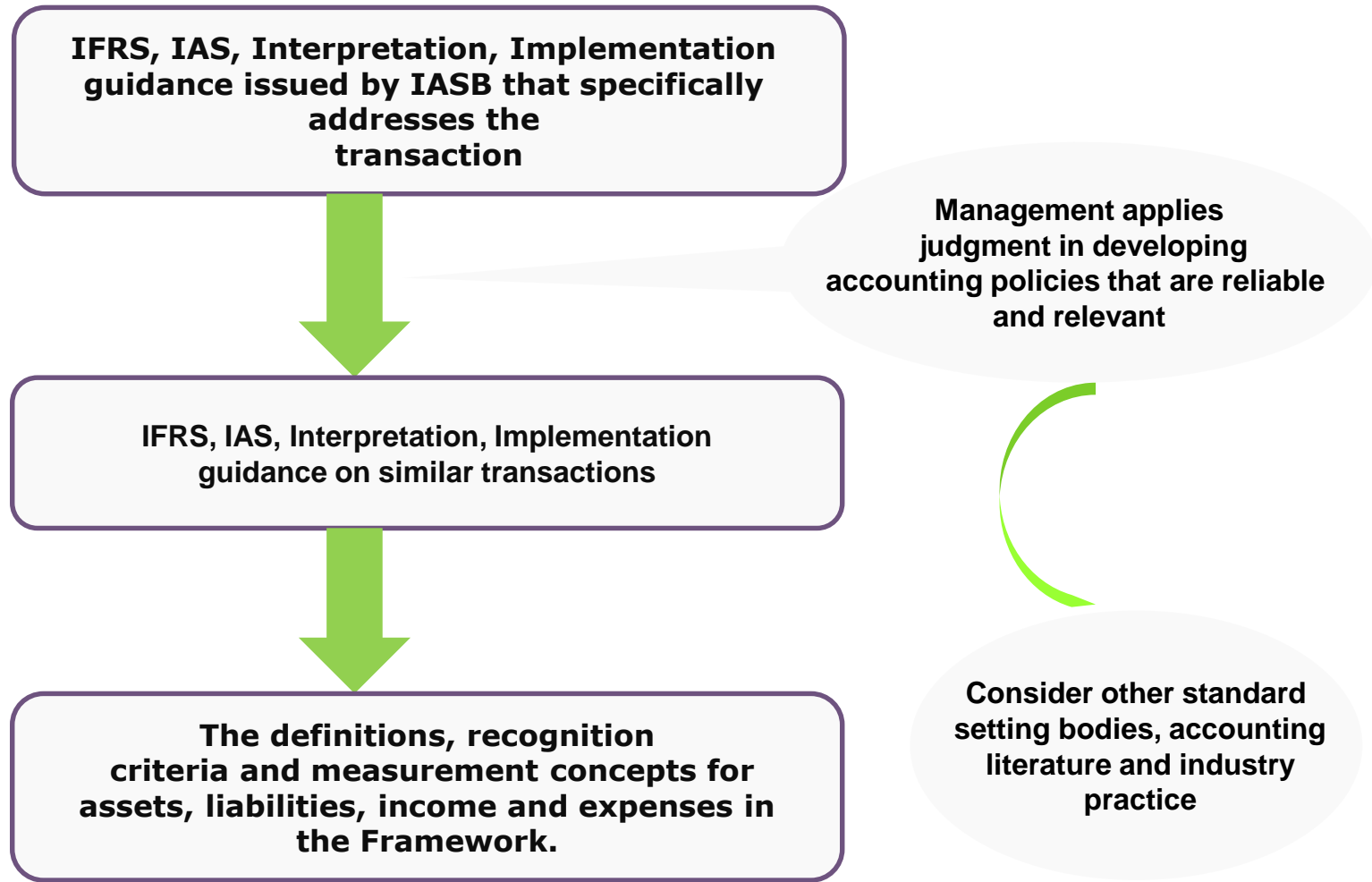
Examples include: Mathematical mistakes, Mistakes in applying accounting policies, Oversights or misinterpretations of facts and Fraud.

Misstatements or omissions are "material" if they could, either individually or cumulatively, influence the decisions of users of financial statements.



IAS 8

Selection of Accounting policies- GAAP HIERARCHY



IAS 8

Application of Accounting Policies

- **Consistency of Accounting Policies**

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate.

- **Changes in Accounting policies**

An entity is permitted to change an accounting policy only if the change:

- is required by a standard or interpretation; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

- **Situations that are not considered as change in accounting policy:**

- The adoption of an accounting policy to transactions and events that differ in substance from those previously occurring.
- The adoption of a new accounting policy to transactions and events that not occur previously or were immaterial.

Note: When it is difficult to distinguish between change in accounting estimates and change in accounting policy, treat as change in accounting estimate with proper disclosure.

IAS 8

Application of Accounting Policies (cont'd)

- If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if unavailable, then the change in accounting policy is applied **retrospectively**.
- Retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.
- However, if it is impracticable to determine either the period-specific effects or the cumulative effect of the change for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the earliest period for which retrospective



IAS 8

Disclosure – Changes in Accounting Policies

- **Disclosures relating to changes in accounting policy caused by a new standard or interpretation include:**
 - the title of the standard or interpretation causing the change;
 - the nature of the change in accounting policy;
 - a description of the transitional provisions, including those that might have an effect on future periods;
 - for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - for each financial statement line item affected; and
 - for basic and diluted earnings per share (only if the entity is applying IAS 33)
 - The amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Financial statements of subsequent periods need not repeat these disclosures.

IAS 8

Disclosure – Changes in Accounting Policies (cont'd)

- **Disclosures relating to voluntary changes in accounting policy include:**
 - the nature of the change in accounting policy;
 - the reasons why applying the new accounting policy provides reliable and more relevant information;
 - for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - for each financial statement line item affected; and
 - for basic and diluted earnings per share;
 - the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Financial statements of subsequent periods need not repeat these disclosures.

- If an entity has not applied a new standard or interpretation that has been issued but is not yet effective, the entity must disclose that fact and any known or reasonably estimable information relevant to assessing the possible impact that the new pronouncement will have in the year it is applied.

IAS 8

Accounting estimates

- **Changes in Accounting estimates**

The effect of a change in an accounting estimate shall be recognised **prospectively** by including it in profit or loss in:

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both.

However, to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it is recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of the change. **A change in estimate does not warrant restating the financial statements of a prior period because it is not a correction of an error.**

- **Disclosures**

Disclosures relating to changes in accounting estimate include:

- the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods
- if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

IAS 8

Prior Period Errors

- The general principle in IAS 8 is that an entity must correct all material prior period errors **retrospectively** in the first set of financial statements authorised for issue after their discovery by:
 - restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.
- However, if it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity must restate the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable .
- Further, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity must restate the comparative information to correct the error prospectively from the earliest date practicable.

IAS 8

Disclosure relating to Prior Period Errors

- **Disclosures relating to prior period errors include:**
 - the nature of the prior period error;
 - for each prior period presented, to the extent practicable, the amount of the correction:
 - for each financial statement line item affected; and
 - for basic and diluted earnings per share (only if the entity is applying IAS 33);
 - the amount of the correction at the beginning of the earliest prior period presented; and
 - if retrospective restatement is impracticable, an explanation and description of how the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.



IAS 8

Case study

- Entity N owns an office building that in previous reporting periods has been classified as property, plant and equipment and accounted for under IAS 16 Property, Plant and Equipment using the cost model. During the current reporting period, Entity N has vacated the property and it has been leased to a third party. Entity N's accounting policy for investment property under IAS 40 Investment Property is to use the fair value model.

Question

Is the change in the accounting treatment for the office building from the cost model under IAS 16 to the fair value model under IAS 40 a change in accounting policy?

IAS 8

Case study – Solution

No.

The change in accounting treatment has arisen because of a change in circumstances rather than a change in accounting policy. Entity N's policy for each type of property remains unchanged but the office building in question is accounted for as an investment property from the date of change of use. No retrospective restatement should be made in these circumstances.

QUIZ 1

When a Public Interest Entity changes an accounting policy voluntarily, it has to

- a. Inform shareholders prior to taking the decision.
- b. Account for it retrospectively.
- c. Treat the effect of the change as an extraordinary item.
- d. Treat it prospectively and adjust the effect of the change in the current period and future periods.

• **Answer: (b)**



QUIZ 2

When it is difficult to distinguish between a change of estimate and a change in accounting policy, then an entity should

- a. Treat the entire change as a change in estimate with appropriate disclosure.
- b. Apportion, on a reasonable basis, the relative amounts of change in estimate and the change in accounting policy and treat each one accordingly.
- c. Treat the entire change as a change in accounting policy.
- d. Since this change is a mixture of two types of changes, it is best if it is ignored in the year of the change; the entity should then wait for the following year to see how the change develops and then treat it accordingly.

Answer: (a)

QUIZ 3

When due to technology changes the ATM software of a bank will become obsolete and has to be replaced in two years and the change is material, the bank should

- (a) Retrospectively change the amortisation charge based on the revised value of the software.
- (b) Change the amortisation charge and treat it as a correction of an error.
- (c) Change the annual amortisation for the current year and future years.
- (d) Ignore the effect of the change on annual amortisation, because changes in technology would normally affect the future only since these are expected to be happen in future.

Answer: (c)

IAS 10 Events after the Reporting Period

Effective date: Annual periods beginning on or after 1 January 2005.

Objective

To prescribe when an entity should adjust its financial statements for events after the end of the reporting period; and disclosures about the date when the financial statements were authorised for issue and about events after the end of the reporting period.

Summary

- Events after the end of the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- Adjusting events – the financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period (such as the resolution of a court case after the end of the reporting period).
- Non-adjusting events – the financial statements are not adjusted to reflect events that arose after the end of the reporting period (such as a decline in market prices after year end, which does not change the valuation of investments at the end of the reporting period). The nature and impact of such events are disclosed.
- Dividends proposed or declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period. Disclosure is required.

IAS 10 Events after the Reporting Period

- Financial statements are not prepared on a going concern basis if events after the end of the reporting period indicate that the going concern assumption is not appropriate.
- An entity discloses the date its financial statements are authorised for issue.

Interpretations: None.

IAS 24

Related Party Disclosures ●



Index

1. Who & What is a related party?
2. Key terms & definitions
3. What parties are not related?
4. Disclosures



Related Parties

1. Who and what is a related party ?

A related party is a person or entity that is related to the reporting entity that is preparing its financial statements.

- (a) A **person or a close member** of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

1. Who and what is a related party? (Continued)

b) An **entity** is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are **members of the same group** (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an **associate or joint venture** of the other entity (or an associate or a joint venture of a group which the other party is a member)

(iii) Both entities are **joint ventures** of the same third party.

iv) One entity is a **joint venture of a third entity and the other entity is an associate** of the third entity.

.

1. Who and what is a related party? (Continued)

iv) The entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

v) The entity is **controlled or jointly controlled by a person identified in (a) above**

vi) A person identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. Key terms

Related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Control : An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

2. Key terms (*Continued*)

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependants of the individual or the individual's domestic partner.

Compensation includes all employee benefits. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.

It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.

So, what parties are not related?



Two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

Two venturers simply because they share joint control over a joint venture

Providers of finance

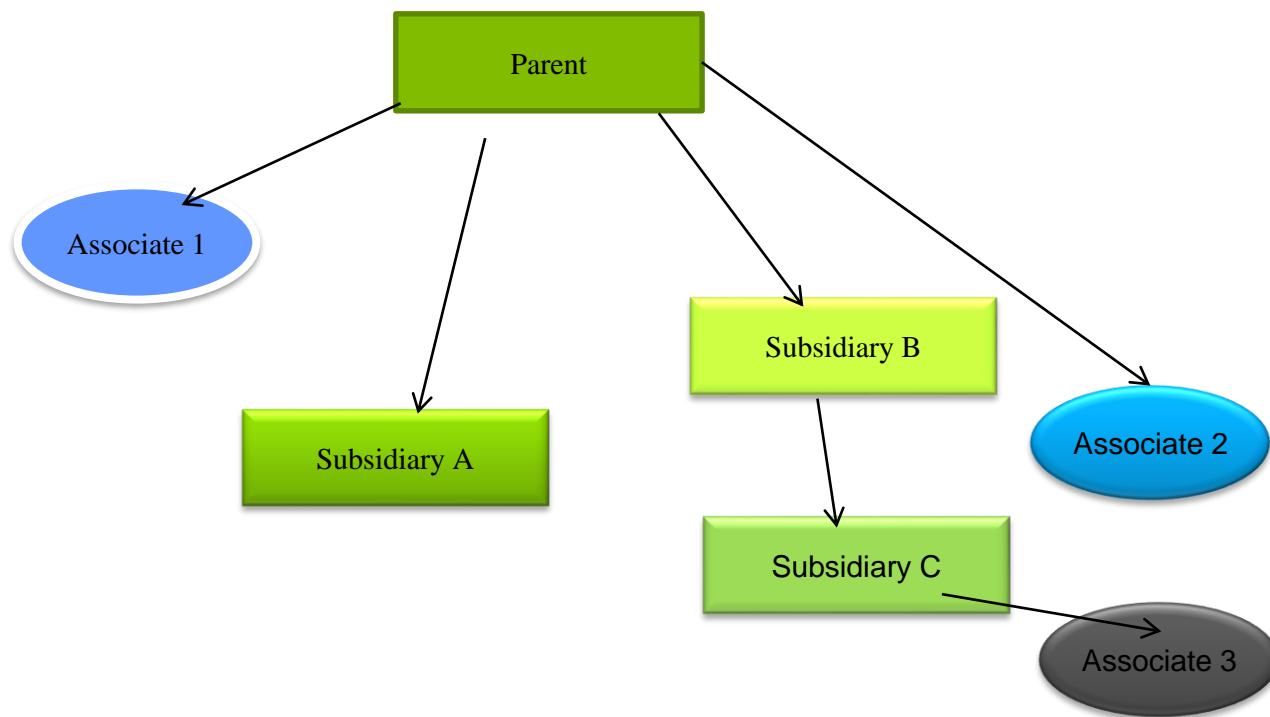
Trade Unions

Public utilities, and

Departments and agencies of a government that does not control,
jointly control or significantly influence the reporting entity,

A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Summary Diagram - Related Parties



Disclosures



4. Disclosures

Relationships between parents and subsidiaries

- Name of parent and ultimate controlling party

Key management personnel compensation for:

- Short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Share-based payment

4. Disclosures (Continued)

For related party transactions - relationships and information about transactions and outstanding balances:

- The amount of the transactions.
- The amount of outstanding balances, including terms and conditions and guarantees.
- Provisions for doubtful debts related to the amount of outstanding balances.
- Expense recognised during the period in respect of bad or doubtful debts due from related parties

4. Disclosure (continued)

Examples of the kinds of transactions that are disclosed if they are with a Related Party,

- Purchases or sales of goods.
- Purchases or sales of property and other assets.
- Rendering or receiving of services.
- Leases.
- Transfers of research and development.
- Transfers under licence agreements.
- Transfers under finance arrangements (including loans and equity contributions in cash or in kind).
- Provision of guarantees or collateral.
- Settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

4. Disclosure (continued)

A statement that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated

Government-related entities

An entity is exempt from the disclosure requirements detailed above if they relate to:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Government-related entities (Continued)

If an entity applies the above exemption, it shall disclose:

The name of the government and the nature of its relationship with the reporting entity (i.e control, joint control or significant influence);

The following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

- a) the nature and amount of each individually significant transaction
- b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

IAS 33

Earnings per Share



IAS 33 Earnings per Share

Information not included in the slides

Not included in the slides:

1. The scope of the standard
2. Guidance on calculating WANOS for purposes of calculating EPS including impact of bonus issues, share splits etc
3. Guidance on dealing with the different categories of potential ordinary shares including written put options, purchased options, contingently issuable shares, convertible instruments and warrants.
4. Impact of antidilutive potential ordinary shares

IAS 33 Earnings per Share

Basic earnings

Profit or loss from continuing operations adjusted for:

- Non-controlling interest's share of profit
- Dividends on preference shares (after tax), differences arising in settlement of preference shares, and other similar effects where preference shares are classified as equity.

Basic Earnings per Share =

Profit or loss attributable to ordinary shareholders of the parent
(numerator)

"earnings"

Weighted average number of ordinary shares (denominator)

"WANOS"

IAS 33 Earnings per Share

Diluted earnings

Basic earnings adjusted for after-tax effect of:

- Changes in Statement of Comprehensive Income that will result from conversion of all dilutive potential ordinary shares (e.g. interest on loan no longer charged once converted to equity).

Dilutive Earnings Per Share =

Basic EPS (numerator & denominator)

Adjusted for effects of all

- dilutive
- potential ordinary shares

...what if it is anti- dilutive ?

IAS 33 Earnings per Share

What is the formula for diluted earnings per share?

Profit/loss attributable to ordinary equity holders of the parent entity

+

After tax effects of items affecting profit/loss and related to dilutive potential ordinary shares

Weighted average number of ordinary shares during period

+

Weighted average number of ordinary shares to be issued on conversion of dilutive potential ordinary shares

IAS 33 Earnings per share

Steps to calculate DEPS

1. Calculate earnings per incremental share
 - Increase/decrease in earnings
 - Increase in ordinary shares
2. Rank from most dilutive
3. Is it dilutive? (control number)
4. Calculate actual DEPS



IAS 33 Earnings per share

Disclosure

An entity shall disclose the following:

The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.

The weighted average number of **ordinary shares** used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.

Instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.

IAS 33 Earnings per Share

Disclosure

Why do IFRS require the disclosure of earnings per share and diluted earnings per share in the financial statements?

It improves performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. It also provides a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

IAS 37

Provisions, Contingent liabilities and Contingent Assets



IAS 37 Provisions, Contingent liabilities and contingent assets

Information not included in the slides

Missing from the slides:

- *Scope of the standard*
- *Elaboration on past event (legal and constructive obligations)*
- *Disclosure*

Other clarifications required:

- Slides on decommissioning and rehabilitation are written for mining audience
- Includes basic IFRIC 5 and IFRIC 21 slides

IAS 37 Provisions, contingent liabilities and assets

Provisions:

- Present obligation (legal or constructive) as a result of a past event
- Probable outflow of future economic benefits
- Ability to measure

Contingent liabilities:

- Possible obligation not yet confirmed
- Present obligation that does not meet all criteria for recognition as a provision therefore not recognised as liability

Contingent assets:

- Arises from past events
- Existence confirmed by occurrence/non-occurrence of uncertain future events not in the company's control
- No asset recognised until virtually certain

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Obligating event

A past event leading to a present obligation

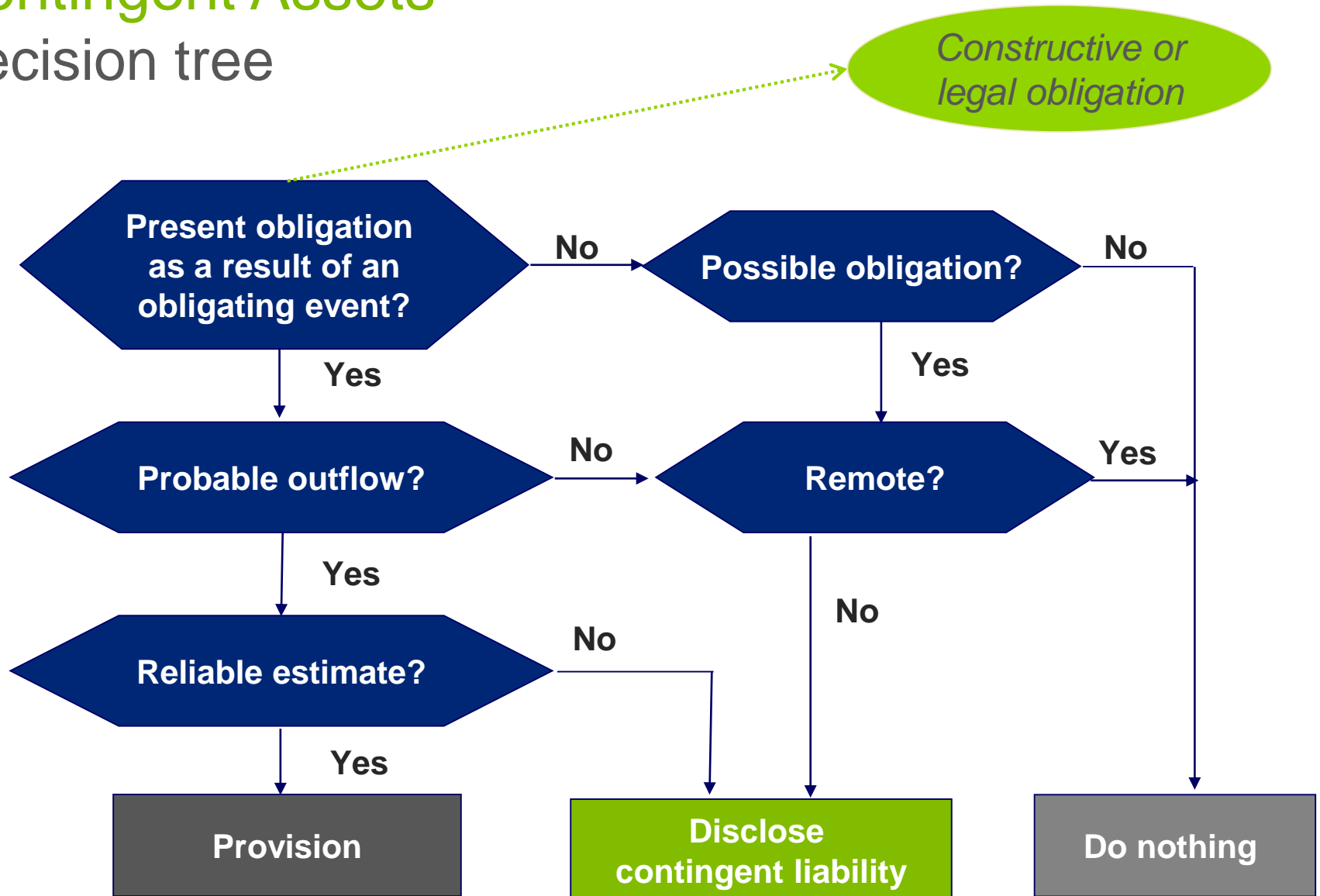
An obligating event is an event that:

- Creates a legal or constructive obligation.
- Results in an enterprise having no realistic alternative but to settle the obligation.



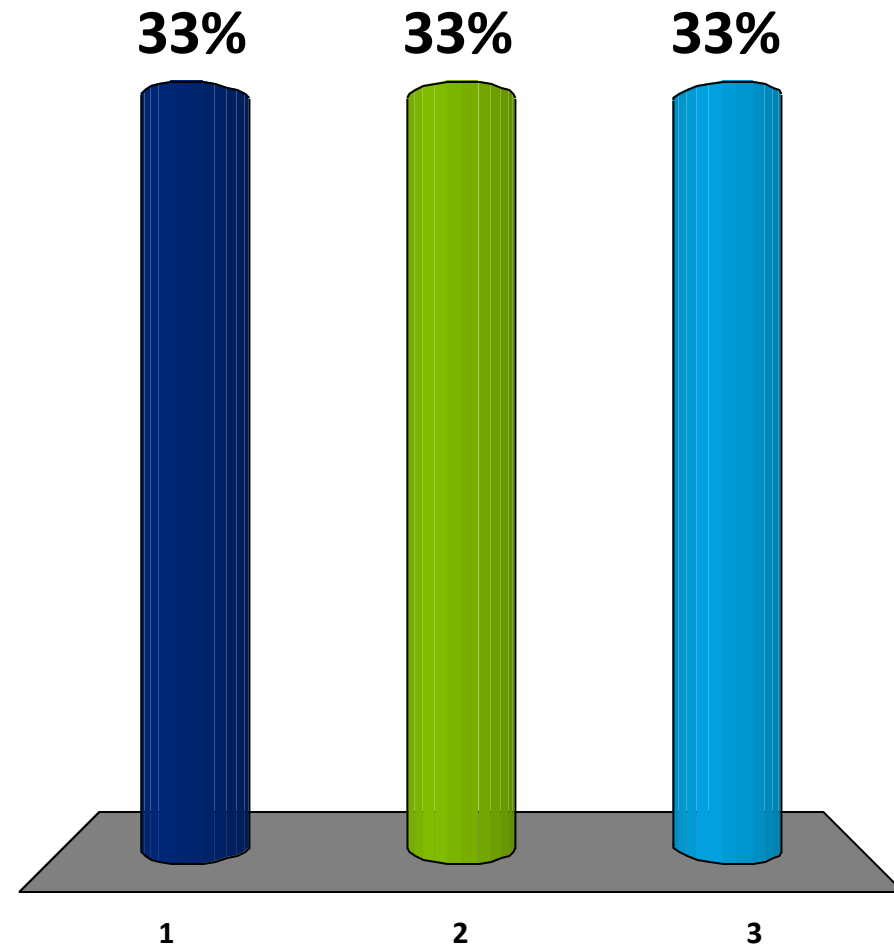
IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Decision tree



An entity is a defendant to a lawsuit that has a high probability of loss. If the entity incurs a loss, the entity's insurance company may cover the loss. How should the entity recognise the loss on the lawsuit?

1. Recognize a contingent asset
- ✓ 2. Recognise a provision
3. Recognize contingent liability



Rehabilitation Provisions

Recognition and measurement

Decommissioning

Capitalise

Subsequent Changes

Balance sheet

- Expected cash flows
- Timing of cash flows
- Discount rate

Income statement

- Unwinding of discount
- Depreciation of asset

Restoration

Expense

Subsequent Changes

Income statement

- All changes

IAS 37

Measurement of provisions

Best estimate

Risk and uncertainty

Future events


**Present value
Discount rate**

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity

An entity shall not recognize a contingent asset

Disclose when an inflow of economic benefits is probable



When it is virtually certain that an inflow of economic benefits will arise, it is no longer a contingent asset and its recognition is appropriate

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Application of recognition and measurement rules

- ✓ Future operating losses
- ✓ Onerous contracts
- ✓ Restructuring provisions
- ✓ Decommissioning and rehabilitation



At each reporting date

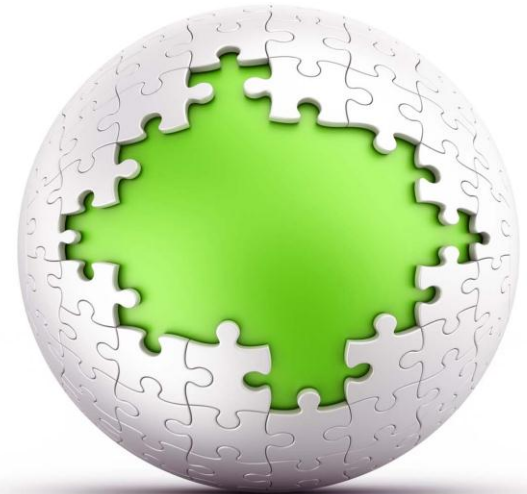
- Review provisions at each balance sheet date and adjust to reflect current best estimate
- Reverse provision if no longer probable outflow of resources



IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Future operating losses

- No provision should be made
 - the losses do not arise out of a past event
 - they are not unavoidable
- The expectation of future losses may indicate the need for an impairment test



IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Onerous contracts

*A contract in which the unavoidable **costs of meeting the obligations under the contract exceed the economic benefits** expected to be received under it. A provision should be recognised for any **unavoidable net loss** arising from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, i.e. the lower of:*

- the cost of fulfilling the contract; and*
- any compensation or penalties arising from failure to fulfil the contract.*

Example: the company has entered into a contract to supply coal to Eskom at a price of R200/t which is lower than the cost of production of R250/t.

Example: the company has entered into a lease contract for retail space and decides to close the store.

Onerous contracts

Subsequent measurement:

Changes in value are affected by:



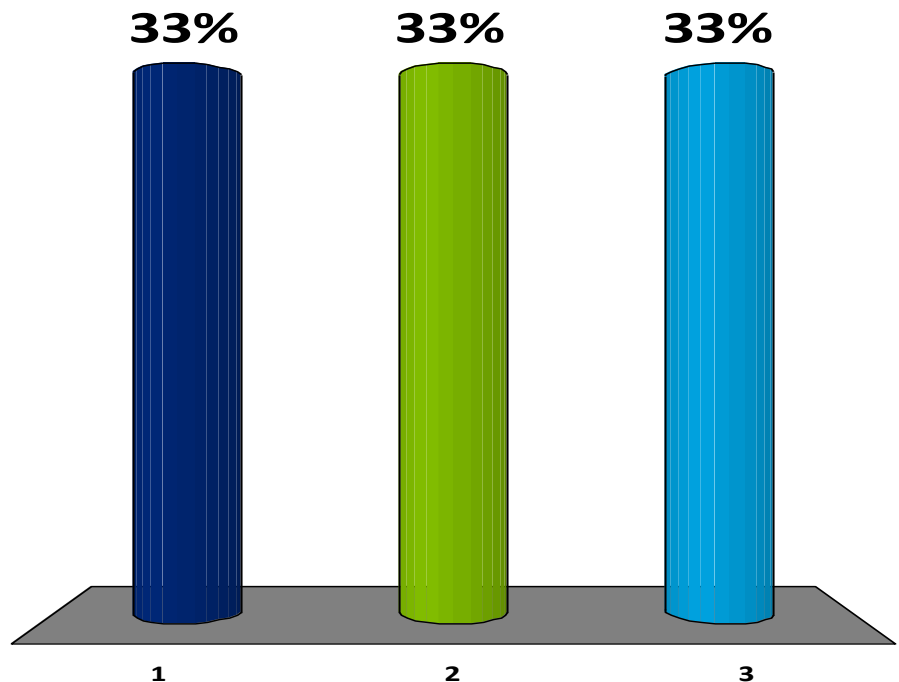
Passage of time (approaching maturity)	Finance cost
Use (delivery of tonnes)	Credits to <u>Cost of sales</u>
Revisions to cash flows (increased costs of production)	Income statement or asset where original entry was booked
Revisions to discount rates	Income statement or asset where original entry was booked

Onerous contracts are unwound through cost of sales. For discounted provisions, the amount of unwinding the provision through the time value of money (discount rate) should be recognised as a finance cost.

A manufacturing company enters into a three-year operating lease in respect of certain equipment. At the end of year one, the manufacturing company decides to cancel the lease due to major reorganization. The decision has not been communicated to the lessor. A penalty of R1 000 000 is payable on early cancellation and if the lease is not canceled, the remaining lease payments will amount to R3 000 000.

How much should the company raise as a provision for the onerous contract?

1. Zero
- ✓ 2. R1 000 000
3. R R3 000 000



IAS 37

Restructuring provisions

2 principal criteria for recognition of Restructuring Provision:

- Have detailed formal plan
- Raise valid expectation in the provisions affected by the plan that will be carried out by starting to implement the plan or announcing main features affected

	Included	Excluded
Amounts to be included or excluded from Restructuring Provision	<p>Are restricted to direct expenditure arising from the restructuring:</p> <ul style="list-style-type: none">• Those that are necessarily entailed by the restructuring• Not associated with the ongoing activities of the reporting entity	<p>Excluded on the basis that it relates to the ongoing activities of the business are:</p> <ul style="list-style-type: none">• Retraining or relocating continuing staff• Investment in new system and distribution• Marketing

Rehabilitation Provisions

Introduction: Components of cost

The cost of an item of property, plant and equipment comprises:

- its **purchase price**, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs **directly attributable** to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the **initial estimate of the costs of dismantling and removing the item and restoring the site** on which it is located, the obligation for which an entity incurs either when the item is **acquired or as a consequence of having used the item** during a particular period for purposes other than to produce inventories during that period.

Rehabilitation Provisions

Introduction to the requirements

Provisions are recognised when:

- The entity has a **present obligation** as a result of past events.
- That will result in a probable **outflow** of economic benefits
- A reliable **estimate** of cash flows can be made.

Mine closure and rehabilitation plans should be determined in compliance with mining legislation and constructive obligations

Rehabilitation Provisions

Timing of recognition

Obligation	Event giving rise to obligation
Decommissioning	Installation of equipment Site preparation
Restoration	Removal of inventory

Recognition and measurement

Components of the amount recognised

Best estimate

Risk and uncertainty

Future events

**Present value
Discount rate**

Recognition and measurement

Components of the amount recognised

Best estimate	Risk and uncertainty
Future events	Present value Discount rate

Most likely outcome

**Range of outcomes –
expected value**

Judgement

Recognition and measurement

Components of the amount recognised

Best estimate	Risk and uncertainty
Future events	Present value Discount rate

**Sufficient
evidence of
occurrence**

**Mine plan to
reduce
rehabilitation
obligation**

**Improvement in
technology or
experience**

Recognition and measurement

Components of the amount recognised

Best estimate	Risk and uncertainty
Future events	Present value Discount rate

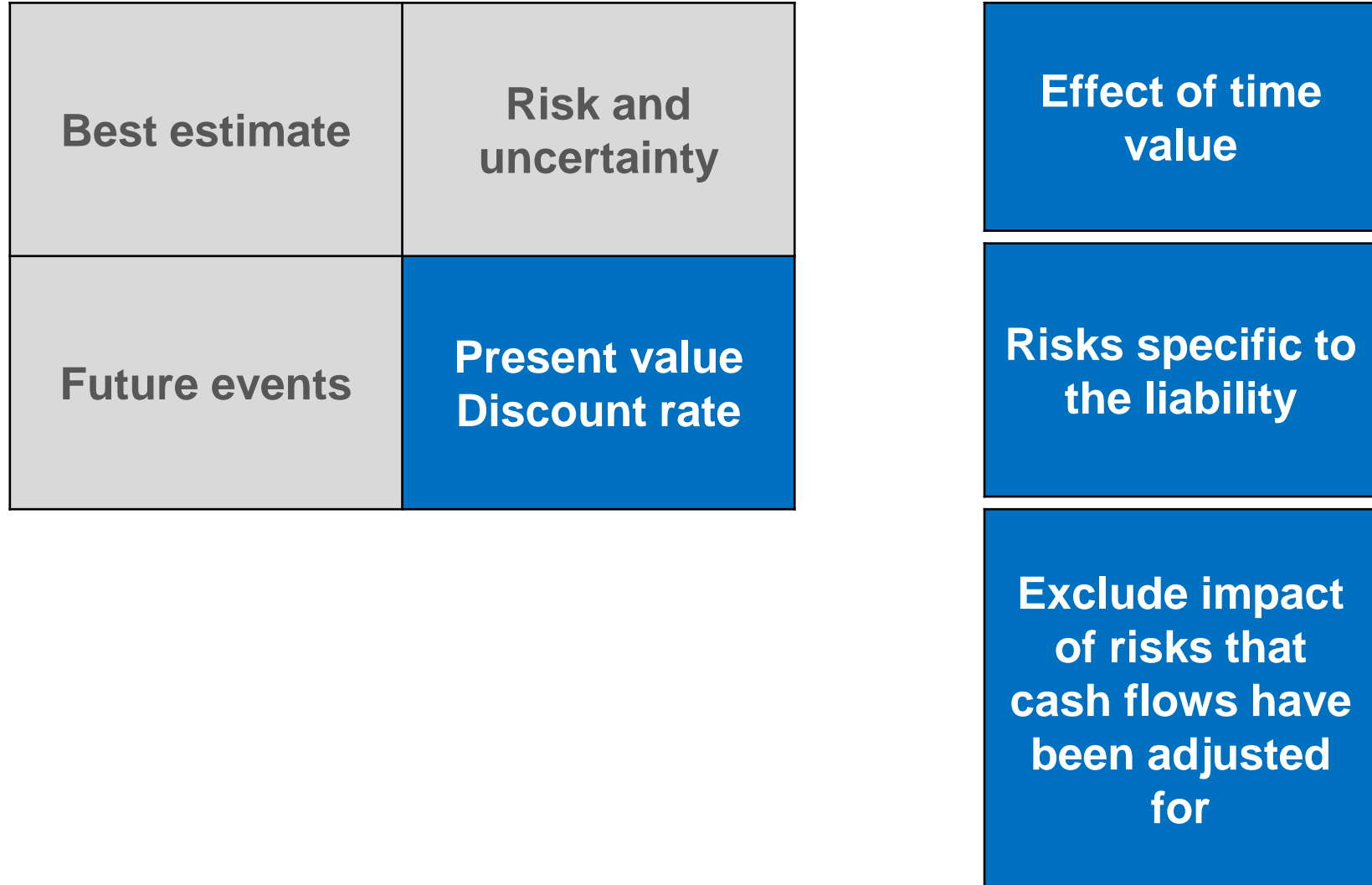
**Variability of
outcome**

**Long dated cash
flows increase
uncertainty**

Disclosure

Recognition and measurement

Components of the amount recognised



Recognition and measurement

Components of the amount recognised

Risks specific to the liability

Exclude impact of risks that cash flows have been adjusted for

IFRIC request:

Clarify that an entity's own credit risk should be excluded

IFRIC rejection:

Practice excludes own credit risk, as generally viewed in practice as a risk of the entity rather than a risk specific to the liability.

Recognition and measurement

Changes to the estimated provision

Change in:

Expected cash flows

Timing of cash flows

Discount rate

Change the liability and the capitalised asset in current period

Excess credit to P/L

Consider addition for impairment

IFRS 5

Non –
Current
Assets Held
for Sale and
Discontinued
Operations



IFRS 5 Non Current Assets Held for Sale and Discontinued Operations

Information not included in the slides

The slides give a high level what constitutes non-current assets held for sale and how to treat such assets. Not included in the slides:

1. The scope of the standard
2. Dealing with changes to a plan to sell

IFRS 5

Held for sale criteria

- Principle – classify non-current asset (disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use



IFRS 5

Decision to sell

- **Impact of classification as held for sale**

STEP 1: Stop depreciation

STEP 2: Adjust carrying amount to lower of carrying amount and fair value less costs to sell

➤ treat as impairment loss

- **Assets to be abandoned are never “held for sale”.**

- There will be no sale transaction, so their carrying amounts can only be recovered through continuing use.
- Could be within discontinued operations when eventually abandoned.

IFRS 5

Disclosure

IFRS 8 Operating Segments

Effective date: Annual periods beginning on or after 1 January 2009

Core principle

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Summary

- Applies to the consolidated financial statements of a group with a parent (and to the separate or individual financial statements of an entity):
 - whose debt or equity instruments are traded in a public market; or
 - that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

IFRS 8 Operating Segments

- An operating segment is a component of an entity:
 - that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
 - whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
 - for which discrete financial information is available.
- Start-up operations may be operating segments before earning revenues. Guidance is provided on which operating segments are reportable (generally 10% thresholds for revenue, absolute amount of its reported profit or loss, and assets).
- At least 75% of the entity's revenue must be included in reportable segments.
- Does not define segment revenue, segment expense, segment result, segment assets or segment liabilities, nor does it require segment information to be prepared in conformity with the accounting policies adopted for the entity's financial statements.

IFRS 8 Operating Segments

- Some entity-wide disclosures are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services, geographical areas and major customers (see below).
- Analyses of revenues and certain non-current assets by geographical area are required from all entities – with an expanded requirement to disclose revenues/non-current assets by individual foreign country (if material), irrespective of the entity's organisation.
- There is also a requirement to disclose information about transactions with major external customers (10% or more of the entity's revenue).

Interpretations: None.

IFRS 12 Disclosure of Interest in Other Entities



IFRS 12 Disclosure of Interests in Other Entities

Information not included in the slides

1. Scope of the standard
2. Judgement and assumption disclosures
3. Detailed disclosure requirements

IFRS 12 Disclosure of Interests in Other Entities

What to look out for

What is IFRS 12?

- Collates all disclosure requirements for subsidiaries, associates, joint arrangements and interests in unconsolidated structured entities

What is different to before?

- Disclosure of interests in unconsolidated structured entities
- Extended
 - NCI disclosure (disaggregate significant NCI interests)
 - Joint arrangements disclosure (summarised financial information)

What should I do?

- Redo presentation and disclosure checklist for IFRS 12

IFRS 12

Disclosure of interests in Subsidiaries, Joint Arrangements, Associates and Unconsolidated Structured Entities

Interests in subsidiaries:

- the composition of the group
- the extent of non-controlling interests in the group's activities and cash flows
- the nature/extent of significant restrictions on its ability to access/use assets, or settle liabilities
- the nature of the risks associated with its interests in consolidated structured entities
- the consequences of changes in its ownership interest in a sub that do not result in a loss of control
- the consequences of losing control of a subsidiary during the reporting period

Interests in joint arrangements or associates:

- Name of joint arrangements or associate
- the nature, extent and financial effects of its interests in associates
- Proportion of ownership interest
- the nature of, and changes in, the risks associated with its interests associates.

Interests in unconsolidated structured entities:

- the nature and extent of its interests in unconsolidated structured entities
- the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12

What is an unconsolidated structured

A **structured entity** is an entity

- that has been designed so that **voting rights** are **NOT** the dominant factor in deciding who **controls** the entity, such as when
 - any voting rights relate to administrative tasks only, and
 - the relevant activities are directed by means of contractual arrangements

Some features/attributes of structured entities:

- Restricted activities
- A narrow and well-defined objective
- Subordinated financial support
- Financing in the form of tranches

Examples of structured entities:

- Securitisation vehicles
- Asset-backed financings
- Some investment funds

An **unconsolidated structured entity** is therefore a:

- structured entity
- which is **NOT** consolidated by the investor due to no evidence of control

IFRS 12

Looking at disclosure

Material non-controlling interests



Subsidiary has NCI's material to the reporting entity, an entity shall disclose:

- dividends paid to NCI

Financial information of the subsidiary that enables users to understand the interest that NCI's have in the group's activities and cash flows.

Information might include but is not limited to:

- current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.

IFRS 12

Looking at disclosure

Listed associates

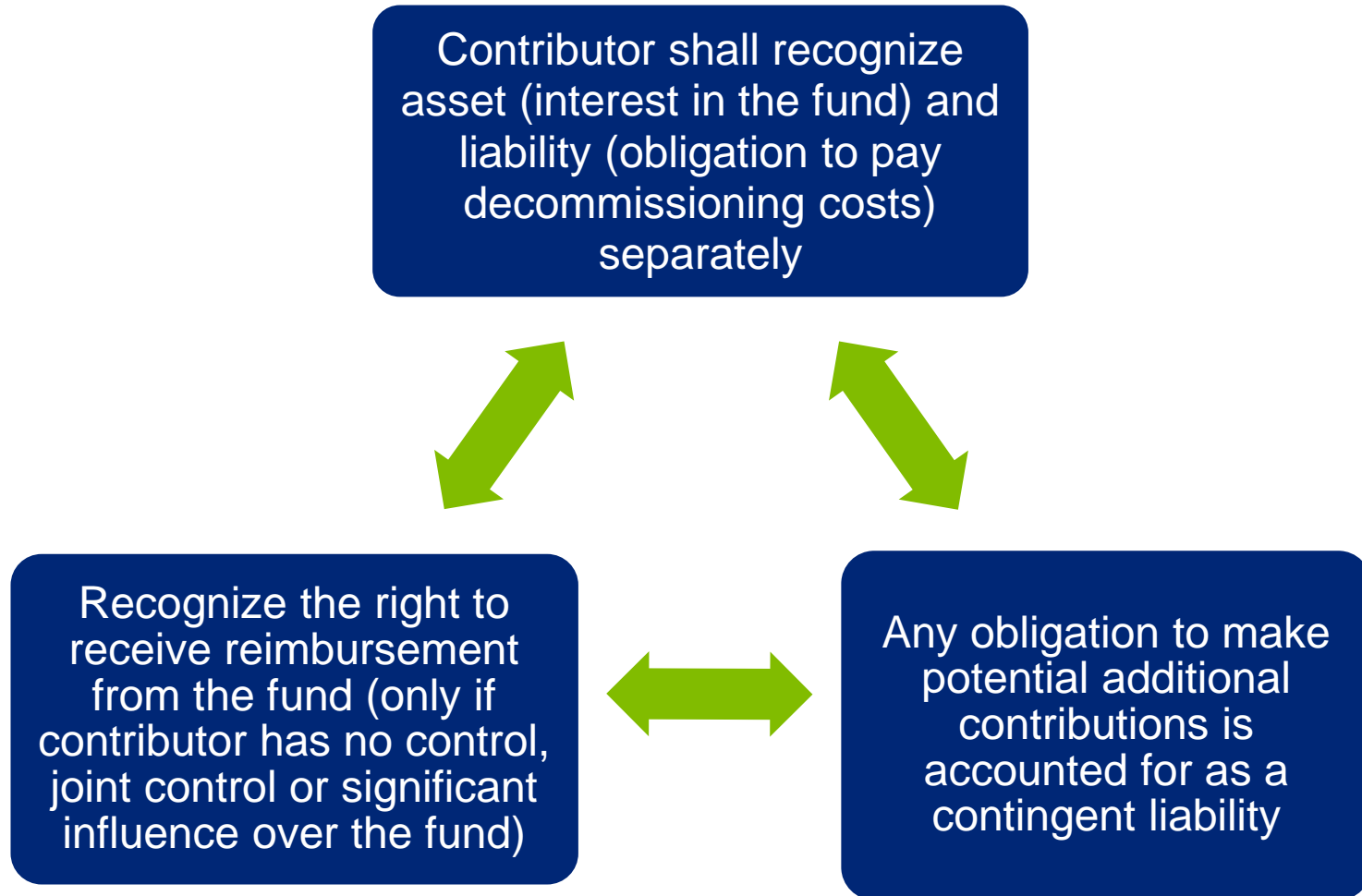


Sensitive information = cannot be disclosed until publicly available



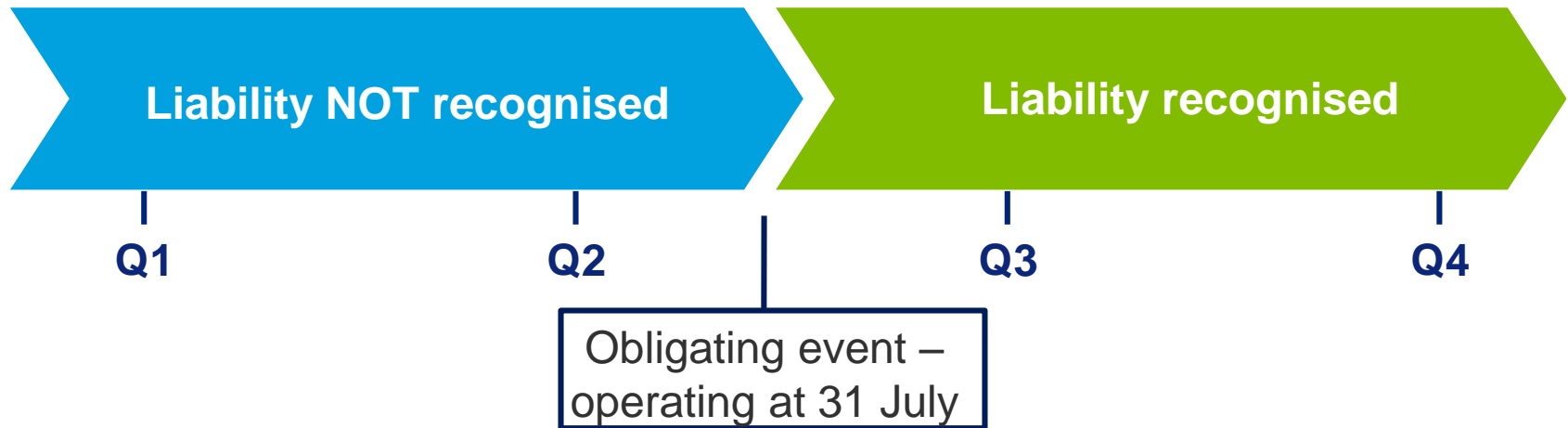
- If assoc issued within 3 months before group AFS = immaterial difference?
- Aggregate assocs
- Consult

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds



IFRIC 21 Levies

Liability should only be recognised in **interim** reports once the obligating event has occurred



Effective for annual periods beginning 1 January 2014
Retrospective application!



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. The more than 200 000 professionals of Deloitte are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.