FINANCIAL REPORTING WORKSHOP, MOMBASA

IAS 1 AND IFRS 1

Presentation by:

CPA Stephen Obock

Monday, 9 October 2017

Agenda

1. IAS 1 -Presentation of Financial Statements
2. IFRS 1- First Time Adoption of IFRS

IAS 1

- Objective and Scope
- Required components of financial statements
- Overall considerations and compliance
- Structure and content of financial statements
- Notes to financial statements

Objective and scope

- **Objective: Ensure comparability between years and entities**
- **Scope: All financial statements (FS) prepared in accordance with IFRSs:**
  - All financial statements, including interims (IAS 34)
  - All types of profit-oriented entities
  - Consolidated FS
  - Separate FS
  - Individual FS

Required components of financial statements

What are the required components of financial statements?

Required components of financial statements

- **Statement of financial position**
- **Statement of p&l and other comprehensive income**
- **Statement of changes in equity**
- **Statement of cash flows**
- **Notes – accounting policies and explanatory information**
- **Statement of financial position as at the beginning of the earliest comparative period when an entity restates comparative information, if material, following a:**
  - change in accounting policy,
  - correction of an error, or
  - reclassification of items in the financial statements
- **Ensure equal prominence for all of financial statements**

Other components of financial report

- **Not within scope of IFRSs, but often presented outside financial statements**
  - Financial review by management
    - Performance
    - Financial position
    - Uncertainties
    - Changes in environment
    - Investment and dividend policy
    - Sources of funding
    - Resources not recognized in the SFP
  - Environmental reports, value added statements etc.

Identification of financial statements

- **Must be clearly identified and distinguished from other information in annual report**
- **Required disclosures**
  - Name of entity and any change in the name
  - Separate, individual or consolidated financial statements
  - Date of the end of the reporting period or period covered by the financial statements
  - Presentation currency
  - Level of rounding

Reporting period

- **Financial statements to be presented at least annually**
- **If shorter or longer period, disclose**
  - Reason
  - Fact that amounts reported may not be comparable
- **No prohibition on 52-week period for practicality**

Overall considerations

Financial Statements

- Going concern
- Accrual basis of accounting
- Materiality and aggregation
- Offsetting
- Consistency of presentation
- Comparative information
- Compliance with IFRSs
- Fair presentation

Going concern

- **Going concern basis unless**
  - Business expected to cease
  - No realistic alternative but to liquidate
- **Management shall make an assessment of an entity's ability to continue as a going concern**
- **Assessment based on twelve months period**
- **Disclosure requirements if**
  - Significant uncertainties regarding ability to continue as going concern
  - Financial statements not prepared on going concern basis should indicate the basis on which they are prepared and the reason

Accrual basis of accounting

Which component of financial statements is NOT prepared using the accrual basis of accounting?

Accrual basis of accounting

- Financial statements, except for cash flow information, should be prepared using the accrual basis
- Assets, liabilities, equity, income and expenses recognised when the definitions and recognition criteria in the Framework are met

Materiality and aggregation

- **Separate presentation of material items of dissimilar nature or function**
- **Immaterial items need not be presented separately**
  - Aggregate with amounts of similar nature or function
  - If sufficiently material after aggregation, separate presentation in notes required

Offsetting

- **Assets and liabilities should not be offset unless**
  - Required or permitted by an IFRS
- **Items of income and expense should not be offset unless**
  - Required or permitted by an IFRS
  - Gains, losses and related expenses arising from the same or similar items are not material

Consistency of presentation

- **Retain the same presentation and classification of items unless**
  - Change will result in more appropriate presentation
  - Change required by an IFRS

Comparative information

- **Numerical comparative information for the previous period required unless an IFRS requires or permits otherwise**
- **Narrative comparative information required if relevant to understanding of current period**
- **Reclassify comparative amounts unless impracticable to change presentation or classification**
  - Disclosure required
- When an entity applies an accounting policy retrospectively or corrects a prior year error, it shall present a statement of financial position as of the beginning of the earliest period presented.

Compliance with IFRSs

- **"Explicit and unreserved statement of compl**
- **Compliance with <u>all</u> IFRSs**
- **Disclose application of IFRSs before effective date**
- **Inappropriate accounting treatments can not be rectified by disclosure**
- **Provide additional disclosures if compliance with IFRS is insufficient**
- **Provide disclosure if entity departs from the requirement of an IFRS to achieve fair presentation, including financial effect of departure**
  - Consider how the entity circumstances differ from those of other entities that comply with the requirements

Fair presentation

- **Achieved by appropriate application of IFRSs**
- **Requires faithful representation of effects of transactions, events and conditions in accordance with recognition criteria set out in the Framework**
- **If compliance with an IFRS is misleading, departure from that standard requires**
  - Comprehensive disclosure requirements
  - Only if local regulator allows
  - Extremely rare –consults

Current / non - current

A financial asset is classified as current when it is held primarily for the purpose of being traded and it is expected to be realised between 12 and 24 months after the reporting period.

A) True
B) False

Statement of financial position – Current / non-current

- **Present assets and liabilities in the statement of financial position as**
  - Current / non-current; or
  - Broadly in order of liquidity (when reliable and more relevant)
- **Disclose amounts due for recovery or settlement after more than 12 months for each asset and liability**
- **Deferred tax assets and liabilities are never presented as current**

Statement of financial position – Current / non-current (continued)

- **Assets current if:**
  - Involved in normal operating cycle
  - Held primarily for trading purposes
  - Expected to be realised within 12 months
  - Cash or a cash equivalent
- **Liabilities current if:**
  - Involved in normal operating cycle
  - Held primarily for trading purposes
  - Due to be settled within 12 months
  - No unconditional right to defer settlement for at least 12 months

- **All other assets and liabilities are non-current**
- **Events might qualify for disclosure as non-adjusting events in accordance with IAS 10**

Statement of financial position – Sub-classifications

- **Sub-classifications of items presented, either**
  - In the statement of financial position; or
  - In notes
- **Separate presentation of amounts payable to and receivable from the parent, subsidiaries, associates and other related parties**
- **Further guidelines in individual standards**

Statement of profit or loss and OCI – Presentation

- Single statement or profit or loss and a separate statement of other comprehensive income
- Present profit or loss and OCI attributable to owners of parent and NCI
- Analysis of expenses in p&l or notes by nature or function
- If classification is by function, additional information required on Depreciation / amortisation and Employee benefits expense
- Separate disclosure of nature and amounts of material items of income and expense (in profit or loss or notes)
- No extraordinary items
- OCI – split into amounts that will be reclassified to p&l and those that will never be reclassified

Statement of comprehensive income– OCI

- **The components of other comprehensive income include:**
  - changes in revaluation surplus
  - actuarial gains and losses on defined benefit plans
  - from foreign currency translations
  - gains and losses on re-measuring available-for-sale financial assets
  - gain and losses on the effective portion of a cash flow hedge
- **Income taxes**
  - the amount of income tax relating to each OCI component
- **Entity may present components of other comprehensive income either:**
  - net of related tax effects, or
  - before related tax effects with tax amount shown for the aggregate amount of income tax relating to those components - split into amounts that will be reclassified to p&l and those that will never be reclassified

Statement of changes in equity

- **Include**
  - Total comprehensive income for the period
  - For each component of equity, the effects of retrospective application or restatement recognised in accordance with IAS 8
  - For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period disclosing separately
    - profit or loss
    - each item of other comprehensive income
    - transactions with owners and NCI

Statement of changes in equity – Additional disclosure

- **Also present, either in the statement of changes in equity or in the notes**
  - the amount of dividends recognised as distribution to owners during the period, and the related amount per share

Information about share capital

- **For each class of share capital (in the statement of financial position, statement of changes in equity or notes):**
  - Number of shares authorised
  - Number of shares issued: fully paid and not fully paid
  - Par value or no par value
  - Reconciliation of movements in number of shares
  - Rights, preferences and restrictions
  - Treasury shares
  - Share held for options and sale contracts (including terms/amounts)
- **Nature and purpose of each equity reserve**

Notes to the financial statements

- **Present information in systematic order and cross reference to statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows**
- **Normally presented in the following order**
  - Statement of compliance with IFRSs
  - Bases of measurement and significant accounting policies applied
  - Supporting information required by IFRSs for items presented in the primary statements
  - Other disclosures e.g. contingent liabilities

Notes (continued)

- Significant accounting policies
- Management’s judgements in applying accounting policies with significant effects on amounts recognised
- Key assumptions concerning the future and key sources of estimation uncertainty that has a significant risk.
- Key assumptions must be those that require managements most difficult, subjective or complex judgements and may result in material adjustments
- Also disclose sensitivity of those assumptions to the carrying amounts

Capital management

- **Company information**
- **Objectives, policies and processes for managing capital**
  - Based on internal information provided to key management personnel, e.g., board of directors or chief executive
  - Quantitative and qualitative information on what is managed as capital
  - Compliance with externally imposed capital requirements and consequences of noncompliance if any

Other disclosures

- Amount of dividends proposed or declared b financial statements are authorized for issue
- Amount of cumulative preference dividends not recognized
- Domicile and legal form of entity, country of incorporation/principal place of business
- Principal activities of the entity
- Name of parent and ultimate parent
- If limited life entity, the length of its life.

IFRS 1

First-time Adoption of International Financial Reporting Standards

Introduction to IFRS 1

First-time Adoption of International Financial Reporting Standards sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements.

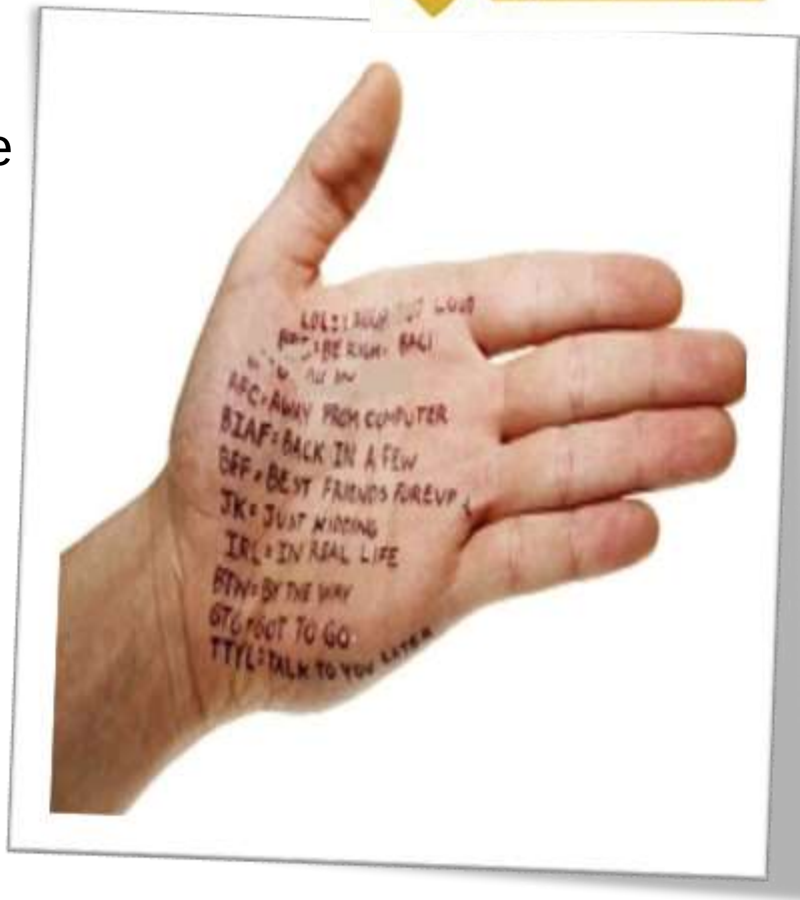
Why are we discussing this topic?

The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

a) is transparent for users and comparable over all periods presented;

b) provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRSs); and

c) can be generated at a cost that does not exceed the benefits.



Adoption

- An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs.
- The entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period.

Adoption

- IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRSs:
  a) recognize all assets and liabilities whose recognition is required by IFRSs;
  b) not recognize items as assets or liabilities if IFRSs do not permit such recognition;
  c) reclassify items that it recognized in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRSs
  d) apply IFRSs in measuring all recognized assets and liabilities.

Interactive Session