



IAS1 Presentation of Financial Statements

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Objective of IAS 1

- The objective of IAS 1 (revised 1997) is 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 ... responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements.

[Scope]

- Applies to all general purpose financial statements based on International Financial Reporting Standards. [IAS 1.2]
- 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. [IAS 1.3]

Objective of Financial Statements 1

- 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: [IAS 1.7]

- ...
- ...
- ...
- ...
- ...
- ...

QUESTION:

Fill in the missing information headings!

- That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Components of Financial Statements

- A complete set of financial statements should include: [IAS 1.8]
 - a balance sheet,
 - income statement,
 - a statement of changes in equity showing either:
 - all changes in equity, or
 - changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
 - cash flow statement, and
 - notes, comprising a summary of accounting policies and other explanatory notes.

[Fair Presentation and Compliance with IFRSs]

- The financial statements must *present fairly* the financial position, financial performance and cash flows of an entity ... the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria ... set out in the Framework. [IAS 1.13]
- ... an entity [must] ... make an explicit and unreserved statement of such compliance in the notes. [IAS 1.14]
- ➔ ■ Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material. [IAS 1.16]

Accounting Concepts and IAS 1

- Going Concern
- Accrual Basis of Accounting
- ■ Consistency of Presentation
- Materiality and Aggregation
- Plus
- Offsetting ... generally disallowed
 - **QUESTION:** what is offsetting?

[Reporting Period]

- ... financial statements should be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the enterprise must disclose the reason for the change and a warning about problems of comparability. [IAS 1.49]

[Balance Sheet 1]

- An entity must normally present a classified balance sheet, separating current and non current assets and liabilities. [IAS 1.51]

[Balance Sheet 2]

- **Current assets are ... [IAS 1.57]**
- **Current liabilities are ... [IAS 1.60]**
- **Long term debt** expected to be refinanced under an existing loan facility is non current, even if due within 12 months. [IAS 1.64]
- **If a liability has become payable on demand ... [IAS 1.65]**

Balance Sheet 2

- **Current assets are** An asset shall be classified as current when it satisfies any of the following criteria:
- (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the balance sheet date; or
- (d) it is cash or a cash equivalent (as defined in IAS 7 Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.
- All other assets shall be classified as non-current. [IAS 1.57]

Balance Sheet 2

- **Current liabilities are** A liability shall be classified as current when it satisfies any of the following criteria:
 - (a) it is expected to be settled in the entity's normal operating cycle;
 - (b) it is held primarily for the purpose of being traded;
 - (c) it is due to be settled within twelve months after the balance sheet date; or
 - (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.
- All other liabilities shall be classified as non current.
- [IAS 1.60]
- **Long term debt** expected to be refinanced under an existing loan facility is non current, even if due within 12 months. [IAS 1.63]
- **If a liability has become payable on demand** the liability is classified as current [IAS 1.65]

Information to be Presented on the Face of the Balance Sheet

- (a) property, plant and equipment;
- (b) investment property;
- (c) intangible assets;
- (d) financial assets ...;
- (g) inventories;
- (h) trade and other receivables;
- (i) cash and cash equivalents;
- (j) trade and other payables;
- (k) provisions;
- (l) financial liabilities ...; [IAS 1.68]

Balance Sheet Alternative Layouts 1

IAS 1 does not prescribe the format of the balance sheet

Assets
=
Capital
+
Liabilities

Assets
-
Liabilities
=
Capital

vertical layout

Balance Sheet Alternative Layouts 2

Assets =	Capital
	+
	Liabilities

Capital	= Assets
+	
Liabilities	

**horizontal
layouts**

See the Model Statements pages 3 + 4

[Income Statement]

- IAS 1 now uses *profit* or *loss* rather than *net profit* or *net loss* as the descriptive term for the bottom line of the income statement.
- All items of income and expense **recognised** in a period must be included in profit or loss unless a Standard or an Interpretation requires otherwise. [IAS 1.78]

Information to be Presented on the Face of the Income Statement

- (a) revenue;
- (b) finance costs;
- ...
- (e) tax expense; and
- (f) profit or loss. [IAS1.81]

[Nature v Function]

- Expenses should be analysed either by nature (raw materials, staffing costs, depreciation, etc.) or by function (cost of sales, selling, administrative, etc.) either on the face of the income statement or in the notes. [IAS 1.88]
- If an enterprise categorises by function, additional information on the nature of expenses, at a minimum depreciation, amortisation, and staff costs, must be disclosed. [IAS 1.93]

Nature

Income Statement: nature of expense method

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit		X

IAS1.91

See the Model Statements page 1

Function

Income Statement: function of expense method

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit	X

IAS1.92

See the Model Statements page 2

Cash Flow Statement

- Rather than setting out separate standards for presenting the cash flow statement, IAS 1.102 refers to **IAS 7, Cash Flow Statements**
- We will not be looking at cash flow statements in this course

Statement of Changes in Equity

- Again it is not particularly appropriate for us consider this statement at this stage.

Notes to the Financial Statements 1

See the Model Statements

- The notes must:
- present information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclose any information required by IFRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity, or cash flow statement; and
- provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity, or cash flow statement that is deemed relevant to an understanding of any of them. [IAS 1.103]

Notes to the Financial Statements 2

See the Model Statements

- Notes should be cross referenced from the face of the financial statements to the relevant note. [IAS 1.104]
- IAS 1.105 says that the notes should normally be presented in the following order:
 - a statement of compliance with IFRSs;
 - a summary of significant accounting policies applied, including: [IAS 1.108]
 - the measurement basis (or bases) used in preparing the financial statements; and
 - the other accounting policies used that are relevant to an understanding of the financial statements.
- supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity, and cash flow statement, in the order in which each statement and each line item is presented

[Reference]

- I recognise the help I received from the materials prepared by Deloitte, Touche, Tohmatsu in preparing this presentation.