

PART I

THE FINANCIAL STATEMENTS

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CHAPTER 1

FINANCIAL STATEMENTS PRESENTATION



What Is Profit or Loss?

Profit or loss is the total of an entity's revenue and expenses, not including any components of other comprehensive income (see the next question). It is also known as *net income*.

Total comprehensive income is the combination of profit or loss and other comprehensive income.



What Is Other Comprehensive Income?

Other comprehensive income includes financial items that are not permitted in profit or loss. Items that you should insert in other comprehensive income include:

- *Actuarial gains and losses on defined benefit plans* (see the Employee Benefits chapter)
- *Available-for-sale gains and losses caused by remeasurement* (see the Financial Instruments: Recognition and Measurement chapter)
- *Cash flow hedge gains and losses, effective portion only* (see the Financial Instruments: Recognition and Measurement chapter)
- *Changes in the revaluation surplus* (see the Property, Plant, and Equipment chapter)
- *Foreign currency translation gains and losses* (see the Effects of Foreign Exchange Rate Changes chapter)

Reclassification adjustments are amounts reclassified into profit or loss in the current period that had been recognized in other comprehensive income in either the current or previous periods.

4 Financial Statements Presentation



What Information Is Included in a Complete Set of Financial Statements?

All of the following should be included in a complete set of financial statements for a reporting period:

Statement	Description
Statement of financial position	Contains all asset, liability, and equity items
Statement of comprehensive income	Contains all income and expense items
Statement of changes in equity	Reconciles changes in equity for the presented periods
Statement of cash flows	Displays all cash inflows and outflows from operating, financing, and investing activities
Notes	Summarizes accounting policies and explanatory information

You should clearly identify these financial statements and distinguish them from other information presented in the same report. It is important to do this, because International Financial Reporting Standards (IFRSs) apply only to financial statements; thus, users will be more likely to understand which documents within the report adhere to specific accounting standards.

You should include in the financial statements a prominent display of the name of the reporting entity (and note any change in it from the preceding reporting period), whether the statements are for a single entity or group of entities, the period covered by the statements, the presentation currency, and the level of rounding used to present amounts. This information usually is presented most easily in column and page headers.

It is not necessary, but useful, for management to also present a financial review that includes such items as the primary factors impacting financial performance, its investment policy, dividend policy, sources of funding, targeted financial ratios, and any other resources not recognized in the financial statements.



What Line Items Do I Include in the Statement of Financial Position?

You should include the following line items, at a minimum, in the statement of financial position:

Assets

- Cash and cash equivalents
- Trade and other receivables
- Investments accounted for using the equity method
- Other financial assets
- Current tax assets
- Investment property
- Inventories
- Biological assets
- Property, plant, and equipment
- Intangible assets
- Assets held for sale
- Deferred tax assets (do not classify as a current asset)

Liabilities

- Trade and other payables
- Provisions
- Current tax liabilities
- Other financial liabilities
- Deferred tax liabilities (do not classify as a current liability)
- Liabilities held for sale

Equity

- Noncontrolling interests
- Issued capital and reserves attributable to owners of the parent

You should add headings and subtotals to this minimum set of information if it will improve a user's understanding of the financial statements. You should add other line items when their size, nature, or function makes separate presentation relevant to the user.

EXAMPLE 1.1

Katana Cutlery presents its statement of financial position in the following format:

KATANA CUTLERY STATEMENT OF FINANCIAL POSITION

(000s)	as at 12/ 31/x2	as at 12/ 31/x1
ASSETS		
Noncurrent assets		
Property, plant, and equipment	€551,000	€529,000

(Continued)

6 Financial Statements Presentation

<i>(Continued)</i>		
Goodwill	82,000	82,000
Other intangible assets	143,000	143,000
Investments in associates	71,000	93,000
Available-for-sale financial assets	121,000	108,000
	<u>968,000</u>	<u>955,000</u>
Current assets		
Inventories	139,000	128,000
Trade receivables	147,000	139,000
Other current assets	15,000	27,000
Cash and cash equivalents	270,000	215,000
	<u>571,000</u>	<u>509,000</u>
Total assets	<u>€1,539,000</u>	<u>€1,464,000</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	€500,000	€500,000
Retained earnings	425,000	350,000
Other components of equity	25,000	19,000
	<u>950,000</u>	<u>869,000</u>
Noncontrolling interests	57,000	38,000
Total equity	<u>1,007,000</u>	<u>907,000</u>
Noncurrent liabilities		
Long-term borrowings	85,000	65,000
Deferred tax	19,000	17,000
Long-term provisions	38,000	34,000
Total noncurrent liabilities	<u>142,000</u>	<u>116,000</u>
Current liabilities		
Trade and other payables	217,000	198,000
Short-term borrowings	133,000	202,000
Current portion of long-term borrowings	5,000	5,000
Current tax payable	26,000	23,000
Short-term provisions	9,000	13,000
Total current liabilities	<u>390,000</u>	<u>441,000</u>
Total liabilities	<u>532,000</u>	<u>557,000</u>
Total equity and liabilities	<u>€1,539,000</u>	<u>€1,464,000</u>



What Information Should I Disclose in the Statement of Financial Position?

You should provide additional subclassifications of the primary line items required for the statement of financial position, if needed to clarify an entity's operations, or to be in accordance with the various IFRSs. Examples of these additional classifications are:

- Separate property, plant, and equipment into different asset classifications.
- Separate accounts receivable into amounts receivable from trade customers, related parties, and prepayments.
- Separate inventories into merchandise, supplies, raw materials, work in process, and finished goods.
- Separate equity into paid-in capital, share premiums, and reserves.

For each class of share capital, you should disclose the following:

- *Internal holdings.* Any shares held by the entity or its subsidiaries or associates
- *Par value.* The par value per share or the fact that there is no par value
- *Reclassifications.* Any reclassifications of financial instruments between liabilities and equity, and the timing and reasons for the reclassifications
- *Reconciliation.* Reconciliation of the share totals at the beginning and end of the reporting period
- *Reserved shares.* Any outstanding share options or other contracts for the sale of shares, as well as the terms of these agreements
- *Reserves.* The nature of any equity reserves
- *Rights and restrictions.* Restrictions on dividend distribution and capital repayment, as well as any other rights, preferences, and restrictions
- *Shares.* The number of shares authorized, issued and fully paid, and issued but not fully paid



When Do I Present Information as Current or Noncurrent?

You should present current and noncurrent assets and liabilities within the statement of financial position, except when a presentation based on liquidity is more reliable

8 Financial Statements Presentation

and more relevant. If liquidity is the more relevant basis of presentation, then present all assets and liabilities sorted in order by level of liquidity.

Whether you present line items by current/noncurrent or by liquidity, you should separately disclose the amount you expect to recover or settle after more than 12 months for any line item that combines amounts that are expected to be recovered within 12 months of the reporting period and later than 12 months from the reporting period.

You should classify an asset as current when an entity expects to sell or consume it during its normal operating cycle or within 12 months after the reporting period, or if it holds the asset in order to trade it, or if it is a cash or cash equivalent (unless it is restricted from use). Current assets always include cash, inventories, and assets held for trading. You should classify all other assets as noncurrent.

You should classify a liability as current when the entity expects to settle it during its normal operating cycle or within 12 months after the reporting period, or if it holds the liability in order to trade it, or if it is scheduled for settlement within 12 months, or if the entity does not have the right to defer its settlement for at least 12 months. You should classify financial liabilities as current when they are scheduled for settlement within 12 months, even if the original term was for a longer period. Current liabilities always include trade payables and accruals for employee and other operating costs. You should classify all other liabilities as noncurrent.

If an entity reaches an agreement after the reporting period but before the financial statements are authorized for issuance, to reschedule payments or refinance so that payments are due *after* the 12-month period, you should still categorize them as current liabilities. If an entity expects and has the ability to refinance or roll over an obligation so that it is due more than 12 months after the reporting period, then you should classify the obligation as noncurrent.

If an entity breaches a provision of a long-term debt agreement during a reporting period and this effectively makes the agreement payable on demand, you should categorize it as a current liability, even if the lender agrees, before the financial statements are authorized for issuance, not to demand payment. However, if the lender agrees, by the end of the reporting period, to provide at least a 12-month grace period, then you can classify the debt as noncurrent.

An entity's operating cycle is the time required to acquire assets for processing and convert them into cash. If

you cannot determine the operating cycle, assume that it is 12 months.



What Line Items Do I Include in the Statement of Comprehensive Income?

You should present all items of income and expense for the reporting period in a statement of comprehensive income. Alternatively, you can split this information into an income statement and a statement of comprehensive income.

You should include the following line items, at a minimum, in the statement of comprehensive income:

- Revenue
- Finance costs
- Share of associates' and joint ventures' profit or loss recorded with the equity method
- Tax expense
- Post-tax profit or loss for discontinued operations and for the disposal of these operations
- Profit or loss
- Other comprehensive income, subdivided into each component thereof
- Share of associates' and joint ventures' other comprehensive income recorded with the equity method
- Total comprehensive income

A key additional item is to present an analysis of the expenses in profit or loss, using a classification based on their nature or functional area, maximizing the relevance and reliability of presented information. If you elect to present expenses by their nature, the format looks similar to Exhibit 1.1.

Exhibit 1.1 NATURAL EXPENSE PRESENTATION

Revenue		XXX
Expenses:		
Change in finished goods inventories	XXX	
Raw materials used	XXX	
Employee benefits expense	XXX	
Depreciation expense	XXX	
Telephone expense	XXX	
Other expenses	<u>XXX</u>	
Total expenses		<u>XXX</u>
Profit before tax		<u>XXX</u>

10 Financial Statements Presentation

Exhibit 1.2 FUNCTIONAL EXPENSE PRESENTATION

Revenue	<u>XXX</u>
Cost of sales	XXX
Gross profit	XXX
Administrative expenses	XXX
Distribution expenses	XXX
Research and development expenses	XXX
Other expenses	<u>XXX</u>
Total expenses	<u>XXX</u>
Profit before tax	<u>XXX</u>

Alternatively, if you present expenses by their functional area, the format looks similar to Exhibit 1.2.

Of the two methods, presenting expenses by their nature is easier, since it requires no allocation of expenses between functional areas. Conversely, the functional area presentation may be more relevant to users of the information, who can see more easily where resources are being consumed. If you elect to use a functional area presentation, you also must disclose information about the nature of the expenses, at least including separate presentation of depreciation expense, amortization expense, and employee benefits expense.

In addition, you should disclose the profit or loss and total comprehensive income attributable to any noncontrolling interests and to the owners of the parent entity.

Taxes require additional disclosure to the line items noted above. You should disclose the amount of tax related to each component of other comprehensive income. This information can be included in the statement itself or in the associated notes. You should not present any components of other comprehensive income net of related taxes.

You should provide additional headings, subtotals, and line items to the items noted above if doing so will increase a user's understanding of the entity's financial performance.

EXAMPLE 1.2

Plasma Storage Devices presents its statement of financial position in two statements by the nature of the items, resulting in the following format, beginning with the income statement:

PLASMA STORAGE DEVICES INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31

(000s)	20×2	20×1
Revenue	€900,000	€850,000
Other income	25,000	20,000
Changes in finished goods inventories	(270,000)	(255,000)
Raw materials used	(90,000)	(85,000)
Employee benefits expense	(180,000)	(170,000)
Depreciation and amortization expense	(135,000)	(125,000)
Impairment of property, plant, and equipment	0	(50,000)
Other expenses	(75,000)	(72,000)
Finance costs	(29,000)	(23,000)
Share of profit of associates	21,000	30,000
Profit before tax	167,000	120,000
Income tax expense	(58,000)	(42,000)
Profit for the year from continuing operations	109,000	78,000
Loss for the year from discontinued operations	(42,000)	0
PROFIT FOR THE YEAR	€67,000	€78,000
Profit attributable to:		
Owners of the parent	60,000	70,000
Noncontrolling interests	7,000	8,000
	€67,000	€78,000
Earnings per share:		
Basic	€0.13	€0.16
Diluted	0.09	0.10

Plasma Storage Devices then continues with the following statement of comprehensive income:

PLASMA STORAGE DEVICES STATEMENT OF COMPREHENSIVE INCOME

(000s)	20×2	20×1
Profit for the year	€67,000	€78,000
Other comprehensive income:		
Exchange differences on translating foreign operations	5,000	9,000
Available-for-sale financial assets	10,000	(2,000)
Cash flow hedges	(1,000)	(3,000)
Gains on property revaluation	7,000	11,000
Actuarial losses on defined benefit pension plan	(2,000)	(2,000)
Share of other comprehensive income of associates	1,000	4,000

(Continued)

12 Financial Statements Presentation

<i>(Continued)</i>		
Other comprehensive income, net of tax	20,000	17,000
TOTAL COMPREHENSIVE INCOME	<u>€87,000</u>	<u>€95,000</u>
Total comprehensive income attributable to:		
Owners of the parent	78,000	86,000
Noncontrolling interests	9,000	9,000
	<u>€87,000</u>	<u>€95,000</u>



What Information Should I Disclose in the Statement of Comprehensive Income?

You should ensure that the following information is included in either the statement of comprehensive income or its associated notes:

- *Reclassification adjustments.* Disclose any reclassification adjustments related to components of other comprehensive income (arise when items previously recognized in other comprehensive income are shifted into profit or loss).
- *Material items.* If an income or expense item is material, separately disclose its nature and amount. Examples of items that may require separate disclosure are inventory write-downs, restructurings, asset disposals, discontinued operations, provision reversals, and the settlement of litigation.



What Line Items Do I Include in the Statement of Changes in Equity?

You should include the following line items in the statement of changes in equity:

- Total comprehensive income (with separate presentation of the amounts attributable to the owners of the parent entity and to noncontrolling interests)
- Effects of retrospective applications or restatements on each component of equity (usually shown as adjustments to the opening balance of retained earnings)
- Reconciliation of changes during the period for each component of equity resulting from profit or loss, each item of other comprehensive income, and

transactions with owners (including contributions by and distributions to them)

- Dividends recognized, and the related amount per share (alternatively, this item can be presented in the associated notes)

EXAMPLE 1.3

Musical Heritage Company presents its statement of changes in equity as follows to reflect changes in its equity over a two-year period:

	Share Capital	Retained Earnings	Total	Non- controlling Interests	Total Equity
Balance at Jan. 01, 20×1	350,000	50,000	400,000	40,000	440,000
Accounting policy change	—	(3,000)	(3,000)	—	(3,000)
Restated balance	350,000	47,000	397,000	40,000	437,000
Changes in equity for 20×1					
Dividends	—	(25,000)	(25,000)	—	(25,000)
Total comprehensive income	—	42,000	42,000	4,000	46,000
Balance at Dec. 31, 20×1	350,000	64,000	414,000	44,000	458,000
Changes in equity for 20×2					
Dividends	—	(18,000)	(18,000)	—	(18,000)
Issue of share capital	125,000	—	125,000	—	125,000
Total comprehensive income	—	37,000	37,000	4,000	41,000
Balance at Dec. 31, 20×2	<u>475,000</u>	<u>83,000</u>	<u>558,000</u>	<u>48,000</u>	<u>606,000</u>



What Are the Main Components of the Statement of Cash Flows?

The statement of cash flows contains information about activities that generate and use cash. The primary activities are:

14 Financial Statements Presentation

- *Operating activities*, which are an entity's primary revenue-producing activities. Examples of operating activities are cash receipts from the sale of goods, as well as from royalties and commissions, and payments to employees and suppliers.
- *Investing activities*, which involve the acquisition and disposal of long-term assets. Examples of investing activities are cash receipts from the sale of property, the sale of debt or equity instruments of other entities, and repayment of loans made to other entities, and from futures contracts, swap contracts, and forward contracts. Examples of cash payments that are investment activities include capitalized development costs, the acquisition of property, plant, and equipment, purchases of the debt or equity of other entities, and payments for futures contracts, swap contracts, and forward contracts.
- *Financing activities*, which result in alterations to the amount of contributed equity and the entity's borrowings. Examples of financing activities include cash receipts from the sale of the entity's own equity instruments or from issuing debt, as well as cash payments to buy back shares and to pay off outstanding debt.

The statement of cash flows also incorporates the concept of *cash and cash equivalents*. A cash equivalent is a short-term (usually maturing in three months or less), very liquid investment that is easily convertible into cash, and which is at minimal risk of a change in value.



What Are the Direct and Indirect Method Layouts for the Statement of Cash Flows?

You can use the *direct method* or the *indirect method* to present the statement of cash flows. The direct method presents the specific cash flows associated with items that affect cash flow. Items typically affecting cash flow include:

- Cash collected from customers
- Interest and dividends received
- Cash paid to employees
- Cash paid to suppliers
- Interest paid
- Income taxes paid

Under the indirect method, the presentation begins with net income or loss, with subsequent additions to or

deductions from that amount for noncash revenue and expense items, resulting in net cash provided by operating activities.

Examples of both methods are located in the answer to the next question.



What Line Items Should I Include in the Statement of Cash Flows?

The statement of cash flows reports cash activities during a reporting period, subdivided into operating, investing, and financing activities. The information you should include in these activities is as follows:

- *Operating activities.* Use either the direct method (disclosing major classes of gross cash receipts and payments) or the indirect method (adjusting profit or loss for changes in inventories, receivables, payables, and a variety of noncash items). The IFRS-recommended approach is to use the direct method.
- *Investing activities.* Separately report the major classes of gross cash receipts and payments caused by investing activities.
- *Financing activities.* Separately report the major classes of gross cash receipts and payments caused by financing activities.

There are a number of special situations that call for unique treatment within the statement of cash flows. They are as follows:

- *Changes in ownership interests.* Separately report the aggregate cash flows from obtaining and losing control of subsidiaries in investing activities. When doing so, report the total consideration paid or received, the proportion of this consideration comprising cash and cash equivalents, the amount of cash and cash equivalents in the subsidiaries over which the entity has gained or lost control, and the major categories of assets and liabilities other than cash and cash equivalents in the subsidiaries over which the entity has gained or lost control.
- *Components of cash and cash equivalents.* Disclose the components of cash and cash equivalents, and also reconcile the amount of cash and cash equivalents in the statement of cash flows with the amounts reported for these items in the statement of financial position. Also note the entity's policy for determining the composition of cash and cash equivalents,

16 Financial Statements Presentation

and the effect of any changes to this policy in the reporting period.

- *Foreign currency cash flows.* If an entity has transactions in a foreign currency, record them in its functional currency (see the Effects of Foreign Exchange Rate Changes chapter) using the relevant exchange rate on the cash flow date. If an entity has a foreign subsidiary, it also should translate the cash flows of the subsidiary into its functional currency on the various cash flow dates. A weighted average exchange rate for the reporting period can be used for these translations.
- *Income taxes.* Separately disclose cash flows from taxes on income and classify them within cash flows from operating activities. You should classify them within cash flows from financing or investing activities only if they are specifically identified with those activities.
- *Interest and dividends.* Separately disclose cash flows from interest and dividends received and paid. You should disclose the total amount of interest paid during a period in the statement of cash flows, even if you have capitalized the interest expense. The categorization of interest and dividends is as follows:

Interest paid: Operating cash flows or financing cash flows

Interest received: Operating cash flows or investing cash flows

Dividends paid: Operating cash flows or financing cash flows

Dividends received: Operating cash flows or investing cash flows
- *Investments in subsidiaries, associates, and joint ventures.* If you use the equity or cost methods to account for investments in associates or subsidiaries, then report only cash flows between the entity and the investee. If you use proportionate consolidation to account for investments in a jointly controlled entity, then report the entity's proportionate share of the jointly controlled entity's cash flows.
- *Net reporting.* It is sometimes acceptable to combine cash receipts and payments into a single reported net number. Specifically, you can use net reporting for cash receipts and payments concerning items involving fast turnover, short maturities, and large amounts. Examples are payments and receipts related to credit card customers, investments, and

short-term borrowings. You also can use net reporting for cash transactions on behalf of customers where the cash flows reflect the customer's activities rather than the entity's. Examples are funds held for customers by an investment fund, and rent collected on behalf of a property owner.

- *Noncash transactions.* Exclude noncash investing and financing transactions from the statement of cash flows. Examples of such transactions are converting debt to equity, acquiring an entity through an equity issuance, and acquiring an asset by assuming the related finance lease.
- *Restricted cash.* Note any significant amounts of cash and cash equivalents that are not available for use. For example, a subsidiary may have significant cash holdings, but be located in a country where exchange controls restrict the movement of the cash to the parent entity.

EXAMPLE 1.4

Afford Defense and Aerospace constructs the following statement of cash flows using the direct method:

AFFORD DEFENSE AND AEROSPACE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 12/31/×1

Cash flows from operating activities

Cash receipts from customers	€45,800,000	
Cash paid to suppliers	(29,800,000)	
Cash paid to employees	<u>(11,200,000)</u>	
Cash generated from operations	4,800,000	
Interest paid	(310,000)	
Income taxes paid	<u>(1,700,000)</u>	
Net cash from operating activities		€2,790,000

Cash flows from investing activities

Purchase of property, plant, and equipment	(580,000)	
Proceeds from sale of equipment	110,000	
Interest received	12,000	
Dividends received	<u>5,000</u>	
Net cash used in investing activities		(453,000)

(Continued)

18 Financial Statements Presentation

*(Continued)***Cash flows from financing activities**

Proceeds from issuance of share capital	1,000,000	
Proceeds from borrowings	500,000	
Dividends paid	<u>(450,000)</u>	
<i>Net cash used in financing activities</i>		1,050,000
Net increase in cash and cash equivalents		3,387,000
Cash and cash equivalents at beginning of period		1,613,000
Cash and cash equivalents at end of period		<u><u>€5,000,000</u></u>

EXAMPLE 1.5

Gaelic Fire Candy constructs the following statement of cash flows using the indirect method:

GAELIC FIRE CANDY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 12/31x1**Cash flows from operating activities**

Profit before taxation	£3,000,000	
Adjustments for:		
Depreciation	£125,000	
Foreign exchange loss	20,000	
Investment income	(80,000)	
Interest expense	<u>40,000</u>	
		105,000
Increase in trade receivables	(250,000)	
Decrease in inventories	325,000	
Decrease in trade payables	<u>(50,000)</u>	
		<u>25,000</u>
Cash generated from operations		3,130,000
Interest paid		(12,000)
Income taxes paid		<u>(870,000)</u>
<i>Net cash from operating activities</i>		2,248,000

Cash flows from investing activities

Purchase of property, plant, and equipment	(500,000)	
Proceeds from sale of equipment	35,000	
Interest received	10,000	
Dividends received	<u>8,000</u>	
<i>Net cash used in investing activities</i>		(447,000)

Cash flows from financing activities	
Proceeds from issue of share capital	150,000
Proceeds from borrowings	175,000
Payment of finance lease liabilities	<u>(45,000)</u>
Net cash used in financing activities	280,000
Net increase in cash and cash equivalents	2,081,000
Cash and cash equivalents at beginning of period	2,919,000
Cash and cash equivalents at end of period	£5,000,000

The following additional disclosure items are not required, but are encouraged for inclusion within the statement of cash flows or in the notes associated with it:

- *Borrowing facilities.* The amount of borrowing facilities that may be available for future use, as well as any restrictions on their use
- *Capacity related.* The aggregate cash flows associated with increases in operating capacity, reported separately from those cash flows associated with maintaining existing operating capacity
- *Joint venture cash flows.* The aggregate cash flows from interests in joint ventures for which the entity is using proportionate consolidation
- *Segment reporting.* The cash flows arising from the activities of each reportable segment (see the Operating Segments chapter)

EXAMPLE 1.6

Danish Energy reports the following cash flow information for its two segments:

	Geothermal Segment	Wind Farm Segment	Total
Cash flows from:			
Operating activities	€4,290,000	€28,430,000	€32,720,000
Investing activities	420,000	(3,750,000)	(3,330,000)
Financing activities	<u>(100,000)</u>	<u>75,000</u>	<u>(25,000)</u>
	<u>€4,610,000</u>	<u>€24,755,000</u>	<u>€29,365,000</u>

20 Financial Statements Presentation



What Additional Information Should I Disclose with the Financial Statements?

You should present financial statement notes in the following sequence:

1. Statement of compliance with IFRSs
2. Summary of the entity's significant accounting policies
3. Supporting information for line items in the financial statements, in the order in which the various statements are presented
4. Other disclosures, such as for nonfinancial information

You should include the following information in the notes accompanying the financial statements:

- *Assumptions.* Information about major assumptions regarding the future.
- *Basis of preparation.* The measurement basis used to prepare the statements (e.g., historical cost, current cost, net realizable value, fair value, or recoverable amount), and other accounting policies used that are relevant to understanding the statements. If you use more than one measurement basis, then indicate which basis is used for general categories of assets and liabilities. It is especially important to disclose an accounting policy when an IFRS allows alternative treatment.
- *Capital management.* Description of capital the entity manages, how it meets its capital management objectives, the nature of any externally imposed capital requirements, and a summary of what it manages as capital, and how capital levels have changed during the period. Also note whether the entity has complied with any externally imposed capital requirements; if not, describe the consequences of noncompliance.
- *Dividends.* The amount of dividends not recognized as a distribution, but proposed or declared before the financial statements were authorized for issuance. Also, note the unrecognized amount of any cumulative preference dividends.
- *Domicile.* The domicile of the entity, its country of incorporation, and the address of its registered office.

- *Estimation uncertainty.* Major sources of estimation uncertainty that may result in a significant material adjustment of the carrying amount of the entity's assets and liabilities within the next fiscal year. Note the nature and carrying amount of the potentially impacted assets and liabilities. For example, there may be estimation uncertainty about the future recoverable amounts of assets, the impact of technological obsolescence on inventories, and the requirements of defined benefit plans. This disclosure is not needed for those assets and liabilities already being measured at their fair values based on recent market prices.
- *IFRS requirements.* Disclosures required by other IFRSs that are not already included in the financial statements.
- *Legal form.* The legal form of the entity.
- *Life.* If the entity has a limited duration, note the length of its life.
- *Management judgments.* The judgments that management has made when applying accounting policies, and which have a significant effect on financial results. Examples are, the decision to classify an asset as held-to-maturity, whether sales are actually financing arrangements, and whether the entity exercises control over another entity.
- *Name.* The name of the entity's parent and of the ultimate parent of the group.
- *Operations.* The nature of the entity's operations.
- *Puttable financial instruments.* The amount classified as equity; the objectives, policies, and processes for redeeming these instruments; the cash outflow caused by the expected redemption; and information about how you determined the redemption amount.
- *Other information.* Other information not presented elsewhere in the financial statements, but that is relevant to understanding them.

You should cross-reference items in the various financial statements with these notes.



How Frequently Should I Issue Financial Statements?

An entity should issue a complete set of financial statements at least once a year. If it changes the end of its reporting period, so that the current year is less or longer

22 Financial Statements Presentation

than 12 months, you should disclose the reason for the altered period and state that the amounts included in the financial statements are not entirely comparable with those of previous years.



What Comparative Information Should I Report?

You should disclose comparative information for the previous period(s) for all amounts that an entity is reporting in its current-period financial statements. This may include narrative information if it improves users' understanding of the financial statements. Exhibit 1.3 reveals the extent of comparative information requirements for different situations.

Exhibit 1.3 COMPARATIVE PERIODS REQUIRED

Report Name	Minimum Scenario	For Retrospective Policy Change, Restatement, Reclassification
Statement of financial position	Ends of current period and preceding period	End of current period, end of preceding period, and beginning of the earliest comparable period
Statement of comprehensive income	Current period and preceding period	Current period and preceding period
Statement of changes in equity	Current period and preceding period	Current period and preceding period
Statement of cash flows	Current period and preceding period	Current period and preceding period
Notes	Current period and preceding period	Current period and preceding period



How Consistent Should the Financial Statement Presentation Be?

You should retain the presentation and classification of items shown in the financial statements across all presented periods. Exceptions are when an IFRS requires a presentation alteration, or when a significant change in an entity's operations makes a different presentation more

appropriate. If the latter is the reason, then you should do so only if the significant change is likely to continue into the future.



How Do I Aggregate Information in the Financial Statements?

You should separately present each material class of similar items. Conversely, do not aggregate items of a dissimilar nature, unless they are immaterial. If an item is not material enough to be separately presented in the financial statements, you may still consider separate presentation in the accompanying notes.



What Are International Financial Reporting Standards?

International Financial Reporting Standards are standards and associated interpretations promulgated by the International Accounting Standards Board. IFRSs include International Accounting Standards and International Financial Reporting Standards. Also, Interpretations are created by the International Financial Reporting Interpretations Committee.



Do I Have to Affirm Compliance with International Financial Reporting Standards?

Yes. You should make a statement of compliance with IFRSs within the notes accompanying the financial statements.

If an entity departs from IFRSs in its financial reporting, you must disclose that management has complied with applicable IFRSs, except for a specific departure that achieves a fair presentation of financial information. Also note the title of the IFRS from which the entity's financial statements have departed, describing the treatment required by the IFRS, the entity's alternative treatment, and the reason why using the IFRS would be misleading. Also state the impact of the departure for each period presented in the financial statements.

If an entity complies with the financial reporting requirements of IFRSs, but management feels that such compliance is misleading, it should disclose the title of the IFRS causing the issue, why management believes it to be misleading, and the adjustments needed in each period to achieve a fair presentation of the information.

24 Financial Statements Presentation

However, before departing from IFRS reporting standards, consider whether the entity's circumstances differ markedly from those of other entities that are complying with the requirement.



What Impact Does a Going Concern Issue Have on the Financial Statements?

Management should assess an entity's ability to continue as a going concern whenever it prepares financial statements, and should prepare them on a going concern basis unless there is an intent to liquidate the entity or management has no realistic alternative to doing so. This assessment should include a consideration of projections for at least the next 12 months, including such factors as profitability, debt repayments, and potential sources of replacement financing.

If management is aware of material uncertainties that cast doubt on the entity's ability to continue as a going concern, you should disclose the uncertainties. If you do not prepare the financial statements on a going concern basis, disclose that fact and why management does not consider the entity to be a going concern.



Is the Accrual Basis of Accounting Required?

Yes. Under the accrual method of accounting, record revenue and expenses when they are incurred, irrespective of when cash is exchanged.



Can I Offset Assets and Liabilities or Revenue and Expenses?

Not unless specifically authorized by an IFRS, which typically is only for a very restricted application. In nearly all situations, you should separately report assets and liabilities, and revenue and expenses. If you engage in offsetting these accounts, it detracts from the ability of users to understand the underlying transactions and to assess the entity's future cash flows.

You are not offsetting when you measure assets net of valuation allowances, which is a common and acceptable practice for accounts receivable and inventory.



Can I Present Any Income or Expense Items as Extraordinary Items?

No. You cannot designate any income or expense item as an extraordinary item, either in the statement of comprehensive income or in its associated notes.



How Do I Disclose a Financial Statement Reclassification?

When you reclassify or alter the presentation of an item in an entity's financial statements, you should reclassify comparable amounts in prior periods, unless it is impractical to do so. You should disclose the nature and amount of the reclassification, and the reason for making the change. If it is impractical to create a matching reclassification in prior periods, then disclose the reason for not doing so, and the type of adjustments that would have been made if you had presented a reclassification.



What Is a Material Omission or Misstatement?

An omission or misstatement is material if it could influence the economic decisions of the users of an entity's financial statements. Materiality is subjective, depending upon the size and nature of the omission or misstatement. Of importance, an omission or misstatement can be material either individually or collectively. Thus, a large number of small omissions can be considered a material omission.

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