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IAS® Standard 1 Presentation of Financial Statements

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CASE STUDY - IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

Introduction

Information from financial statements is a source for decision-making by a wide range of users, both internal and external to the entity. As a result, there is a need to know the content of the components of the financial statements. The main purpose of the information in the financial statements is to objectively present the results of the activity and the financial condition of the entity.

The aim of this case study is for students to apply the rules for presenting information about individual reporting objects in the components of financial statements, according to the provisions of IAS 1 Presentation of Financial Statements.

The Case Information

In the month of December 2022, the following operations were carried out in entity "Building" Ltd:

The entity accrues liabilities to the staff in the form of additional social security payments in the amount of CU 120,000 and liabilities to suppliers in the amount of CU 45,000. The specified obligations should be settled by April 2024.

The entity has overdue four instalments on a long-term loan granted by a commercial bank. The balance of the loan is in the amount of CU 320,000. At the end of the month, the bank concludes an agreement with the borrower to repay the overdue instalments. The agreement expires at the end of May 2024. Interest was charged on the bank loan for the month of December in the amount of CU 1,342.

At the end of the reporting period, the entity has the following information about its inventories:

Raw materials and components:

Cost: CU 2,500;

Net realisable value: CU 1,900.

Finished goods in stock:

Cost: CU 3,000;

Net realisable value: CU 2,750.

Discussion Questions

Classify the liabilities (to the staff and to suppliers) whether they are current or non-current, based on the provisions of IAS 1 Presentation of financial statements. Specify the provisions of the standard according to which the classification was made. Indicate in which component of the financial statements these liabilities will be presented.

Classify the liabilities (related to a long-term loan) whether they are current or non-current, based on the provisions of IAS 1 Presentation of financial statements. Specify the provisions of the standard according to which the classification was made. Prepare the journal entries for accrued interest. Indicate in which components of the financial statements the information about the performed business operations will be presented.

Prepare the accounting entries for the impairment, based on information for the materials and goods. Indicate in which components of the financial statements information about the performed business operations will be presented.

SOLUTION OF CASE STUDY - IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

Regardless of the fact that these liabilities will be settled (repaid) after more than twelve months, according to paragraph 70 of IAS 1 Presentation of financial statements, they should be classified as current. This is so because some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Information about these liabilities is presented in the Statement of Financial Position.

Since the entity has entered into an agreement with the bank to repay the overdue instalments over a term longer than twelve months after the end of the reporting period, according to paragraph 75 of IAS 1 Presentation of financial statements this obligation is classified as non-current.

The following accounting entries will be done:

Dr. Interest expenses	1,342	
Cr. Interest payable		1,342

Information about these liabilities will be presented in the Statement of Financial Position and interest expense will be presented in the Statement of Profit and Loss and other comprehensive income as finance costs.

Inventories are valued according to IAS 2 Inventories at the lower of cost and net realisable value. In our case, the cost is the accounting (balance sheet) value. Since the book value of the materials and goods is higher than the net realisable value, the same should be reduced by the amount of the excess. The following accounting entries will be created:

For write-down to net realisable value of the materials:

Dr. Impairment losses	600	
Cr. Inventory		600

For write-down to net realisable value of the goods:

Dr. Impairment losses	250	
Cr. Goods		250

Information about these impairment losses will be reflected in the Statement of Profit and Loss and other comprehensive income. Information about the impairment of materials and goods will be reflected in the Statement of Financial Position.