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Passport to IFRS®

# IAS® Standard 1 Presentation of Financial Statements

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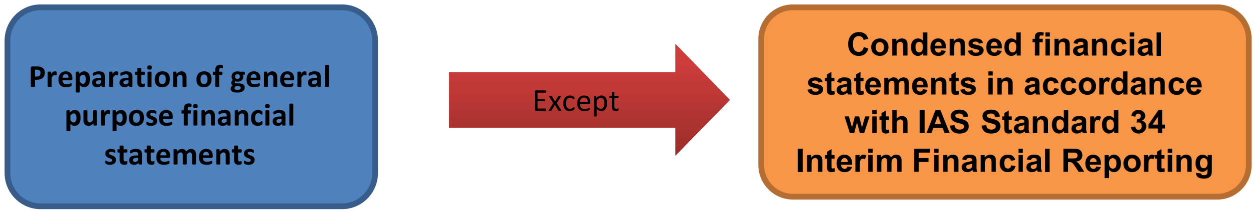
# OBJECTIVE AND SCOPE



# DEFINITIONS

**General purpose financial statements**

are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

**Impracticable Applying**

a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do

**Fair value**

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

# DEFINITIONS

**International Financial Reporting Standards**

**are Standards and Interpretations that are issued by the International Accounting Standards Board and comprise:**

- International Financial Reporting Standards
- International Accounting Standards
- IFRIC Interpretations
- SIC Interpretations

**Material**

**Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.**

# DEFINITIONS

**Notes**

**contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows.**

**Other comprehensive income**

**comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs**

## General principles underlying the preparation of financial statements:

What is the purpose of these assumptions?

# General principles

## Financial Statements

**Fair presentation and compliance with IFRSs**

Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

**Going concern**

IAS Standard 1 requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed.

**Accrual basis of accounting**

IAS Standard 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting. [IAS 1.27]

# General principles

## Financial Statements

**Consistency of presentation**

The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS. [IAS 1.45]

**Materiality and aggregation**

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. [IAS 1.7]

**Offsetting**

Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an IFRS. [IAS 1.32]

# General principles

## Financial Statements

**Comparative information**

IAS Standard 1 requires that comparative information be disclosed in respect of the previous period for all amounts reported in the financial statements, both on the face of the financial statements and in the notes, unless another Standard requires otherwise.

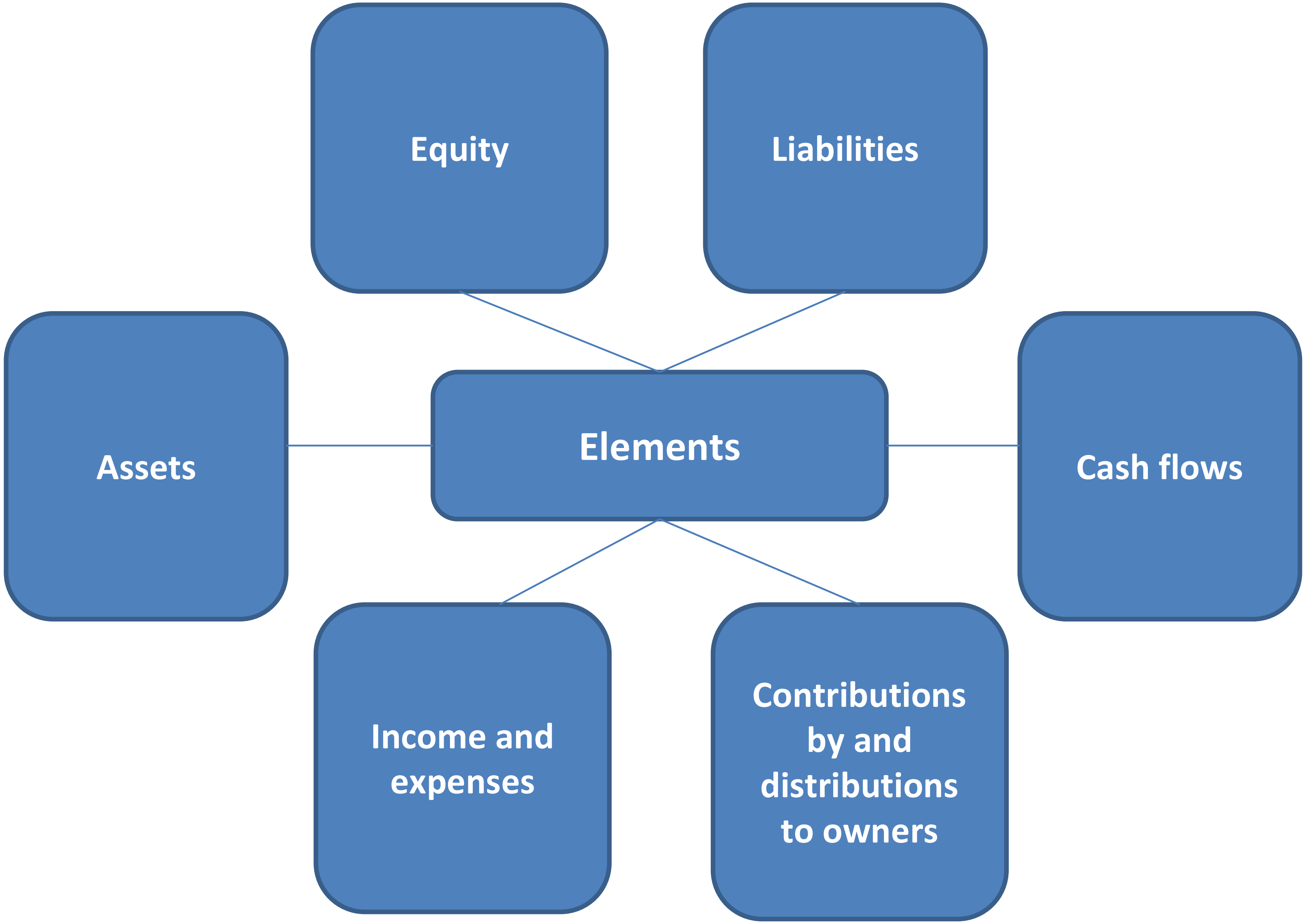
Reporting period

There is a presumption that financial statements will be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the entity must disclose the reason for the change and state that amounts are not entirely comparable. [IAS 1.36]

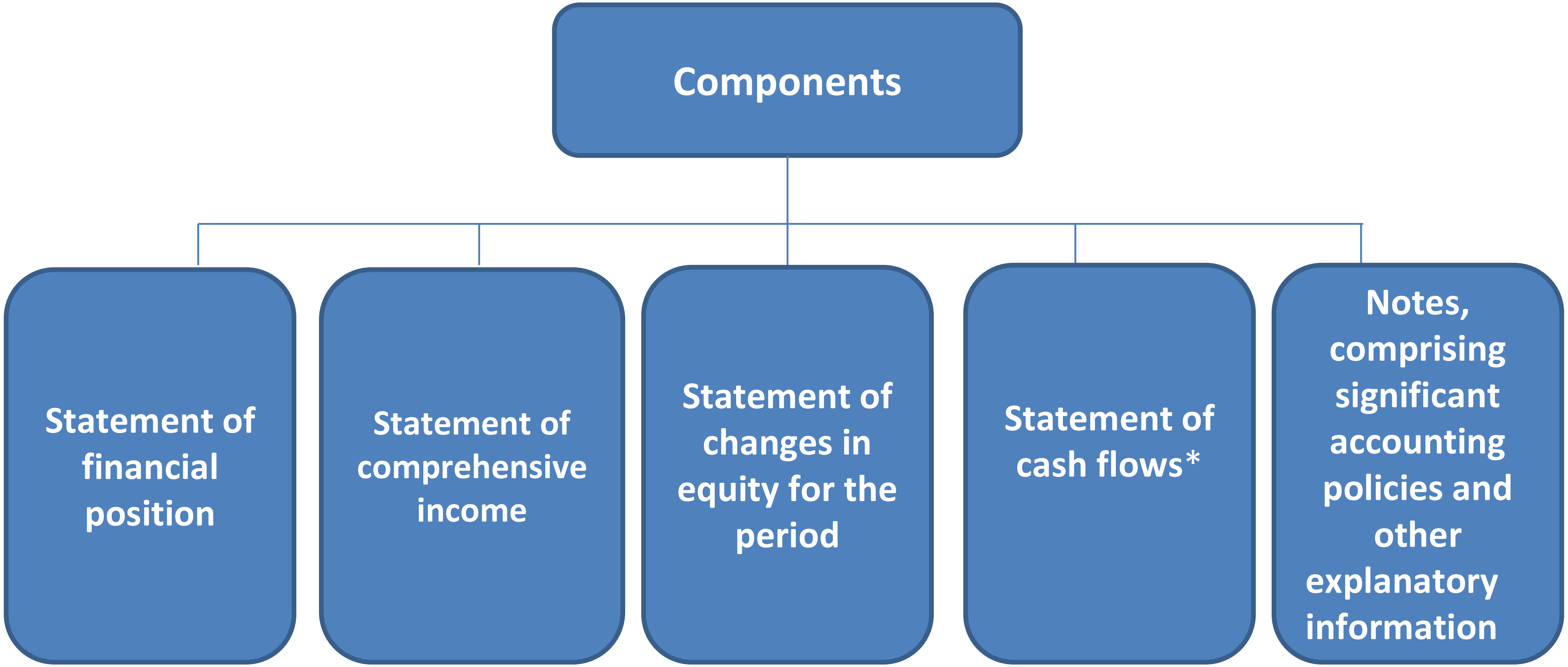
# Elements and components of the financial statements

- ✓ **What is the difference between elements and components of financial statements?**

# Elements
# of the financial statements



# Components of the financial statements




* The cash flow statement is subject to IAS Standard 7 Statement of Cash Flows

# Structure and content of a statement of financial position

***Question:***

**How are assets and liabilities presented in statement of financial position?**

***Solution:***

**Two ways to present assets and liabilities:**

- ✓ **classified as current and non-current;**
- ✓ **based on the liquidity of the assets and the callability of the liabilities.**

# Current and non-current classification

| Assets | |
|---|---|
| **Assets are current if:** | **Non-current assets are:** |
| a)The asset is expected to be realized, or sold or consumed within the normal operating cycle. | |
| b) The asset is held primarily for trading purposes. | |
| c) The asset is expected to be realized no later than twelve months after the end of the reporting period. | All others, except as indicated. |
| (d) The asset is cash or cash equivalents on which there are no restrictions within twelve months after the end of the reporting period. | |
| **Liabilities** | |
| **liabilities are classified as current liabilities if** | **Non-current liabilities are:** |
| (a) The liability is expected to be settled within the normal operating cycle. | |
| b) The liability is held primarily for trading purposes. | All others, except as indicated.. |
| (c) The liability is expected to be settled no later than twelve months after the end of the reporting period. | |
| (d) An entity shall not have an unconditional right to defer settlement for at least twelve months after the end of the reporting period. | |

# Example for current and non-current classification

***Data:*** **The entity has three long-term financial liabilities on bank loans. As of 31.12.20X2, the book value of the received loans is as follows:**

| Loan | CU |
|---|---|
| 1. | 100,000 |
| 2. | 150,000 |
| 3. | 200,000 |

***Question:*** **How should loans be presented in the financial statements for the year ended 31.12.20X2?**

# ***Solution:***

| Loan | Clasification | Cause |
|---|---|---|
| **1.** | Non-current liability | par. 75 of IAS 1 |
| **2.** | CU100,000 Non-current liability | par. 74 and 72 of IAS 1. |
| **3.** | CU350,000 Current liability | par. 74 and 72 of IAS 1. |

# Presentation of current and non-current assets in the statement of financial position

| | Application | Current year (thousand CU) | Previous year (thousand CU) |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Total non-current assets: | | | |
| | | | |
| Current assets | | | |
| Total current assets: | | | |
| Sum of the asset: | | | |
| | | | |
| Equity and liabilities: | | | |
| Equity | | | |
| Total equity: | | | |
| | | | |
| Non-current liabilities | | | |
| Total non-current liabilities: | | | |
| | | | |
| Current liabilities | | | |
| Total current liabilities: | | | |
| Total liabilities: | | | |
| Sum of the equity and liabilities: | | | |

# Presentation of assets based on their liquidity and liabilities based on their callability

| | Application | Current year (thousand CU) | Previous year (thousand CU) |
|---|---|---|---|
| Assets | | | |
| Cash on accounts and in cash | | | |
| Other financial assets | | | |
| Current tax assets | | | |
| Other current assets | | | |
| Non-current assets, etc. | | | |
| Sum of the asset: | | | |
| | | | |
| Liabilities: | | | |
| Financial liabilities | | | |
| Deferred tax liabilities | | | |
| Current tax liabilities | | | |
| Other liabilities, ect. | | | |
| Sum of the liabilities: | | | |
| | | | |
| Equity: | | | |
| Share capital | | | |
| Reserves | | | |
| Financial result | | | |
| Total equity: | | | |
| Sum of the equity and liabilities: | | | |

# Example: Presentation of assets and liabilities in the statement of financial position

***Example:*** **An enterprise has receivables from customers in the amount of CU10,000. At the end of the year, a loss of CU1,500 from uncollectibility of the receivable was estimated.**

**Question: What is the value of the receivables at the end of the period?**

## ***Solution:***

$$CU10,000 - CU1,500 = CU8,500$$

## Structure and content of a statement of profit or loss and other comprehensive income

**Financial result (profit or loss)** → the difference between the operating income and expenses of the enterprise.

**Other comprehensive income** → the difference between other income (which are not recognised in profit or loss) and expenses of the enterprise.

$$Comprehensive\ income = \text{Financial result} + \text{Other comprehensive income}$$

# Components of other comprehensive income

- changes in the revaluation reserve of non-current assets
- recalculations of foreign currency positions
- revaluation of financial assets at fair value through other comprehensive income in accordance with IFRS Standard 9
- actuarial gains and losses recognised in accordance with IAS Standard 19.

# Preparation of the profit and loss statement and other comprehensive income

**Two ways to prepare:**

- **as a single statement of profit or loss and other comprehensive income;**

- **profit or loss and other comprehensive income presented in separate statements**

# Example: Determining the components of comprehensive income

***Example:*** An entity applying IFRS has prepared its income statement and other comprehensive income as of 31 December 20X2 on the basis of the following data:

| Revenue and expenses | Amount |
|---|---|
| Revenues from sales of products | CU500,000 |
| Cost of goods sold | CU240,000 |
| Sales expenses | CU30,000 |
| Administrative expenses | CU10,000 |
| Other expenses | CU20,000 |

The entity has chosen to present its properties, machinery and equipment according to the revaluation model. As at 31 December 20X2, the carrying amount of property, plant and equipment is CU500,000 and the fair value of these assets is CU600,000. The entity has not impaired these assets and has not formed a revaluation reserve in previous periods. The income tax rate is 10%.

## Question: What is the amount of the entity's total comprehensive income?

# *Solution:*

## 1. Determining the financial result (profit / loss) for the year:

| Revenue and expenses | Amount |
| --- | --- |
| Revenues from sales of products | CU500,000 |
| Cost of sales | CU(240,000) |
| Gross profit | CU260,000 |
| Sales expenses | CU(30,000) |
| Administrative expenses | CU(10,000) |
| Other expenses | CU(20,000) |
| Profit before taxes | CU200,000 |
| Income tax | CU20,000 |
| Profit for the period | CU180,000 |

## 2. Determination of other comprehensive income for the year:

| Other comprehensive income | Amount |
|---|---|
| Changes in the revaluation surplus of property, plant and equipment | CU100,000 |
| Income tax on items of other comprehensive income | CU(10,000) |
| Total other comprehensive income: | CU90,000 |

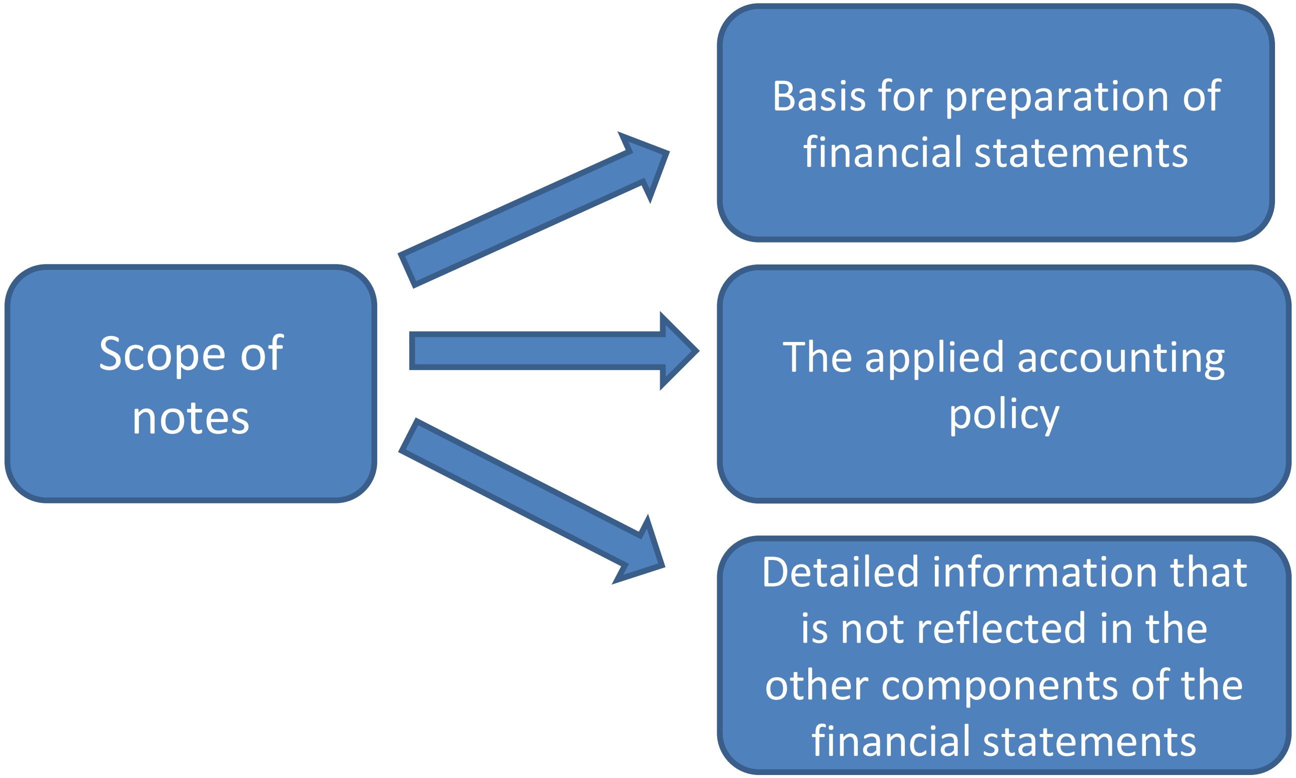
**Total comprehensive income for the year** $= CU\ 180{,}000 + CU\ 90{,}000 = CU\ 270{,}000$

The tax base of revalued properties, machinery and equipment is CU500,000. The carrying amount after revaluation at fair value is CU600,000. A taxable temporary difference arises under of IAS 12.20 at the amount of CU100,000 (600,000 – 500,000), for which a deferred tax liability of CU10,000 (100,000 × 10%) is recognised.

# Example structure and content of a statement of changes in equity

| Equity components → | Shareholder capital | Reserves | Retained earnings | Revalued reserve | Total |
|---|---|---|---|---|---|
| Changes in equity components ↓ | | | | | |
| Balance on 1 January | | | | | |
| Increases / Decreases | | | | | |
| Financial result for the period | | | | | |
| Other comprehensive income | | | | | |
| Balance on 31 December | | | | | |

# Notes to the financial statements



# Example of information presented in the explanatory notes and appendices

**Example:** The statement of financial position of an enterprise presents the total carrying amount of property, plant and equipment in the amount of CU6,654,000, as follows:

**Excerpt from the statement of financial position of the enterprise:**

| Assets | Notes | Carrying amount |
|---|---|---|
| **Property, plant and equipment** | 5 | CU6,654,000 |

**Question:** How is the information from this item in the Statement of Financial Position presented in the notes?

# Solution:

## Excerpt from the statement of financial position of the enterprise:

| Assets | Notes | Carrying amount |
|---|---|---|
| Property, plant and equipment | 5 | CU6,654,000 |

## Excerpt from the Notes of the enterprise (Note № 5 Property, plant and equipment):

| | Lands and buildings (CU) | Machinery, facilities and equipment (CU) | Vehicles (CU) | Other assets (CU) | Total (CU) |
|---|---|---|---|---|---|
| Gross carrying amount:<br>Balance on 1 January | 1,000,000 | 3,100,000 | 1,450,000 | 1,480,000 | 7,030,000 |
| Newly acquired assets | - | - | - | - | - |
| Balance on 31 December | 1,000,000 | 3,100,000 | 1,450,000 | 1,480,000 | 7,030,000 |
| Depreciation:<br>Balance on 1 January<br>Depreciation accrued | (55,000)<br>(21,000) | (80,000)<br>(43 000) | (75,000)<br>(32 000) | (65,000)<br>(5,000) | (275,000)<br>(101,000) |
| Balance on 31 December | (76,000) | (123,000) | (107,000) | (70,000) | (376,000) |
| Net carrying amount on 31 December | 924,000 | 2,977,000 | 1,343,000 | 1,410 ,000 | 6,654,000 |

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