

IAS 1 – Presentation of Financial Statements (effective 01.01.05)



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IAS 1 Complete set of financial statements

- Objective
 - basis for presentation of financial statements
 - structure & minimum requirements
 - to ensure comparability
- Scope
 - general purpose annual financial statements
 - principles in p. 13-41 ⇒ annual/interim
- Purpose of Financial Statements
 - structured representation of financial position, performance and cash flows

IAS 1 Complete set of financial statements

□ Components of Financial Statements

■ balance sheet

- items presented on BS and presented or disclosed

■ income statement

- items presented on IS and presented or disclosed

■ statement of changes in equity

- minority interest => component of equity

■ cash flow statement (IAS 7)

- change in cash and cash equivalents

■ notes

- accounting policies (key judgements in applying)
- disaggregations and narratives (key assumptions)

IAS 1 Overall considerations

□ Fair presentation

- unreserved compliance with IFRS (IAS, SIC, IFRS, IFRIC) = “fair” or “true and fair”
- application before effective date ➡ disclose
- “true and fair override”
 - ➡ only in extremely rare circumstances
 - ➡ compliance with a Standard would be so misleading
 - ➡ would conflict with objective of the FS = true & fair
 - ➡ rebuttable presumption -> comply if others can
 - ➡ large amount of disclosure required
 - ➡ response to “IAS -lite”

IAS 1 Overall considerations

- ❑ Accounting policies
 - ❑ comply with IFRS
 - ❑ consistency - alternative methods (SIC 18)
- ❑ Going concern
 - ❑ no intention to liquidate or to cease trading
 - ❑ if yes ➡ different basis
 - ❑ (IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations)
 - ❑ -> lower of carrying amount and fair value less costs to sell
- ❑ Accrual basis - transactions and events
 - ❑ recognised when they occur, and
 - ❑ in the periods to which they relate

IAS 1 Overall considerations

□ Offsetting

■ generally %

□ assets and liabilities, income/ expense

□ exceptions ➡

- gains and losses on NCA (noncurrent)

- gains/losses arising from groups of similar transactions

 - foreign exchange gains/losses

 - gains/losses on financial instruments held for trading

□ interest expense ➡ must be shown on IS

IAS 1 Overall considerations

□ Consistency

- more than one accounting treatment under IFRS
- ➡ choose & apply 1 policy consistently
- ➡ if categorisation is required or permitted
 - ➡ select most appropriate policy per category
- Imp IAS 8 2003 ➡ change in accounting policies
 - if change required by IFRS
 - ➡ transitional treatments
 - if voluntary change
 - ➡ retrospective application

IAS 1 Structure and content

- Materiality & aggregation
 - material ➡ present separately
 - immaterial ➡ aggregate with other items
- Comparative information
 - incl. narrative & descriptive information
 - unless “impracticable”

IAS 1 Balance Sheet

- ❑ minimum obligatory line items (p. 68)
 - ❑ a) property, plant & equipment -> IAS 16
 - ❑ b) investment property -> IAS 41
 - ❑ c) intangible assets -> IAS 38
 - ❑ d) financial assets -> (ex e,h,i) IAS 39
 - ❑ e) equity method investments -> IAS 28
 - ❑ f) biological assets -> IAS 41
 - ❑ g) inventories -> IAS 2
 - ❑ h) trade and other receivables -> IAS 39
 - ❑ i) cash and cash equivalents -> IAS 7

IAS 1 Balance Sheet

- j) trade and other payables -> IAS 39
- k) provisions ->IAS 37
- l) financial liabilities (ex j,k) ->IAS 39
- m) liabilities/assets for current tax ->IAS 12
- n) deferred tax assets/liabilities ->IAS 12
- o) minority interest -> in equity ->IAS1
- p) issued capital and reserves attributable to equity owners of the parent ->IAS

XIAS 1 does not prescribe order or format

Xseparate line item if diff measurement basis

IAS 1 Balance Sheet

- disaggregations on BS or in the notes
 - property, plant and equipment (PPE)
 - broken down into classes -> IAS 16
 - receivables
 - trade -> IAS 39, prepayments, related parties -> IAS 24
 - inventories
 - broken down according to IAS 2
 - provisions -> IAS 37
 - equity and reserves into classes -> IAS 1

IAS 1 Balance Sheet

- current vs noncurrent distinction
- if not ➡ order of liquidity (banks, insurance)
 - current assets
 - ➡ realised or consumed in normal course of the operating cycle
 - ➡ or held for sale (IFRS 5)
 - ➡ or held for trading (IAS 39)
 - ➡ or realised within 12 months from the balance sheet date
 - ➡ or cash or cash equivalents (IAS 7), which are not restricted in use
 - deferred tax assets ➡ always noncurrent

IAS 1 Balance Sheet

- current liabilities – realised or settled
 - ➡ in normal course of the operating cycle
 - ➡ or held for trading ->IAS 39
 - ➡ or 12 months from the balance sheet date
 - ➡ or no unconditional right to defer payment for more than 12 months on BS date
- deferred tax liabilities ➡ always noncurrent

IAS 1 Balance Sheet

- equity - on face of balance sheet or notes
 - no. of shares authorised, par/nopar
 - shares issued and paid/not paid
 - reconciliation of opening and closing balances
 - rights, preferences, restrictions (distributions)
 - treasury stock (self or by subsidiary)
 - shares reserved for options and contracts for sales
 - nature of reserves and movements

IAS 1 Income Statement

- all items of income and expense unless a stand. or interp. requires otherwise
 - minimum obligatory line items on face of IS
 - revenue -> IAS 18
 - finance costs -> IAS 23
 - equity method gains and losses -> IAS 28
 - pre-tax gain/loss on disposal of assets or settlement of liabilities of discontinued operations -> IFRS 5
 - tax expense (current/deferred) -> IAS 12
 - profit or loss

IAS 1 Income Statement

- classification by nature
 - salaries, depreciation, transport, etc
- classification by function
 - cost of sales, distribution, administration
 - if by function
 - ➡ disclose depreciation, amortisation and staff costs
- % extraordinary items
 - allocations on face of income statement
 - profit/loss attributable to minority
 - profit/loss attributable to majority

IAS 1 Income Statement

- material ➡ disaggregations on IS or notes
 - write-downs of inventories or PPE to net realisable value and reversals
 - disposals of PPE -> IAS 16 and investments
 - restructuring provisions/reversals -> IAS 37
 - litigation settlements -> IAS 37
 - discontinuing operations -> IFRS 5
 - other reversals of provisions -> IAS 37
- dividends per share shown on face of IS or pEq or notes

IAS 1 Statement of Changes in Equity

- all (Statement of Changes in Equity) or only required on statement (Statement of Recognised Income and Expense)
 - in statement
 - profit or loss for period
 - income and expense recognised directly in equity (PPE revaluations, revaluations of available for sale investments, cash flow hedges...)
 - total income and expense for period – minority and majority separately
 - effects of changes in accounting policies and corrections of errors

IAS 1 - Statement of Changes in Equity

- in statement or notes - transactions with owners
 - transactions with equity owners – distributions shown separately
 - movements in retained earnings
 - reconciliation of each class of contributed capital and reserves

IAS 1 – Statement of Changes in OE

	Share capital	Other reserves *	Translation Res	Ret earn	Total	Minority	Total
Opening balance	X	X	+/-	X	X	X	X
Change in acc policy				+/-	+/-	+/-	X
Restated Balance	X	X	+/-	+/-	+/-	+/-	X
Revaluation NCA		+/-		+/-	+/-	+/-	X
AFS inv gains/losses		+/-			+/-		X
AFS inv / transferred to P/L		+/-			+/-	+/-	X
CF hedges / gains/losses or transferred to P/L		+/-			+/-	+/-	X

IAS 1 – Statement of Changes in OE

	Share capital	Other reserves *	Translation Res	Ret earn	Total	Minority	Total
CF hedges transferred to initial carrying amount hedged item		+/-			+/-		X
Exchange differences			+/-		+/-	+/-	X
Tax on items taken to equity		+/-	+/-		+/-	+/-	X
Net income recognised directly in equity		+/-	+/-	+/-	+/-	+/-	X
Profit for the period				+/-	+/-	+/-	X
Total recognised income and expense for the period		+/-	+/-	+/-	+/-	+/-	X

IAS 1- Statement of Changes in OE

	Share capital	Other reserves *analy- sed into compo- nents -> if material	Trans- lation Res	Ret earn	Total	Mino- rity	Total
Dividends		-		-	-	-	X
Issue of share capital	+				+		X
Equity share options issued		+			+		X
Closing balance	X	X	X	X	X	X	X

IAS 1- Statement of Recognised Income and Expense for year ended 31 Dec 200X

	2005	2004
□		
□ Gain(loss) on revaluation of PPE	X	X
□ Available for sale investments		
■ valuation gains (losses) taken to equity	X	X
■ transferred to profit and loss on sale	X	X
□ Cash flow hedges		
■ gains (losses) taken to equity	X	X
■ transferred to P/L for period	X	X
■ transferred to initial carrying amount of hedged item	X	X
□ Exchange diff on foreign operations	X	X
□ Taxes on items taken directly to equity	X	X
□ Net income recognised directly in equity	X	X

IAS 1- Statement of Recognised Income and Expense for year ended 31 Dec 200X

	2005	2004
□ <i>Net income recognised directly in equity</i>	X	X
□ <i>Profit for the period</i>	X	X
□ <i>Total recognised income/expense for period</i>	X	X
■ Attributable to		
□ Equity holders of the parent	X	X
□ Minority interest	X	X
□ Effect of changes in accounting policy		
□ Equity holders of the parent	X	X
□ Minority interest	X	X
□ * Reconciliation of OB and CB of share capital, reserves and retained earnings -> presented in the notes.		

IAS 1 - Cash flow Statement => IAS 7

- ❑ cash and cash equivalents in BS = CFS unless restricted from being exchanged or used
 - ❑ short-term
 - ❑ highly liquid investments that are readily convertible to cash (normally 3 mths or <)
 - ❑ insignificant risk of changes in value
 - ❑ % equity investments
- ❑ options
 - ❑ interest paid and received
 - ❑ dividends paid and received
- ❑ cash basis
 - ❑ interest and dividends paid and received
 - ❑ taxes

IAS 1 – Notes to the FS

- ❑ measurement basis used in preparing FS
 - ❑ historical or current cost -> IAS 16
 - ❑ net realisable value -> IAS 2
 - ❑ fair value -> IAS 39 (financial instruments), 40 (investment properties), 41 (biological assets)
 - ❑ recoverable amount -> IAS 36 (higher of net realisable value or value in use)
- ❑ accounting policies
 - ❑ going concern, accruals, revenue recognition
 - ❑ for every IFRS standard applied
 - inventories -> IAS 2
 - individual, average, FIFO
 - % LIFO

IAS 1 – Accounting Policies

- cash and cash equivalents ->IAS 7
 - reconciliation with BS items if overdraft
- changes in accounting policies/errors->IAS 8
 - retrospective restatements
 - > if practicable
- events after the balance sheet date
 - adjusting/nonadjusting events
- construction contracts ->IAS 11
 - % of completion method
 - amount receivable and due from clients
- deferred taxes ->IAS 12 (subset of provisions)
 - undiscounted cash flows

IAS 1 – Accounting Policies

- segmental reporting -> IAS 14
 - cash generating units -> different profitability profiles
- changing prices -> IAS 15 withdrawn Dec. '03
- property, plant and equipment -> IAS 16
 - historical cost or revalued amounts
- leases -> IAS 17
 - finance lease for lessor = lower of PV of minimum lease payments or fair value
 - investment property -> finance or operating lease -> op lease => account for as finance lease and then apply IAS 40
- revenue -> IAS 18
 - when risks and rewards transferred

IAS 1 – Accounting Policies

- employee benefits ->IAS 19
 - vacation pay, bonuses, retirement benefits
- government grants and disclosure of government assistance ->IAS20
 - assistance = revenue
 - grants for NCA -> deducted from asset's value or reported as liability and amortised
- foreign exchange ->IAS 21
 - goodwill and fair value adjustments in business combinations => assets/liab of acquiree
- business combinations ->IFRS3
 - % IAS 22

IAS 1 – Accounting Policies

- borrowing costs -> IAS 23
 - qualifying asset
- related parties -> IAS 24
 - refurbished Dec. '03 -> sep accounts
disclose all related party transactions
- accounting and reporting by retirement benefit plans -> IAS 26
- consolidation -> IAS 27
 - IFRS 3 on Business Combinations
 - unlisted company does not have to consolidate ➡ ultimate parent consolidates
- investments in associates -> IAS 28
 - equity method in consolidated accounts
 - cost/fair value ➡ ultimate parent consolidates

IAS 1 – Accounting Policies

- hyperinflationary economies ->IAS 29
- disclosures by banks and similar institutions ->IAS 30
 - to be rescinded -> requirements taken to IAS 32
- joint ventures ->IAS 31
 - proportionate consolidation or equity method
- financial instruments disclosures ->IAS 32
 - risk management policies, credit, interest rate, fair value risks...
- earnings per share ->IAS 33
 - basic and diluted
 - dilutive potential ordinary shares -> financial instrument that give the holder the right to purchase ordinary shares (convertible debt and preference shares, warrants, options, remuneration plans, etc)

IAS 1 – Accounting Policies

- interim financial reporting -> IAS 34
- discontinuing operations ->
 - IAS 35 withdrawn
 - replaced by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- impairment of assets -> IAS 36
 - higher of net realisable value or value in use
- provisions, contingent assets/liabilities -> IAS 37
 - discounted cash flows
 - included in asset values or expensed – Cr: Provisions
- intangible assets -> IAS 38
 - fair valued if market prices available

IAS 1 – Accounting Policies

- financial instruments recognition -> IAS 39
 - initial measurement -> fair value
 - measurement -> all financial instruments can be classified as trading (Apr. 2004) with changes in fair value presented in Income Statement
 - for trading – fair valued -> to IS
 - to maturity – amortised cost -> to IS
 - available for sale (AFS)- fair valued -> to Equity
 - loans and receivables – cost minus impairment to IS
 - unlisted equity -> impaired cost -> to IS

IAS 1 – Accounting Policies

- investment properties -> IAS 40
 - initial measurement = cost (incl transaction costs)
 - subsequent measurement -> cost or fair value
 - rebuttable presumption -> fair values
 - if owner occupied -> inv property revalued under IAS 16 -> proactive application of IAS 40
- biological assets -> IAS 41
 - fair values less estimated point-of-sale costs = entry values once inventory

IAS 1 - Accounting Policies

■ ImpP IAS 1 ➡ new requirement

-> managements' judgements

- on what basis are financial assets classified as held to maturity?
- how are the risks and rewards regarding the transfer of leased assets assessed?
- sale of goods = how are financing arrangements and sales differentiated?
- how is control determined vis-a-vis SPEs?
- IAS 27 - why no control though 50%?
- IAS 40 – what are the criteria for differentiating investment vs. owner/owned property?

IAS 1 – Critical Judgements in Applying Accounting Policies

- ❑ Revenue recognition (thousands of €)
- ❑ The group recognized revenue amounting to €950 for sales of goods to L&Co in Buravia during 2004. The buyer has the right to rescind the sale if there is 5% dissatisfaction with the quality of the first 1000 pairs of shoes sold. The profit recognized for this sale was €665. The group believes that based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. It is therefore appropriate to recognize revenue on this transaction during 2004. The group will suffer an estimated loss of €700 in its 2005 financial statements, if the sale is cancelled, €665 being the reversal of 2004 profits and €35 of costs connected with returning the stock to the warehouse.

IAS 1 - Accounting Estimates

- explanatory notes
 - additional disclosure to present fairly
 - disaggregations and narratives
 - **ImpP IAS 1 ➡ new requirement**
 - **key assumptions for underlying estimates**
 - key assumptions about future ➡ uncertainty
 - significant risk of causing material adjustments within next financial year
 - nature and carrying amount on BS date

IAS 1- Accounting Estimates

▣ ➡ **key assumptions for underlying estimates**

- if no market price risk –> **sensitivity analysis**
- how will adjustments to cash flows or discount rates, future changes in salaries and prices affect estimates?
 - PPE, inventory obsolescence, provisions for litigation in progress, restructuring provisions, long-term employee benefits, financial instruments ...
 - ➡ nature or assumptions and estimate uncertainty

IAS 1 – Accounting Estimates

- sensitivity
 - reasons for expected resolution of an uncertainty
 - range of possible outcomes
 - changes in past assumptions if uncertainty unresolved
- ✂ disclose budgets and forecasts
- Look at example provided!

IAS 1 – Accounting Estimates

- ❑ Additional disclosures
 - dividends proposed or declared before authorisation date, amount per share
 - preference dividends not recognised
 - if not elsewhere in information published with FS
 - ❑ domicile, legal form, country of incorporation
 - ❑ nature of operations
 - ❑ parent and ultimate parent

IAS 1 – Presentation of Financial Statements

- ❑ Comparison with US GAAP
 - broadly consistent
 - significant differences
 - ❑ no true and fair override
 - ❑ SEC requirement - 3 year's figures
 - ❑ no revaluation's of tangible assets
 - ❑ no formats or headings
- ❑ IFRS 1 - First-time adoption of IFRS
 - current IFRS applied retrospectively to IFRS opening balances
 - identify and measure all assets and liabilities under IFRS
 - exemptions – “grandfathering”