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University of Economics, Prague

Faculty of Finance and Accounting

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FAKULTA FINANCÍ A ÚČETNICTVÍ

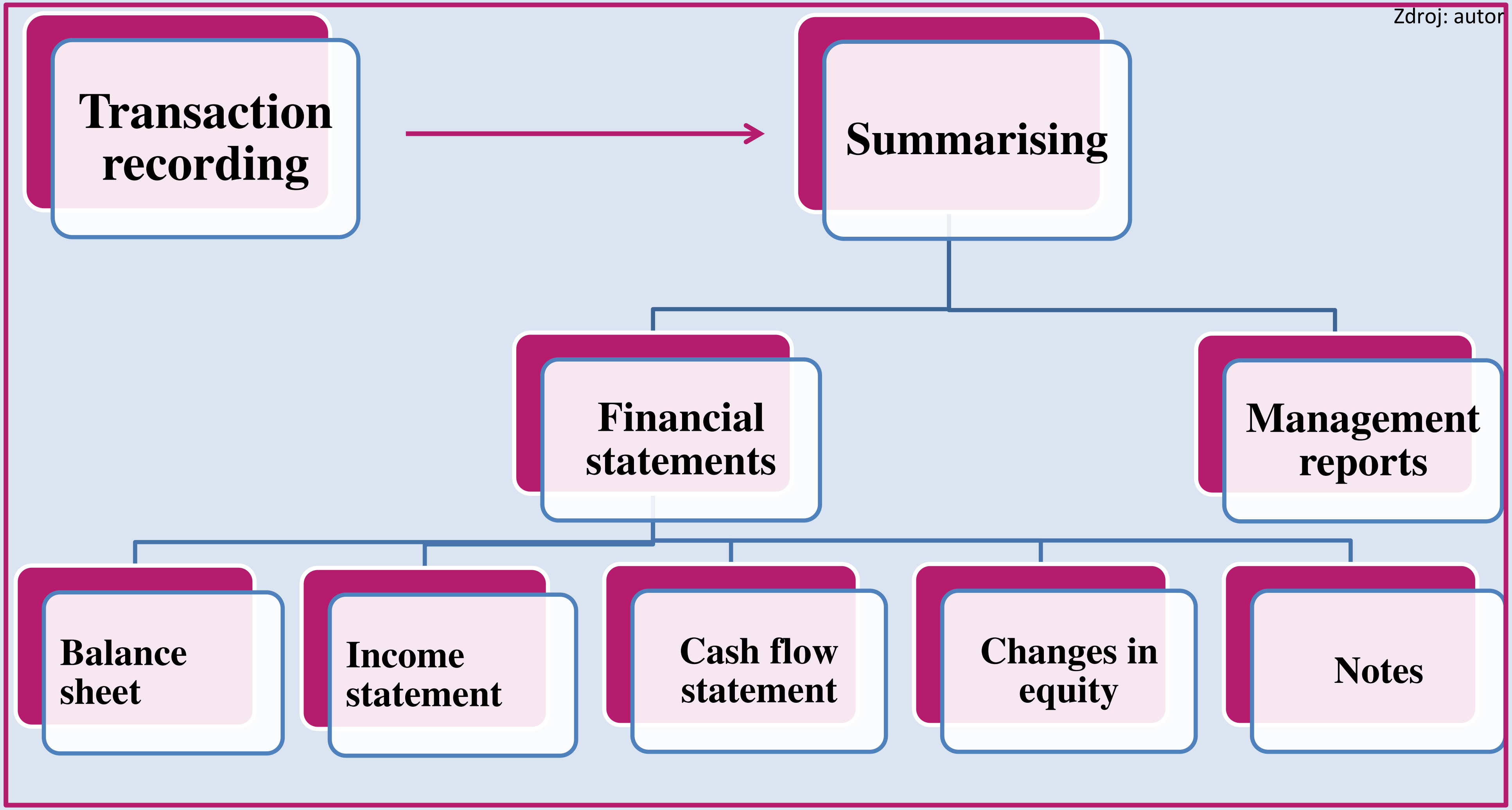
VŠE

Presentation of Financial Statements

EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

1FU59x Intermediate Accounting: Presentation



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- **Financial statements**
  - *IAS 1*, *IAS 7*
    - Content and structure of annual financial statements
  - *IAS 34*
    - Content and structure of interim financial statements
- **Accounting policies**
  - *IAS 8*, *IAS 10*
    - General procedures
  - *IAS 27*, *IFRS 10/11/12*
    - Consolidation procedures

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KATEDRA FINANČNÍHO ÚČETNICTVÍ
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1 Financial statements according to IAS 1

1.1 Complete set

- A complete set of financial statements comprises:
  - a statement of financial position as at the end of the period
  - a statement of comprehensive income for the period
  - a statement of changes in equity for the period
  - a statement of cash flows for the period
  - notes, comprising a summary of significant accounting policies and other explanatory information
  - a statement of financial position as at the beginning of the preceding period when an

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entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (note: occurring only under above specified conditions)

- Statement of financial position (balance sheet):
  - summarises the assets, liabilities and equity balances of the business at the end of the reporting period
- Statement of comprehensive income:
  - summarises the revenues earned and expenses incurred by the business throughout the whole of the reporting period
- Statement of changes in equity:
  - summarises the movement in equity balances from the beginning of the reporting

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period to the end

- Statement of cash flows:
  - summarises the cash physically paid and received throughout the reporting period
- Notes:
  - comprise the accounting policies disclosures and any other disclosures required to enable to the shareholders to make informed decisions about the business

1.2 Identification of financial statements and their presentation

- An entity shall clearly identify the financial statements and distinguish them from other information in the same published document
- An entity shall clearly identify each financial statement and the notes
- Statement of compliance:
  - an entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes
  - an entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs

1.3 Structure of financial statements and their presentation

- IAS 1 do not contain any binding format of financial statements
- An entity is free to decide, how to design its financial statements subject to (a) the general rule of the Conceptual Framework of "providing users with useful information" and (b) the specific requirements outlined by IAS 1, i.e.:
  - minimum information to be presented on each particular statement
  - general principles for the presentation (such as materiality, offsetting, grouping, etc.)
- An entity shall present with equal prominence all of the financial statements
- Materiality and aggregation:
  - an entity shall present separately each material class of similar items

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- an entity shall present separately items of a dissimilar nature or function unless they are immaterial

- Offsetting:
  - offsetting usually worsens the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows
  - an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS
  - examples of allowed offsetting: gains and losses on the disposal of non-current assets; expenditure related to a provision and reimbursed under a contractual arrangement with a third party against the related reimbursement; gains and losses arising from a group of similar transactions (e.g. foreign exchange gains and losses) if not material

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- Frequency of reporting:
  - at least annually
  - if an entity changes the end of its reporting period, it shall disclose the reason for a shorter/longer period and the fact that amounts presented are not entirely comparable
- Comparative information:
  - an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements
  - An entity shall present, as a minimum, two periods for each statement

2 Statement of financial position

- Structured presentation of assets, liabilities and equity (definitions in Framework)
- Assets and liabilities shall be classified:
  - as current vs non-current; or alternatively
  - according to their liquidity if this is more useful for users
- Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item combining amounts receivable or payable over longer time
- An entity shall classify an asset as current when:
  - it expects to realise the asset, or intends to sell or consume it, in its normal operating

cycle

- it holds the asset primarily for the purpose of trading
- it expects to realise the asset within twelve months after the reporting period or
- the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

▪ An entity shall classify a liability as current when:

- it expects to settle the liability in its normal operating cycle
- it holds the liability primarily for the purpose of trading
- the liability is due to be settled within twelve months after the reporting period or

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  - it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period

- An entity shall classify all other assets and liabilities as non-current
- Deferred tax assets (liabilities) must not be presented as current

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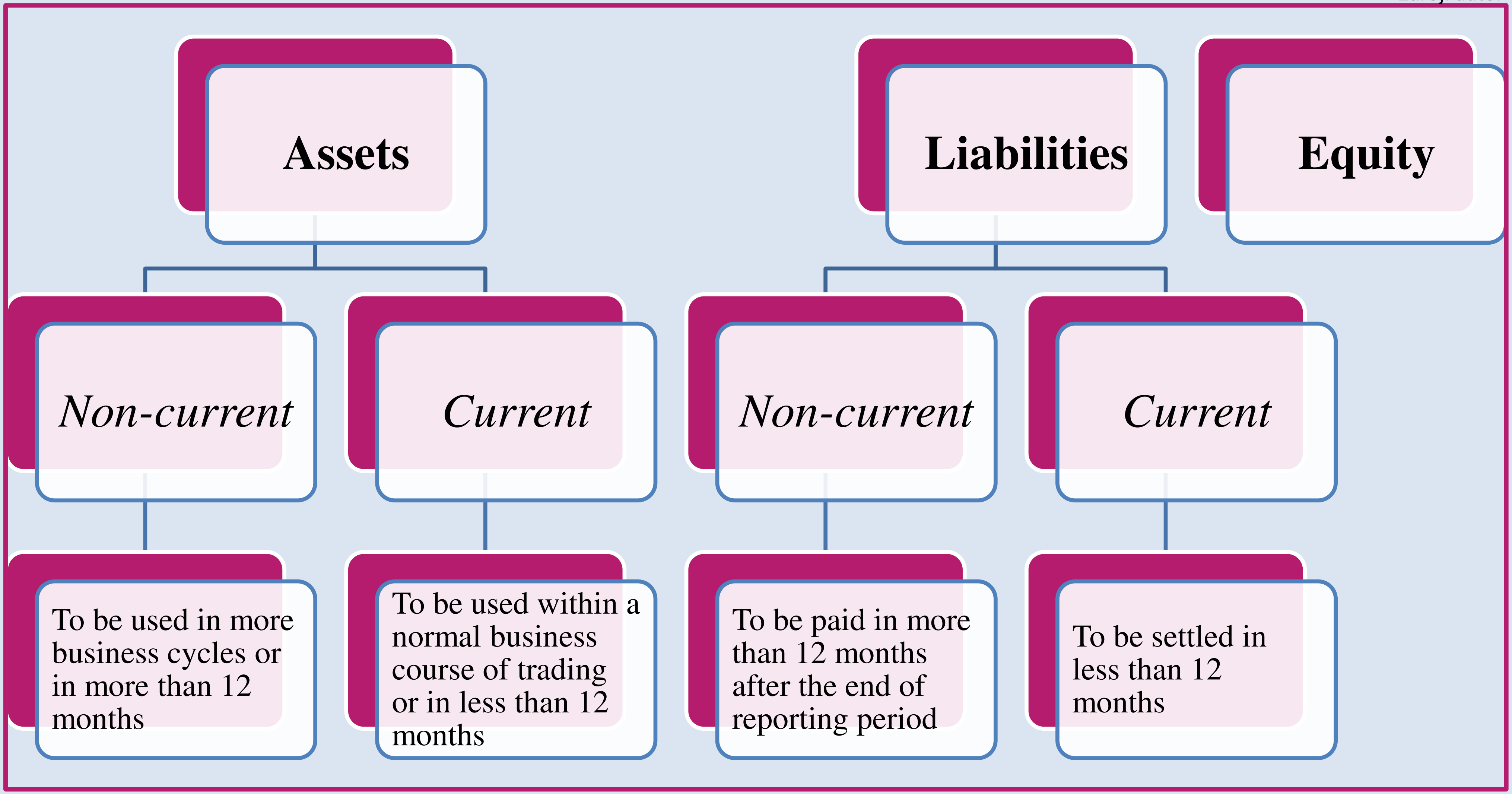

3 Statement of comprehensive income

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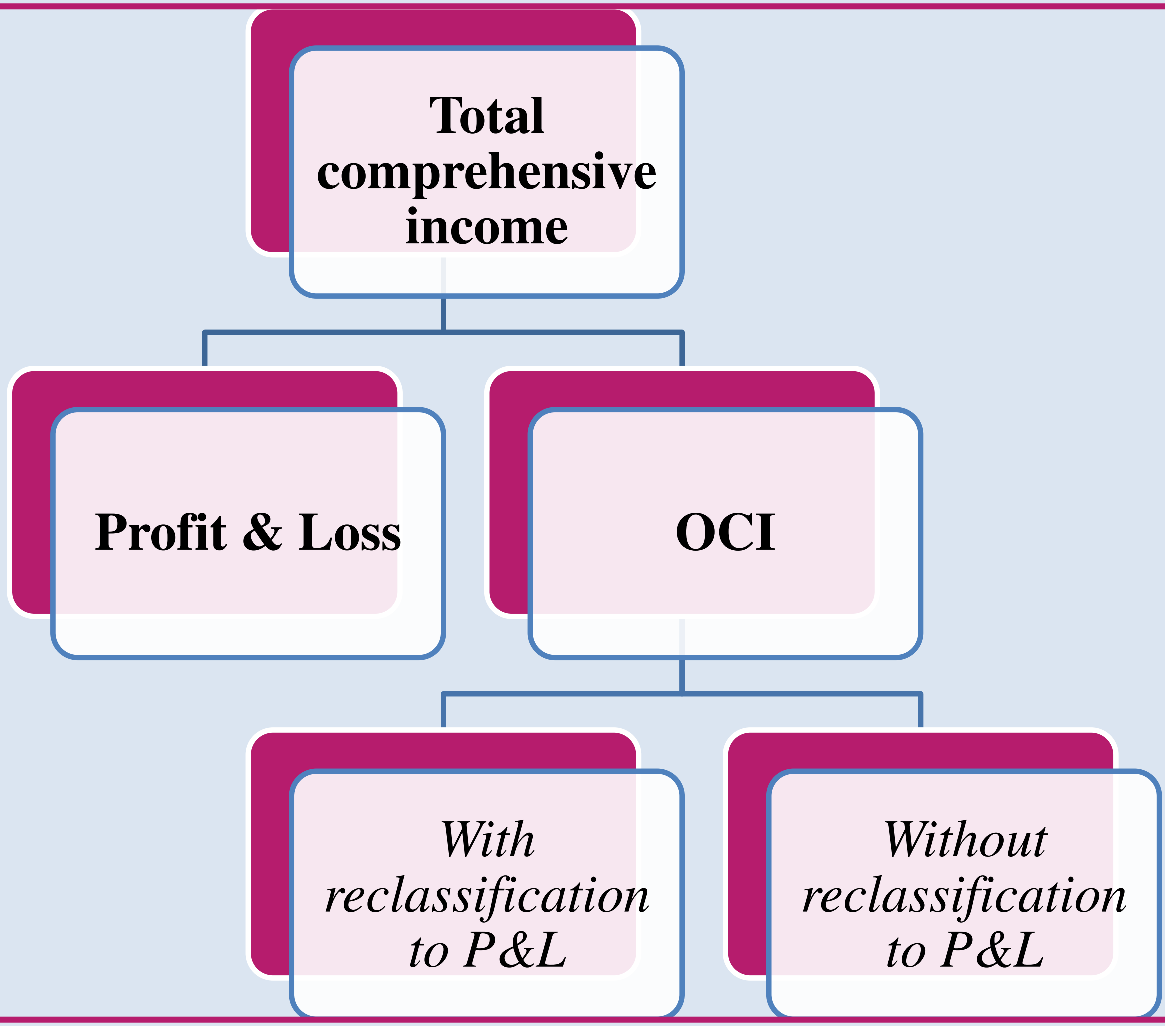

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- Total comprehensive income (TCI):
  - is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners
- Profit & loss (P&L):
  - is the total of income less expenses, excluding the components of other comprehensive income
- Other comprehensive income (OCI):
  - comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs

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- Items of OCI have to be broken down into two groups:
  - items, which will be reclassified (recycled) to P&L upon derecognition
  - items, which will not be reclassified (recycled) to P&L upon derecognition
- The items of OCI may be presented:
  - net of related tax effects
  - gross with related tax effects shown as aggregate amount on a separate item line
- No mention of the presentation of operating expenses:
  - an entity shall present an analysis of expenses either by their nature or their function within the entity, whichever provides information that is reliable and more relevant for users

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- if expenses classified by function, entity shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense

4 Statement of changes in equity

- The statement provides a summary of all changes in equity arising from transactions with owners in their capacity as owners
- Other non-owner changes in equity (i.e. total comprehensive income) are disclosed in aggregate only
- The structure of equity is influence by the legal form of an entity (sole trader vs partnership vs company), type of financial statements (individual vs consolidated) and business operations undertaken
- Usual structure of equity:
  - share (subscribed) capital
  - revaluation reserves (see components of OCI)

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- retained earnings
- non-controlling interests (only in consolidated statements)

▪ The statement of changes in equity includes the following information:

- total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from (a) profit or loss; (b) OCI; and (c) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in

ownership interests in subsidiaries that do not result in a loss of control

- An entity shall present either in the statement of changes in equity or in the notes:
  - for each component of equity an analysis of other comprehensive income by item
  - the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share

5 Notes

- Disclosure notes are required for a variety of reasons, including:
  - to explain the accounting policies used in preparing the accounts
  - to explain the movement between the opening and closing balances of major statement of financial position items
  - to show how certain balances are calculated
  - to provide further detail/explanation to users of the financial statements, as necessary for the accounts to be understandable to the users
- IAS 1 requires:
  - presenting information about the basis of preparation of the financial statements and the

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specific accounting policies

- disclosing the information required by IFRSs that is not presented elsewhere in the financial statements (e.g. information, when there is choice between presentation and disclosure)
- providing information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them

▪ Notes should be prepared in a systematic manner:

- by using cross-reference of each item in the statements to related information in notes
- the notes should be structure in the same order as the corresponding items appear in the financial statements

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- Disclosure of accounting policies:
  - the measurement basis (or bases) used in preparing the financial statements
  - the other accounting policies used that are relevant to an understanding of the financial statements
- Judgements:
  - an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year