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Presentation of financial statements

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Abstract: The main purpose of this paper is to explain the requirements of international standard IAS1 Presentation of Financial Statements. The current version of this standard was issued in September 2007 and has effect for accounting periods beginning on or after January 2009. The objectice of IAS1 is to specify the overall structure and content of general purpose financial statements and so ensure that an entity's financial statements are comparable with those of previous periods and with those of other entities. The stan-dard sets out: The general features of financial statements Guidelines with regard to their structure, and Minimum requirements for their content. IAS1 is of general application and does not deal with specific transactions or events. These are dealt with in order international standards. This paper also outlines the main requirements of international standard IAS34 Interim Financial reporting.

Keywords: Financial Statements, Income Statement, Cash Flow

1. Introduction

The requirements of IAS1 apply to all general purpose financial statements prepared and presented in accordance with international standards. General purpose financial statements and those intended for users who are not in position to demand reports that are tailored for their own particular information needs.

According to IAS1, the objective of such financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Apart from a slight difference in wording, this definition is of course the same as the one given in the IASB Framework. In order to meet this objective, general purpose financial statements should provide information about an entity's:

Assets. Liabilities and equity.

Income and expense, including gains and losses.

Contributions by and distributions to owners in their capacity as owners.

Cash flows

The information is given in four primary financial statements. Further information is given in the notes which accompany these statements.

2. Components of Financial Statements

IAS1 states that a complete set of financial statements comprises:[1].

A statement of financial position as at the end of the accounting period.

A statement of comprehensive income for the period.

A statement of changes in the equity for the period.

A statement of cash flows for the period.

A set of notes, which provide a summary of the entity's significant accounting policies together with other explanatory information.

A statement of financial position as at the beginning of the earliest comparative period presented, if the entity has applied an accounting policy retrospectively or has made a retrospective restatement of items in its financial statements.

This titles have replaced the more traditional titles used in the previous version of IAS1 (balance sheet, cash flow statement) and are trough by the IASB to reflect more closely the function of each statement. However entities are allowed to use titles for the financial statements other than those used in the standard if they so wish.

The structure and content of most of the statements is specified in IAS1. But the statement of cash flows is dealt

[1]Jaclyne Badal and Phred Dvorak, Sarabanes/Oxley Gains Adherents, The Wall Sreet Journal 2006, p B3.

with by IAS7 Statement of cash flows. It is important to appreciate that the notes which accompany the four primary statements are in integral part of the financial statements and so fall within the scope of IAS1 and of the other international standards.

In addition to the items listed above, IAS1 recognizes that an entity's annual report might contain other statement such as environmental report or value added statement. These other statements are not part of the financial statements and are therefore outside the scope of international standards.

3. General Features

Under the heading general features IAS1 sets out a number of general rules which relate in the presentation of financial statements. Some of these are very obviously based upon principles established in the IASB Framework. The main areas dealt with in this part of IAS1 are:

Fair presentation and compliance with international standards.

Going concern basis and accrual basis.

Materiality and aggregation.

Offsetting.

Frequency of reporting.

Comparative information.

Consistency of presentation.

Each of these is considered below.

3.1. Fair Presentation and Compliance with International Standards

Financial statements must present fairly the financial position, financial performance and cash flows of the entity concerned. This requires that the effects of transactions and other events should be faithfully represented in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB Framework. It may be assumed that the application of international standards will result in financial statements that achieve a fair presentation. An entity which produces financial statements that comply with international standards must make an explicit and unreserved statement to that effect in the notes. A fair presentation also requires the entity to:[2]

Select and apply appropriate accounting policies in accordance with the requirements of international standard IAS8

Provide information that is relevant, reliable, comparable and understandable

Provide further disclosures if compliance with international standards is insufficient to enable users to understand the impact of transactions and other events.

On very rare occasions, compliance with requirement in an international standard may produce misleading information and so conflict with the objective of financial statements. In these circumstances, the entity should depart from that requirement and the notes should disclose that the entity has complied with international standards except that it has departed from a particular requirement in order to achieve a fair presentation. The notes should identify the title of the standard concerned, the nature of the departure, the reason for the departure, the accounting treatment that the standard would have required, the accounting treatment actually adopted and the financial impact of the departure.

3.2. Going Concern Basis and Accrual Basis

Financial statements should be prepared on the going concern basis unless the entity intends to cease trading or has no realistic alternative but to do so. If there are significant doubts concerning the entity's ability to continue as a going concern, the uncertainties which give rise to these doubts should be disclosed. If financial statements are not prepared on going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reasons for which the entity is not regarded as a going concern.

Financial statements other than the statement of cash flows should also be prepared using the accrual basis of accounting. The statement of cash flows is an obvious exception to this rule since, by definition; it is prepared on a cash basis.

3.3. Materiality and Aggregation

IAS1 defines materiality by stating that emissions or miss statements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial statements. IAS1 further states that materiality should be judged in context and that either the size or nature of an item, or combination of both could determine whether or not the item is material.

In general, financial statements are prepared by analyzing transactions and other events into classes and the aggregating each of these classes to produce line items which appear in the statements. For instance, all sales transactions are aggregated into a single revenue figure shown in the statement of comprehensive income. IAS1 requires that each material class of similar items should be presented separately in the financial statements. If an item is not individually material, it may be aggregated with other line items.[3]

IAS1 explicitly states that there is no need to satisfy the disclosure requirements of an compliance with the standards can be achieved without having to disclose immaterial items, whether in the primary financial statements or in the accompanying notes.

3.4. Offsetting

[2]Charles H. Gibson and Nicholas Schoeder, How 21 Companies Handled their summary annual reports, Financial executive December 2008.

[3]William W. May ed. Ethics in the accounting curriculum, cases Sarasota,2008.p 1.

In general assets and liabilities should be reported separately in the statement of financial position and should not be offset against one another. Similarly, income and expenses should be reported separately in the statement of comprehensive income. IAS1 takes the view that offsetting should not be allowed, since this would normally detract from user's ability to understand transactions and other events. However, this general rule does not apply in a specific instance if another international standard permits or requires offsetting in that instance.

3.5. Frequency of Reporting

Financial statements should normally be presented at least annually. If an entity changes its accounting date and so presents a set of financial statements for a period which is longer or shorter than one year, the entity should disclose:

The reason for using a period that is longer or shorter than one year.

The fact that the comparative amounts given for the previous period are not directly comparable with those given for the current period.

3.6. Comparative Information

Unless another international standard permits or requires otherwise, IAS1 requires that entities should present comparative information is respect of the previous period for all amounts reported in the financial statements. Comparatives should also be given for narrative information if this would be relevant to an understanding of the current period's financial statements.

3.7. Consistency of Presentation

In order to maintain comparability the way in which items are presented and classified in the financial statements should generally be consistent from on accounting period to the next. However, this rule does not apply if:[4]

It is apparent that a different presentation or classification would be more appropriate, following either a significant change in the nature of the entity's operations or a review of its financial statements.

A different presentation or classification is required by an international standard.

4. Structure and Content of Financial Statements

The majority of IAS1 is concerned with the structure and content of an entity's financial statements. The standard requires that certain items should be shown in the statement of financial position, the statement of comprehensive income and the statement of changes in equity. Other items should be shown either in these statements or in the notes. IAS1 does not deal with the statement of cash flows, since this is the subject of IAS7 Statement of cash flows. The main headings in this part of IAS1 are:

Identification of the financial statements
The statement of financial position
The statement of comprehensive income
The statement of changes in equity
The notes

4.1. Identification of the Financial Statements

The first point made in this part of IAS1 is that the financial statements should be clearly identified as such and distinguished from any other information which may be given in the same published document. Since international standards apply only to the financial statements, it is important that users can distinguish information that has been prepared in accordance with standards from information that has not.

Furthermore, each component of the financial statements should be clearly identified and the following information should be displayed prominently and repeated where necessary for a proper understanding of the information presented:[5]

The name of the reporting entity

Whether the financial statements are for a single entity or a group

The date of the end of the reporting period or the period covered by the set of financial statements or notes

The presentation currency used

The level of rounding used

5. The Statement of Financial Position

An important requirement of IAS1 with regard to the statement of financial position formerly known as the balance sheet is that current and noncurrent assets should be presented separately and that current and non -current liabilities should also be presented separately. For an entity which supplies goods or services within a clearly identifiable operating cycle, this separation provides useful information by:

Distinguishing the net assets that are continuously circulating as working capital from those used in the long term and

Highlighting the assets that are expected to be realized within the current operating cycle and the liabilities that are due for settlement within the same period.

IAS1 established as set of criteria which should be used to distinguish between current and non -current assets and another set of criteria which should be used to distinguish between current and non -current liabilities.

[4]Regulators Investigate peat on its Auditing, The New York Times 2008 p. D1.

[5]Ernst Young Settles Negligence Charge, Business Insurance, 2008. p 2.

5.1. Current and Non - Current Assets

An asset is classified as a current asset if it is satisfies any of the folowing criteria:

It is expected to be realized, or is intended for sale or consumption within the entity's normal operating cycle

It is held primarily for the purpose of being traded

It is expected to be realized within 12 months after the reporting period

It is cash or a cash equivalent as defined by international standard IAS7 unless it is restricted from being used to settle a liability for at least 12 months after the reporting period.

An asset that satisfies none of these criteria is a non -current asset. The operating cycle of an entity is defined as the time between the acquisition of assets for processing and their realization in cash and cash equivalents. If an entity's normal operating cycle cannot be clearly identified, it is assumed to be 12 moths. Note that current assets include items such as inventories and trade receivables that are expected to be realized during the normal operating cycle, even if they are not expected to be realized within 12 months.

IAS1 does not require the use of the terms current and non -current and other descriptions could be used so long as their meaning is clear. However, these terms are used extensively in practice.

5.2. Current and Non - Current Liabilities

A liability is classified as a current liability if it is satisfies any of the following criteria:

(a) It is expected to be settled in the entity's normal operating cycle

(b) It is held primarily for the purpose of being traded

(c) It is dued to be settled within 12 months after the reporting period

(d) The entity does not have unconditional right to defer settlement of the liability for at least 12 months after the reporting period

A liability that satisfies none of these criteria is a non - current liability. Current liabilities include items such as trade payables and accrued expenses that are expected to be settled during the normal operating cycle, even if they are not expected to be settled within 12 months. Current liabilities also include items such as bank overdrafts, dividends payable and taxes which are not settled as part of the normal operating cycle but which are dued to be settled within 12 months.[6]

5.3. Information to be presented in the Statement of Financial Position

IAS1 does not require any particular format for the statement of financial position. Nor does it prescribe the order in which items should be shown. But the standard does provide a minimum list of line items that should be presented separately in the statement if their size or nature is such that separate presentation is relevant to an understanding of the entity's financial position. Additional line items, headings and subtotals should also be presented where relevant. The main line items listed by IAS1 are as follows:[7]

Property, plant and equipment
Investment property
Financial assets
Investments accounted for by the equity method
Inventories
Trade and other receivables
Cash and cash equivalents
Assets classified as held for sale
Trade and other payables
Provisions
Financial liabilities
Current tax assets and liabilities
Deferred tax assets and liabilities
Liabilities included in disposal groups held for sale
Non controlling interests
Issued equity capital and reserves

The order of the items and the descriptions used may be amended in accordance with the nature of the entity and its transactions, so as to provide relevant information.

5.4. Format of the Statement of Financial Position

Although IAS1 does not prescribe a format for the statement of financial position, the implementation guidance that accompanies the standard includes an illustration which shows one way in which the statement may be presented. A slightly simplified version of this illustration is shown in the next figure. This illustrative format is not prescriptive and other formats may be used if appropriate.

5.5. Information in the Statement of Financial Position or on the Notes

IAS1 requires that the line items presented in the statement of financial position should be sub classified, either in the statement itself or in the notes. These sub classifications should be appropriate to the entity's operations but also depend to some extent on the requirements of other international standards. Examples given in IAS1 include the following:[8]

Property, plant and equipment is sub classified in accordance with IAS16 property, Plant and Equipment

Receivables are anylised into trade receivables, prepayments, other receivables etc.

Inventories are sub classified in accordance with IAS2

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[6]Ronald Grover, Curtains for Tinsel town Accounting, Business week 2008, p 2.

[7]Dennis E Peavey and Stuart K. Webster, Is GAAP the gap to International markets? Management accounting 2008 p 31.

[8]John Hagarty, Why we can't let GATT, Journal of Accountancy 2008 p 74.

Inventories

Provisions are analyzed into those relating to employee benefits and other provisions

Share capital and reserves are analyzed into their various classes.

IAS1 also requires further disclosures with regard to share capital and reserves. These disclosures may be given in the statement of financial position or the statement of changes in equity, or in the notes. The disclosures include:

For each class of share capital:

The number of shares authorised

The number of shares issued and fully paid, and issued but not fully paid

The par value per share

The reconciliation of the number of shares outstanding at the beginning and end of the accounting period

The rights, preferences and restricitions attaching to that class of shares.

Table 1. *Statement of financial position.*

ASSETS
Non - current assets
Property, plant and equipment
Intangible assets
Investments
Current assets
Inventories
Trade receivables
Cash and cash equivalents
Total assets
EQUITY AND LIABILITIES
Equity
Share capital
Retained earnings
Other reserves
Total equity
Non - current liabilities
Long term borrowings
Differed tax
Long term provisions
Total non - current liabilities
Current liabilities
Trade and other payables
Short term borrowings
Current tax payable
Short term provisions
Total current liabilities
Total liabilities
Total equity and liabilities

6. The Statement of Comprehensive Income

IAS1 requires that all items of income or expense that are recognised in an accounting period should be presented either:

(a) In a single statement of comprehensive income, or

(b) In two separate statements comprising:

(1) an income statement which shows components of the entity's profit or loss and

(2) a statement of comprehensive income which begins with the profit or loss for the period and shows components of the entity's other comprehensive income.

International standards which require certain items of income or expense to be shown in other comprehensive income include:[9]

IAS16 Property, Plant and Equipment with regard to surpluses arising on revelation of tangible non -current assets

IAS38 Intangible Assets, with regard to surpluses arising on revelation of intangible assets

IAS39 Financial Instruments: Recognition and Measurement with regard to gains or losses on the re – measurement of available for sale investments.

6.1. Information Presented in the Statement of Comprehensive Income

As with the statement of financial position IAS1 does not require any specific format for the statement of comprehensive income. Instead, the standard provides a minimum list of line items that should be presented separately in this statement. Additional line items, headings and subtotals should be presented where relevant. The main items listed IAS1 are as follows:[10]

Revenue

Finance costs

Profits or losses accounted for by the equity method

Tax expense

Profit or loss after tax relating to discounted operations

Profit or loss for the period

Each component of other comprehensive income

Total comprehensive income for the period

Items (a) to (f) may be presented separate income statement. The order of the items and the descriptions used may be amended where this is necessary to explain the entity's financial performance.

An important further requirement of IAS1 is that an entity should not present any items of income or expense as extraordinary items, either in the statement of comprehensive income or in a separate income statement or in the notes.

6.2. Groups of Companies

If the financial statements are for a group of companies, the statement of comprehensive income must also be disclosed:[11]

The amount of the profit or loss for the period which is attributable to non controlling interests and the amount which is attributable to the owners of the parent company

The amount of the total comprehensive income for the period which is attributable to non controlling interests and

[9]Denis Beresford, Internalization of Accounting Standards, Accounting Horizons, 2008.p 10.

[10]Alan Melville, International Financial reporting, A practical guide, England 2009 p46.

[11]Gerhard G. Mueller, Helen Gernan and Gary Meek, Accounting, an International perspective 2008 p 11.

the amount which is attributable to the owners of the parent company.

6.3. Information in the Statement to Comprehensive income or in the Notes

In addition to the items which must be presented in the statement of comprehensive income, further items of income and expense should be disclosed separately if material. The entity must also present an analyzing of expenses using a classification based on either:

The nature of the expense, or

The function of the expenses within the entity.

Entities are encouraged to present this analysis in the statement of comprehensive income but it may be presented instead in the notes which accompany the financial statements. An analysis which is based on the nature of the expenses might include headings such as depreciation, employee benefits, motor expenses etc. An analysis based on function would normally classify expenses into cost of sales, distribution costs and administrative expenses. An entity which analyses expenses by function must also provide additional information on the nature of expenses including depreciation and employee benefits.

6.4. Format of the Statement of Comprehensive Income

Table 2. *Statement of comprehensive income.*

Revenue
Cost of sales
Gross profit
Other income
Distribution costs
Administrative expenses
Other expenses
Finance costs
Profit before tax
Tax expense
Profit for the year
Other comprehensive income for the year
Gains on property revaluation
Available for sale financial assets
Tax relating to other comprehensive income
Other comprehensive income for the year net of tax
TOTAL COMPREHESIVE INCOME FOR THE YEAR

(Single statement of comprehesive income expenses analyses by function)

The implementation guidance which accompanies IAS1 provides two illustrations of the statement of comprehensive income. One of these shows a single statement with expenses analyzed by function and other shows two separate statements with expenses analyzed by nature. Simplified versions of these illustrations are shown in the next figures. As with the statement of financial position IAS1 makes it clear that these formats are only illustrations and that other formats may be used if appropriate.

Table 3. *Income statement for year.*

Revenue
Other income
Changes in inventories of finished goods and WIP
Raw material and consumables used
Employee benefits expense
Depreciation and amortisation expense
Impairment of property, plant and equipment
Other expenses
Finance costs
Profit before tax
Tax expense
Profit for the year

(Separate income statement expenses analysed by nature).

Table 4. *Statement of comprehensive income.*

Profit for the year
Other comprehensive income for the year
Gains on property revulation
Available for sale financial assets
Tax relating to other comprehesive income
Other comprehesive income for the year net of tax
TOTAL COMPREHESIVE INCOME FOR THE YEAR

(Separate statement of comprehesive income).

7. The Statement of Changes in Equity

A statement of changes in equity shows how each component of equity has changed during an accounting period. In the case of a company, the components of equity will be share capital and each of the company's reserves. IAS1 requires that the following items are presented in the statement of changes in equity:[12]

(a)Total comprehensive income for the period

(b) For each component of equity, the effects of any retrospective application of an accounting policy or retrospective restatement of items, in accordance with international standard IAS8

© For each component of equity a reconciliation of the opening and closing balance of that component, separately disclosing changes resulting from:

Profit or loss

Each item of other comprehesive income

Transactions with the ownwers of the entity, separately showing distributions to owners and contributions by

[12]Peavey and Webster Is GAAP the gap to international markets, p 34.

owners.

The amount of dividends per share must also be shown either in the statement of changes in equity or in the notes.The implementation guidance to IAS1 provides an illustration of the statement of changes in equity and a simplified version of this illustration is shown in the next figure.

Table 5. *Statement of changes in equity.*

	Share capital	Retained earnings	Revaluation surplus	Total equity
Balance at 1 january 2008				
Changes in accounting policy				
Restated balance				
Changes in equity for 2008				
Dividends				
Total comprehesive income				
Balance at 31 december 2008				
Changes in equity for 2009				
Issue of share capital				
Diviends				
Total comprehesive income				
Balance at 31 december 2009				

8. The Notes to the Financial Statements

A mentioned earlier, the notes which accompany the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity are an integral part of the financial statements and so fall within the scope of international standards. IAS1 states that the notes should:

Present information about the basis of preparation of the financial statements and the accounting policies which have been used, including:

The measurement bases used in preparing the financial statements

Other accounting policies relevant to an understanding of the financial statements

Disclose information required by international standards, to the extent that this is not presented elsewhere in the financial statements

Provide any additional information which is relevant to an understanding of any of the financial statements.

The notes should be presented in a systematic manner and should be cross referenced to the four primary financial statements. The notes normally begin with a statement of compliance with international standards. There should then be a summary of significant accounting policies, followed by supporting information for line items presented in the four primary statements and further disclosures as necessary.

9. Summary

IAS1 defines a complete set of financial statements as consisting of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and a set of notes.

The effects of transactions and other items should be faithfully represented in the financial statements. The application of international standards will normally ensure that this is in the case.

Financial statements should be prepared on the going concern basis and on the accrual basis.

The way in which items are presented and classified in the financial statements should generally be consistent from one accounting period to the next. Comparative information should normally be disclosed in respect of the previous period for all amounts reported in the financial statements.

Financial statements should be clearly identified as such and each statement should be clearly labeled. Financial statements should normally be presented at least annually.

In general, current and non -current assets and current and non -current liabilities should be shown separately in the statement of financial position. IAS1 defines the term current and noncurrent in each case.

IAS1 lists the main line items that should be presented in the statement of financial position. The standard also lists further disclosures that should be made in the statement of financial position or in the notes.

IAS1 also lists the main line items that should be presented in the statement of comprehensive income and requires an analysis of expenses to be shown in the statement itself or in the notes.

The statement of changes in equity shows the changes in each component of equity during an accounting period. The statement shows total comprehensive income for the period and discloses transactions between the entity and its owners.

IAS1 does not require any particular format for the financial statements but does provide some illustrative examples.

The notes to the financial statements are within the scope of international standards. They provide information about measurement bases and accounting policies, together with supporting information for line items in the main financial statements and further information which is required by international standards or which is relevant to an understanding of the financial statements.

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[1] Alan Melville, International Financial reporting, A Practical Gide, England 2009.

[2] "Presentation of Financial Statements" Standard IAS 1, International Accounting Standards Board. Accessed 24 June 2007.

[3] www.svtuition.org/2011/08/corporate-financial-reporting.htm

[4] The Framework for the Preparation and Presentation of Financial Statements" International Accounting Standards Board. Accessed 24 June 2007.

[5] Jaclyne Badal and Phred Dvorak, Sarabanes/Oxley Gains Adherents, The Wall Street Journal 2006, p B3.

[6] Charles H. Gibson and Nicholas Schoeder, How 21 Companies handled their summary annual reports, financial execu-

tive December 2008.

[7] William W. May ed. Ethics in the accounting curriculum, cases Sarasota,2008.p 1.

[8] Regulators Investigate peat on its Auditing, The New York Times 2008 p. D1.

[9] Ernst Young Settles Negligence Charge, Business Insurance, 2008. p 2.

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[12] John Hagarty, Why we can't let GATT, Journal of Accountancy 2008 p 74.

[13] Denis Beresford, Internalization of Accounting Standards, Accounting Horizons, 2008.p 10.