**IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS**

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1. **Introduction**

IAS 1 Presentation of Financial Statements dealt with in this chapter is the one revised in September 2007. The revised IAS 1 is applicable for annual periods beginning on or after 1st January, 2009.

The revised IAS 1 is largely into line with the corresponding US GAAP standard—FAS 130, Reporting Comprehensive Income.

The main objective of the International Accounting Standards Board in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With this in mind, the Board considered it useful to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Consequently, the Board decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity. (IAS1.IN1)

The revised IAS 1 is largely into line with the corresponding US GAAP standard—FAS 130, Reporting Comprehensive Income.

Applicable to General Purpose Financial Statements only. (See Definitions at 2.1.)

2. **Objective of revised IAS 1.**

To prescribes the basis for presentation of “general purpose financial statements” to ensure comparability both with

- the entity’s financial statements of previous periods and
- the financial statements of other entities.

It also sets out

- overall requirements for the presentation of financial statements,
- guidelines for their structure and
- minimum requirements for their content and,
- issues like Going Concern, Consistency, Materiality and Comparative Information.
Recognition, measurement and disclosure requirements for specific transactions and other events are prescribed by other standards.

3 **Scope of IAS 1.**

Applies to all types of entities, commercial, industrial and business entities, both private & public and whether presenting consolidated or separate Financial Statements.

Terminology used in this standard is suitable for profit oriented entities.

If Non-profit making entities apply IAS 1 they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

Entities that do not have equity as defined in IAS 32 Financial Instruments: Presentation (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members’ or unitholders’ interests. (IAS 1.6)

It does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34, Interim Financial Reporting. Except para 15-35 of IAS 1.

4.**Definitions**

4.1 *General purpose financial statements* (referred to as ‘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.

IAS 1 is not applicable to special purpose reports or director’s reports.

4.2 **Impracticable** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

4.3 **Notes** contain information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
4.4 Other comprehensive income (OCI) comprises items of income and expense (including reclassification adjustments) that is not recognized in profit or loss as required or permitted by other IFRSs. For component’s of OCI see …..

4.4.1 Profit or loss is the total of income less expenses, excluding the components of other comprehensive income.

4.4.2 Total Comprehensive Income 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.

Thus, Total Comprehensive Income = Components of Profit or Loss Account + Other Comprehensive Income

An entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term ‘net income’ to describe profit or loss. (IAS 1.8)

4.5 Owners are holders of instruments classified as equity.

4.6 Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods.

5. Financial statements.

5.1 What are Financial statements?

Financial statements are referred to by IAS 1 para 9 as “a structured representation of the financial position and financial performance of an entity”.

5.2 Objective Financial statements.

- to provide information about an entity’s financial position,
  - its financial performance, and
  - its cash flows,

which is then utilized by a wide spectrum of end users in making economic decisions.

In addition, financial statements also show the results of the management’s stewardship of the resources entrusted to it. All this information is communicated through a complete set of financial statements.
This objective is achieved by providing information in the complete set of Financial Statements, giving information about an entity’s:

(a) assets;
(b) liabilities;
(c) equity;
(d) income and expenses, including gains and losses;
(e) contributions by and distributions to owners in their capacity as owners; and
(f) cash flows.

5.3 What are the Elements of Financial Statements

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset</td>
<td>A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.</td>
</tr>
<tr>
<td>Liability</td>
<td>A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of an entity’s resource.</td>
</tr>
<tr>
<td>Equity</td>
<td>The Residual interest in an entity’s assets after deducting all its liabilities.</td>
</tr>
<tr>
<td>Income</td>
<td>Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.</td>
</tr>
<tr>
<td>Expenses</td>
<td>Decreases in economic benefits not resulting from distributors to equity holders.</td>
</tr>
</tbody>
</table>

5.4 What Constitutes Complete Set of Financial Statements.

Para 10 of IAS 1 defines a complete set of financial statements to mean the followings:
1. A statement of financial position as at the end of the period:

   a. The previous version of IAS 1 used the title “balance sheet.” The revised standard uses the title “statement of financial position.”

2. A statement of comprehensive income for the period:

   a. Components of profit or loss may be presented either as part of a single statement of comprehensive income or in a separate income statement.
   b. When an income statement is presented, it becomes part of a complete set of financial statements.
   c. The income statement should be displayed immediately before the statement of comprehensive income. (For Detailed Discussion See )

3. A statement of changes in equity for the period;

4. A statement of cash flows for the period;

   a. The previous version of IAS 1 used the title “cash flow statement.” The revised standard uses the title “statement of cash flows.”

5. Notes, comprising a summary of significant accounting policies and other explanatory information; and

6. A statement of financial position as at the beginning of the earliest comparative period when an 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.

   This requirement is part of the revised IAS 1.

   Illustration 1 Already given in the class room.

   Use of titles for statements other than used in the standards is permitted.

   Financial statements, except for cash flow information, are to be prepared using accrual basis of accounting. That means no cash basis allowed.

5.5 What is outside the Scope of IAS 1?
Sometimes entities may present reports and statements such as:

- financial review by management
- environmental reports
- value added statements

Such information and reports are outside the scope of IAS 1.

6. General features (Covered by IAS 1.15.35)

These paras are also applicable to the interim financial statements. Save and except these paras, IAS 1 is not applicable to Interim Financial Statements.

6.1 What is Fair Presentation and Compliance with IFRS

An Entity shall make fair presentation of:

- Financial Position
- Financial Performance &
- Its Cash Flow

Fair presentation requires faithful representation of effects of transactions and other events and conditions in accordance with

- definitions and recognition criteria for
- assets, liabilities, expenses and incomes as set out in Framework

Application of IFRS with additional disclosure is presumed to result in financial statements to achieve fair presentation.

Very Important 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.

6.2 A fair presentation also requires an entity:
(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. (For detailed discussions on IAS 8 please refer chapter ..)

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is **insufficient** to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance. (IAS 1.17)

6.4 Can one rectify inappropriate application of accounting policies by making disclosure?

No, an entity can not rectify inappropriate application of accounting policies by way of disclosures or notes or explanatory material. (IAS1.18)

6.3 Departure from IFRS?

Generally it is presumed that compliance with IFRS results in fair Presentation. However, if management has concluded , compliance would be misleading and conflicting with the objectives set out in *Framework*, consequently departure from compliance may be necessary.

In such a situation the management may reduce the perceived misleading aspect of compliance by disclosing :-

1. The entity has complied with all applicable IFRS, except that it has departed from a particular requirement to achieve a fair presentation;

2. Details of departure, like

   • The title of the IFRS in question,
   • the nature of the requirement, and
   • the reason such treatment would be misleading.

3. For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.
6.4 What should management consider?

If management considers such departure is inevitable it should consider followings:

1. Why the objective of financial statements is not achieved in the particular circumstances; and
2. How the entity’s circumstances differ from those of other entities that comply with the requirement.

If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity’s compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the Framework.

7. Going concern.

When preparing financial statements, management makes an assessment of

a) the entity’s ability to continue as a going concern.

b) If the result of the assessment casts significant doubt upon the entity’s ability to continue as a going concern, management is required to disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

c) If the results of the assessment casts no doubt about entity’s ability as a going concern then prepare financial statements on a going concern.

8. Accrual basis of accounting. Financial statements, except for cash flow information, are to be prepared using accrual basis of accounting.

Note: Going Concern and Accruals are the only two fundamental assumptions of IFRS.


Each material class of similar item and

Material item of dissimilar nature or function need to be presented separately.

Also no specific disclosure need to be made if the information is not material, even specific disclosure is required by an IFRS.
10. **Offsetting.**

As a rule not to offset Assets and Liabilities, or income and expenses against each other, unless required or permitted by an IFRS.

- Reduction of plant, property and equipment by accumulated depreciation and accounts receivable by the allowance for doubtful accounts, which reduce these assets are not considered to be offsetting assets and liabilities.

Illustration:

- Revenue to be presented at gross and Gains at net. Foreign exchange gains and losses may be offset unless material.

11. **Frequency of reporting.**

Financial statements including comparative information must be presented at least annually.

Reporting period should be consistent.

If as a result of change, reporting period is

* Longer

* Or shorter than one year,

The reasons for the longer or shorter period and the fact that the amounts presented are not entirely comparable should be disclosed.

- **Reporting for 52 weeks is permitted, however this option is sparingly used.**

12. **Comparative information.**

12.1 Whenever an entity:

- retrospectively applies an accounting policy, or
- makes a retrospective restatement of items in its financial statements, or
- when it reclassifies items in its financial statements.

It should include a statement of financial position as at the beginning of the earliest comparative period.
Also, as a minimum, three statements of financial position and related notes, as at

1. The end of the current period;
2. The end of the previous period (which is the same as the beginning of the current period); and
3. The beginning of the earliest comparative period.

12.2 When the entity changes the presentation or classification of items in its financial statements, the entity should reclassify the comparative amounts, unless reclassification is impractical.

In reclassifying comparative amounts, the required disclosure includes

(1) the nature of the reclassification;
(2) the amount of each item or class of items that is reclassified; and
(3) the reason for the reclassification.

Acronym ; RAN

12.3 When impracticable to reclassify

In situations where it is impracticable to reclassify comparative amounts, an entity should disclose

(1) the reason for not reclassifying the amounts and

(2) the nature of the adjustments that would have been made if the amounts had been reclassified.

13. Consistency of presentation.

Both the presentation and classification of items in the financial statements should be consistent from one period to the next.

A change in presentation and classification of items may be required

(i) when there is a significant change in the nature of the entity’s operations,
(ii) another presentation or classification is more appropriate (having considered the criteria of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors), or
(iii) when an IFRS requires a change in presentation.

When making such changes in presentation, an entity should reclassify its comparative information and present adequate disclosures (see comparable information above).

14. STRUCTURE AND CONTENT

14.1 Disclosure

14.1.1 This standard requires disclosures:

(i) in the statement of financial position or
(ii) of comprehensive income, in the separate income statement (if presented), or
(iii) in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes.

IAS 7 *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.

14.2 The ‘disclosure’ is used in a broad sense, encompassing items presented in the financial statements.

IAS 1 sets out the minimum disclosures, other IFRSs also require Disclosures.

14.3 Financial statements should be clearly distinguished from other informations in the same published documents like annual reports or prospectus. (IAS 1.49)

This IAS 1 is applicable to Financial Statement only and not and not necessarily to other information presented in an annual report, a regulatory filing, or another document.

This makes it all the more important that user should be able to distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.

14.4 Identification

An entity should *prominently identify* following information and repeat whenever necessary for the information presented to be understandable.
a) each financial statement and Notes;  
b) name of the reporting entity;  
c) whether the financial statements are of an individual entity or a group of entities;  
d) the date of the end of the reporting period or the period covered by the set of financial statements or notes;  
e) the presentation currency, as defined in IAS 21; and  
f) the level of rounding used in presenting amounts in the financial (i.e. ‘

15. Statement of financial position

No prescribed or detailed form. Only Current assets and non current assets and current liabilities and non current liabilities. Or if the entity prefers the liquidity preference may be followed.

15.1.Information to be presented in the statement of financial position

As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) Property, plant and equipment;  
(b) Investment property;  
(c) Intangible assets;  
(d) Financial assets (excluding amounts shown under (e), (h) and (i));  
(e) Investments accounted for using the equity method;  
(f) Biological assets;  
(g) Inventories;  
(h) Trade and other receivables;  
(i) Cash and cash equivalents;  
(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;  
(k) Trade and other payables;  
(l) Provisions;  
(m) Financial liabilities (excluding amounts shown under (k) and (l));  
(n) Liabilities and assets for current tax, as defined in IAS 12 Income Taxes;  
(o) Deferred tax liabilities and deferred tax assets, as defined in IAS 12;  
(p) Liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;  
(q) Non-controlling interests, presented within equity; and  
(r) Issued capital and reserves attributable to owners of the parent.
15.2 Additional line Items, headings and sub totals.

An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

The use of different measurement bases for different classes of assets may trigger the need for a separate line item presentation. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16. (IAS 1.59)

16. Current/non-current distinction

Normal rule to present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant.

☞ When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

Regardless of the method of presentation, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

   (a) No more than twelve months after the reporting period, and
   (b) More than twelve months after the reporting period.

Further Classification when goods and services are within clearly identifiable operating cycle:

(a) distinguishing the net assets that are continuously circulating as working capital from those used in the entity’s long-term operations.

(b) highlighting assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period. (IAS 1.62)

☞ Entities that are not supplying goods and services within a clearly identifiable operating cycle such as financial institutions may prefer to present the information in liquidity order rather than current and non current presentation as it may provide information in relevant and reliable manner.
Deferred tax assets or liabilities not to be presented as “current Assets” or “Current Liabilities” when current and non current classification is presented.

17 Other Disclosures :

- Maturity dates of Financial assets like trade and other receivables and financial liabilities like trade and other payables.

- Expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions – regardless of the current or non current classification.

18 Current Assets

An entity shall classify an asset as “current” when:

(a) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; or

(b) It holds the asset primarily for the purpose of trading; or

(c) It expects to realize the asset within twelve months after the reporting period; or

(d) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted in use.

All other assets as “non-current”. Negative definition for non current

The “non current” also includes tangible, intangible and financial assets of a long-term nature.

19 Current liabilities

An entity shall classify a liability as “current” when:

(a) It expects to settle the liability in its normal operating cycle;

(b) It holds the liability primarily for the purpose of trading;

(c) The liability is due to be settled within twelve months after the reporting period; or

(d) The entity 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 liabilities as “non-current.”

Certain 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.

Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting period.

- The same normal operating cycle applies to the classification of an entity’s assets and liabilities.

- When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

Examples of some current liabilities which are not part of operating cycle.

- current portion of non current liability;
- some financial liabilities classified as held for trading in accordance with IAS 39;
- bank overdrafts.

20 Refinancing

Financial liabilities should be classified as “current” as they become due to be settled within twelve months after the reporting period, even if:

(a) The original term was for a period longer than twelve months, and
(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. (This means this a non-adjusting event)

Discretion & Breach of loan agreement.

Discretion

If entity has discretion to refinance or roll over an obligation an obligation for at least twelve months after the reporting period it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.
If not discretion or there is no refinancing agreement, potential to enhance the term should be ignored, and such obligation be classified as “current”.

**Breach of loan agreement.**

When as a result of breach of loan agreement if the loan becomes payable on demand, such obligation shall be classified as “Current”, even if:

Lender agrees between Balance sheet date and date of authorisation not to demand such loan on account of breach.

However, if lender agrees before the balance sheet date to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. An entity shall classify such liability as “non-current”.

As per IAS 10 following events occur between the end of the reporting period and the date the financial statements are authorized for issue, those events are disclosed as non-adjusting events.

(a) Refinancing on a long-term basis;

(b) Rectification of a breach of a long-term loan arrangement; and

(c) The granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

**Statement of comprehensive income – Income Statement**

An entity shall present all items of income and expense recognized in a period:

Either

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

(b) In two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).
Information to be presented in the statement of comprehensive income

As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

(a) Revenue;
(b) Finance costs;
(c) Share of the profit or loss of associates and joint ventures accounted for using the equity method;
(d) Tax expense;
(e) A single amount comprising the total of:
   (i) The post-tax profit or loss of discontinued operations and
   (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
(f) Profit or loss;
(g) Each component of other comprehensive income classified by nature
(h) Share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
(i) Total comprehensive income.

Note: For discontinued operations, figure to be given in one line item and details thereof in notes.

In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include some line items that present the amounts for the period:

- For example, the following amounts should be presented:
  1. Revenue
  2. Finance costs
  3. Share of profit/loss of associate or joint venture.
  4. Tax expense
  5. Profit or loss
  4. Each component (net of tax) of other comprehensive income classified by nature
  5. Total comprehensive income

The second Statement starts with Profit and Loss for the year.
An entity shall disclose the following items in the statement of comprehensive income as allocations for the period:

(a) Profit or loss for the period attributable to:
   (i) Non-controlling interests, and
   (ii) Owners of the parent.

(b) Total comprehensive income for the period attributable to:
   (i) Non-controlling interests, and
   (ii) Owners of the parent.

An entity shall present additional line items, headings and subtotals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity’s financial performance.

**Profit or loss for the period**

An entity shall recognize all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise.

- **No Extraordinary Items.**
- An entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income or the separate income statement (if presented), or in the notes.

**Other comprehensive income for the period**

An item of Income and expense not recognised in profit or loss account are recognised in Other Comprehensive Income.

The components of other comprehensive income include:

(a) changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);
(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 Employee Benefits;

(c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 The Effects of Changes in Foreign Exchange Rates);

(d) gains and losses on remeasuring available-for-sale financial assets (see IAS 39 Financial Instruments: Recognition and Measurement);

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39).

These may be presented either:

(a) Net of related tax effects, or

(b) Before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes.
An entity shall disclose reclassification adjustments relating to components of other comprehensive income. – **Recollect the example given in class room.**

**Reclassification adjustments.**

**What is reclassification?**

Other IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. Such reclassifications are referred to in this Standard as reclassification adjustments.

For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

**The reclassified adjustments can be presented in two ways**

Either in Other Comprehensive Income

Or in Notes. If presented in notes, then entity presents the components of other comprehensive income after any related reclassification adjustments.

<table>
<thead>
<tr>
<th>Reclassification Adjustment Arises</th>
<th>Reclassification Adjustment does NOT arise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On Disposal of Foreign Operations (IAS 21)</strong></td>
<td>on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 (See Note Below)</td>
</tr>
<tr>
<td>on de-recognition of available-for-sale financial assets (see IAS 39)</td>
<td>on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 (See Note below)</td>
</tr>
<tr>
<td>when a hedged forecast transaction affects profit or loss (see paragraph 100 of IAS 39 in relation to cash flow hedges).</td>
<td></td>
</tr>
</tbody>
</table>
Note

These are recognised in Other Comprehensive Income & Not in Profit Or Loss Accounts.

Changes in revaluation surplus are transferred to retained earnings when the asset is used or derecognised as per IAS 16. (Governing para IAS 16.41)

Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see IAS 19).

Information to be presented in the statement of comprehensive income or in the notes

When items of income or expense are material, an entity shall disclose their nature and amount separately.

Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) Write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
(c) Disposals of items of property, plant and equipment;
(d) Disposals of investments;
(e) Discontinued operations;
(f) Litigation settlements; and
(g) Other reversals of provisions.

Analysis of Expenses

Analysis of Expenses

Natural

Functional
ICAI may suggest to follow up only natural classifications.

An entity shall present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

Expenses are sub classified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability.

This analysis is provided in one of two forms.

**Natural Classification**

The first form of analysis is the ‘nature of expense’ method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td></td>
</tr>
<tr>
<td>Raw materials and consumables used</td>
<td></td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>X</td>
</tr>
</tbody>
</table>

**Functional Classification**

The second form of analysis is the ‘function of expense’ or ‘cost of sales’ method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve
considerable judgment. An example of a classification using the function of expense method is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>X</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>X</td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
</tr>
<tr>
<td>Distribution Costs</td>
<td>(X)</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>(X)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Profit before Tax</strong></td>
<td>X</td>
</tr>
</tbody>
</table>

Depreciation is considered as part of cost of sales. Hence not presented as separate line item.

An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.

**Statement of changes in equity**

An entity shall present a statement of changes in equity showing in the statement:

(a) Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
(b) For each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8; and

(b) For each component of equity, reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) Profit or loss;
(ii) Each item of other comprehensive income; and
(iii) 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.
XYZ Group – Statement of changes in equity for the year ended 31 March, 2011
(in thousands of currency units)

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Retained earnings</th>
<th>Translation of foreign operations</th>
<th>Available-for-sale financial assets</th>
<th>Cash flow hedges</th>
<th>Revaluation surplus</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 April 2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>600,000</td>
<td>118,100</td>
<td>(4,000)</td>
<td>1,600</td>
<td>2,000</td>
<td>–</td>
<td>717,700</td>
<td>29,800</td>
<td>747,500</td>
</tr>
<tr>
<td><strong>Changes in accounting policy</strong></td>
<td>–</td>
<td>400</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>400</td>
<td>100</td>
</tr>
<tr>
<td><strong>Restated balance</strong></td>
<td>600,000</td>
<td>118,500</td>
<td>(4,000)</td>
<td>1,600</td>
<td>2,000</td>
<td>–</td>
<td>718,100</td>
<td>29,900</td>
</tr>
<tr>
<td><strong>Changes in equity for 2009-10</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>–</td>
<td>(10,000)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(10,000)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year(k)</strong></td>
<td>–</td>
<td>53,200</td>
<td>6,400</td>
<td>16,000</td>
<td>(2,400)</td>
<td>1,600</td>
<td>74,800</td>
<td>18,700</td>
</tr>
<tr>
<td><strong>Balance at 31 March, 2010</strong></td>
<td>600,000</td>
<td>161,700</td>
<td>2,400</td>
<td>17,600</td>
<td>(400)</td>
<td>1,600</td>
<td>782,900</td>
<td>48,600</td>
</tr>
<tr>
<td><strong>Changes in equity for 2010-11</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>50,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>50,000</td>
<td>–</td>
</tr>
<tr>
<td>Dividends</td>
<td>–</td>
<td>(15,000)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(15,000)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year(l)</strong></td>
<td>–</td>
<td>96,600</td>
<td>3,200</td>
<td>(14,400)</td>
<td>(400)</td>
<td>800</td>
<td>85,800</td>
<td>21,450</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>–</td>
<td>200</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>200</td>
<td>–</td>
</tr>
<tr>
<td><strong>Balance at 31 March 2011</strong></td>
<td>650,000</td>
<td>243,500</td>
<td>5,600</td>
<td>3,200</td>
<td>(800)</td>
<td>2,200</td>
<td>903,700</td>
<td>70,050</td>
</tr>
</tbody>
</table>

An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognized as distributions to owners during the period, and the related amount per share.

Dividend paid is not recognised in profit or loss account or other comprehensive income but is shown as deduction from the retained earnings in Statement of Changes in Equity.

IAS 8 requires retrospective adjustments:

a) to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS require otherwise.

b) to correct errors to be made retrospectively, to the extent practicable, restatement is required.
Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an IFRS requires retrospective adjustment of another component of equity.

**Statement of cash flows**

Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information. This is covered in more details in Chapter …..

**Notes**

**Structure**

Notes are integral part of Complete set of Financial Statements.

They present

a) information about the basis of preparation of the financial statements and the specific accounting policies;

b) And disclose information that is not presented elsewhere in the financial statements; BUT

   i) required by IFRS and

   ii) is relevant to understanding of any of them.

Notes shall be

Presented in a systematic manner.

Cross referenced with each item in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes.

An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) Statement of compliance with IFRSs;
(b) Summary of significant accounting policies applied;  
(c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and  
(d) Other disclosures, including:  
(i) Contingent liabilities (see IAS 37) and unrecognized contractual commitments, and  
(ii) Non-financial disclosures, e.g. the entity’s financial risk management objectives and policies (see IFRS 7).

Disclosure of accounting policies

An entity shall disclose in the summary of significant accounting policies:

(a) The measurement basis (or bases) used in preparing the financial statements, and  
(b) The other accounting policies used that are relevant to an understanding of the financial statements.

In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs.

For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

In the process of applying the entity’s accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements.

For example, management makes judgments in determining:

(a) Whether financial assets are held-to-maturity investments;  
(b) When substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;  
(c) Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
(d) Whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

**Sources of estimation uncertainty**

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In respect of those assets and liabilities, the notes shall include details of:

(a) Their nature, and  
(b) Their carrying amount as at the end of the reporting period.

An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgments that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

Examples of the types of disclosures an entity makes are:

(a) The nature of the assumption or other estimation uncertainty;  
(b) The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;  
(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and  
(d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

**Capital**

An entity shall disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

To comply with paragraph 134, the entity discloses the following:

(a) Qualitative information about its objectives, policies and processes for managing capital, including:

   (i) A description of what it manages as capital;
(ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and 
(iii) How it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

**Puttable financial instruments classified as equity**

A. For Puttable financial instrument classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

(a) Summary quantitative data about the amount classified as equity;

(b) Its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(c) The expected cash outflow on redemption or repurchase of that class of financial instruments; and

(d) Information about how the expected cash outflow on redemption or repurchase was determined.

**Other disclosures**

An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the period, and the related amount per share; and

(b) The amount of any cumulative preference dividends not recognized. An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(i) The domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
(ii) A description of the nature of the entity’s operations and its principal activities;

(iii) The name of the parent and the ultimate parent of the group; and

(iv) If it is a limited life entity, information regarding the length of its life.
CHAPTER 2 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (IAS 8)

1. Objective

IAS 8 prescribes criteria for

Selecting and

Changing accounting policies and

The disclosures thereof and

Also sets out the requirements and disclosures for changes in accounting estimates and corrections of errors.

In doing so it purports to achieve these objectives:

• To enhance the relevance and reliability of an entity’s financial statements;
  and

• To ensure the comparability of the financial statements of an entity over time as well as with financial statements of other entities

2. DEFINITIONS OF KEY TERMS

Accounting policies. The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

Change in accounting estimate. An adjustment of the carrying amount of an asset or a liability, or the amount of periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Prior-period errors. Omissions from, and misstatements in, financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available at the time and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of financial statements.
3. ACCOUNTING POLICIES

Accounting policies are essential for a proper understanding of the information contained in the financial statements prepared by the management of an entity. An entity should clearly outline all significant accounting policies it has used in preparing the financial statements.

Because under International Financial Reporting Standards (IFRS) alternative treatments are possible, it becomes all the more important for an entity to clearly state which accounting policy it has used in the preparation of the financial statements. For instance, under IAS 2 an entity has the choice of the weighted-average method or the first-in, first-out (FIFO) method in valuing its inventory.

Unless the entity discloses which method of inventory valuation it has used in the preparation of its financial statements, users of these financial statements would not be able to use the financial statements properly to make relative comparisons with other entities.

4. SELECTION AND APPLICATION OF ACCOUNTING POLICIES

4.1 When a Standard or Interpretation specifically applies to a transaction, other event, or condition, the accounting policy applied to that item shall be determined by applying that Standard or Interpretation and considering the relevant Implementation Guidance issued by the IASB for the Standard or Interpretation.

4.2 If the extant IASB Standards or Interpretations do not address a specific transaction, other event, or condition, management shall develop and apply a policy that is relevant to decision making needs of users of financial statements and is reliable as well. In this context, “reliable” means to:

- Represent faithfully the financial position, financial performance and cash flows
- Reflect the economic substance of transactions, other events, and conditions
- Be neutral
- Be prudent
- Be complete in all material respects
4.3 In making these judgments, the management of an entity should apply the following sources in *descending order*:

- The requirements and guidance in Standards and Interpretations dealing with similar and related issues

- The definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses as outlined in the IASB’s *Framework*

4.4 Furthermore, in making the judgment, the management of an entity may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop standards, other accounting literature, and accepted industry practices, to the extent that these do not conflict with the sources of primary reference (i.e., the IASB Standards and Interpretations and its *Framework*).

5. CONSISTENCY OF ACCOUNTING POLICIES

5.1 Once selected, accounting policies must be applied consistently for similar transactions, other events, and conditions unless a Standard or Interpretation specifically otherwise requires or permits categorization of items for which different policies may be appropriate.

5.2 If a Standard or Interpretation requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

6. FACTORS GOVERNING CHANGES IN ACCOUNTING POLICIES

6.1 Once selected, an accounting policy may be changed only if the change

- Is required by a Standard or an Interpretation; or

- Results in financial statements providing reliable and more relevant information.

6.2 These items are **not** considered changes in accounting policies:

- The application of an accounting policy for transactions, other events, or conditions that differs in substance from those previously occurring

- The application of a new accounting policy for transactions, other events, or conditions, that did not occur previously or were immaterial
7. APPLYING CHANGES IN ACCOUNTING POLICIES

7.1 A change in accounting policy required by a Standard or Interpretation shall be applied in accordance with the transitional provisions therein. If a Standard or Interpretation contains no transitional provisions or if an accounting policy is changed voluntarily, the change shall be applied retrospectively. That is to say, the new policy is applied to transactions, other events, and conditions as if the policy had always been applied.

7.2 The practical impact of this is that corresponding amounts (or “comparatives”) presented in financial statements must be restated as if the new policy had always been applied. The impact of the new policy on the retained earnings prior to the earliest period presented should be adjusted against the opening balance of retained earnings.

8. LIMITATIONS OF RETROSPECTIVE APPLICATION

8.1 Retrospective application of a change in accounting policy need not be made if it is impracticable to determine either the period-specific effects or the cumulative effect of the change. “Impracticable” is very strictly defined in the Standard in order to preclude simplistic statements used to avoid restating earlier periods.

8.2 Applying a requirement of a Standard or Interpretation is “impracticable” when the entity cannot apply it after making every effort to do so. For a particular prior period, it is “impracticable” to apply a change in an accounting policy if:

• The effects of the retrospective application are not determinable;

• The retrospective application requires assumptions about what management’s intentions would have been at the time; or

• The retrospective application requires significant estimates of amounts, and it is impossible to distinguish objectively, from other information, information about those estimates that:

  • Provides evidence of circumstances that existed at that time; and
  • Would have been available at that time.

8.3 When it is “impracticable” to apply a change in policy retrospectively, the entity applies the change to the earliest period to which it is possible to apply the change.
9. DISCLOSURES WITH RESPECT TO CHANGES IN ACCOUNTING POLICIES

9.1 When initial application of a Standard or Interpretation has an effect on current or prior periods, would have an effect but it is impracticable to determine, or might have an effect, an entity shall disclose:

• The title of the Standard or Interpretation;

• If applicable, that the change is made in accordance with the transitional provisions;

• The nature of the change;

• If applicable, a description of the transitional provisions;

• If applicable, the transitional provisions that might have an effect on future periods;

• For current and each prior period presented to the extent practicable, the amount of the adjustment for each financial statement line item;

• The amount of the adjustment relating to periods before those presented; and

• If retrospective application is impracticable, the circumstances making it impracticable and the date from which the accounting policy has been applied.

9.2 Similar disclosures are required for voluntary changes in accounting policies with the addition that a description must be provided of the reason for the new policy providing reliable and more relevant information.

9.3 In addition to the foregoing, disclosures are required regarding Standards or Interpretations that have been issued but are not yet effective. Such disclosures comprise the fact that certain standards or interpretations have been issued (at the date of authorization of the financial statements) but were not effective and known or reasonably estimable information relevant to assessing the possible impact of the new Standard or Interpretation.

10. CHANGES IN ACCOUNTING ESTIMATES

10.1 Many items in the financial statements cannot be measured with accuracy and are thus estimated. This is due to uncertainties inherent in business activities. Accounting,
the language of business, has to translate these uncertainties into figures that are then reported in the financial statements. Thus accounting estimates are a very important part of the process of financial reporting.

Common examples of accounting estimates include

- Bad debts
- Inventory obsolescence
- Useful lives of property, plant, and equipment
- Fair values of financial assets or financial liabilities
- Provision for warranty obligations

10.2 Accounting estimates may change as circumstances change or experience grows. Thus a change in estimate does not warrant restating the financial statements of a prior period because it is not a correction of an error.

11 Disclosures with Respect to Changes in Accounting Estimates

An entity should disclose amounts and nature of changes in accounting estimates. In addition, it should also disclose changes relating to future periods, unless impracticable. The definition of “impracticable,” which has been explained for the purposes of “change in accounting policy,” applies in case of “changes in accounting estimates” as well.

12. CORRECTION OF PRIOR-PERIOD ERRORS

12.1 Errors can arise in recognition, measurement, presentation, or disclosure of items in financial statements. If financial statements contain either material errors or intentional immaterial errors that achieve a particular presentation, then they do not comply with IFRS. Misstatements or omissions are “material” if they could, either individually or cumulatively, influence the decisions of users of financial statements.

12.2 Discovery of material errors relating to prior periods shall be corrected by restating comparative figures in the financial statements for the year in which the error is discovered, unless it is “impracticable” to do so. Again, the strict definition of “impracticable” (as explained above) applies.

12.3 Disclosures in Respect of Correction of Prior-Period Errors
With respect to the correction of prior-period errors, IAS 8, paragraph 49, requires disclosure of

- The nature of the prior-period error;
- For each period presented, to the extent practicable, the amount of the correction:
  - For each financial statement line item affected; and
  - For entities to which IAS 33 applies, for basic and diluted earnings per share.
- The amount of the correction at the beginning of the earliest prior period presented; and
- If retrospective restatement is “impracticable” for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

*Once disclosed, these disclosures are not to be repeated in financial statements of subsequent periods.*

End of Chapter
Chapter 3: Events after Reporting Period IAS 10

INTRODUCTION:

IAS 10 *Events after the Reporting Period* replaces IAS 10 *Events after the Balance Sheet Date* (revised in 1999) and should be applied for **annual periods** beginning on or after 1 January 2005. That means by logic not to apply to Interim reporting.

OBJECTIVES:

The objective of this Standard is to prescribe:

(a) When an entity should adjust its financial statements for events after the reporting period; and

(b) The disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the reporting period.

DEFINITIONS:

Events after the Reporting Period:

*Events after the reporting period* are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the end of the reporting period *(adjusting events after the reporting period)*; and

(b) Those that are indicative of conditions that arose after the reporting period *(non-adjusting events after the reporting period)*.

Events after the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

The process involved in authorizing the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalizing the financial statements.
In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorized for issue on the date of issue, not the date when shareholders approve the financial statements.

In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

**RECOGNITION & MEASUREMENT:-**

**(i) Adjusting Events after the Reporting Period**

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

**(ii) Non-adjusting Events after the Reporting Period**

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

**DIVIDENDS:-**

If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period.

If dividends are declared (i.e., the dividends are appropriately authorized and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorized for issue, the dividends are not recognised as a liability at the end of the reporting period because they do not meet the criteria of a present obligation in IAS 37. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*.

**GOING CONCERN:-**

An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.
Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

IAS 1 specifies required disclosures if:

(a) The financial statements are not prepared on a going concern basis; or

(b) Management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

**DISCLOSURE:-**

*Date of Authorization for Issue*

An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If the entity’s owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

*Updating Disclosure about Conditions at the End of the Reporting Period:-*

If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

*Non-adjusting Events after the Reporting Period:-*

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
EFFECTIVE DATE:

An entity shall apply this Standard for annual periods beginning on or after 1 January, 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.