

Presentation of Financial Statements



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Presentation of Financial Statements



□ Scope:

- Applies to all general purpose financial statements
- “**General purpose financial statements**” are those intended to serve users who do not have the authority to demand financial reports tailored for their own needs.

Presentation of Financial Statements



□ Objective:

- To prescribe the basis for presentation of general purpose financial statements,
- To ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
- Overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Presentation of Financial Statements

Objective of Financial Statements

The objective of general purpose 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.

To meet that objective, financial statements provide information about an entity's:

- Assets,
- Liabilities,
- Equity,
- Income and expenses, including gains and losses.
- contributions by and distributions to owners in their capacity as owners; and
- Cash flows.



Presentation of Financial Statements

Components of financial statements

A complete set of financial statements should include:

- a statement of financial position (balance sheet) at the end of the period,
- a statement of comprehensive income for the period,
- a statement of changes in equity for the period,
- a statement of cash flows for the period,



Presentation of Financial Statements

Components of financial statements (Contd.)

- notes, comprising a summary of accounting policies and other explanatory notes,
- Comparative information in respect of the preceding period, and
- a statement 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 statement or when it reclassifies items in its financial statement.



Presentation of financial statements

Fair Presentation and Compliance with IFRSs

- The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.
- Inappropriate accounting policies not acceptable even with disclosure.
- Caveat where disclosure conflicts with objective of the standard. (with detailed disclosure of the nature, reasons, and impact of the departure)

Critical to note:

An entity whose financial statements comply with IFRSs make an explicit and unreserved statement of such compliance in the notes.

Presentation of financial statements

Test your knowledge

Which of the following components is required in a complete set of financial statements?

- a) Review of main factors determining financial performance
- b) Report of the entity's source of funding, gearing and risk management policies
- c) A list of resources of the entity that are not recognised in the statement of financial position
- d) Notes, comprising a summary of significant accounting policies and other explanatory information



Presentation of financial statements

Solution

Which of the following components is required in a complete set of financial statements?

- a) Review of main factors determining financial performance
- b) Report of the entity's source of funding, gearing and risk management policies
- c) A list of resources of the entity that are not recognised in the statement of financial position
- d) Notes, comprising a summary of significant accounting policies and other explanatory information



Presentation of financial statements

Elements

- **Going concern** - except intent to liquidate, cease trading or no realistic alternative
- **Accrual basis** - except cash flow information
- **Consistency** - unless a change is justified either by a change in circumstances or a requirement of a new standards
- **Materiality and aggregation**

Presentation of financial statements

Elements (Continued)

- **Offsetting** - not allowed unless required or permitted by a standard
- **Comparative Information** – including narratives when it will aid understanding of Current Period's financial statement
- **Reporting Period** - disclose reason(s) and that amounts presented are not entirely comparable
- **Consistency of Presentation of financial statement**-unless required by the relevant standards or more appropriate presentation

Presentation of Financial Statements

Test your knowledge - Accrual Basis of Accounting

Entity Y entered into a purchase contract to purchase 50 boxes of printing papers from Company Z. At the end of June when it prepares its financial statements, only 40 boxes were delivered to Bank Y by Company Z. At the time, Bank Z had paid for all 50 boxes in advance.

Question – how much of purchases of printing papers can bank Y present in its financial statements?



Presentation of Financial Statements

Accrual Basis of Accounting – Solution

Y entered into a purchase contract to purchase 50 boxes of printing papers from Company Z. At the end of December when it prepares its financial statements under IFRS, only 40 boxes were delivered to Bank Y by Company Z. At the time, Bank Z had paid for all 50 boxes in advance.

Question – how much of purchases of printing papers can bank Y present in its financial statements?

Solution – Bank Y can only recognize amounts for 40 boxes that had been delivered to the bank by Company Z as at the end of the year. Although Bank Y has paid the entire amount for 50 boxes, only 40 boxes had been delivered.

Presentation of Financial Statements

Accrual Basis of Accounting – Solution

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Presentation of Financial Statements

Structure and Content of Financial Statements

□ Identification of the financial statements

An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

For the information presented to be understandable, an entity shall display the following information prominently, and repeat it when necessary:

- a. the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
- b. whether the financial statements are of an individual entity or a group of entities;

Presentation of Financial Statements

Structure and Content of Financial Statements

□ Identification of the financial statements (Contd.)

- c. the date of the end of the reporting period or the period covered by the set of financial statements or notes;
- d. the presentation currency; and
- e. the level of rounding used in presenting amounts in the financial statements.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of financial position

Assets shall be classified as **current** and **non-current**.

- **Current Assets** are assets the entity:
 - a. expects to realize, consume or sell in its normal operating cycle.
 - b. holds primarily for trading
 - c. expects to realize within 12 months after the reporting period.
 - d. cash or cash equivalent
- **Other assets are non-current, although the use of 'long term' is not prohibited.**

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of financial position

Liabilities shall be classified as **current** and **non-current**

- **Current liabilities** are liabilities the entity:
 - a. Expects to settle in its normal operating cycle
 - b. Holds primarily for trading
 - c. Is due to settle within 12 months after the reporting period.
 - d. Does not have unconditional right to defer for at least 12 months after its reporting period.
- **Other liabilities are non current.**

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)



**A must
note!!!!!!!!!!!!!!**

It is a requirement that presentation of current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet **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.**

Since for a bank presentation based on liquidity would ordinarily provide information that is more reliable and more relevant, this is the format that is ordinarily adopted.

Structure and Content of Financial Statements (*cont'd*)

Balance sheet of Entity A

ENTITY A				
CONSOLIDATED BALANCE SHEET				
AS AT 30 JUNE 2013				
		Notes	2013 Kshs.	2012 Kshs.
ASSETS				
Cash and bank balances		9	17,493,569,359	15,392,790,370
Treasury bills		10	110,573,280	-
Government securities		11	2,394,273,797	2,447,032,618
Other assets		12	7,149,437,130	7,278,098,615
Property, plant and equipment		13	1,054,249,474	910,509,395
Intangible assets		14	101,444,141	-
Leasehold land		15	88,410,922	86,479,456
			28,391,958,103	26,114,910,454
				-

Structure and Content of Financial Statements (*cont'd*)

Balance sheet of Commercial Entity A (Cont'd)

LIABILITIES				-	
Current tax liabilities		8		2,702,027,511	2,482,673,419
Deferred tax liability		16		18,556,448	27,772,359
Other liabilities		17		14,671,113,452	24,414,045,485
				17,391,697,411	26,924,491,263
NET ASSETS				11,000,260,692	7,699,850,084
CAPITAL AND RESERVES					
Capital fund		18		10,911,847,228	7,635,421,271
Retained earnings		19		88,413,464	64,428,813
				11,000,260,692	7,699,850,084

Compliant?????? – YES!!!!!!

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of financial position (*cont'd*)

Items on the face of the statement of financial position (balance sheet) of a bank

- a. Cash and cash equivalents
- b. Treasury Bonds
- c. Treasury Bills
- d. Property, plant and equipment;
- e. Investment property;
- f. Intangible assets;
- g. Investments accounted for using the equity method;
- h. Trade and other receivables;
- i. Financial assets (excluding amounts shown above)
- j. Trade and other payables;
- k. Provisions;
- l. Financial liabilities (excluding amounts shown under above and;
- m. Liabilities and assets for current tax;
- n. Deferred tax liabilities and deferred tax assets;

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ **Statement of profit or loss and other Comprehensive Income**

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

- a. In a single statement of comprehensive income or
- b. In two statements :
 - i. Statement of Profit or loss (separate income statement)
 - ii. Statement of comprehensive income.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ **Statement of profit or loss and other Comprehensive Income**

Minimum items on the face of the statement of profit or loss and other comprehensive income include:

- a. revenue
- b. gains and losses arising from the de-recognition of financial assets measured at amortized cost
- c. finance costs
- d. share of the profit or loss of associates and joint ventures accounted for using the equity method

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Comprehensive Income (*cont'd*)

- e. if a financial statement is reclassified so that is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date

- f. tax expense

- g. 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 recognised on disposal of the assets or disposal group(s) connected with a discontinued operation



Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Comprehensive Income (*cont'd*)

h) profit or loss

i) each component of other comprehensive income classified by nature;

j) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

k) total comprehensive income.



Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Comprehensive Income (*cont'd*)

Comprehensive income for a period includes:

- a. profit or loss for that period plus
- b. other comprehensive income recognised in that period.



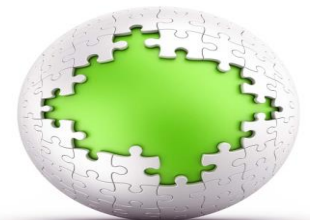
Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Comprehensive Income (*cont'd*)

Components of other comprehensive income include:

- a. changes in revaluation surplus.
- b. actuarial gains and losses on defined benefit plans.
- c. gains and losses arising from translating the financial statements of a foreign operation.
- d. gains and losses on re-measuring available-for-sale financial assets.
- e. the effective portion of gains and losses on hedging instruments in a cash flow hedge.



Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Changes in Equity

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

- a. Total comprehensive income for the period showing amount attributable to owners of the parent and non-controlling interest separately.
- b. For each component of equity; the effect of retrospective application or restatement

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

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Statement of Changes in Equity

- a. Profit or loss
- b. Each item of other comprehensive income
- c. Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

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

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements

The notes must:

- i. present information about the basis of preparation of the financial statements and the specific accounting policies used;
- ii. disclose the information required by the standards that is not presented elsewhere in the financial statements; and
- iii. provide information that is not presented elsewhere in the financial statement but is relevant to an understanding of any of them.

As far as practicable, notes shall be presented in a systematic manner and shall cross-reference each item in the financial statement.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements

Notes should normally be presented in the following order:

- a. a statement of compliance with the relevant standards
- b. a summary of significant accounting policies applied

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements

c. supporting information for items presented in the statement of financial position and of the comprehensive income, in the separate income statement (if presented), and in the statement of changes in equity and of the cash flows, in the order in which each statement and each line item is presented: and

d. other disclosures, including:

- contingent liabilities and unrecognised contractual commitments
- non-financial disclosures, such as the entity's financial risk management objectives and policies

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements (*cont'd*)

- **Disclosure of judgements**

An entity must disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements (*cont'd*)

Examples include management's judgements in determining:

- whether financial assets are held-to-maturity investments
- when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities
- whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
- whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements

Notes should normally be presented in the following order:

- a. a statement of compliance with the relevant standards
- b. a summary of significant accounting policies applied

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements

c. supporting information for items presented in the statement of financial position and of the comprehensive income, in the separate income statement (if presented), and in the statement of changes in equity and of the cash flows, in the order in which each statement and each line item is presented:
and

d. other disclosures, including:

- contingent liabilities and unrecognised contractual commitments
- non-financial disclosures, such as the entity's financial risk management objectives and policies

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements (*cont'd*)

- **Disclosure of key 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 assets and liabilities, the notes shall include details of:

- Their nature, and
- Their carrying amount as at the end of the reporting period.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements (*cont'd*) – *Other Disclosures*

- **Disclosures about Dividends**

The following must be disclosed in the notes:

- the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and
- the amount of any cumulative preference dividends not recognised.

Presentation of Financial Statements

Structure and Content of Financial Statements (*cont'd*)

□ Notes to the financial statements (*cont'd*) – *Other Disclosures*

- **Capital Disclosures**

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

Presentation of Financial Statements

□ Example 1

Does IAS 1/IPSAS 1 prescribe a fixed format for the presentation of the statement of comprehensive income, the statement of financial position and the statement of changes in equity



Presentation of Financial Statements

□ Answer

No. It does, however, set out minimum disclosures in those statements. In addition, it establishes further items that may be presented either in those financial statements or in the notes.



Presentation of Financial Statements

□ Example 2

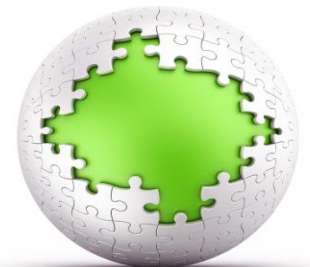
Does Management Commentary published with financial statements fall within the scope of IFRSs/IPSAS?



Presentation of Financial Statements

□ Answer

No. The standards describe the reports and statements that many entities present outside of the financial statements. For example, they might present a financial review by management that describes and explains the main features of the entity's financial performance and financial position together with the principal uncertainties that it faces (generally referred to in international accounting literature as Management Commentary (MC)).



Presentation of Financial Statements

□ Example 3

May an entity claim compliance with IFRSs if it states that it complies with IFRSs except for one or more Standards?

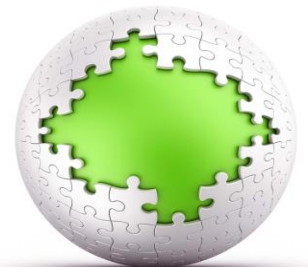


Presentation of Financial Statements

□ Answer

No. Compliance with IFRSs is clearly defined in IAS 1(2007).16, which, taken together with paragraphs 11 & 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, means that financial statements must:

- comply with all relevant IASs and IFRSs;
- comply with all relevant IFRICs and SICs.



Presentation of Financial Statements

□ Answer (Contd.)

- In the absence of specific guidance in IFRSs:
 - a) apply by analogy other IFRSs;
 - b) apply the IASB's Conceptual Framework for Financial Reporting; or
 - c) apply pronouncements of national standard setters to the extent that these are consistent with other IFRSs, other SICs, other IFRICs and the IASB's Conceptual Framework for Financial Reporting.

Financial statements should not be described as complying with IFRSs unless they comply with all applicable requirements.



Presentation of Financial Statements

□ Example 4

Financial statements should be prepared “on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so”.

Question

Should an entity depart from the going concern basis when it experiences severe financial difficulties?



Presentation of Financial Statements

□ Answer

It is important to note that when an entity prepares financial statements on a going concern basis, this does not imply an absolute level of confidence that the entity will be able to continue as a going concern. Even when an entity is in severe financial difficulties, IAS 1(2007).25 requires the going concern basis to be used “unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so”.



Presentation of Financial Statements

□ Answer (Contd.)

Accordingly, an entity will depart from the going concern basis only when it is, in effect, clear that the entity is not a going concern. When there is significant uncertainty over whether an entity can continue in operational existence, the going concern basis should be used and appropriate disclosures to be made.



Presentation of Financial Statements

□ Answer (Contd.)

When there are doubts about an entity's ability to continue trading, the fact that the going concern basis must be used will not eliminate the need to consider whether any assets should be written down to their recoverable amounts and whether provision is required for any unavoidable costs under onerous contracts.



Presentation of Financial Statements

□ Example 5

IAS 1 acknowledges that financial statements may be made more understandable by presenting information in thousands or millions of units of the presentation currency.

Is it acceptable to use different levels of rounding for different disclosures in the financial statements?



Presentation of Financial Statements

□ Answer

Yes.

For example, while it may be appropriate to disclose line items in the statements of financial position and comprehensive income in millions of units of the presentation currency for a very large group, a greater level of detail is likely to be necessary for disclosure of management remuneration and some other related party transactions.





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