CA BUSINESS SCHOOL

POSTGRADUATE DIPLOMA IN BUSINESS FINANCE AND STRATEGY

SEMESTER 1: Financial Statements Analysis

LKAS 01
PRESENTATION OF FINANCIAL STATEMENTS

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- **Objective**

  This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statement of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

- **Scope**

  An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Sri Lanka Accounting Standards (LKASs)

- ## Definitions

The following terms are used in this Standard with the meanings specified:

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.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

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 disaggregation of items presented in those statements and information about item that do not qualify for recognition in those statements.

Other comprehensive income comprises item of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other SLFRSs.

- changes in revaluation surplus (see LKAS 16 Property, Plant and Equipment and LKAS 38 Intangible Assets);
- actuarial gains and losses on defined benefit plans recognized in accordance with LKAS 19 Employee benefits:

Owners are holders of instruments classified as equity.

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

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.

- ## Financial Statements

Purpose of financial statements

Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of 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. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide 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.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

- **Complete set of financial statements**

A complete set of financial statements comprises:

a) a statement of financial position as at the end of the period;

b) a statement of comprehensive income for the period;

c) a statement of changes in equity for the period;

d) a statement of cash flows for the period;

e) notes, comprising a summary of significant accounting policies and other explanatory information; and

f) 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.

An entity may use titles for the statements other than those used in this standard.

An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

- **General Features**

Fair presentation and compliance with SLFRSs

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of SLFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

Going concern

When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements 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. When management is aware, in making its assessment, 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 entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall 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.

Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

Materiality and aggregation

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Offsetting

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a Standard.

Frequency of reporting

An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

a) the reason for using a longer or shorter period, and
b) the fact that amounts presented in the financial statements are not entirely comparable.

Comparative information

Except when SLFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

a) the nature of the reclassification;
b) the amount of each item of class items that is reclassified; and
c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

a) the reason for not reclassifying the amounts, and
b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Consistency of presentation

An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in LKAS 8; or
b) a Standard requires a change in presentation.

Identification of the financial statements

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

An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

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;
c) the date of the end of the reporting period or the period covered by the set of financial statement or notes;
d) the presentation currency, as defined in LKAS 21; and
e) the level of rounding used in presenting amounts in the financial statements.

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 SLFRS 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 (i);

n) Liabilities and assets for current tax, as defined in LKAS 12 income taxes;

o) Deferred tax liabilities and deferred tax assets, as defined in LKAS 12;

p) Liabilities included in disposal groups classified as held for sale in accordance with SLFRS 5;

q) Non-controlling interests, presented within equity; and

r) Issued capital and reserves attributable to owners of the parent.

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;
b) It holds the asset primarily for the purpose of trading;
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 LKAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

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.

- An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

  a) For each class of share capital:

     i. The number of shares authorized;
     ii. The number of shares issued and fully paid, and issued but not fully paid;
     iii. Par value per share, or that the shares have no par value;
     iv. A reconciliation of the number of shares outstanding at the beginning and the end of the period;
     v. The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
     vi. Shares in the entity held by the entity or by its subsidiaries or associates; and
     vii. Shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

  b) A description of the nature and purpose of each reserve within equity.

Statement of comprehensive income

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

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 cost;
c) Share of the profit or loss of associated 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 of disposal group(s) constituting the discontinued operation;
   iii. Profit or loss;
   iv. Each component of other comprehensive income of associates and joint ventures accounted for using the equity method; and
   v. Total comprehensive income.

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) Restructuring 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.

Statements 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 LKAS 8; and
c) 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.

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. LKAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

The Notes shall:

a) Present information about the basis of presentation of the financial statements and the specific accounting policies used;
b) Disclose the information required by SLFRSs that is not presented elsewhere in the financial statements; and
c) Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

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.

Sources of estimation uncertainty

An entity shall disclose information about the assumptions it makes about 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 shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

a) 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);
b) A description of the nature of the entity's operations and its principal activities;
c) The name of the parent and ultimate parent of the group; and
d) If it is a limited life entity, information regarding the length of its life.