

Exposure Draft

Accounting Standard (AS) 1 (Revised)

(Corresponding to IAS 1)

Presentation of Financial Statements

(Last date for Comments: August 25, 2009)



Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard 1 (Revised 20XX) (Corresponding to IAS 1)

Presentation of Financial Statements

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Exposure Draft

Accounting Standard 1 (Revised 20XX)¹ (Corresponding to IAS 1) **Presentation of Financial Statements**

The following is the Exposure Draft of the Accounting Standard (AS) 1 (Revised 20XX), Presentation of Financial Statements, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than — August 25, 2009. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

*(This Exposure Draft of the revised Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards²).*

Objective

- 1 This Standard prescribes 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. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

¹ This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

² Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

Scope

- 2 **An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Accounting Standards (ASs).**
- 3 Other ASs set out the recognition, measurement and disclosure requirements for specific transactions and other events.
- 4 This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with AS 25 (Revised 20XX) *Interim Financial Reporting*. However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in AS 21 (Revised 20XX) *Consolidated and Separate Financial Statements*.
- 5 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.
- 6 Similarly, entities that do not have equity as defined in AS 31 (Revised 20XX) *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.

Definitions

- 7 **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.

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

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.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India states in paragraph 26 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a

willingness to study the information with reasonable diligence.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

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.

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

The components of other comprehensive income include:

- (a) changes in revaluation surplus (see AS 10 (Revised 20XX) *Property, Plant and Equipment* and AS 26 (Revised 20XX) *Intangible Assets*);
- (b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of AS 15 (Revised 20XX) *Employee Benefits*;
- (c) gains and losses arising from translating the financial statements of a foreign operation (see AS 11 (Revised 20XX) *The Effects of Changes in Foreign Exchange Rates*);
- (d) gains and losses on remeasuring available-for-sale financial assets (see AS 30 (Revised 20XX) *Financial Instruments: Recognition and Measurement*);
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see AS 30 (Revised 20XX)).

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.

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

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.

Total comprehensive income comprises all components of ‘profit or loss’ and of ‘other comprehensive income’.

- 8 Although this Standard uses the terms ‘other comprehensive income’, ‘profit or loss’ and ‘total 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.

- 8A. The following terms are described in AS 31 (Revised 20XX) *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in AS 31 (Revised 20XX):
- (a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of AS 31 (Revised 20XX))
 - (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of AS 31 (Revised 20XX)).

Financial statements

Purpose of financial statements

- 9 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

- 10 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.

- 11 An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.**
- 12 As permitted by paragraph 81, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an income statement is presented it is part of a complete set of financial statements and shall be displayed immediately before the statement of comprehensive income.
- 13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:
 - (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
 - (b) the entity's sources of funding and its targeted ratio of liabilities to equity; and
 - (c) the entity's resources not recognised in the statement of financial position in accordance with ASs.
- 14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of ASs.

General features

Fair presentation³ and compliance with ASs

- 15 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 ASs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**
- 16 An entity whose financial statements comply with ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with ASs unless they comply with all the requirements of ASs.**

³ Fair presentation has the same meaning as true and fair view

- 17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable ASs. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with AS 5 (Revised 20XX) *Accounting Policies, Changes in Accounting Estimates and Errors*. AS 5 (Revised 20XX) sets out a hierarchy of authoritative guidance that management considers in the absence of an AS that specifically applies to an item.
 - (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 ASs 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.
- 18 **An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.**
- 19 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**
- 20 **When an entity departs from a requirement of an AS in accordance with paragraph 19, it shall disclose:**
- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
 - (b) that it has complied with applicable ASs, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) the title of the AS from which the entity has departed, the nature of the departure, including the treatment that the AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and
 - (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- 21 **When an entity has departed from a requirement of an AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).**
- 22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

- 23 In the extremely rare circumstances in which management concludes that compliance with a requirement in an AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:
- (a) the title of the AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and
 - (b) 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.
- 24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:
- (a) why the objective of financial statements is not achieved in the particular circumstances; and
 - (b) 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*.

Going concern

- 25 **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.**
- 26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting

period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

- 27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**
- 28 When the accrual basis of accounting is used, an entity recognises 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

- 29 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.**
- 30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- 31 An entity need not provide a specific disclosure required by an AS if the information is not material.

Offsetting

- 32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an AS.**
- 33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of comprehensive income or financial position or in the separate income statement (if presented), except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.
- 34 AS 9 (Revised 20XX) *Revenue* defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking

into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with AS 29 (Revised 20XX) *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

- 35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

- 36 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.**

- 37 Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Comparative information

- 38 Except when ASs 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.**

- 39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. 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, it shall present, as a minimum,

three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

- (a) the end of the current period,
 - (b) the end of the previous period (which is the same as the beginning of the current period), and
 - (c) the beginning of the earliest comparative period.
- 40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.
- 41 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 or class of items that is reclassified; and**
 - (c) the reason for the reclassification.**
- 42 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.**
- 43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.
- 44 AS 5 (Revised 20XX) sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

- 45 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 AS 5 (Revised 20XX); or

(b) an AS requires a change in presentation.

- 46 For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

- 47 This Standard requires particular disclosures in the statement of financial position or of comprehensive income, in the separate income statement (if presented), or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. AS 3 (Revised 20XX) *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.
- 48 This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other ASs. Unless specified to the contrary elsewhere in this Standard or in another AS, such disclosures may be made in the financial statements.

Identification of the financial statements

- 49 **An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.**
- 50 ASs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using ASs from other information that may be useful to users but is not the subject of those requirements.
- 51 **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 statements or notes;
 - (d) the presentation currency, as defined in AS 11 (Revised 20XX); and
 - (e) the level of rounding used in presenting amounts in the financial statements.
- 52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.
- 53 .An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Statement of financial position

Information to be presented in the statement of financial position

- 54 **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 AS 24 (Revised 20XX) *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 AS 22 (Revised 20XX) *Income Taxes*;**

- (o) **deferred tax liabilities and deferred tax assets, as defined in AS 22 (Revised 20XX);**
 - (p) **liabilities included in disposal groups classified as held for sale in accordance with AS 24 (Revised 20XX);**
 - (q) **non-controlling interests, presented within equity; and**
 - (r) **issued capital and reserves attributable to owners of the parent.**
- 55 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.**
- 56 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**
- 57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:
- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.
- 58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
- (a) the nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.
- 59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with AS 10 (Revised 20XX).

Current/non-current distinction

- 60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 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.

- 61** Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item 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.
- 62** When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
- 63** For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- 64** In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- 65** Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. AS 32 (Revised 20XX) *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

- 66** An entity shall classify an asset as current when:
- (a)** it expects to realise 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 realise the asset within twelve months after the reporting period; or

- (d) the asset is cash or a cash equivalent (as defined in AS 3 (Revised 20XX)) 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.

- 67 This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- 68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with AS 30 (Revised 20XX)) and the current portion of non-current financial assets.

Current liabilities

- 69 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) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.**

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

- 70 Some current 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. An entity classifies such operating items 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.
- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with AS 30 (Revised 20XX), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital

used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

- 72 An entity classifies its financial liabilities as current when they are 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 authorised for issue.
- 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- 74 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.
- 75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period 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.
- 76 In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with AS 4 (Revised 20XX) *Events after the Reporting Period*:
- (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.

Information to be presented either in the statement of financial position or in the notes

- 77 **An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

- 78 The detail provided in subclassifications depends on the requirements of ASs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:
- (a) items of property, plant and equipment are disaggregated into classes in accordance with AS 10 (Revised 20XX);
 - (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
 - (c) inventories are disaggregated, in accordance with AS 2 (Revised 20XX) *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
 - (d) provisions are disaggregated into provisions for employee benefits and other items; and
 - (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.
- 79 **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 authorised;**
 - (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 at 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.**
- 80 **An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.**
- 80A **If an entity has reclassified**
- (a) a puttable financial instrument classified as an equity instrument, or**

- (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument

between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of comprehensive income

- 81 An entity shall present all items of income and expense recognised 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

- 82 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 recognised 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 (excluding amounts in (h));
 - (h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
 - (i) total comprehensive income.

- 83 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.**

84 An entity may present in a separate income statement (see paragraph 81) the line items in paragraph 82(a)–(f) and the disclosures in paragraph 83(a).

85 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.

86 Because the effects of an entity’s various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of comprehensive income and in the separate income statement (if presented), and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87 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.

Profit or loss for the period

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

89 Some ASs specify circumstances when an entity recognises particular items outside profit or loss in the current period. AS 5 (Revised 20XX) specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other ASs require or permit components of other comprehensive income that meet the *Framework’s* definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

90 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.

- 91 An entity may present components of other comprehensive income 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.
- 92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.**
- 93 Other ASs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is 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. 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.
- 94 An entity may present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see AS 11 (Revised 20XX)), on derecognition of available-for-sale financial assets (see AS 30 (Revised 20XX)) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of AS 30 (Revised 20XX) in relation to cash flow hedges).
- 96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with AS 10 (Revised 20XX) or AS 26 (Revised 20XX) or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of AS 15 (Revised 20XX). These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see AS 10 (Revised 20XX) and AS 26 (Revised 20XX)). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see AS 15 (Revised 20XX)).

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

- 97 When items of income or expense are material, an entity shall disclose their nature and amount separately.**
- 98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable 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.

99 An entity shall present an analysis of expenses recognised 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.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of comprehensive income or in the separate income statement (if presented).

101 Expenses are subclassified 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.

102 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, employee 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:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103 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

judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit before tax	X

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

105 The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the presentation that is reliable and more relevant. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 104, 'employee benefits' has the same meaning as in AS 15 (Revised 20XX).

Statement of changes in equity

106 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 recognised in accordance with AS 5 (Revised 20XX);**
- (c) [deleted by IASB]**
- (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each 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.****

- 107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount per share.**
- 108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.
- 109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.
- 110 AS 5 (Revised 20XX) requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another AS require otherwise. AS 5 (Revised 20XX) also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an AS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

- 111 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 utilise those cash flows. AS 3 (Revised 20XX) sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

- 112 **The notes shall:**
- (a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;**
 - (b) disclose the information required by ASs 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.**

- 113 **An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statement 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.**
- 114 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 ASs (see paragraph 16);
 - (b) summary of significant accounting policies applied (see paragraph 117);
 - (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 AS 29 (Revised 20XX)) and unrecognised contractual commitments, and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see AS 32 (Revised 20XX)).
- 115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.
- 116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

- 117 **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.**
- 118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which

an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

- 119 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 ASs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see AS 27 (Revised 20XX) *Interests in Joint Ventures*). Some ASs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, AS 10 (Revised 20XX) requires disclosure of the measurement bases used for classes of property, plant and equipment.
- 120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.
- 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by ASs but the entity selects and applies in accordance with AS 5 (Revised 20XX).
- 122 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, 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 recognised in the financial statements.**
- 123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements 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.

124 Some of the disclosures made in accordance with paragraph 122 are required by other ASs. For example, AS 21(Revised 20XX) requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. AS XX *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

125 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.**

126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

- 129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements 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.
- 130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.
- 131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
- 132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.
- 133 Other ASs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, AS 29 (Revised 20XX) requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. AS 32 (Revised 20XX) requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. AS 10 (Revised 20XX) requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

- 134 **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**
- 135 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 (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg 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.

- 136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable financial instruments classified as equity

- 136A For puttable financial instruments 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

- 137 An entity shall disclose in the notes:
- (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
 - (b) the amount of any cumulative preference dividends not recognised.
- 138 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 the ultimate parent of the group; and
 - (d) if it is a limited life entity, information regarding the length of its life.

Effective date

- 139 An entity shall apply this Accounting Standard for accounting periods commencing on or after 1st April 2011 and will be mandatory in nature⁴ from that date.

Withdrawal of AS 1 (Issued 1979)

- 140 This Standard supersedes AS 1 *Disclosure of Accounting Policies* issued in 1979.

⁴ This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Guidance on implementing

AS 1 (Revised 20XX) Presentation of Financial Statements

This guidance accompanies, but is not part of, AS 1 (Revised 20XX)

Illustrative financial statement structure

- IG1 AS 1 (Revised 20XX) sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of AS 1 (Revised 20XX) for the presentation of the statements of financial position, comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.
- IG2 The guidance is in three sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with AS 30 (Revised 20XX) *Financial Instruments: Recognition and Measurement*. Paragraphs IG10 and IG11 provide examples of capital disclosures.
- IG3 The illustrative statement of financial position shows one way in which an entity may present a statement of financial position distinguishing between current and non-current items. Other formats may be equally appropriate, provided the distinction is clear.
- IG4 The illustrations use the term ‘comprehensive income’ to label the total of all components of comprehensive income, including profit or loss. The illustrations use the term ‘other comprehensive income’ to label income and expenses that are included in comprehensive income but excluded from profit or loss. AS 1 (Revised 20XX) does not require an entity to use those terms in its financial statements.
- IG5 Two statements of comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The single statement of comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the income statement’) illustrates the classification of income and expenses within profit by nature.
- IG6 The examples are not intended to illustrate all aspects of ASs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, a summary of significant accounting policies and other explanatory information.

Part I: Illustrative presentation of financial statements

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of rupees)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Available-for-sale financial assets	142,500	156,000
	<u>901,620</u>	<u>945,460</u>
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	<u>564,880</u>	<u>578,740</u>
Total assets	<u>1,466,500</u>	<u>1,524,200</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	<u>903,700</u>	<u>782,900</u>
Non-controlling interests	70,050	48,600
Total equity	<u>973,750</u>	<u>831,500</u>
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	<u>177,650</u>	<u>238,280</u>
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	<u>315,100</u>	<u>454,420</u>
Total liabilities	<u>492,750</u>	<u>692,700</u>
Total equity and liabilities	<u>1,466,500</u>	<u>1,524,200</u>

**XYZ Group – Statement of comprehensive income for the year ended
31 December 20X7**
**(illustrating the presentation of comprehensive income in one statement and
the classification of expenses within profit by function)**
(in thousands of rupees)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	<u>145,000</u>	<u>125,000</u>
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ¹	<u>35,100</u>	<u>30,100</u>
Profit before tax	161,667	128,000
Income tax expense	<u>(40,417)</u>	<u>(32,000)</u>
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	<u>–</u>	<u>(30,500)</u>
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations ²	5,334	10,667
Available-for-sale financial assets ²	(24,000)	26,667
Cash flow hedges ²	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ³	400	(700)
Income tax relating to components of other comprehensive income ⁴	<u>4,667</u>	<u>(9,334)</u>
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>107,250</u></u>	<u><u>93,500</u></u>

¹ This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

² This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

³ This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

⁴ The income tax relating to each component of other comprehensive income is disclosed in the notes.

	20X7	20X6
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>
Earnings per share (in rupees):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

Alternatively, components of other comprehensive income could be presented in the statement of comprehensive income net of tax:

Other comprehensive income for the year, after tax:	20X7	20X6
Exchange differences on translating foreign operations	4,000	8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of other comprehensive income of Associates	400	(700)
Other comprehensive income for the year, net of tax⁵	<u>(14,000)</u>	<u>28,000</u>

⁵ ibid

XYZ Group – Income statement for the year ended 31 December 20X7
(illustrating the presentation of comprehensive income in two statements and
classification of expenses within profit by nature)
(in thousands of rupees)

	20X7	20X6
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates ⁶	35,100	30,100
Profit before tax	<u>161,667</u>	<u>128,000</u>
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	<u>121,250</u>	<u>96,000</u>
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	<u><u>121,250</u></u>	<u><u>65,500</u></u>
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Earnings per share (in rupees):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

⁶ This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

**XYZ Group – Statement of comprehensive income for the year ended
31 December 20X7
(illustrating the presentation of comprehensive income in two statements)
(in thousands of rupees)**

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ⁷	400	(700)
Income tax relating to components of other comprehensive income ⁸	4,667	(9,334)
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>107,250</u>	<u>93,500</u>
 Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>

Alternatively, components of other comprehensive income could be presented, net of tax. Refer to the statement of comprehensive income illustrating the presentation of income and expenses in one statement.

⁷ This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

⁸ The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group
Disclosure of components of other comprehensive income⁹
Notes
Year ended 31 December 20X7
(in thousands of rupees)

	20X7	20X6
Other comprehensive income:		
Exchange differences on translating foreign operations ¹⁰	5,334	10,667
Available-for-sale financial assets:		
Gains arising during the year	1,333	30,667
Less: Reclassification adjustments for gains included in profit or loss	<u>(25,333)</u>	<u>(4,000)</u>
	(24,000)	26,667
Cash flow hedges:		
Gains (losses) arising during the year	(4,667)	(4,000)
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333	–
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	<u>667</u>	<u>–</u>
	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	<u>400</u>	<u>(700)</u>
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income ¹¹	<u>4,667</u>	<u>(9,334)</u>
Other comprehensive income for the year	<u>(14,000)</u>	<u>28,000</u>

⁹ When an entity chooses an aggregated presentation in the statement of comprehensive income, the amounts for reclassification adjustments and current year gain or loss are presented in the notes.

¹⁰ There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.

¹¹ The income tax relating to each component of other comprehensive income is disclosed in the notes.

Disclosure of tax effects relating to each component of other comprehensive income

Notes

Year ended 31 December 20X7

(in thousands of rupees)

	20X7			20X6		
	Before-tax amount	Tax (expense) benefit	Net-of-tax Amount	Before-tax amount	Tax (expense) benefit	Net-of-tax Amount
Exchange differences on translating foreign operations	5,334	(1,334)	4,000	10,667	(2,667)	8,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)	26,667	(6,667)	20,000
Cash flow hedges	(667)	167	(500)	(4,000)	1,000	(3,000)
Gains on property revaluation	933	(333)	600	3,367	(667)	2,700
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)	1,333	(333)	1,000
Share of other comprehensive income of associates	400	–	400	(700)	–	(700)
Other comprehensive income	(18,667)	4,667	(14,000)	37,334	(9,334)	28,000

XYZ Group – Statement of changes in equity for the year ended 31 December 20X7

(in thousands of rupees)

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	Non-controlling interests	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)

Total comprehensive income for the year ¹²	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
Balance at 31 December 20X6	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
Changes in equity for 20X7									
Issue of share Capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year ¹³	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	(200)	–	–	–
Balance at 31 December 20X7	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

¹² The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus actuarial gains on defined benefit pension plans of 800 (1,333, less tax 333, less non-controlling interests 200).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to available-for-sale financial assets for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less non-controlling interests 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

¹³ The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus actuarial losses on defined benefit pension plans of 400 (667, less tax 167, less non-controlling interests 100).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less non-controlling interests 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

Part II: Illustrative example of the determination of reclassification adjustments

- IG7 The Standard requires an entity to disclose reclassification adjustments relating to each component of other comprehensive income.
- IG8 This guidance provides an illustration of the calculation of reclassification adjustments for available-for-sale financial assets recognised in accordance with AS 30 (Revised 20XX).
- IG9 On 31 December 20X5, XYZ Group purchased 1,000 shares (equity instruments) at 10 rupees (Rs) per share, classified as available for sale. The fair value of the instruments at 31 December 20X6 was Rs12; at 31 December 20X7 the fair value had increased to Rs15. All of the instruments were sold on 31 December 20X7; no dividends were declared on those instruments during the time that they were held by XYZ Group. The applicable tax rate in accordance with AS 22 (Revised 20XX) *Income Taxes* is 30 per cent.

Calculation of gains

(in rupees)

	Before tax	Income tax	Net of tax
Gains recognised in other comprehensive income:			
Year ended 31 December 20X6	2,000	(600)	1,400
Year ended 31 December 20X7	3,000	(900)	2,100
Total gain	<u>5,000</u>	<u>(1,500)</u>	<u>3,500</u>

Amounts reported in profit or loss and other comprehensive income for the years ended 31 December 20X6 and 31 December 20X7

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	<u>(1,500)</u>	
Net gain recognised in profit or loss	<u>3,500</u>	
Other comprehensive income:		
Gain arising during the year, net of tax	2,100	1,400
Reclassification adjustment, net of tax	<u>(3,500)</u>	–
Net gain (loss) recognised in other comprehensive income	<u>(1,400)</u>	1,400
	<u>2,100</u>	<u>1,400</u>

Alternatively, components of other comprehensive income may be shown gross of tax with a separate line item for tax effects:

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	<u>(1,500)</u>	
Net gain recognised in profit or loss	<u>3,500</u>	
Other comprehensive income:		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	–
Income tax relating to other comprehensive income	<u>600</u>	<u>(600)</u>
Net gain (loss) recognised in other comprehensive income	<u>(1,400)</u>	1,400
	<u>2,100</u>	<u>1,400</u>

Part III: Illustrative examples of capital disclosures (paragraphs 134–136)

An entity that is not a regulated financial institution

IG10 The following example illustrates the application of paragraphs 134 and 135 for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 134 and 135.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, non-controlling interests, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

Continued ...

... Continued

During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31-Dec 20X4 (Rs) million	31-Dec 20X3 (Rs) million
Total debt	1,000	1,100
Less: cash and cash equivalents	<u>(90)</u>	<u>(150)</u>
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	<u>(10)</u>	<u>(5)</u>
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X4 resulted primarily from the reduction in net debt that occurred on the sale of subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to Rs.2.8 million for 20X4 (from Rs.2.5 million for 20X3).

An entity that has not complied with externally imposed capital requirements

- IG11 The following example illustrates the application of paragraph 135(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 134 and 135.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by Rs.1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of Rs 11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for Rs 12.6 million and met its regulatory capital requirement.

Appendix A

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 1 (Revised 20XX) and the corresponding International Accounting Standard (IAS) 1, Presentation of Financial Statements.

Comparison with IAS 1, *Presentation of Financial Statements*

There is no major difference between the Draft of AS 1 (Revised 20XX), *Presentation of Financial Statements* and International Accounting Standard (IAS) 1, *Presentation of Financial Statements*.

Appendix B

Note: This Appendix is provided to bring out the major differences between the draft of revised AS 1 and existing AS 1 (Issued 1979) with a view to facilitate commentators in sending their comments on the draft of revised AS 1.

Major differences between the draft of AS 1 (Revised), Presentation of Financial Statements, and existing AS 1 (issued 1979)

The Draft of revised AS 1 generally deals with presentation of financial statements, whereas existing AS 1 (issued 1979) deals only with the disclosure of accounting policies. The scope covered by the draft is thus much wider and line by line comparison of the difference with the present standard is not possible. However, the major requirements as laid down in the draft are as follows.

- An enterprise shall make an explicit statement in the financial statements of compliance with all the Accounting Standards. Further, the draft allows deviation from a requirement of an accounting standard in case the management concludes that compliance with ASs will be misleading and if the regulatory framework requires or does not prohibit such a departure.
- The draft of revised AS 1 requires presentation and provides criteria for classification of Current / Non- Current assets / liabilities.
- The draft of revised AS 1 prohibits presentation of any item as extraordinary item in the Statement of Comprehensive Income.
- The draft of revised AS 1 requires disclosure of judgments made by management while framing of accounting policies. Also, it requires disclosure of key assumptions about the future and other sources of measurement uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.
- The draft of revised AS 1 requires classification of expenses to be presented either based on nature or function of expenses. If classification is based on function, additional information on the nature of expenses should be disclosed.
- The draft of revised AS 1 requires presentation of statement of financial position as at the beginning of the earliest period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements.
- The draft of revised AS 1 requires presentation of components of comprehensive income (i.e. non-owner changes in equity) are required to be presented in the Statement of Other Comprehensive Income.
- In respect of reclassification of items, the draft of revised AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.
- The draft of revised AS 1 requires the financial statements to include a Statement of Changes in Equity which, inter alia, includes reconciliation between opening and closing balance for each component of equity