

# Financial Statements

This document presents a comprehensive content guide for Financial Statements in respect of the international financial reporting standards (both IFRS and IAS) which are assessable and lists appropriate formulas for the ratios. The content that is assessable is described under each of the headings.

*Note - The numbers in brackets refer to the paragraphs in the main body of the standard where the accounting issues and treatments are set out. Reference should be made to the standard to identify the information that is assessable. Further explanations may be available about these issues and treatment in other sections of the standard or the guidance notes accompanying the standard. Knowledge of these explanations may be useful in understanding the requirements of the standard, but will not be examined.*

## International Financial Reporting Standards

### IFRS 1 - First-time adoption of IFRS

- Not assessable.

### IFRS 2 - Share based payment

- Not assessable.

### IFRS 3 - Business combinations

- Definitions of acquiree, acquirer, business, business combination, control, fair value, goodwill, identifiable, non-controlling interest (Appendix A)
- Identifying a business combination (3 and Appendix B5)
- The acquisition method (4 and 5), identifying the acquirer (6 and 7), determining the acquisition date (8 and 9), recognition and measurement of assets, liabilities and non-controlling interest (10-12)
- Measurement principle (18 and 19)
- Recognition and measurement of goodwill (32, 34, and 35).

### IFRS 4 - Insurance contracts

- Not assessable.

### IFRS 5 - Non-current assets held for sale and discontinued operations

- Requirement to classify a non current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use (6)
- Measurement of non current assets held for sale at lower or carrying amount and fair value less costs to sell (15)
- Definitions (31-32) and requirement to disclose post tax profit or loss of discontinued operations in the statement of comprehensive income (33a).
- Disclosure of non current assets held for sale separately from other assets in the statement of financial position (38).

### IFRS 6 - Exploration for and evaluation of mineral resources

- Not assessable.

### IFRS 7 - Financial Instruments: Disclosures

- Not assessable.

### IFRS 8 - Operating segments

- Core principle (1)
- Application of standard to entities whose debt or equity instruments are publicly traded (2) or to those who voluntarily choose to disclose segment information
- Definition of an operating segment (5 and 6)
- Requirement to report separately information in respect of each operating segment (11)
- Aggregation criteria in respect of reportable segments (12)
- Quantitative thresholds in respect of reportable segments (13 and 15).

## **IAS 1 - Presentation of financial statements**

- Objective of financial statements (9)
- Components of financial statements (10)
- Reports and statements that are presented outside of financial statements and therefore outside of the scope of IFRS (13 and 14)
- Requirement for financial statements to present fairly the financial position, financial performance and cash flows of an entity (15)
- Requirement to make a statement in respect of compliance with IFRS (16)
- Circumstances in which departure from IFRS allowed and disclosure of departure (19 and 20)
- Requirement to assess going concern (25)
- Requirement for accrual accounting (27)
- Requirement to present each material class of similar items separately (29)
- Prohibition of offsetting elements (32)
- Requirement to present a complete set of financial statements at least annually (36)
- Requirement for comparative information (38)
- Requirement for consistency of presentation and classification (45)
- Requirement to identify clearly the financial statements (49) and each component of the financial statements (51)
- Requirement to display other information prominently (51)
- Information to be presented on the face of the statement of financial position (54 and 55)
- Requirement to separate current and non-current assets and liabilities (60)
- Criteria for current assets (66) and current liabilities (69)
- Sub-classifications on the face of the statement of financial position or in notes (77 and 78) and disclosure of other items on the face of the statement of financial position or the statement of changes in equity or in notes (79)  
[Assessment of the notes in paragraph 79 is restricted to notes (a) (i), (ii) and (iii)]
- Requirement to disclose all items of income and expense recognised in the period either in a single statement of comprehensive income or in two separate statements, comprising:
  - (i) an income statement which shows the components of the company's profit or loss, and
  - (ii) a statement of comprehensive income which begins with the profit or loss for the period and shows components of the entity's other comprehensive income (81)  
[only the single statement of comprehensive income will be assessed in this unit]
- Information to be presented on the face of the statement of comprehensive income (82 - 85)
- Prohibition of extraordinary items (87)
- Separate disclosure of material items of income and expense (97)
- Requirement to analyse expenses based on nature of expenses or their function (99) and criteria of choice (99, 105) with examples of analysis in 102-103). [only the form of analysis based upon functionality will be assessed]
- Requirement to present a statement of changes in equity (106)
- Information to be shown in the statement of changes of equity (106) and the treatment of dividends (107)
- General requirements for notes (112), cross referencing (113), disclosure of accounting policies (117) and disclosure of dividends proposed (137).

## **IAS 2 - Inventories**

- Definition of inventories (6)
- Measurement of inventories (9) and definition of net realisable value (6)
- What is included in cost of inventories (10 and 15) and what is excluded (16)
- Cost of inventories of items that are not ordinarily interchangeable (23)
- Formulas for determining the cost of inventories for interchangeable items i.e. Fifo and weighted average (25)
- Recognition as an expense when inventories sold (34).

### **IAS 7 - Statement of cash flows**

- Requirement for an entity to prepare a statement of cash flows in accordance with this standard (1)
- Definitions of terms used in standard (6)
- Requirement to report cash flows during the period classified by operating, investing and financing activities (10)
- Examples of cash flows from operating activities (14)
- Examples of investing activities (16)
- Examples of financing activities (17)
- Requirement to report cash flows from operating activities using either the direct method or the indirect method (18). Examples of both types of statement can be found in appendix a of the standard
- Requirement to report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities (21)
- Requirement to disclose separately cash flows from interest and dividends received and paid in a consistent manner from period to period as either operating, investing or financing activities (31)
- Requirement to disclose separately cash flows from taxes on income as cash flows from operating activities unless they can be specifically identified with financing and investing activities (35)
- Requirement to present separately aggregate cash flows from acquisitions and disposals of subsidiaries or other business units as investing activities (39)
- Disclosure of components of cash and cash equivalents, and the reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the statement of financial position (45).

### **IAS 8 - Accounting policies, changes in accounting estimates and errors**

- Requirement to apply IRFS (standards and interpretations defined in 5) to transactions, other events or conditions to which they apply (7)
- Criteria to be used where judgment is required because there is no standard or interpretation (10,11 and 12)
- Requirement for consistency in applying accounting policies (13) as defined (in 5)
- Conditions that require a change in accounting policy (14)
- Requirement to follow transitional arrangements arising from the initial application of a standard or interpretation where they are included in the standard, otherwise retrospectively (23)
- Requirements of retrospective application of a change in accounting policy (22)
- Requirement to correct material prior period errors retrospectively (42) as defined (5).

### **IAS 10 - Events after the reporting period**

- Definitions of events after the reporting period and adjusting and non- adjusting events (3)
- Requirement to adjust for adjusting events after the reporting period (8) with examples (9)
- Prohibition of adjustment in respect of non-adjusting events after the reporting period (10) with examples (11)
- Prohibition on recognition of dividends declared after the reporting period as a liability (12)
- Prohibition on preparing financial statements on a going concern basis if there is an intention to liquidate or cease trading (14)
- Requirement to disclose date when financial statements were authorised for issue (17)
- Requirement to disclose material non-adjusting events (21) with examples (22).

### **IAS 11 - Construction contracts**

- Not assessable.

### **IAS 12 - Income taxes**

- Requirement for recognition of unpaid current tax (12)
- Requirement to recognise a deferred tax liability for all taxable temporary differences (15) including definitions of deferred tax liabilities and taxable temporary differences (5)
- Measurement rule for current tax liabilities (46)
- Disclosure of tax expense related to profit or loss from ordinary activities in the statement of comprehensive income (77) and of current and deferred tax (81a). [There will be no assessment of the computation of current tax or of deferred tax].

## **IAS 16 - Property, plant and equipment**

- Definition of property, plant and equipment (6)
- Recognition rule for items of property, plant and equipment (7)
- Recognition rules for subsequent expenditure (12, 13 and 14)
- Measurement rule at recognition (15) and of elements of cost (16, 17 and 19)
- Measurement rules after recognition (29) including explanation of cost model (30) and revaluation model (31)
- Definitions of fair value (6) and how it is computed (32 and 33)
- Rules on frequency of revaluations (34)
- Rule that all assets belonging to a class must be revalued if one item in that class is revalued (36) and examples of different classes (37)
- Treatment of revaluation surpluses or decreases (39 and 40)
- Requirement to depreciate each part of an item of property, plant and equipment separately (43)
- Depreciation charge for each period to be recognised in profit or loss (48)
- Depreciable amount to be allocated on a systematic basis over the asset's useful life (50)
- Requirement to review the residual value at least at the year end and any change to be accounted for as a change in accounting estimate (51)
- Rule that depreciation is required even if fair value exceeds carrying amount as long as the residual value does not exceed its carrying amount, in which case depreciation is zero, and not negated by repair and maintenance (52)
- Depreciable amount determined after deducting residual value (53)
- Factors determining useful life of an asset (56)
- Land not depreciated (58)
- Rule for determining depreciation method (60) with examples of methods (62) and need for review at least at the year end (61)
- Derecognition rule (67)
- Treatment of gain and loss (68) and how computed (71)
- Disclosure relating to each class of property, plant and equipment (73), depreciation method and useful life or depreciation rates, depreciation and accumulated depreciation (75).

## **IAS 17 - Leases**

- Classification of leases as finance and operating leases (8) and examples of situations in which a lease would be classified as a finance lease (10 and 11)
- Application of distinction between operating and finance leases to leasing of land and buildings (14 and 15)
- Initial recognition of finance leases of lessees (20) including related definitions of fair value, minimum lease payments, interest rate implicit in lease and incremental borrowing rate (4)
- Subsequent measurement of finance leases of lessees (25 and 26)
- Requirement to depreciate assets held under finance leases of lessees (27) including definition of useful life (4)
- Accounting requirements for operating leases of lessees (33)  
[Computational questions may be set in relation to the accounting of leases for lessees. Accounting for leases in respect of lessors is not assessable]

## **IAS 18 - Revenue**

- Scope of standard (1)
- Definitions of revenue and fair value (7)
- Measurement of revenue (9)
- Conditions for recognising revenue from the sale of goods (14), rendering of services (20) and dividends (29 and 30).

## **IAS 19 - Employee benefits**

- Not assessable.

**IAS 20 - Accounting for government grants and disclosure of government assistance**

- Definitions of government grants, grants related to assets and grants related to income (3)
  - Recognition of government grants in the financial statements (7)
  - Recognition of government grants in profit or loss (12)
  - Presentation of grants related to assets (24 - 27)
  - Presentation of grants related to income (29)
- [Computational questions may be set in relation to the treatment of grants received in respect of assets]

**IAS 21 - The effects of changes in foreign exchange rates**

- Not assessable.

**IAS 23 - Borrowing costs**

- Definitions of borrowing costs and qualifying assets (5)
- Recognition of borrowing costs (8) and rules for determining the amount of borrowing costs (12 and 14)
- Commencement and cessation of capitalisation of borrowing costs (17 and 22).

**IAS 24 - Related party disclosures**

- Not assessable.

**IAS 26 - Accounting and reporting by retirement benefit plans**

- Not assessable.

**IAS 27 - Consolidated and separate financial statements**

- Scope of standard (1 and 3)
- Definitions of terms used in standard (4)
- Requirement to prepare consolidated financial statements (9)
- Requirement to include all subsidiaries of the parent (12) and explanation of when control is presumed (13)
- Consolidation procedures (18)
- Requirement to eliminate intra-group balances, transactions, income and expenses (20 and 21)
- Need to use uniform accounting policies in consolidation (24)
- Presentation of non-controlling interests (27)
- Requirement to include investment in subsidiaries and associates at cost or fair value in accordance with IAS 39 when preparing separate financial statements (38).

**IAS 28 - Investments in associates**

- Definitions of terms used in standard (2)
- Criteria for significant influence (6 and 7)
- Requirement to account for associates using the equity method (13) and description of that method (11)
- Need to use uniform accounting policies in applying the equity method (26 and 27).

**IAS 29 - Financial reporting in hyperinflationary economies**

- Not assessable.

**IAS 31 - Interests in joint ventures**

- Not assessable.

**IAS 32 - Financial instruments: presentation**

- Not assessable.

### **IAS 33 - Earnings per share**

- Scope of standard (2 and 3)
- Definition of ordinary share (5)
- Measurement of basic earnings per share (9 and 10)
- Explanation of amounts attributable to ordinary equity holders of the parent entity (12 and 13)
- Need to use weighted average number of ordinary shares in calculating basic earnings per share (19 and 20)
- Presentation of basic earnings per share (66).

### **IAS 34 - Interim financial reporting**

- Not assessable.

### **IAS 36 - Impairment of assets**

- Scope of standard (2 and 4)
- Requirement to assess whether there are indications that assets may be impaired and requirement to estimate recoverable amount where there are such indications (9) and definitions of carrying amount and recoverable amount (6)
- An asset becomes impaired when its carrying amount exceeds its recoverable amount (8)
- Requirement to assess intangible assets meeting certain criteria and goodwill annually (10)
- Indications of impairment (12, 13 and 14)
- Explanations of how to determine fair value less costs to sell (25, 26, 27 and 28)
- Explanations of how to determine value in use (30 and 31)
- Explanations of the discount rate to be used in determining value in use (55)
- Recognising and measuring an impairment loss for individual assets other than goodwill (59 and 60) including definition (6) and revision of depreciation charge (63) including definition of depreciation, depreciable amount and useful life (6)
- Requirement to determine recoverable amount for individual assets if possible or for the cash-generating unit to which an asset belongs if not possible (66) along with definition of cash generating unit (6)
- Requirement to test goodwill allocated to a cash generating unit for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit (90)
- Requirement to allocate impairment loss first against goodwill and then against other assets of the unit (104)
- Disclosure of impairment loss recognised in profit or loss (126a).

### **IAS 37 - Provisions, contingent liabilities and contingent assets**

- Definitions (10)
- Distinction of provisions from other liabilities (11), idea of being contingent in the standard (12) and distinction of provisions from contingent liabilities (13)
- Requirement to recognise provisions and criteria (14)
- Prohibition on recognising contingent liabilities (27) and contingent assets (31)
- Measurement of provision (36)
- Determination of amount of provision where effect of the time value of money is material (45)
- Requirement to review provisions at the end of each reporting period to reflect current best estimate (59)
- Use of provisions (61)
- Examples of events that amount to restructuring (70) and determination of constructive obligation to restructure (72) along with amounts to be included in restructuring provision (80)
- Disclosure of provisions (84-85)
- Disclosure of contingent liabilities (86) and contingent assets (89).

### **IAS 38 - Intangible assets**

- Definition of an intangible asset (8)
- Identifiably criterion in definition of an intangible asset (12)
- Recognition criteria for intangible assets (21) including explanation of future economic benefits (17)
- Measurement rule for intangible assets (24)
- Prohibition on recognition of internally generated goodwill (48)
- Rules of recognition of internally generated intangible assets including the need to classify the generation of the asset into a research phase and a development phase (52) and the rules that prohibit the recognition of intangible assets from the research stage (54) and the rules governing the recognition of intangible assets arising from the development stage (57)
- Prohibition of the recognition of internally generated brands and similar items (63)
- Examples of directly attributable costs for internally generated intangible assets (66) and prohibited costs (67)
- Rule on measurement after recognition (72) and explanation of cost model (74) and revaluation model (75) with related definitions (8)
- Treatment of revaluation gains (85) and losses (86)
- Need to determine whether useful life of an intangible asset is finite or indefinite (88)
- Rules for depreciation of intangible assets with finite useful lives (97), residual value (100) and review of amortisation period (104)
- Prohibition of amortisation for intangible assets with indefinite useful life (107) and requirement for impairment review in accord with IAS 36 (108) and review of useful life assessment (109).

### **IAS 39 - Financial instruments: recognition and measurement**

- Not assessable.

### **IAS 40 - Investment property**

- Definitions (5)
- Examples of investment property (8)
- Recognition rule (16)
- Measurement rule at recognition (20)
- Requirement to choose as its accounting policy either the fair value model or the cost model after recognition (30)
- Explanation of requirements of fair value model (33) and treatment of gains and losses in fair value (35)
- Explanation of requirements of cost model in accordance with IAS 16 (56)
- Rule for derecognition of investment property (66) and treatment of gains or losses from retirement or disposal (69)
- Disclosure of whether the fair value or cost model is used (75a).

### **IAS 41 - Agriculture**

- Not assessable.

# Ratio formulas

## Profitability

Return on capital employed	$\frac{\text{Profit from operations}}{\text{Total equity} + \text{Non-current liabilities}} \times 100\%$
Return on total assets	$\frac{\text{Profit from operations}}{\text{Total assets}} \times 100\%$
Return on equity	$\frac{\text{Profit after tax}}{\text{Total equity}} \times 100\%$
Earnings per share	$\frac{\text{Profit after tax}}{\text{Number of issued ordinary shares}} \times 100\%$
Gross profit percentage	$\frac{\text{Gross profit}}{\text{Revenue}} \times 100\%$
Expense/revenue percentage	$\frac{\text{Specified expense}}{\text{Revenue}} \times 100\%$
Operating profit percentage	$\frac{\text{Profit from operations}}{\text{Revenue}} \times 100\%$

## Liquidity

Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}} = X : 1$
The quick ratio or 'acid test' ratio	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}} = X : 1$

## Use of resources

Inventory turnover	$\frac{\text{Cost of sales}}{\text{Inventories}} = X \text{ times}$
Inventory holding period	$\frac{\text{Inventories}}{\text{Cost of sales}} \times 365 \text{ days}$
Trade receivables collection period	$\frac{\text{Trade receivables}}{\text{Revenue}} \times 365 \text{ days}$
Trade payables payment period	$\frac{\text{Trade payables}}{\text{Cost of sales}} \times 365 \text{ days}$
Working capital cycle	Inventory days + Receivable days – Payable days
Asset turnover (total assets)	$\frac{\text{Revenue}}{\text{Total assets}} = X \text{ times}$
Asset turnover (net assets)	$\frac{\text{Revenue}}{\text{Total assets} - \text{Current liabilities}} = X \text{ times}$

## Financial position

Interest cover	$\frac{\text{Profit from operations}}{\text{Finance costs}} = X \text{ times}$
Gearing	$\frac{\text{Non-current liabilities}}{\text{Total equity} + \text{Non-current liabilities}} = X \text{ times}$