**PRESENTATION OF FINANCIAL STATEMENTS (PUBLISHED ACCOUNTS)**

A complete set of financial statements comprises:

a) a statement of financial position as at the end of the period; (Formerly, the BALANCE SHEET)

b) a statement of comprehensive income for the period;

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

d) a statement of cash flows for the period;

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

f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

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

**Fair presentation and compliance with IFRSs**

The financial statements shall present fairly the financial position, financial performance and cash flows of the 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 for the Preparation and Presentation of Financial Statements (the Framework). The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs.

A fair presentation also requires an entity:

• to select and apply accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, which sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item;

• to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

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

An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such

**Going concern**

When preparing financial statements, management shall make an assessment of an entity’s ability to continue as

a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

When management is aware, in making its assessment of the entity's ability to continue as a going concern, 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 the financial statements are prepared and the reason why the entity is not regarded as a

going concern.

**Accrual basis of accounting**

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

accounting.

**Materiality and aggregation**

An entity shall present separately each material class of similar items.

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.

An entity shall present separately Items of a dissimilar nature or function unless they are immaterial. If a line item is not individually material, it is aggregated with other items either in the financial statements or in the notes.

An item that is not sufficiently material to warrant separate presentation in the financial statements may warrant separate presentation in the notes. An entity need not provide a specific disclosure required by an IFRS if the information is not material.

**Offsetting**

An entity shall not offset assets and liabilities unless required or permitted by an IFRS.

Note: Measuring assets net of valuation allowances (e.g. obsolescence allowances on inventories and doubtful

allowances on receivables) is not offsetting.

An entity shall not offset income and expenses unless required or permitted by an IFRS.

Where an entity undertakes, in the course of its ordinary activities, transactions that do not generate revenue but

that are incidental to its main revenue-generating activities, it presents the results of such transactions by netting

any income with the related expenses arising on the same transaction, when such presentation reflects the

substance of the transaction or other event.

An entity presents on a net basis gains and losses arising from a group of similar transactions (e.g. foreign exchange

gains and losses, or gains and losses arising on financial instruments held for trading) unless the gains and losses are

material, in which case they are reported separately.

**Frequency of reporting**

When an entity changes the end of its reporting period and presents financial statements for a period longer or

shorter than one year, the entity shall disclose:

a) the period covered by the financial statements;

b) the reason for using a longer or shorter period; and

c) the fact that comparative amounts for the statements of comprehensive income, changes in equity, cash flows,

and related notes are not entirely comparable.

An entity shall present a complete set of financial statements (including comparative information) at least

annually.

**Comparative information**

Except when IFRSs 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.

In some cases, narrative information provided in the financial statements for the previous period(s) continues to

be relevant in the current period (e.g. an entity discloses in the current period details of a legal dispute, the

outcome of which 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.

An entity disclosing comparative information shall present, as a minimum, two statements of financial position,

two of each other statement, and related notes. 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, 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:

• the end of the current period;

• the end of the previous period (which is the same as the beginning of the current period); and

• the beginning of the earliest comparative period.

**Consistency of presentation**

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

next, unless:

a) it is apparent, following a significant change in the nature of the entity’s operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria

for the selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

b) an IFRS requires a change in presentation.

**Identification of the financial statements**

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

*Note: IFRSs apply only to the 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 IFRSs from other information that may be useful to users but is not the subject of those requirements.*

An entity shall clearly identify each financial statement and the notes.

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 the 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 IAS 21 *The Effects of Foreign Exchange Rates*; and

e) the level of rounding used in presenting amounts in the financial statements.

*Notes:*

*1) An entity meets the requirements of paragraph 51 of IAS 1(r2007) 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.*

*2) An entity often makes financial statements more understandable by presenting information in thousands or*

*millions 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***

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) below);

e) investments accounted for using the equity method;

f) biological assets;

g) inventories;

h) trade and other receivables;

i) cash and cash equivalents;

j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale

in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

k) trade and other payables;

l) provisions;

m) financial liabilities (excluding amounts shown under (k) and (l) above);

n) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;

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

p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

q) minority interest, presented within equity; and

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

*Notes:*

*IAS 1(r2007) does not prescribe the order or format in which an entity presents items. Paragraph 54 of IAS 1(r2007)(see above) simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position.*

*In addition:*

*• 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*

*• 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 (e.g. a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution).*

An entity shall present additional line items, headings and sub-totals in the statement of financial position when such

presentation is relevant to an understanding of the entity’s financial position.

*Notes:*

*1) An entity makes the judgement about whether to present additional items separately on the basis of an*

*assessment of:*

*• the nature and liquidity of assets;*

*• the function of assets within the entity; and*

*• the amounts, nature and timing of liabilities.*

*2) 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 IAS 16,*

*Property, Plant and Equipment.*

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).

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

An entity shall disclose, either in the statement of financial position or in the notes, further sub-classifications of

the line items presented, classified in a manner appropriate to the entity’s operations.

*Note: The detail provided in sub-classifications depends on the requirements of IFRSs and on the size, nature and*

*function of the amounts involved.*

*The disclosures vary for each item, for example:*

*• items of property, plant and equipment are disaggregated into classes in accordance with IAS 16,*

*Property, Plant and Equipment;*

*• receivables are disaggregated into amounts receivable from trade customers, receivables from related*

*parties, prepayments and other amounts;*

*• inventories are disaggregated (in accordance with IAS 2, Inventories) into classifications such as*

*merchandise, production supplies, materials, work in progress and finished goods;*

*• provisions are disaggregated into provisions for employee benefits and other items; and*

*• equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium*

*and reserves.*

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 the terms and

amounts; and

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

An entity without share capital (e.g. a partnership or trust), shall disclose information equivalent to that required by

paragraph 79(a) of IAS 1(r2007)

**Statement of comprehensive income**

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

a) in a single statement of comprehensive income; or

b) in two statements: a statement displaying components of profit or loss (income statement) and a second

statement beginning with profit or loss and displaying components of other comprehensive income (statement

of comprehensive income).

***Information to be presented in the statement of comprehensive income***

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

amounts for the period:

a) revenue;

b) finance costs;

c) share of 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) – see below);

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

i) total comprehensive income.

An entity shall disclose the following items in the statement of comprehensive income as allocations of profit or

loss for the period:

a) profit or loss for the period attributable to:

i) minority interest; and

ii) owners of the parent;

b) total comprehensive income for the period attributable to:

i) minority interest; and

ii) owners of the parent.

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.

*Notes:*

*1*) Entities are encouraged to present the analysis in paragraph 99 of IAS 1(r2007) in the statement of

comprehensive income or in the separate income statement (if presented).

2) Under the ‘nature of expense’ method, an entity aggregates expenses within profit or loss according to their

nature (e.g. 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. See paragraph 102 of IAS 1(r2007) for an

example of a classification using the nature of expense method.

3) 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.

**Statement of changes in equity**

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

a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to minority interests;

b) for each component of equity, the effects of retrospective application or retrospective restatement recognised

in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

c) the amounts of transactions with owners in their capacity as owners, showing separately contributions by

and distributions to owners; and

d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end

of the period, separately disclosing each change.

The amount of dividends recognised as distributions to owners during the period, and the related amount per share,

shall be presented either in the statement of changes in equity or in the notes.

**Notes**

***Structure of notes***

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 to 124 of IAS 1(r2007).

b) disclose the information required by IFRSs 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.

An entity shall, as far as practicable, present notes in a systematic manner.

*NB:*

*1) An entity normally presents notes in the following order, to assists users to understand the financial statements*

*and to compare them with financial statements of other entities:*

*• statement of compliance with IFRSs*

*• summary of significant accounting policies applied.*

*• 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*

*• other disclosures, including (i) contingent liabilities and unrecognised contractual commitments; and (ii) non-financial disclosures, e.g. the entity’s financial risk management objectives and policies*

An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in

the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any

related information in the notes.

***Disclosure of accounting policies***

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

a) the measurement basis (or bases) used in preparing the financial statements; and

b) the other accounting policies used that are relevant to an understanding of the financial statements.

It is appropriate to disclose each significant accounting policy that is not specifically required by IFRSs, but the entity

selects and applies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements (apart

from those involving estimations) that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

***Illustration 1***

The following trial balance relates to Llama, a listed company, at 30 September 2007:

Ksh.’000 Ksh.’000

Land and buildings – at valuation 1 October 2006 (note (i)) 130,000

Plant – at cost (note (i)) 128,000

Accumulated depreciation of plant at 1 October 2006 32,000

Investments – at fair value through profit and loss (note (i)) 26,500

Investment income 2,200

Cost of sales (note (i)) 89,200

Distribution costs 11,000

Administrative expenses 12,500

Loan interest paid 800

Inventory at 30 September 2007 37,900

Income tax (note (ii)) 400

Trade receivables 35,100

Revenue 180,400

Equity shares of 50 cents each fully paid 60,000

Retained earnings at 1 October 2006 25,500

2% loan note 2009 (note (iii)) 80,000

Trade payables 34,700

Revaluation reserve (arising from land and buildings) 14,000

Deferred tax 11,200

Suspense account (note (iv)) 24,000

Bank 6,600

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471,000 471,000

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The following notes are relevant:

1. Llama has a policy of revaluing its land and buildings at each year end. The valuation in the trial balance includes a land element of Ksh.30 million. The estimated remaining life of the buildings at that date (1 October 2006) was 20 years. On 30 September 2007, a professional valuer valued the buildings at Ksh.92 million with no change in the value of the land. Depreciation of buildings is charged 60% to cost of sales and 20% each to distribution costs and administrative expenses.

During the year Llama manufactured an item of plant that it is using as part of its own operating capacity. The

details of its cost, which is included in cost of sales in the trial balance, are:

Ksh.’000

Materials cost 6,000

Direct labour cost 4,000

Machine time cost 8,000

Directly attributable overheads 6,000

The manufacture of the plant was completed on 31 March 2007 and the plant was brought into immediate use,

but its cost has not yet been capitalised.

All plant is depreciated at 121/2% per annum (time apportioned where relevant) using the reducing balance

method and charged to cost of sales. No non-current assets were sold during the year.

The fair value of the investments held at fair value through profit and loss at 30 September 2007 was

Ksh.27·1 million.

(ii) The balance of income tax in the trial balance represents the under/over provision of the previous year’s estimate. The estimated income tax liability for the year ended 30 September 2007 is Ksh.18·7 million. At 30 September 2007 there were Ksh.40 million of taxable temporary differences. The income tax rate is 25%. Note: you may assume that the movement in deferred tax should be taken to the income statement.

(iii) The 2% loan note was issued on 1 April 2007 under terms that provide for a large premium on redemption in

2009. The finance department has calculated that the effect of this is that the loan note has an effective interest

rate of 6% per annum.

4

(iv) The suspense account contains the corresponding credit entry for the proceeds of a rights issue of shares made on 1 July 2007. The terms of the issue were one share for every four held at 80 cents per share. Llama’s share price immediately before the issue was Ksh.1. The issue was fully subscribed.

**Required:**

**Prepare for Llama:**

**(a) An income statement for the year ended 30 September 2007.** (9 marks)

**(b) A balance sheet as at 30 September 2007.** (13 marks)

**Reference**

**Presentation/disclosure requirement**