ID 16576

Subject: Financial Reporting Analysis

IAS 1– Presentation of financial statement :-

Presentation of financial statement or IAS 1 is an international financial reporting standard adopted by the international Accounting standard Board (IASB). It lays out the guideline of the presentation of financial statement and sets out minimum requirements of their content. It is applicable to all general purpose financial statements that are based on the international financial Reporting standards (IFRs).

IAS 1 was originally issued by the international Accounting Standards committee in 1997, superseding three standards on disclosure and presentation requirements, and was the first comprehensive

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accounting standard to deal with the presentation of financial standards. It was adopted by the IASB in 2001, and as of 2012 the standard was last amended in June 2011, these ~~amount~~ amendments are effective from July 1, 2012.

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IAS 38 – measurement intangible assets:

IAS 38 sets out the criteria for recognising and measuring intangible assets and requires disclosures about them. An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable, or when it arises from contractual or other legal rights. separable assets can be sold, transferred, licensed, etc.
Examples of intangible assets include computer software, licences, trademarks, patents, films, copyrights and import quotas. Goodwill acquired in a business combination is accounted for in accordance with IFRS 3 and is outside the scope of IAS 38. Internally generated goodwill is within the scope of IAS 38 but

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is not recognised as an asset because it is not an identifiable resource.

Expenditure for an intangible item is recognised as an expense, unless the item meets the definition of an intangible asset.

- It is probable that there will be future economic benefits from the asset
- the cost of the asset can be reliably measured.

The cost of generating an intangible asset internally is often diffcult to distinguish from the cost of maintaining or enhancing the entity's operations or goodwill. For this reason, internally generated brands, mastheads Publishing titles customer lists and similar items are not recognised as intangible

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assets. The costs of generating intangible assets are classified into whether they arise in a research phase or a development phase.

Intangible assets are measure initially at cost. After intial recognition, an entity usually measures an intangible asset at cost less accumlated amortisation. It may choose to measure the asset at fair value in rare cases when fair value can be determined by reference to an active market.

An intangible asset with a finite useful life is amortised and is subject to impairment testing.

An intangible asset with an indefinite useful life is not amortised, but is tested annually for impairment. when an intangible asset

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is disposed of, the gain or loss on disposal is include in profit or loss.

IAS2 – Inventories

The standard requires inventories to be measured at the lower of cost and realisable value (NRV) and outlines acceptable methods of determing cost, including specific identification (in some cases), first-in First-out (FIFO) and weighted average cost.

Objective of IAS 2 :

The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determing the cost of inventories and for subsequent recognising an expense, including any write-down to net realisable value. It also provide guidance on the cost formulas that are used to assign costs to inventories.

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inventories are required to be stated at the lower of cost and net realisable value (NRV).

Measurement of Inventories

cost should include all:

cost of purchase (including taxes, transport, & handling) net of trade discounts received

Costs of conversion (including fixed & variable manufacturing overheads)

Other costs incurred in bringing the inventories to their present location and condition

inventory cost should not include :

- abnormal waste , • storage costs
- administrative overheads unrelated to production
- selling costs

The standard cost and retail methods may be used for the measurement of cost, provided that the results approximate actual cost

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For inventory items that are not interchangable, specific costs are attributed to the spefic individual items of inventory.

Write-down to net realisable value:

NRV is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Any write down to NRV should be recognised as an expense in the period in which the write-down occurs. Any reversal should be recognised in the income statement in the period in which the reversal occurs.

Disclosure:

Required disclosures:

accounting policy for inventories

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- carring amount, generally classified as merchandise supplies, materials work in progress, and finished goods. The classification depend on what is appropriate for the entity.
- carring amount for any inventory carried at fair value less costs to sell
- amount for any write-down of inventories recognised as an expense in the period
- carring amount of inventories pledged as security for liabilities
- cost of inventories recognised as expense (cost of goods sold)

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IAS 18 - Revenue

IAS 18 revenue outlines the accounting requirements for when to recognise revenue from the sale of goods rendering of services and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received and recognised when prescribed conditions are met, which depend on the nature of the revenue.

IAS 18 was reissued in december 1993 & is operative for periods begining on or after 1 january 1995

Objective of IAS 18 :

The objective of IAS 18 is to prescribe the accounting treatement for revenue arising from certain types of transaction & events.

Key definition :

Revenue : the gross profit of economic benefits (cash, receivable) arising from the ordinary operating activities of an entity (such as sales of goods, interest, royalities and dividends).

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Measurement of Revenue:

Revenue should be measured at the fair value of the consideration received. An exchange for goods or services of a similar nature & value is not regarded as a transaction that generates revenue.

Recognition of revenue:

Recognition, as defined in the IASB framwork, means incorporating an item that mets the definition of revenue in the income statement when it meets the following date.

- It is probable that any future economic benefit associated with the item will flow to the entity
- the amount of revenue can be measured with reliability

Sale of goods:

Revenue arising from the sale of goods should be recognised when all of the following criteria have been satisfied

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- the seller has transferred to the buyer the significant risk and rewards of ownership
- the amount of revenue can be measured reliable
- It is Probable that the economic benefits associated with the transcation will flow to the seller
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Interest, royalties, & dividends:

Interest: using the effective interest method as set out in IAS 39

royalties: on an accruals basis in accordance with the substance of the relevent agreement

Dividends: When the shareholder's right to receive payment is established

Disclosure (IAS 18.35)

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- accounting policy for recognising revenue
- amount of each of the following types of revenue:
    - sale of goods
    - rendering of services
    - Interest
    - royalties
    - dividends
    - within each of the above categories, the amount of revenue from exchange of goods or service

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IAS 7- Statement of cashflows :

Statement of cash flows presents inflow and outflows of cash and cash equivalents and is dealt with in ISA7. This statement of cash flows is required to be presented by all entities for each period for which financial statements are presented.

Objective of IAS 7

The objective of IAS7 is to require the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the

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period according to operating, investing, and financing activities.

Fundamental Principle in IAS7 :

All entities that prepare financial statement in conformity with IFRSs are required to present a statement of cash flows.

The statement of cashflows analyses changes in cash and cash equivalents during a period cash and cash equivalents comprise cash on hand and demand deposits, together with short term, highly liquid investments that are readily convertible to known amount of cash, and that are subject to an insignificant risk of changes in value. Guidance notes indicate that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the

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date of acquistion. Equity investments are normally excluded, unless they are in substance of cash equivalent (e.g preferred shares acquired within three months of their specified redemption date).

Presentation of the Statement of Cash Flows:

cash flows must be analysed between operating, investing and financial activities

Key principles specified by IAS7 for ~~presen~~ preperation of statement of cash flows are as follows:

Operating Activities:-

operating activities are the main revenue-producing activities of entity that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees

Investing Activities

investing activities are acquistion and disposal of long-term assets and other investments that are

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not considered to be cash equivalents

Financing Activities:

Financing activities are activities that alter the equity capital and borrowing structure of the entity

Interest and dividends received and paid may be classified as operating, investing, or financing cashflows provided that they are classified consistently from period to period (IAS 7.31)

Cashflow arising from taxes on income are normally classified as operating, unless they can be specifically indentified with financing or investing activities

Direct Method :-

The direct method shows each major class of gross of cash receipts and gross cash Payments.

Indirect Method :-

The indirect method adjust, accrual basis net profit or loss for the effects of non-cash transactions.

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IAS 36 – Impairment of Assets

IAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e the higher of fair value less costs of disposal and value in use). with the exception of goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment test may be conducted for a cash-generating unit where an asset does not generate cash inflows that are largely independent of those from other assets.

Objective of IAS 36

To ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is determined.

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Scope

IAS 36 applies to all assets except (IAS 36.2)

Inventories (IAS 2)

assets arising from construction contracts (IAS 11)

deferred tax assets (IAS 12)

financial assets (IAS 39)

Insurance contract assets (IFRS 4)

non current assets held for sale (IFRS 5)

Therefore, IAS 36 applies to (among other assets)

land, machinery and equipment

building, Investment property carried at cost

Intangible assets, goodwill

investment in subsidiaries, associates

Key definition:

Impairment loss: the amount by which the carrying amount of an asset or cash-generating unit exceeds it recoverable amount

Carrying amount: the amount at which an asset is recognised in the balance sheet after deducting accumulated depreciation and accumulated impairment losses

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Recoverable amount: the higher of an asset's fair value less costs of disposal (sometimes called net selling price) and its value in use

value in use: the present value of the future cashflows excepted to be derived from an asset or cash-generating unit

External sources:

- Market value declines
- negative changes in technology, market, economy or laws
- increase in market intrest rates
- net assets of the company higher than market capitalisation

Internal sources:

- obsolescence or physical demage
- asset is idle part of a restructuring or hold for disposal

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worse economic performance than expected

Determining recoverable amount:

If fair value less cost of disposed or value in use is more than carrying amount, It is not necessary to calculate the other amount. The asset is not impaired.

If fair value less cost of disposal cannot be determined, then recoverable amount is value in use.

For assets to disposed of recoverable amount is fair value less costs of disposal.

Fair value less costs of disposal:

- Fair value is determined in accordance with IFRS 13 Fair value measurement
- costs of disposal are the direct added cost only (not existing costs or overhead)

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Discount rate:

In measuring value in use, the discount rate used should be the pre-tax rate that reflects current market assessments of the time value of money and the specific to the asset.

The discount rate should not reflect risks for which future cashflows have been adjusted & equal the rate of return.

For impairment of an individual asset or portfolio of assets, the discount rate is the rate the entity would pay in a current market transaction to borrow money to buy that specific asset.

Recognition of an Impairment loss:

- An impairment loss is recognised whenever recoverable amount is below carring amount.

- Adjusted depreciation for future periods.

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Recoverable amount should be determined for individual asset, if possible.

Impairment of goodwill :

Goodwill should be tested for impairment annually.

To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units, or group of cash-generating units that are expected to benefit from the synergies of the combination.

Disclosure :

Disclosure by class of assets:

- Impairment losses recognised in profit or loss
- Impairment losses reversed in profit or loss
- which line item(s) of the statement of comprehensive income

Disclosure by reportable segment

- impairment losses recognised
- impairment losses reversed

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IFRS 10 - Consolidated Financial statement

IFRS 10 establishes Principles for presenting and preparing consolidated financial statements when an entity controls one or more other entities. IFRS 10:

- Requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements
- Defines the principle of control and establishes control as the basis for consolidation
- Set out how to apply the principle of control to identify whether an investor controls an investee
- Sets out the accounting requirements for the ~~principle~~ preparation of consolidation financial statements

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Defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

Consolidation financial statements are financial Statements that present the assets, liabilities equity, income, expenses and cash flows of a Parent and its subsidiaries as those of a single economic entity.

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IFRS 13 - Fair value Measurement

IFRS 13 is a new standard that defines fair value sets out in a single IFRS a framwork for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permit the item to be measured at fair value (with limited exception).

Scope:

IFRS 13 applies to all transactions and balances (whether financial or non-financial), with the exception of share-based payment transactions

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Offsetting positions:

The new standard allows a limited exception to the basic fair value measurement principles for a reporting entity that holds a group of financial liabilities with offsetting positions in particular market risks. Disclosures, or counterparty credit risks (also as defined in IFRS7) and manages those holding on the basis of the entity's net exposure to either risk.

Valuation techniques:

IFRS 13 describes three valuation techniques that an entity might use to determiner fair value as follows: (i) the market approach. An entity uses Prices and other relevant information generated by market transactions involving identical or comparable (i.e similar) assets, liabilities or group of assets & liabilities, (ii) the income approach. An entity converts future amounts, (iii) the cost approach.

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accounted for under IFRS 2, share-based Payment, and leasing transaction within the scope of IAS 7, leases.

Definition of fair value:

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participats at the measurement date (i.e an exist price)

Fair value of liabilities and equity:

IFRs 13 requires that the fair value of a liability or equity instrument of that entity determined under the assumption that the instrument would be transferred on the measurement date, but would remain outstanding (i.e it is a transfer value not an extinguishment or settlement cost). Accordingly, the fair value of a liability must take account of non-performance risk, including the entity's own credit risk.

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IFRS 13 requires that a valuation technique should be selected, and consistently applied, to maximum the use of relevant observable inputs (and minimize unobservable inputs.

Disclosures :

IFRS 13 requires a number of quantitative & qualitative disclosures about fair value meacurement. These are related to the following three-level fair value. level 1 inputs are fully observable, level 2 inputs are those other than quoted price within level 1 that are directly or indirectly observable, level 3 inputs are unobservable. Some disclosure requirements differ depending on whether the fair value calculation is performed on a recurring or non-recurring basis.

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