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IFRS Foundation: Training Material for the *IFRS*® *for SMEs*

Module 3 – Financial Statement Presentation

IFRS™

IFRS Foundation: Training Material for the *IFRS® for SMEs*

including the full text of
Section 3 *Financial Statement Presentation*
of the International Financial Reporting Standard (IFRS)
for Small and Medium-sized Entities (SMEs)
issued by the International Accounting Standards Board on 9 July 2009

with extensive explanations, self-assessment questions and case studies

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Module 3 – Financial Statement Presentation

This training material has been prepared by IFRS Foundation education staff and has not been approved by the International Accounting Standards Board (IASB). The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

INTRODUCTION

This module focuses on the general requirements for the presentation of financial statements. Modules 4−8 focus on the requirements for the presentation of each component of financial statements. This module introduces the learner to the subject, guides the learner through the official text, develops the learner's understanding of the requirements through the use of examples and points out when significant judgements are required in presenting financial statements. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case study to develop the learner's ability to present financial statements in accordance with the *International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)*.

Learning objectives

Upon successful completion of this module you should know the general requirements for the presentation of financial statements in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case study that simulate aspects of the real world application of that knowledge, you should have enhanced your competence to present financial statements in accordance with the *IFRS for SMEs*. In particular you should:

- know the components of a complete set of financial statements and understand how those components are identified and distinguished from other information presented in the same published document
- understand the general requirements for financial statements to present fairly an entity's financial position, financial performance and cash flows
- know how to assess an entity's ability to continue as a going concern
- understand the accounting and financial reporting required when material uncertainties cast significant doubt on the entity's ability to continue as a going concern and the requirements when it is determined that the entity is not a going concern
- understand the requirements for consistency of presentation and comparative information in financial statements
- be able to demonstrate an understanding of the significant judgements that are required in presenting financial statements, including judgements in assessing materiality and going concern.

Module 3 – Financial Statement Presentation

IFRS for SMEs

The *IFRS for SMEs* is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* includes mandatory requirements and other material (non-mandatory) that is published with it.

The material that is not mandatory includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* and explains its purpose, structure and authority.
- implementation guidance, which includes illustrative financial statements and a disclosure checklist.
- the Basis for Conclusions, which summarises the IASB's main considerations in reaching its conclusions in the *IFRS for SMEs*.
- the dissenting opinion of an IASB member who did not agree with the publication of the *IFRS for SMEs*.

In the *IFRS for SMEs* the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* there are appendices in Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* Those appendices are non-mandatory guidance.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. The objective of Section 3 is to prescribe general requirements for the presentation of financial statements.

The section specifies the components of a complete set of financial statements and establishes criteria for the identification and separation of those components from other information that may be presented in the same document as the financial statements. It also specifies the minimum frequency that a complete set of financial statements should be reported.

It specifies that the application of the *IFRS for SMEs* (with additional disclosure when necessary) is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of the entity. Additionally, an entity is required to make an explicit and unreserved statement of compliance with the *IFRS for SMEs*.

It establishes requirements for the periodic assessment of an entity's ability to continue as a going concern and specifies disclosure of material uncertainties about an entity's ability to continue as a going concern.

It provides guidance for assessing materiality and specifies requirements for the aggregation of similar items, consistency of presentation and the presentation of comparative information.

Module 3 – Financial Statement Presentation

REQUIREMENTS AND EXAMPLES

The contents of Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* are set out below and shaded grey. Terms defined in the Glossary of the *IFRS for SMEs* are also part of the requirements. Those terms are in **bold type** the first time they appear in the text of Section 3. The notes and examples inserted by the IFRS Foundation education staff are not shaded. Other annotations inserted by the IFRS Foundation staff are presented within square brackets in ***bold italics***. The insertions made by the staff do not form part of the *IFRS for SMEs* and have not been approved by the IASB.

Scope of this section

3.1 This section explains **fair presentation** of **financial statements**, what compliance with the *IFRS for SMEs* requires, and what is a complete set of financial statements.

Notes

Fair presentation is 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.

Financial statements are a structured representation of the financial position, financial performance and cash flows of an entity.

Financial position is the relationship of assets, liabilities and equity of an entity as reported in the statement of financial position (see Module 4).

An **asset** is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (see Glossary).

A **liability** is a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (see Glossary).

Equity is the residual interest in the assets of an entity after deducting all its liabilities (see Glossary).

Financial performance is the relationship of income and expenses of an entity, as reported in the statement of comprehensive income (see Module 5).

Income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors (see Glossary).

Expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity investors (see Glossary).

Contributions from (and distributions to) equity investors for a reporting period are presented in a statement of changes in equity (see Module 6).

Cash flows are inflows and outflows of cash and cash equivalents. Information about the changes in cash and cash equivalents of an entity for a reporting period is presented in the entity's statement of cash flows (see Module 7).

Fair presentation

3.2 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 Section 2 *Concepts and Pervasive Principles*.

(a) The application of the *IFRS for SMEs*, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs.

(b) As explained in paragraph 1.5, the application of this IFRS by an entity with public accountability does not result in a fair presentation in accordance with this IFRS.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this IFRS is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

Notes

In some circumstances it is necessary to provide users of financial statements with more disclosures than those required by the *IFRS for SMEs* in order to achieve a fair presentation of an entity's financial position, financial performance and cash flows. For example, where an entity makes most of its sales to a single customer or, in the absence of segment reporting(1), in a single geographical location or industry sector, disclosure of those concentrations of sales is necessary to achieve a fair presentation. That information can reasonably be expected to affect a financial statement user's decision-making.

Compliance with the *IFRS for SMEs*

3.3 An entity whose financial statements comply with the *IFRS for SMEs* shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all the requirements of this IFRS.

Example – compliance statement

Ex 1 **An entity prepares its consolidated financial statements for the year ended 31 December 20X2 in accordance with the *IFRS for SMEs*.**

[Extract from] *Note 2 Basis of preparation and accounting policies*

(1) the *IFRS for SMEs* does not address segment reporting (ie it does not require segment information to be presented in financial statements)

These consolidated financial statements have been prepared in accordance with the *International Financial Reporting Standard (IFRS®) for Small and Medium-sized Entities* issued by the International Accounting Standards Board.

Notes

The *IFRS for SMEs* is intended for use by small and medium-sized entities (SMEs).

SMEs are entities that:

(a) do not have public accountability, and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. That is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (see paragraphs 1.1-1.3).

Examples – compliance statement is appropriate

Ex 2 **An entity that does not have public accountability prepares its financial statements in compliance with the requirements of the *IFRS for SMEs*.**

The entity makes an explicit and unreserved statement of compliance with the *IFRS for SMEs* in the notes.

Ex 3 **An entity that does not have public accountability prepares its financial statements following the local GAAP of the jurisdiction in which it operates. The local GAAP is, except in name, word-for-word the same as the *IFRS for SMEs*.**

The entity could make an explicit and unreserved statement of compliance with local GAAP, the *IFRS for SMEs*, or both, in the notes.

Examples – compliance statement is not appropriate

Ex 4 **An entity that does not have public accountability prepares financial statements in compliance with the taxation requirements for calculating taxable income (and tax expenses) in the jurisdiction in which it operates. The jurisdiction's taxation requirements are different from the requirements of the *IFRS for SMEs*.**

The entity's financial statements do not comply with the *IFRS for SMEs*. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs*.

Ex 5 **An entity that has public accountability prepares its financial statements in compliance with the requirements of the *IFRS for SMEs*.**

The entity has public accountability. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs*. That applies even when the entity is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* (see paragraph 1.5).

Ex 6 **An entity that does not have public accountability prepares its financial statements following the local GAAP of the jurisdiction in which it operates. The local GAAP is based mainly on the *IFRS for SMEs.* However, there are some material differences between the requirements of the local GAAP and those of the *IFRS for SMEs*.**

The entity's financial statements do not comply with the *IFRS for SMEs*. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs*.

3.4 In the extremely rare circumstances when management concludes that compliance with this IFRS would be so misleading that it would conflict with the **objective of financial statements** of SMEs set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.5 unless the relevant regulatory framework prohibits such a departure.

3.5 When an entity departs from a requirement of this IFRS in accordance with paragraph 3.4, it shall disclose the following:

(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 the *IFRS for SMEs*, except that it has departed from a particular requirement to achieve a fair presentation.

(c) the nature of the departure, including the treatment that the *IFRS for SMEs* 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 Section 2, and the treatment adopted.

3.6 When an entity has departed from a requirement of this IFRS 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 3.5(c).

3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in this IFRS would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, 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 the following:

(a) the nature of the requirement in this IFRS, 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 Section 2.

(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.

Going concern

3.8 When preparing financial statements, the management of an entity using this IFRS shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. 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 **reporting date**.

Notes

The going concern basis is abandoned by an entity only when its management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Therefore, the going concern basis may be appropriate even when an entity is in financial difficulties. However, when there are material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern, that entity must disclose those uncertainties.

In some cases there may be little uncertainty as to the going concern status of an entity. Examples include: (i) when it is highly probable that an entity is a going concern (eg when an entity is well established, very profitable, highly solvent and not subject to significant business and financial risks); or (ii) when it is virtually certain that an entity is not a going concern (eg when management is committed to a plan to liquidate the entity or to cease operations).

In other cases where management does not intend to liquidate the entity or to cease its operations, significant judgement may be required to assess whether an entity has no realistic alternative but to liquidate or cease its operations (ie in assessing whether an entity has the ability to continue as a going concern). For example, in times of financial crisis, a general lack of available credit faced by all entities can affect the ability of an otherwise profitable entity to continue as a going concern. Whatever the basis of preparation, doubts about an entity's ability to continue as a going concern require management to conduct impairment tests of the entity's assets and to consider whether provisions are required in respect of contracts that have become onerous. Moreover, if an entity is not a going concern, assets must be impaired to their fair value less costs to sell, because the asset no longer has value in use.

When an entity is not a going concern, its financial statements should be prepared in accordance with the requirements of the *IFRS for SMEs* except to the extent that accounting adjustments are necessary to reflect that the entity is no longer a going concern.

Example – going concern assumption is not appropriate

Ex 7 **The government enacted the Economic Redistribution Act (ERA) on 15 December 20X2. Entity A is listed in Appendix A of the ERA as an entity whose operations and assets the government intends to expropriate. The government has forbidden affected entities from disposing of their assets. Expropriation**

compensation is computed at the fair value of the tangible assets expropriated. No compensation will be paid for the intangible assets expropriated.

Management intend to keep entity A in commercial production until the expropriation of its assets. At that time, entity A is expected to have no realistic alternative but to cease trading. Expropriation is expected to take place within three months of the end of the reporting period. The financial statements for the year ended 31 December 20X2 have therefore been prepared on a basis other than going concern. In particular, specific tangible assets have been impaired to fair value less costs to sell and contractual commitments that are onerous have been recognised as liabilities.

How should the management of entity A disclose information about its assessment of entity A's status as a going concern in entity A's 31 December 20X2 annual financial statements?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to entity A's 31 December 20X2 financial statements:

Note 1 Basis of preparation and accounting policies

Basis of preparation

The financial statements have not been prepared on the going concern basis because the government has announced its intention to expropriate all of the entity's assets in accordance with the recently enacted Economic Redistribution Act (the Act). Following the expropriation of the assets the entity will be liquidated. Expropriation is expected to take place before April 20X3. The Act provides for expropriation compensation equal to the fair value of the tangible assets expropriated. Management intends to keep entity A in commercial production until the expropriation takes place and the entity consequently ceases operations. To reflect that imminent liquidation, the entity's property, plant and equipment are impaired to their fair value, its intangible assets are written off and its contractual commitments that are onerous are recognised as liabilities.

3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that 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.

Example – material uncertainties

Ex 8 **Entity B is a large manufacturer of textile products for the local market.**

On 1 January 20X2 the newly elected government unexpectedly abolished all import tariffs, including the 50 per cent tariff on all imported textile products. That and many other economic reforms implemented by the new government contributed to the value of the country's currency (CU[2]) appreciating significantly against most

[2] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

other currencies. The currency appreciation severely reduced the competitiveness of the entity's products.

Before 20X2 entity B was profitable. However, because it was unable to compete with low priced imports, entity B reported a loss of CU3,000 for the year ended 31 December 20X2. At 31 December 20X2, entity B's equity was CU1,000. Management restructured entity B's operations in the second quarter of 20X2. That restructuring helped reduce losses for the third and fourth quarters to CU500 and CU480, respectively.

In 20X2 the local textile industry and labour union lobbied government to reinstate tariffs on textiles. On 15 December 20X2, the government announced that it would reintroduce limited textile import tariffs in 20X3. However, it emphasised that those tariffs would not be as protective as the tariffs enacted by the previous government.

In its latest economic forecast, the government predicts a stable currency exchange rate in the short term with a gradual weakening of the jurisdiction's currency in the longer term.

Management of entity B undertook a going concern assessment at 31 December 20X2. Management projects/forecasts that imposition of a 10 per cent tariff on the import of textile products would, at current exchange rates, result in entity B returning to profitability.

How should the management of entity B disclose the information about the going concern assessment in entity B's 31 December 20X2 annual financial statements?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to entity B's 31 December 20X2 financial statements:

Note 1 Basis of preparation

On the basis of management's assessment at 31 December 20X2, the financial statements have been prepared on the going concern basis. However, management's assessment assumes that the government will reintroduce limited textile import tariffs and that the currency exchange rate will remain constant. On 15 December 20X2 the government announced that limited import tariffs will be imposed in 20X3. However, the government emphasised that the tariff would not be as protective as the 50 per cent tariff in effect before 20X2. Provided that the CU does not strengthen, management projects/forecasts that a 10 per cent tariff on all textile products would result in entity B returning to profitability.

At 31 December 20X2 entity B had net assets of CU1,000. If import tariffs are not imposed and currency exchange rates remain unchanged, entity B's liabilities could exceed its assets by the end of the third quarter of 20X3.

On the basis of their assessment of these factors, management believes that entity B is a going concern.

Notes – events after the end of the reporting period

The *IFRS for SMEs* does not explicitly require an entity not to prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

If the *IFRS for SMEs* does not specifically address a transaction, other event or condition, an entity's management must use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users, and is reliable (see paragraph 10.4).

In the absence of a requirement, an entity is permitted but not required to look to full IFRSs (see paragraph 10.6).

Paragraph 14 of IAS 10 *Events after the Reporting Period* (full IFRSs) requires an entity not to prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate. In setting this requirement the IASB concluded that if the going concern assumption is no longer appropriate, the effect is so pervasive that a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting, is required (see IAS 10 paragraph 15).

Paragraph 3.8 of the *IFRS for SMEs* requires that an entity's management, when preparing financial statements, to assess the entity's ability to continue as a going concern be performed. Furthermore, in making this assessment, management is required to take into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

Moreover, to prepare an entity's financial statements on the going concern basis when events after the reporting period indicate that the going concern assumption is not appropriate conflicts with the objective of general purpose financial statements. In those circumstances (in accordance with paragraphs 3.4 or 3.7) an entity would not prepare its financial statements on the going concern basis.

Whether by reference to full IFRSs or by applying the *IFRS for SMEs* in isolation an entity would not prepare its financial statements on the going concern basis in those circumstances.

Examples – after the end of the reporting period

Ex 9 **Entity C was incorporated many years ago with the sole objective of mining a single gold reef to which it has mining rights. At 31 December 20X5 entity C was in a sound financial position and expected to continue its mining operations for approximately 20 years (ie the gold reef was expected to be depleted in about 20 years).**

On 1 January 20X6 the mine was rendered permanently inoperable by an earthquake that resulted in the collapse and flooding of the mine. As a result of that event, on 15 February 20X6 entity C was placed in liquidation.

Management is preparing entity C's financial statements for the year ended 31 December 20X5.

How should the management of entity C disclose the information about its assessment of the entity's status as a going concern in entity C's financial statements for the year ended 31 December 20X5?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to entity C's 31 December 20X5 financial statements:

Note 1 Basis of preparation

On 15 February 20X6 the entity was placed in liquidation as a result of earthquake damage that caused the permanent closure of the entity's single business—Mine X. The financial statements have therefore not been prepared on a going concern basis. The mine asset is written off and other assets are impaired. Liquidation is expected to be completed by the end of July 20X6.

Ex 10 **Entity D is a small regional sea-bed dredging diamond mining entity.**

On 10 January 20X6 the newly elected government announced that it will cancel all local sea-bed dredging diamond mining licences that do not meet specified criteria by 30 June 20X6. Entity D currently does not satisfy all of the new licence criteria. In particular, entity D's shareholders are not representative of the population demographics of the region and its financial resources are inadequate (ie its debt to equity ratio is higher than the level specified by the new government).

In mid-January 20X6 entity D instigated negotiations for the acquisition of the assets and liabilities of a competitor (entity E), in a share-based payment transaction. If concluded, the acquisition will result in the enlarged entity D satisfying all the requirements to retain both entity D's and entity E's regional sea-bed dredging diamond mining licences.

At the time of authorising the 20X5 annual financial statements for issue, entity D had reached agreement in principle with entity E for the acquisition of its business. Negotiations of the final details of the acquisition are in their final stages. Management of entity D considers it highly likely that the acquisition will occur and the local sea-bed dredging diamond mining licences will be retained.

How should the management of entity D disclose the information about its assessment of entity D's status as a going concern in entity D's 31 December 20X5 annual financial statements?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to entity D's 31 December 20X5 financial statements:

Note 1 Basis of preparation

On 10 January 20X6 the government announced that it will cancel regional sea-bed dredging diamond mining licences that do not meet specific criteria by 30 June 20X6. Entity D currently does not satisfy all of the new licence criteria. In particular, entity D's shareholders are not representative of the population demographics of the region and its financial resources are inadequate (ie its debt to equity ratio is higher than the level specified by the government). However, entity D is negotiating the acquisition of the assets and liabilities of an entity in a share-based payment transaction. If concluded the acquisition will result in the enlarged entity D satisfying the government's new licence criteria.

The financial statements have been prepared on the going concern basis. Management considers it highly likely that the acquisition will take place and the local sea-bed dredging diamond mining licences will be retained. Agreement in principle has been reached for the acquisition of an entity's operations and negotiations are in their final stages.

Frequency of reporting

3.10 An entity shall present a complete set of financial statements (including comparative information–see paragraph 3.14) at least annually. When the end of an entity's **reporting period** changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

(a) that fact.

(b) the reason for using a longer or shorter period.

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Notes

Annual financial statements are usually prepared as at a recurring date each year (eg 31 December). However, that is not always so.

In some jurisdictions entities may choose a 52–53 week annual reporting period (eg ending on the last Saturday of December each year). Such reporting periods may serve practical considerations (eg enabling physical inventory counts to be taken on a day when the entity is not ordinarily open for business).

In some jurisdictions a subsidiary is required to have the same reporting date as its parent. In such cases, when an entity is acquired by another entity (its parent), it is required to change its reporting date to be coterminous with that of its parent.

Example 3.10 – reporting period

Ex 11 **In 20X8 entity A was acquired by entity B. To align its reporting date with that of its parent, entity A changed the end of its annual reporting period from 30 November to 31 December. Consequently, entity A's reporting period for the year ended 31 December 20X8 is 13 months.**

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to entity A's 31 December 20X8 financial statements:

Note 1 Basis of preparation and accounting policies

…

Reporting period

In 20X8, to align the entity's reporting period with that of its parent (entity B), the entity changed the end of its reporting period from 30 November to 31 December. Amounts presented for the 20X8 reporting period are for a 13-month period. Comparative figures are for a 12-month period. Consequently, comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

Consistency of presentation

3.11 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 Section 10 *Accounting Policies, Estimates and Errors*, or

(b) this IFRS requires a change in presentation.

Notes

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 over time is not impaired. 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.

3.12 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an entity shall disclose the following:

(a) the nature of the reclassification.

(b) the amount of each item or class of items that is reclassified.

(c) the reason for the reclassification.

Notes

A change in the classification of an asset resulting from a change in use of an asset (eg the start of development with a view to sale in the ordinary course of business for a transfer from property, plant and equipment to inventories) is not a reclassification envisaged in paragraph 3.11. In such cases the entity does not reclassify comparative amounts—while the asset is property, plant and equipment it must be accounted for and presented as property, plant and equipment.

Example – change in classification

Ex 12 **In 20X8, following a comprehensive review of its financial statements, a clothing retailer changed the manner in which it classifies expenses in the statement of comprehensive income from presenting the analysis of expenses by nature to presenting the analysis of expenses by function.**

Summary of Expenses	20X8 CU		20X7 CU	
Changes in inventories of finished goods	1,000		(400)	
Raw materials and consumables used	40,000		35,000	
Employee benefits expense				
Administration staff	10,000		9,000	
Sales staff	15,000		16,000	
Depreciation expense				
Administration buildings and fittings	8,000		8,000	
Retail outlets	12,000		12,000	
Other costs	15,000	(a)	13,000	(a)

(a) 70% selling costs and 30% administration costs

How should the entity disclose information about the change in classification in its financial statements for the year ended 31 December 20X8?

On the basis of these facts, the following disclosures are appropriate.

Extract from the entity's statement of comprehensive income

	For the year ended 31 December 20X8		***For the year ended 31 December 20X7 as restated***	
	CU		*CU*	
Revenue	X		X	
Cost of sales	(41,000)	(a)	(34,600)	(b)
Gross profit	**X**		**X**	
Distribution costs	(37,500)	(c)	(37,100)	(d)
Administrative expenses	(22,500)	(e)	(20,900)	(f)
Profit before tax	**X**		**X**	

…

Calculations that do not form part of the statement of comprehensive income:

(a) CU1,000 changes in inventories of merchandise + CU40,000 purchases of merchandise = CU41,000

(b) CU35,000 purchases of merchandise less CU400 changes in inventories of merchandise = CU34,600

(c) CU15,000 employee benefits expense + CU12,000 depreciation + 70% of CU15,000 other costs = CU37,500

(d) CU16,000 employee benefits expense + CU12,000 depreciation + 70% of CU13,000 other costs = CU37,100

(e) CU10,000 employee benefits expense + CU8,000 depreciation + 30% of CU15,000 other costs = CU22,500

(f) CU9,000 employee benefits expense + CU8,000 depreciation + 30% of CU13,000 other costs = CU20,900

Extract from the notes in the entity's 31 December 20X8 financial statements:

Note 1 Basis of preparation and accounting policies

...

Change in classification

In 20X8, following a comprehensive review of its financial statements, the entity changed the manner in which it classifies expenses in the statement of comprehensive income from an analysis by nature to an analysis by function.

Classification by function provides information that is reliable and more relevant to users of the financial statements. It presents the trading performance of the retail outlets and provides financial information about the administrative and selling functions of the entity.

3.13 If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.

Notes

Impracticability (see paragraph 10.12) means that when applying a requirement, the entity cannot apply it after making every reasonable effort to do so. For example, data to determine the prior year effect are either not available or developing those data requires a number of assumptions and those assumptions could result in unreliable information.

Comparative information

3.14 Except when this IFRS permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented 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.

Notes

Examples of when comparative amounts must be restated include:

- an amendment to the *IFRS for SMEs* that requires retrospective application (see paragraphs 10.11(a) and 10.12)
- a voluntary change in an accounting policy (see paragraphs 10.11(c) and 10.12)
- the correction of a prior period error (see paragraphs 10.21 and 10.22).

If an entity discovers an error in the financial statements of a prior period, the error is corrected by retrospective restatement (ie the comparative information is restated). Retrospective restatement provides useful information—the information is more relevant, more reliable and more comparable.

Similarly retrospective application of a change in accounting policy provides useful information—the information is more relevant, more reliable and more comparable.

Retrospective application of accounting policies and retrospective restatement of prior period errors provides useful information because:

- profit or loss for the period of the change does not include the effects of changes in accounting policies or errors relating to prior periods.
- information presented about prior periods is prepared on the same basis as information about the current period, and is therefore comparable and provides the most useful information for trend analysis of income and expenses.

For an example of when comparative amounts are reclassified see paragraph 3.12.

Examples of disclosures for which comparative information need not be provided include:

- The reconciliation between the carrying amount of investment property at the beginning and end of the reporting period (see paragraph 16.10(e))
- The reconciliation between the carrying amount of each class of property, plant and equipment at the beginning and end of the period (see paragraph 17.31(e))
- The reconciliation between the carrying amount of each class of intangible asset at the beginning and end of the period (see paragraph 18.27(e))
- The reconciliation between the carrying amount of goodwill at the beginning and end of the period (see paragraph 19.26)
- Disclosures about classes of provisions (see paragraph 21.14)
- The reconciliation of opening and closing balances of a defined benefit plan obligation (see paragraph 28.41(e))
- The reconciliation of opening and closing balances of the fair value of the plan assets (and any reimbursement right recognised as an asset) in respect of a defined benefit plan (see paragraph 28.41(f)).

Examples of disclosures for which financial statements of subsequent periods need not be repeated include:

- An amendment to the *IFRS for SMEs* (see the last line of paragraph 10.13)
- A voluntary change in an accounting policy (see the last line of paragraph 10.14)
- The correction of a prior period error (see the last line of paragraph 10.23).

Materiality and aggregation

3.15 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.

Notes

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.

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

Notes

Financial statement users are assumed to have a reasonable knowledge of business, economic activities and accounting and a willingness to study financial information with reasonable diligence (see paragraph 2.4). Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of such users made on the basis of the financial statements (see paragraph 2.6).

The definition of material implies that an entity need not provide a specific disclosure required by the *IFRS for SMEs* if the information is not material. Moreover, an entity need not apply its accounting policies when the effect of not applying them is immaterial (see paragraph 10.3).

Examples – immaterial items

Ex 13 **In 20X9, before the entity's 20X8 financial statements were approved for issue, the entity discovered an error in the calculation of depreciation expense for the year ended 31 December 20X8. Management ignored the error (ie the entity's reported profit before tax for the year ended 31 December 20X8 of CU600,000 was understated by CU150).**

The error is probably not material—it is highly unlikely that an error of this magnitude could influence the economic decisions of users made on the basis of the financial statements.

Ex 14 **The facts are the same as in example 13. However, in this example, the error was discovered in 20X9, after the entity's 20X8 financial statements were approved for issue.**

The prior period error is probably not material—it is highly unlikely that a prior period error of this magnitude could influence the economic decisions of users made on the basis of the financial statements.

Examples – material items

Ex 15 **The facts are the same as in example 13. However, in this example, had the error been corrected the entity would have breached a borrowing covenant on a significant long-term liability.**

The error is material—it could influence the economic decisions of users made on the basis of the financial statements.

Ex 16 **In 20X9, before the entity's 20X8 financial statements were approved for issue, the entity discovered a systemic error in the calculation of defined benefit obligation in respect of the employees' pension scheme. Further investigation revealed that the calculation had been incorrectly performed since the defined benefit plan was started in 20X0. The cumulative effect of the error on the retained earnings of the entity at the beginning of 20X8 is an overstatement of CU600,000. The entity reported total equity of CU950,000 at 31 December 20X7.**

The error is material—it could influence the economic decisions of users made on the basis of the financial statements.

Ex 17 **In 20X9, before the entity's 20X8 financial statements were approved for issue, a class action lawsuit was filed against the entity. The lawsuit seeks compensation for a community experiencing health problems allegedly caused by pollution from the entity's plant. Legal counsel advised management that there is a 30 per cent chance that the action will be successful. If successful the court is likely to award the community compensation of between CU1,000,000 and CU2,000,000.**

In its financial statements for the year ended 31 December 20X8, the entity neither recognised a liability for the lawsuit nor disclosed any information about it.

For the year ended 31 December 20X8, the entity reported profit for the year of CU600,000.

The error is material—it could influence the economic decisions of users made on the basis of the financial statements.

Complete set of financial statements

3.17 A complete set of financial statements of an entity shall include all of the following:

(a) a **statement of financial position** as at the **reporting date**. *[Refer: Section 4]*

(b) either: *[Refer: Section 5]*

(i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**, or

(ii) a separate **income statement** and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

(c) a **statement of changes in equity** for the reporting period. *[Refer: Section 6]*

(d) a **statement of cash flows** for the reporting period. *[Refer: Section 7]*

(e) **notes**, comprising a summary of significant accounting policies and other explanatory information. *[Refer: Section 8]*

3.18 If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period **errors**, and changes in accounting policy, the entity may present a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).

3.19 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement, or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.

3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.

3.21 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.

3.22 An entity may use titles for the financial statements other than those used in this IFRS as long as they are not misleading.

Notes

In some jurisdictions the statement of financial position is commonly referred to as a balance sheet.

Identification of the financial statements

3.23 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period.

(b) whether the financial statements cover the individual entity or a **group** of entities.

(c) the date of the end of the reporting period and the period covered by the financial statements.

(d) the **presentation currency**, as defined in Section 30 *Foreign Currency Translation*.

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

Notes

The presentation currency is the currency in which the financial statements are presented.

An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. That is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Examples 3.23 – identification of financial statements

1.

			Reference to IFRS for SMEs
XYZ Group (formerly XY Group)			3.23(a)
Consolidated statement of financial position			3.23(b)
	at 31 December 20X2	**at 31 December 20X1**	3.23(c)
	CU'000	CU'000	3.23(d) & (e)
…			

3.24 An entity shall disclose the following in the notes:

(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.

Example – other disclosures

Ex 18 **Extract from the notes in Group A's consolidated financial statements for the year ended 31 December 20X8:**

Note 1 General information

A Limited (the Company) is a limited company incorporated in Jurisdiction Y.
The address of its registered office and principal place of business is:

first floor

30 Cold Street

Ice Bay

Arctic

AB111YZ

A Group consists of the company and its wholly-owned subsidiary B Limited.
Their principal activities are the manufacture and sale of ice cream and the provision of creamery tours for visiting tourists.

Presentation of information not required by this IFRS

3.25 This IFRS does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.

Notes

An entity that prepares its financial statements in compliance with the *IFRS for SMEs* is not required to present segment information and is not required to present earnings per share. However, an entity that chooses to present segment information or earnings per share, or both, is required to disclose that fact and must describe the basis for preparing and presenting that information.

An entity that chooses to present segment information could elect (but is not required) to prepare its segment information in accordance with the requirements of IFRS 8 *Operating Segments* of full IFRSs. The entity could also prepare and present segment information on another basis. An entity that chooses to present segment information must disclose that fact and describe the basis for preparing and presenting that information.

Similarly, an entity that chooses to present earnings per share could elect (but is not required) to calculate and present earnings per share in accordance with the requirements of IAS 33 *Earnings per Share* of full IFRSs. The entity could also prepare and present earnings per share on another basis. An entity that chooses to present earnings per share must disclose that fact and describe the basis for preparing and presenting that information.

Neither full IFRSs nor the *IFRS for SMEs* mandate which entities should publish interim financial reports, how frequently, or how soon after the end of an interim period. Those matters are decided by others (eg national governments). Accordingly, the preparation and presentation of interim financial reports is not required for an entity to comply with the requirements of the *IFRS for SMEs*.

In accordance with paragraph 3.25 an entity that elects to prepare interim financial reports (or is required to do so) may prepare segment information in accordance with IAS 34 *Interim Financial Reporting* or another basis of interim reporting. An entity that prepares and presents interim financial reports must disclose that fact and describe the basis for preparing and presenting that information.

Examples – earnings per share

Ex 19 **An entity that claims compliance with the *IFRS for SMEs* elects to present earnings per share in accordance with IAS 33 *Earnings per Share*. The entity discloses that fact and adequately describes the basis for preparing and presenting earnings per share in its annual financial statements.**

Given those facts, the entity complies with the requirements of paragraph 3.25 of the *IFRS for SMEs*.

Ex 20 **An entity that claims compliance with the *IFRS for SMEs* presents basic earnings per share in accordance with IAS 33 *Earnings per Share*. However, contrary to the requirements of IAS 33, the entity does not present diluted earnings per share. The entity discloses, in its annual financial statements, the fact that it presents basic earnings per share and describes the basis for preparing and presenting basic earnings per share**

Given those facts, the entity complies with the requirements of paragraph 3.25 of the *IFRS for SMEs*.

Ex 21 **An entity that claims compliance with the *IFRS for SMEs* presents earnings per share in accordance with IAS 33 *Earnings per Share*. However, the entity does not disclose that fact in its annual financial statements. Furthermore, it does not describe the basis for preparing and presenting earnings per share.**

In this case, the entity does not comply with the requirements of paragraph 3.25 of the *IFRS for SMEs*. Disclosure is required of the basis for preparing and presenting earnings per share.

Ex 22 **An entity that claims compliance with the *IFRS for SMEs* presents earnings per share in its financial statements. It calculates earnings per share by dividing 'maintainable earnings' by the number of ordinary shares in issue at the end of the reporting period. The entity computes 'maintainable earnings' by removing from net profit for the period specified items that it considers not to be indicative of the future maintainable earnings of the entity. The entity discloses, in its annual financial statements, the fact that it presents earnings per share and describes fully the basis for preparing and presenting earnings per share**

In this case, the entity complies with the requirements of paragraph 3.25 of the *IFRS for SMEs*.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* to transactions and events often requires judgement. Information about significant judgements and key sources of estimation uncertainty are useful in assessing an entity's financial position, performance and cash flows.

Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements 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.

Furthermore, in accordance with paragraph 8.7, an entity must disclose information about the critical assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* require disclosure of information about particular judgements and estimation uncertainties (eg paragraph 3.9 requires disclosure of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern).

In many cases little difficulty is encountered in presenting financial statements. However, in some cases significant judgement is required (eg in some circumstances materiality assessments and going concern assessments might require significant judgements).

Materiality assessments

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. The definition of material implies that an entity need not provide a specific disclosure required by this IFRS if the information is not material and that an entity's accounting policies need not be applied when the effect of not applying them is immaterial. Materiality assessments are made in the context of financial statement users that have a reasonable knowledge of business, economic activities and accounting and a willingness to study the financial information with reasonable diligence.

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.

Going concern assessments

As set out in paragraphs 3.8 and 3.9, when preparing financial statements, the management of an entity must make an assessment of the entity's ability to continue as a going concern. The going concern assumption can be appropriate for an entity that is in financial difficulty. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When an entity faces financial difficulties the assessment of going concern can be onerous. Management needs to consider a wide range of factors in assessing the entity's ability to continue as a going concern, including future profitability, liquidity, covenants etc.

When the entity is assessed not to be a going concern (ie management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so) the financial statements are not prepared on the going concern basis. When the entity's ability to continue as a going concern is in doubt (even though the entity might prepare its financial statements on the going concern basis) the entity must disclose information about those uncertainties.

COMPARISON WITH FULL IFRSs

The following are the primary differences between the requirements as issued at 9 July 2009 for the presentation of financial statements in accordance with the *IFRS for Small and Medium-sized Entities* (see Section 3 *Financial Statement Presentation*) and full IFRSs (see IAS 1 *Presentation of Financial Statements*).

IAS 1 and Section 3 of the *IFRS for SMEs* are based on the same principles for the presentation of financial statements. However, since the *IFRS for SMEs* is drafted in simple language and includes much less guidance on how to apply the principles, differences between IAS 1 and Section 3 may arise in practice. Section 3 deals only with general presentation issues. Other issues covered by IAS 1 are set out in Sections 4–6 and 8 of the *IFRS for SMEs*.

In accordance with the *IFRS for SMEs,* an entity that has changes to equity during the periods for which financial statements are presented that arise only from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity. That presentation simplification is not available to entities that report in accordance with full IFRSs.

In accordance with full IFRSs, management includes 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 (see IAS 1 paragraph 10(f)). The *IFRS for SMEs* does not have an equivalent requirement (ie in those circumstances an entity need not present a statement of financial position as at the beginning of the earliest comparative period).

An entity that prepares its financial statements in compliance with full IFRS must prepare segment information in accordance with IFRS 8 *Operating Segments*. The *IFRS for SMEs* does not require segment information to be presented in financial statements.

Similarly, some entities that prepare their financial statements in compliance with full IFRS present earnings per share in accordance with IAS 33 *Earnings per Share*. The *IFRS for SMEs* does not require earnings per share to be presented in financial statements.

An entity that chooses to present segment information or earnings per share, or both, must disclose that fact and describe the basis for preparing and presenting that information.

Module 3 – Financial Statement Presentation

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for financial statement presentation in accordance with the *IFRS for SMEs* by answering the questions below.

Once you have completed the test check your answers against those set out below this test.

Assume all amounts are material.

Mark the box next to the most correct statement.

Question 1

Fair presentation requires a faithful representation of the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Section 2.

Fair presentation, in accordance with the *IFRS for SMEs*, is presumed to result from:

- ☐ (a) compliance with the *IFRS for SMEs* by an entity that has public accountability.
- ☐ (b) compliance with the *IFRS for SMEs*, with additional disclosures where necessary, by an entity that has public accountability.
- ☐ (c) compliance with the *IFRS for SMEs* by an entity that does not have public accountability.
- ☐ (d) compliance with the *IFRS for SMEs*, with additional disclosures where necessary, by an entity that does not have public accountability.

Question 2

In which of the following situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* in its financial statements:

- ☐ (a) The entity prepares its financial statements in accordance with local GAAP that has substantially converged with the *IFRS for SMEs*.
- ☐ (b) The entity prepares its financial statements in accordance with local GAAP that is, except in name, word-for-word the same as the *IFRS for SMEs*.
- ☐ (c) The entity prepares its financial statements in accordance with the *IFRS for SMEs*.
- ☐ (d) In both cases (b) and (c) above.

Question 3

An entity that is not publicly accountable must make an explicit and unreserved statement of compliance with the *IFRS for SMEs*:

- ☐ (a) if the entity complies with all the requirements of *IFRS for SMEs*.
- ☐ (b) if the entity complies with the vast majority of the requirements of *IFRS for SMEs*.
- ☐ (c) if the entity complies with the national GAAP based on *IFRS for SMEs* with some specific differences.
- ☐ (d) if the entity complies with full IFRSs.

Question 4

Which of the following entities is not a going concern?

- ☐ (a) management intends to liquidate the entity.
- ☐ (b) management intends to cease the entity's operations.
- ☐ (c) management has no realistic alternative but to cease the entity's operations.
- ☐ (d) all of cases (a) to (c) above.

Question 5

When the classification of items in its financial statements is changed, the entity:

- ☐ (a) must not reclassify the comparative amounts.
- ☐ (b) can choose whether to reclassify the comparative amounts.
- ☐ (c) must reclassify the comparative amounts, unless it is impracticable to do so.

Question 6

Items of dissimilar nature or function:

- ☐ (a) must always be presented separately in financial statements.
- ☐ (b) must not be presented separately in financial statements (ie must be aggregated in the financial statements).
- ☐ (c) must be presented separately in financial statements if those items are material.

Question 7

Materiality depends on:

- ☐ (a) the nature of the omission or misstatement.
- ☐ (b) the size of the omission or misstatement.
- ☐ (c) the size and nature of the omission or misstatement judged in the surrounding circumstances.

Question 8

If the changes to the equity of an entity during the periods for which financial statements are presented arise only from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy:

- ☐ (a) the entity presents the income statement but not the statement of changes in equity.
- ☐ (b) the entity presents the statement of comprehensive income but not the statement of changes in equity.
- ☐ (c) the entity presents the income statement and the statement of changes in equity.
- ☐ (d) the entity presents the statement of comprehensive income and the statement of changes in equity.
- ☐ (e) the entity presents a single statement of income and retained earnings.
- ☐ (f) the entity may present the statement/s listed in either (c), (d) or (e).

Question 9

An entity must disclose comparative information for:

- ☐ (a) the previous comparable period for all amounts reported.
- ☐ (b) the previous comparable period for all amounts reported and for all narrative and descriptive information.
- ☐ (c) the previous comparable period for all amounts reported, and for all narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.
- ☐ (d) the previous two comparable periods for all amounts reported.

Question 10

An entity shall present:

- ☐ (a) the statement of cash flows more prominently than the other statements.
- ☐ (b) the statement of financial position more prominently than the other statements.
- ☐ (c) the statement of comprehensive income more prominently than the other statements.
- ☐ (d) each financial statement with equal prominence.

Module 3 – Financial Statement Presentation

Answers

Q1 (d) see paragraph 3.2
Q2 (d) see paragraph 3.3
Q3 (a) see paragraph 3.3
Q4 (d) see paragraph 3.8
Q5 (c) see paragraphs 3.11 and 3.12
Q6 (c) see paragraph 3.15
Q7 (c) see paragraph 3.16
Q8 (f) see paragraphs 3.17 and 3.18
Q9 (c) see paragraph 3.14
Q10 (d) see paragraph 3.21

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting financial statements in accordance with the *IFRS for SMEs* by solving the case study below.

Once you have completed the case study check your answers against those set out below the test.

Case study

SME C is the wholly-owned subsidiary of SME B.

In 20X9 SME A acquired a controlling interest in SME B. To align the end of their reporting period with that of their parent SME B and SME C immediately changed the end of their reporting period from the last day of November to the last day of December. Furthermore, SME B and SME C changed their names to SME AA and SME AAA respectively.

The entities prepare their financial statements in accordance with the requirements of the *IFRS for SMEs*.

The currency unit of Jurisdiction A is the functional currency and the presentation currency of the entities.

Prepare an extract from the notes to SME AA's 31 December 20X9 consolidated financial statements with respect to these developments.

Answer to case study

SME AA (formerly SME B) Group
Notes to the consolidated financial statements
for the 13-month period ended 31 December 20X9

Note 1 Basis of preparation and accounting policies

Basis of preparation

These consolidated financial statements are prepared in accordance with the *International Financial Reporting Standard (IFRS) for SMEs* issued by the International Accounting Standards Board (IASB). Amounts in the financial statements are presented in currency units (CU) of Jurisdiction A.

Name change

In 20X9, the group came under the control of SME A. To align its name with that of its parent, the group changed its name to SME AA group. This name change was effected by changing the name of SME B and its wholly-owned subsidiary SME C to SME AA and SME AAA respectively.

Reporting period

In 20X9 the group came under the control of SME A. To align the end of its reporting period with that of its parent, the group changed the end of its reporting period from the last day of November to the last day of December. Consequently, the group's statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are for a 13-month period ended 31 December 20X9.

The comparative figures are for the 12-month period ended 30 November 20X8. The figures are therefore not entirely comparable.

Basis of consolidation

The group consists of SME AA (formerly SME B) and its wholly-owned subsidiary SME AAA (formerly SME C). These consolidated financial statements have been presented as those of a single economic entity. The effects of all intragroup transactions are eliminated.