FAR-1 — FINANCIAL ACCOUNTING & REPORTING 1

Topic: IAS 1 — PRESENTATION OF FINANCIAL STATEMENTS

1 TOPIC OVERVIEW

WHAT IS IT?
IAS 1 sets overall requirements for presenting general purpose financial statements — their structure, minimum content, and the current/non-current distinction.

WHY IMPORTANT?
It's the "umbrella" standard that governs how every other standard's numbers are actually laid out and disclosed — the framework every other IAS topic slots into.

CORE PRINCIPLE
Fair presentation = faithful representation of transactions per the Conceptual Framework's definitions/recognition criteria — achieved (presumptively) by applying IFRSs, with extra disclosure where needed.

2 KEY DEFINITIONS [IAS 1:7]

General purpose financial statements: Those meeting the needs of users who cannot require an entity to prepare reports tailored to their own specific information needs.

IFRSs: Standards and Interpretations issued by the IASB — comprising IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations.

Material information: Information whose omission, misstatement or obscuring could reasonably be expected to influence users' decisions.

Purpose of financial statements [IAS 1:9]: To provide information about financial position, performance and cash flows useful to a wide range of users, and to show management's stewardship of entrusted resources — covering assets, liabilities, equity, income/expenses, owner transactions, and cash flows.

3 COMPLETE SET OF FINANCIAL STATEMENTS [IAS 1:10 & 11]

- A statement of financial position as at the end of the period
- A statement of profit or loss and other comprehensive income for the period
- A statement of changes in equity for the period
- A statement of cash flows for the period (IAS 7 applies)
- Notes, comprising significant accounting policies and other explanatory information

Titles may differ from IAS 1's own (e.g. "statement of comprehensive income"). All statements in the set must be presented with **equal prominence**.

4 COMPARATIVE INFORMATION & IDENTIFICATION [IAS 1:10,38,38A,40A,49–51]

Minimum **two** of each statement (SFP, SPL&OCI, separate P&L if presented, cash flows, SOCE) with related notes. A **third SFP** (at the start of the preceding period) is needed when the entity: applies a policy retrospectively (IAS 8), makes a retrospective restatement (IAS 8), or reclassifies items (IAS 1).

Each statement/note must be clearly identified, displaying: name of the reporting entity (and any change); whether individual or group; the reporting period end/covered; presentation currency (IAS 21); and the level of rounding used.

5 GENERAL FEATURES — FAIR PRESENTATION & COMPLIANCE [IAS 1:15,16,18–23]

FAIR PRESENTATION
Requires faithful representation per the Conceptual Framework's definitions/recognition criteria. Applying IFRSs (+ extra disclosure where needed) is **presumed** to achieve fair presentation. Inappropriate policies can **never** be fixed merely by disclosure/notes.

COMPLIANCE & DEPARTURE
Compliant entities make an explicit, unreserved statement of compliance — only if **all** IFRS requirements are met. Departure from a requirement is allowed only in **extremely rare** circumstances where compliance would be so misleading it conflicts with the Conceptual Framework's objective — with extensive disclosure of the departure and its financial effect.

GOING CONCERN, MATERIALITY & OFFSETTING

6 GOING CONCERN [IAS 1:25 & 26] — DECISION TREE

Management's assessment	Impact
Entity is a going concern	Prepare financial statements on a **going concern basis**.
Going concern, but significant doubt exists	Prepare on going concern basis; **disclose the uncertainties** causing the doubt.
Entity is NOT a going concern	Prepare on an **alternative basis** (e.g. liquidation accounting); disclose the fact, the basis used, and the reason.

Management assesses **at least** the 12 months from period-end (not limited to it) when forming this judgement. Prepare on a going concern basis unless management intends to liquidate/cease trading, or has no realistic alternative.

7 OTHER GENERAL FEATURES [IAS 1:27,29,30,32]

Feature	Rule
Accrual basis	Financial statements are prepared on the accrual basis — except cash flow information.
Separate presentation (materiality)	Present each material class of similar items separately; present dissimilar items separately unless immaterial.
Aggregation	Individually immaterial line items are aggregated with others (in the statements or notes); an item too small for the statements may still deserve separate note disclosure.
Offsetting	Assets/liabilities and income/expenses are **not** offset unless an IFRS requires or permits it.

8 OFFSETTING — WORKED EXAMPLES

Income & expense — REQUIRED	IFRS 15 requires revenue net of discount/rebate.
Income & expense — PERMITTED	Gain/loss on disposal of non-current assets may be shown net, reflecting the substance of the transaction.
Income & expense — NOT permitted	Revenue from inventory sale and its cost of sales must be shown separately.
Assets & liabilities — PERMITTED	A grant related to an asset may be shown separately OR deducted from the asset's carrying amount.
Assets & liabilities — NOT permitted	Income tax payable and sales tax refundable from FBR cannot be offset — tax law doesn't allow net settlement, so netting wouldn't reflect the substance.

9 FREQUENCY OF REPORTING [IAS 1:36 & 37]

A complete set of financial statements (with comparatives) is presented **at least annually**. If the reporting period changes to longer/shorter than one year, disclose: (a) the reason, and (b) that the amounts are not entirely comparable. Reporting for e.g. a 52-week period instead of a calendar year is **not prohibited**.

10 CALCULATION/ANALYSIS ROADMAP — IAS 1 QUESTIONS

1. Identify the FS presentation issue
2. Apply the relevant IAS 1 rule
3. Classify item (current/non-current, function/nature, etc.)
4. Adjust figures if required
5. Slot into correct statement/note
6. Disclose as required

STATEMENT OF FINANCIAL POSITION — CONTENT & CLASSIFICATION

11 MINIMUM LINE ITEMS ON THE SFP [IAS 1:54 & 55]

PPE (IAS 16); investment property (IAS 40); intangible assets (IAS 38); financial assets; equity-method investments (IAS 28); biological assets (IAS 41); inventories (IAS 2); trade & other receivables; cash and cash equivalents; trade & other payables; provisions (IAS 37); other financial liabilities; current/deferred tax assets & liabilities (IAS 12); issued capital and reserves attributable to owners. Additional line items/headings/subtotals are presented when relevant to understanding the entity's position.

12 CURRENT/NON-CURRENT DISTINCTION — DECISION TREE [IAS 1:56,60,61,66]

Present current/non-current as separate SFP classifications **unless** a liquidity-based presentation is reliable and more relevant (then order by liquidity throughout). Either way, disclose the amount expected to be recovered/settled after 12 months for any combined line item.

ASSET is current if...	Expected to be realised/sold/consumed in the normal operating cycle; OR held primarily for trading; OR expected to be realised within 12 months; OR is cash/cash equivalent (unless restricted from use/exchange for ≥12 months). All else → non-current. **Deferred tax assets are never current.**
LIABILITY is current if...	Expected to be settled in the normal operating cycle; OR held primarily for trading; OR due to be settled within 12 months; OR the entity lacks an **unconditional right** to defer settlement for ≥12 months (equity-settlement option of the counterparty doesn't change this). All else → non-current.

A loan due within 12 months stays **current** even if refinanced/rescheduled long-term **after** period-end but before the statements are authorised — post year-end refinancing, breach rectification, or a grace period ending ≥12 months out do NOT change the classification.

13 WORKED CHECKS — CURRENT vs NON-CURRENT [Examples 01–02]

Slow-moving inventory, sale expected in ~2 yrs	**Current** — inventory is part of the normal operating cycle regardless of timing.
Fixed deposit maturing in ~18 months	**Non-current** — restricted beyond 12 months; fails all 4 asset tests.
Rs.50m loan: Rs.20m due Yr3, Rs.30m due Yr4 (viewed at end of Yr1/Yr2/Yr3)	End Yr1: **all non-current**. End Yr2: **Rs.20m current** (due next year) + Rs.30m non-current. End Yr3: **Rs.30m current** (now due within 12 months).

14 SFP FORMAT & SHARE CAPITAL DISCLOSURE [IAS 1:79]

Illustrative SFP structure	
Non-current assets (PPE, investment property, intangibles, investments)	X
Current assets (inventories, receivables, other, cash)	X
Equity (share capital, other components, retained earnings)	X
Non-current liabilities (borrowings, deferred tax, long provisions)	X
Current liabilities (payables, ST borrowings/overdraft, current portion of LT debt, current tax, ST provisions)	**X**

Disclose per class of share capital (in the SFP, SOCE, or notes): shares authorised; issued & fully/not-fully paid; par value; reconciliation of shares outstanding; rights/preferences/restrictions; own/subsidiary-held shares; shares reserved for options; and a description of each reserve's nature and purpose.

WORKED CHECK [Example 03 pattern]

Adjustments flow through retained earnings and specific assets: write inventory down to NRV; reverse a written-back liability now actually paid; impair an intangible to its recoverable amount; increase the doubtful debt allowance — each reduces both an asset (or increases a liability) and retained earnings by the same amount.

PROFIT/LOSS & OCI, NOTES & QUICK RECAP

15 SPL&OCI — DEFINITIONS & PRESENTATION [IAS 1:7,10A,81A,88,91]

Profit or loss = income less expenses, excluding OCI items. **OCI** = income/expense items (incl. reclassification adjustments) not recognised in profit or loss as required/permitted by other IFRSs. **Total comprehensive income** = the period's change in equity from transactions/events other than transactions with owners as owners.

SINGLE STATEMENT
P&L section presented first, immediately followed by the OCI section, together in one statement.

TWO STATEMENTS
Separate statement of profit or loss immediately precedes the statement of comprehensive income, which itself begins with profit or loss.

The statement(s) must show: profit or loss; total OCI; and total comprehensive income (P&L + OCI). Minimum line items include revenue (interest revenue shown separately), finance costs, and tax expense.

16 ANALYSIS OF EXPENSES — FUNCTION vs NATURE [IAS 1:99–104]

By FUNCTION (cost of sales method)		By NATURE	
Revenue	7,200	Revenue + Other income	7,500
Cost of sales	(2,700)	Change in inventories (FG/WIP)	90
Gross profit	4,500	Raw materials & consumables used	(1,200)
Other income	300	Staff costs	(2,000)
Distribution costs	(2,100)	Depreciation & amortisation	(1,000)
Administrative expenses	(1,400)	Other expenses	(2,300)
Other expenses / Profit before tax	**(390) / 910**	**Profit before tax**	**910**

Choose whichever method is **more relevant/reliable**; IAS 1 **encourages** showing this on the statement's face rather than in a note. **By-function** disclosure must additionally give depreciation/amortisation and staff cost figures somewhere. **By-nature** is common for manufacturers; immaterial items are grouped as "other expenses."

17 MATERIAL ITEMS [IAS 1:97 & 98] & NOTES [IAS 1:112,113,117,137,138]

SEPARATELY DISCLOSE (nature + amount) WHEN MATERIAL
Inventory/PPE write-downs to NRV/recoverable amount (and reversals); restructurings (and provision reversals); disposals of PPE or investments; discontinued operations; litigation settlements; other provision reversals.

NOTES — STRUCTURE & CONTENT
Present basis of preparation and accounting policies; disclose IFRS-required info not shown elsewhere; give relevant supplementary info. Present systematically; cross-reference each statement line to its note. Disclose measurement basis(es) and other significant policies. Also disclose: proposed/declared-but-unrecognised dividends (+ per share); unrecognised cumulative preference dividends; domicile, legal form, country of incorporation, registered office; nature of operations; parent/ultimate parent name; life span if limited-life entity.

In Pakistan, companies must also follow the Companies Act 2017 (4th & 5th schedules) — where law and IFRS conflict, **the law prevails**.

! ⚠ EXAM TRAPS — COMMON MISTAKES

- Classifying a loan due next year as **non-current** just because refinancing was agreed after year-end but before the statements were authorised — this never changes the classification.
- Treating an asset expected to be realised outside 12 months as automatically **non-current** — inventory and other operating-cycle items stay current regardless of the timeline.
- Classifying a **deferred tax asset/liability** as current — it is always non-current.
- Offsetting items where it is **not permitted** (e.g. revenue against cost of sales, or tax payable against a refundable tax asset of a different kind).
- Assuming disclosure alone can fix an **inappropriate accounting policy** — fair presentation cannot be achieved this way.
- Mixing the **function** and **nature** expense-analysis formats within one statement, or omitting the extra disclosures (depreciation, staff costs) required when using the function method.
- Presenting OCI **before** profit or loss in a single statement, or failing to have profit or loss begin the comprehensive income statement in the two-statement approach.
- Concluding "going concern" issues require an **alternative basis** automatically — significant doubt with no real going-concern failure still uses the normal basis, just with extra disclosure.
- Forgetting the **third SFP** requirement whenever a retrospective policy change, restatement, or reclassification affects the earliest comparative period.
- Treating "material" as a fixed percentage threshold rather than the qualitative test — whether omitting/misstating it could influence users' economic decisions.

18 QUICK DECISION TREE — ANSWERING ANY IAS 1 QUESTION

1. Question given →
2. SFP, SPL&OCI, or general feature/note issue? →
3. Apply the relevant IAS 1 rule →
4. Classify/calculate →
5. Present in correct statement/note →
✔ Final answer

IAS 1 — PRESENTATION OF FINANCIAL STATEMENTS IN 60 SECONDS

Complete set: SFP, SPL&OCI, SOCE, statement of cash flows, notes — equal prominence.

Fair presentation = faithful representation per Conceptual Framework; disclosure never fixes a wrong policy.

Going concern: normal basis unless liquidation/no realistic alternative; disclose doubt if it exists.

Offsetting: not allowed unless an IFRS requires/permits it.

Current asset/liability: operating cycle, held for trading, due/realised within 12 months, or (asset) is unrestricted cash.

Post year-end refinancing never reclassifies an already-current loan.

Expenses: analyse by function (cost of sales method) or nature — pick the more relevant, show on the face if possible.

Material items (write-downs, disposals, restructuring, discontinued ops) disclosed separately.

Third SFP needed for retrospective policy change/restatement/reclassification.