Preparation of Financial Statements (IAS 1)

A complete last-minute revision map: IAS 1 requirements, current vs non-current classification, the exact SOFP and statement of comprehensive income formats, and the adjusted trial balance — exactly as tested in PRC-1.

IAS 1 Requirements | Current vs Non-Current | SOFP & SOCI Formats | Adjusted Trial Balance

1 CORE CONCEPT

> *Financial statements let external stakeholders — owners, lenders, suppliers, customers — evaluate an entity's financial performance, position, liquidity, and cash flows.*

Trial Balance → Year-End Adjustments → Adjusted Trial Balance → Financial Statements

2 KEY DEFINITIONS

Statement of Financial Position (SOFP)
A snapshot of assets, liabilities and equity at a particular date.

Statement of Comprehensive Income
Combines profit or loss with other comprehensive income for a period.

Adjusted Trial Balance
General ledger balances at period end, after incorporating all year-end adjusting entries.

3 IMPORTANT RULES — IAS 1 GENERAL REQUIREMENTS

✓ Must Be Shown

True and fair view
Fairly presents position, performance & cash flows

Comparatives
Preceding period's figures disclosed alongside current year

Identification
Entity name, period end date, currency, rounding level

✗ Flexible / Not Prescribed

Statement titles
e.g. "Balance sheet" may be used instead of SOFP

Single vs two statements
P&L and OCI may be one statement or two

Additional line items
Added only where relevant to understanding

4 FORMULAS

TOTAL COMPREHENSIVE INCOME

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Profit / Loss for the Period
+ Other Comprehensive Income
= Total Comprehensive Income
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CURRENT ASSET TEST (ANY ONE QUALIFIES)

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Realised/sold/consumed in normal operating cycle
OR Held for trading
OR Realised within 12 months of reporting date
OR Cash / cash equivalent (unrestricted)
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All other assets are classified as non-current.

5 FORMAT — STATEMENT OF FINANCIAL POSITION

SOFP AS AT [DATE]	
Non-current assets	**Rs. m**
PPE, intangibles, investments	300
Current assets	
Inventories, receivables, cash	200
Total assets	**500**
Equity	
Capital + Profit − Drawings	250
Non-current liabilities	
Long term borrowings	150
Current liabilities	
Payables, overdraft, tax payable	100
Total equity & liabilities	**500**

6 STEP-BY-STEP ROADMAP

1. **Start from the unadjusted trial balance**
   An arithmetic check only — not yet reliable for reporting.
2. **Post all year-end adjusting entries**
   Accruals, prepayments, depreciation, inventory, etc.
3. **Produce the adjusted trial balance**
   Reliable basis for preparing the statements.
4. **Classify each balance and present**
   Current/non-current in SOFP; by function in SOCI.

7 FORMAT — STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED [DATE] (cost of sales method)	
Revenue	1,250
Cost of sales	(950)
Gross profit	**300**
Other income	100
Admin expenses	(100)
Distribution expenses	(100)
Other expenses	(50)
Finance cost	(50)
Profit before tax	**100**
Tax	–
Profit after tax	**100**
Other comprehensive income	0
Total comprehensive income	**100**

8 UNADJUSTED VS ADJUSTED TRIAL BALANCE

✗ Unadjusted TB

Timing
Prepared before year-end adjustments

Accuracy
May lack updates for accruals, depreciation, inventory

Reliability
Not reliable for final financial reporting

✓ Adjusted TB

Timing
Prepared after all necessary adjustments

Accuracy
Reflects updated balances for accurate reporting

Reliability
Reliable basis for preparing financial statements

Both must still balance — debits equal credits — but an agreeing total **never guarantees** every balance is correct.

9 FINANCIAL STATEMENT EFFECT — TRADING VS SERVICE COMPANIES

MERCHANDISE / TRADING COMPANY

Large % of assets = inventory
Capital tied up in relatively less liquid assets

Less cash on hand
Compared to service businesses

Shows cost of sales
A distinct line item in the income statement

SERVICE COMPANY

Large % of assets = receivables
Funds tied up towards accounts receivable

No cost of goods sold line
No physical inventory is sold to customers

Examples
Investment banking, consulting, audit, advisory firms

10 COMMON EXAM CASES — DECISION TREE

IF realised within 12 months	→ Current asset
IF part of operating cycle	→ Current asset, even if >12 months (e.g. inventory)
IF cash restricted 12+ months	→ Excluded from cash/cash equivalents test
IF none of the criteria met	→ Classify as non-current asset

11 COMMON MISTAKES / EXAM TRAPS

Trap: Assuming inventory/receivables must convert within 12 months
They qualify as current assets if realised within the normal OPERATING CYCLE, even if that exceeds 12 months.

Trap: Treating an agreeing TB as error-free
Both unadjusted and adjusted trial balances can balance perfectly while still containing misclassifications or omissions.

Trap: Expecting a cost of sales line for a service company
Service companies have no inventory sold to customers, so no cost of goods sold line appears in their income statement.

PREPARATION ORDER
Trial balance → year-end adjustments → adjusted trial balance → financial statements.

IAS 1 MUSTS
True and fair view, comparatives, and full identification of the reporting entity.

CURRENT ASSET TEST
Any ONE of: operating cycle, held for trading, within 12 months, or cash/cash equivalent.

TWO STATEMENTS
SOFP = position at a date. SOCI = performance over a period, ending in total comprehensive income.