Chapter 3

Presentation of financial statements

Introduction

The main purpose of this chapter is to explain the requirements of international standard IAS1 *Presentation of Financial Statements*. The objective of IAS1 is to specify the overall structure and content of general purpose financial statements and so ensure that an entity's financial statements for a reporting period are comparable with those of other periods and with those of other entities. The standard sets out:

(a) the general features of financial statements
(b) guidelines with regard to their structure, and
(c) minimum requirements for their content.

This chapter also outlines the main requirements of IAS34 *Interim Financial Reporting* and summarises the guidance provided by the IASB on the inclusion of a "management commentary" in an entity's annual report and on the making of materiality judgements.

Objectives

By the end of this chapter, the reader should be able to:

- identify the components of a complete set of financial statements
- explain the general features of a set of financial statements
- explain the structure and content of each component of a set of financial statements
- distinguish between current and non-current assets and between current and non-current liabilities
- prepare a statement of financial position, a statement of comprehensive income and a statement of changes in equity, in accordance with the requirements of IAS1
- outline the main requirements of international standard IAS34
- summarise the guidance provided by IFRS Practice Statement 1 *Management Commentary* and IFRS Practice Statement 2 *Making Materiality Judgements*.

Purpose of financial statements

The requirements of IAS1 apply to all general purpose financial statements prepared and presented in accordance with international standards. General purpose financial statements are those intended for users who are not in a position to demand reports that are tailored for their own particular information needs.

According to IAS1, the objective of such financial statements is "*to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions*". To meet this objective, general purpose financial statements should provide information about an entity's:

(a) assets, liabilities and equity
(b) income and expenses, including gains and losses
(c) contributions by and distributions to owners in their capacity as owners
(d) cash flows.

This information is given in four primary financial statements. Further information is given in the notes which accompany these statements.

Components of financial statements

IAS1 states that a complete set of financial statements comprises:

(a) a statement of financial position as at the end of the accounting period
(b) a statement of profit or loss and other comprehensive income for the period
(c) a statement of changes in equity for the period
(d) a statement of cash flows for the period
(e) a set of notes, providing information on the entity's significant accounting policies together with other explanatory information
(f) comparative information in respect of the previous period (see later in this chapter)
(g) a statement of financial position as at the *beginning* of the previous period, in the case that the entity has applied an accounting policy retrospectively or has made a retrospective restatement of items in its financial statements (see Chapter 4).

These titles have replaced the more traditional titles used in previous versions of IAS1 (e.g. "balance sheet") and are thought by the IASB to reflect more closely the function of each statement. However, entities are allowed to use titles for the financial statements other than those used in the standard if they so wish. In particular, IAS1 states that an entity may use the title "statement of comprehensive income" rather than "statement of profit or loss and other comprehensive income". For the sake of brevity, this is the practice adopted throughout this textbook.

The structure and content of most of these statements is specified in IAS1. But the statement of cash flows is dealt with by IAS7 *Statement of Cash Flows* (see Chapter 16). The notes which accompany the four primary statements are an integral part of the financial statements and so fall within the scope of IAS1 and all other international standards.

In addition to the financial statements, IAS1 recognises that an entity's annual report may contain a management review which explains the main features of the entity's financial position and performance. Such a review is outside the scope of international standards but the IASB has issued a non-binding Practice Statement to assist entities that wish to include a "management commentary" in their annual reports (see later in this chapter).

General features

Under the heading "general features", IAS1 sets out a number of general rules which relate to the presentation of financial statements. Many of these are clearly based upon principles established in the *Conceptual Framework* (see Chapter 2). The main areas dealt with in this part of IAS1 are:

(a) fair presentation and compliance with international standards
(b) going concern basis and accrual basis
(c) materiality and aggregation
(d) offsetting
(e) frequency of reporting
(f) comparative information
(g) consistency of presentation.

Each of these is considered below.

Fair presentation and compliance with international standards

Financial statements must present fairly the financial position, financial performance and cash flows of the entity concerned. This requires that the effects of transactions and other events should be faithfully represented in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework*. It is assumed that the application of international standards will result in financial statements that achieve a fair presentation. An entity which produces financial statements that comply with international standards must make an explicit and unreserved statement to that effect in the notes. A fair presentation also requires the entity to:

(a) select and apply appropriate accounting policies in accordance with the requirements of international standard IAS8 (see Chapter 4)
(b) provide information that is relevant, reliable, comparable and understandable
(c) provide further disclosures if compliance with international standards is insufficient to enable users to understand the impact of transactions and other events.

On very rare occasions, compliance with a requirement in an international standard may produce misleading information and so conflict with the objective of financial statements. In these circumstances, the entity should depart from that requirement and the notes should disclose that the entity has complied with international standards except that it has departed from a particular requirement in order to achieve a fair presentation. The notes should identify the title of the standard concerned, the nature of the departure, the reason for the departure, the accounting treatment that the standard would have required, the accounting treatment actually adopted and the financial impact of the departure.

Going concern basis and accrual basis

Financial statements should be prepared on the going concern basis (see Chapter 2) unless the entity intends to cease trading or has no realistic alternative but to do so. If there are significant doubts as to whether the entity is a going concern, the uncertainties which give rise to these doubts should be disclosed. If financial statements are *not* prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reasons that the entity is not regarded as a going concern.

Financial statements other than the statement of cash flows should be prepared using the accrual basis of accounting (see Chapter 2). The statement of cash flows is an obvious exception to this rule since, by definition, it is prepared on a cash basis (see Chapter 16).

Materiality and aggregation

IAS1 states that information is material if "*omitting, mis-stating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements*". Materiality should be judged in context and either the size or the nature of an item (or both) could determine whether or not the item is material. Further guidance is provided in IFRS Practice Statement 2 *Making Materiality Judgements* (see later in this chapter).

In general, financial statements are prepared by analysing transactions and other events into classes and then aggregating (i.e. totalling) each of these classes to produce line items which appear in the statements. For instance, all sales transactions are aggregated into a single revenue figure shown in the statement of comprehensive income. IAS1 requires that each material class of similar items should be presented separately in the financial statements. If an item is not individually material, it may be aggregated with other line items.

IAS1 states that there is no need to disclose information required by an international standard if the information is not material. Similarly, IAS8 (see Chapter 4) states there is no need to apply an accounting policy required by an international standard if the effect of applying the policy would be immaterial. This means that compliance with standards can be achieved without having to apply complex accounting treatments to insignificant items.

Offsetting

In general, assets and liabilities should be reported separately in the statement of financial position and should not be offset against one another. Similarly, income and expenses should be reported separately in the statement of comprehensive income. IAS1 takes the view that offsetting should not be allowed, since this would normally detract from users' ability to understand transactions and other events.

However, this general rule does not apply in a specific instance if another international standard permits or requires offsetting in that instance.

Frequency of reporting

Financial statements should normally be presented at least annually. If an entity changes its accounting date and so presents a set of financial statements for a period which is longer or shorter than one year, the entity should disclose:

(a) the reason for using a period that is longer or shorter than one year
(b) the fact that the comparative amounts given for the previous period are not directly comparable with those given for the current period.

Comparative information

In general, IAS1 requires that entities should present (as a minimum) comparative information in respect of the previous period for all amounts reported in the financial statements. Comparatives should also be given for narrative information if this would be relevant to an understanding of the current period's financial statements.

Consistency of presentation

In order to maintain comparability, the way in which items are presented and classified in the financial statements should generally be consistent from one accounting period to the next. However, this rule does not apply if:

(a) it is apparent that a different presentation or classification would be more appropriate, following either a significant change in the nature of the entity's operations or a review of its financial statements
(b) a different presentation or classification is required by an international standard.

Structure and content of financial statements

The majority of IAS1 is concerned with the structure and content of an entity's financial statements. The standard requires that certain items should be shown in the statement of financial position, the statement of comprehensive income and the statement of changes in equity. Other items should be shown either in these statements or in the notes. IAS1 does not deal with the statement of cash flows, since this is the subject of IAS7 *Statement of Cash Flows* (see Chapter 16). The main headings in this part of IAS1 are:

(a) identification of the financial statements
(b) the statement of financial position

(c) the statement of profit or loss and other comprehensive income
(d) the statement of changes in equity
(e) the notes.

Each of these is considered below.

Identification of the financial statements

The first point made in this part of IAS1 is that the financial statements should be clearly identified as such and distinguished from any other information which may be given in the same published document (e.g. a management review). Since international standards apply only to the financial statements, it is important that users can distinguish information that has been prepared in accordance with standards from information that has not.

Furthermore, each component of the financial statements should be clearly identified and the following information should be displayed prominently and repeated where necessary for a proper understanding of the information presented:

(a) the name of the reporting entity
(b) whether the financial statements are for a single entity or a group (see Chapter 18)
(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes
(d) the presentation currency used
(e) the level of rounding used (e.g. £000 or £m).

The statement of financial position

A statement of financial position (formerly referred to as a balance sheet) shows an entity's assets, liabilities and equity.

An important requirement of IAS1 with regard to the statement of financial position is that current and non-current assets should be presented separately and that current and non-current liabilities should also be presented separately. For an entity which supplies goods or services within a clearly identifiable operating cycle, this separation provides useful information by:

(a) distinguishing the net assets that are continuously circulating as working capital from those used in the long-term, and
(b) highlighting the assets that are expected to be realised within the current operating cycle and the liabilities that are due for settlement within the same period.

IAS1 establishes a set of criteria which should be used to distinguish between current and non-current assets and another set of criteria which should be used to distinguish between current and non-current liabilities.

Current and non-current assets

An asset is classified as a current asset† if it satisfies *any* of the following criteria:

(a) it is expected to be realised, or is intended for sale or consumption, within the entity's normal operating cycle
(b) it is held primarily for the purpose of being traded
(c) it is expected to be realised within twelve months after the reporting period
(d) it is cash or a cash equivalent as defined by standard IAS7 (see Chapter 16) unless it is restricted from being exchanged or from being used to settle a liability for at least twelve months after the reporting period.

An asset that satisfies none of these criteria is a non-current asset. The operating cycle of an entity is defined as "*the time between the acquisition of assets for processing and their realisation in cash or cash equivalents*". If an entity's normal operating cycle cannot be clearly identified, it is assumed to be twelve months. Note that current assets include items such as inventories and trade receivables that are expected to be realised during the normal operating cycle, even if they are not expected to be realised within twelve months.

IAS1 does not require the use of the terms "current" and "non-current" and other descriptions could be used so long as their meaning is clear. However, these terms are used extensively in practice.

† *An asset initially classified as non-current should not be reclassified as current until it meets the "held for sale" criteria set out in international standard IFRS5 (see Chapter 8).*

Current and non-current liabilities

A liability is classified as a current liability if it satisfies *any* of the following criteria:

(a) it is expected to be settled in the entity's normal operating cycle
(b) it is held primarily for the purpose of being traded
(c) it is due to be settled within twelve months after the reporting period
(d) the entity does not have an unconditional right‡ to defer settlement of the liability for at least twelve months after the reporting period.

A liability that satisfies none of these criteria is a non-current liability. Current liabilities include items such as trade payables and accrued expenses that are expected to be settled during the normal operating cycle, even if they are not expected to be settled within twelve months. Current liabilities also include items such as bank overdrafts, dividends payable and taxes which are not settled as part of the normal operating cycle but which are due to be settled within twelve months.

‡ *In February 2015, the IASB issued an exposure draft of a proposed amendment to IAS1. In this exposure draft, the words "an unconditional right" are amended to "a right at the end of the reporting period". The exposure draft also gives examples of circumstances in which such a right is created. The progress of this proposal may be followed on website www.ifrs.org.*

Information to be presented in the statement of financial position

IAS1 does not specify any particular format for the statement of financial position. Nor does it prescribe the order in which items should be shown. But the standard does provide a list of line items that should be presented separately in the statement if their size or nature is such that separate presentation is relevant to an understanding of the entity's financial position. Additional line items, headings and subtotals should also be presented where relevant. The main line items listed by IAS1 are as follows:

		Chapter of this book
(a)	property, plant and equipment	5
(b)	investment property	5
(c)	intangible assets	6
(d)	financial assets	11
(e)	investments accounted for by the equity method	20
(f)	inventories	10
(g)	trade and other receivables	11
(h)	cash and cash equivalents	16
(i)	assets classified as "held for sale"	8
(j)	trade and other payables	11
(k)	provisions	12
(l)	financial liabilities	11
(m)	current tax assets and liabilities	15
(n)	deferred tax assets and liabilities	15
(o)	liabilities included in disposal groups held for sale	8
(p)	non-controlling interests	18
(q)	issued equity capital and reserves	11

The order of the items and the descriptions used may be amended in accordance with the nature of the entity and its transactions, so as to provide relevant information. As indicated above, each of these items is addressed in later chapters of this book. Item (p) will arise only if the entity is a member of a group.

Format of the statement of financial position

Although IAS1 does not prescribe a format for the statement of financial position, the implementation guidance that accompanies the standard includes an illustration which shows one way in which the statement may be presented. A slightly simplified version of this illustration is shown in Figure 3.1 below. This illustrative format is not prescriptive and other formats may be used if appropriate.

XYZ plc - Statement of financial position as at 31 December 2019

	2019	2018
	£000	£000
ASSETS		
Non-current assets		
Property, plant and equipment	xxx	xxx
Intangible assets	xxx	xxx
Investments	xxx	xxx
	xxx	xxx
Current assets		
Inventories	xxx	xxx
Trade receivables	xxx	xxx
Cash and cash equivalents	xxx	xxx
	xxx	xxx
Total assets	xxx	xxx
EQUITY AND LIABILITIES		
Equity		
Share capital	xxx	xxx
Retained earnings	xxx	xxx
Other reserves	xxx	xxx
Total equity	xxx	xxx
Non-current liabilities		
Long-term borrowings	xxx	xxx
Deferred tax	xxx	xxx
Long-term provisions	xxx	xxx
Total non-current liabilities	xxx	xxx
Current liabilities		
Trade and other payables	xxx	xxx
Short-term borrowings	xxx	xxx
Current tax payable	xxx	xxx
Short-term provisions	xxx	xxx
Total current liabilities	xxx	xxx
Total liabilities	xxx	xxx
Total equity and liabilities	xxx	xxx

Figure 3.1 Illustrative format of the statement of financial position

Information in the statement of financial position or in the notes

IAS1 requires that the line items presented in the statement of financial position should be analysed into sub-classifications, either in the statement itself or in the notes. These sub-classifications should be appropriate to the entity but also depend to some extent on the requirements of other international standards. For instance, property, plant and equipment is analysed in accordance with IAS16 *Property, Plant and Equipment* (see Chapter 5) and inventories are analysed in accordance with IAS2 *Inventories* (see Chapter 10).

IAS1 also requires further disclosures with regard to share capital and reserves. These disclosures may be given in the statement of financial position or the statement of changes in equity, or in the notes. The disclosures include:

(a) for each class of share capital:

- (i) the number of shares authorised and the par value per share
- (ii) the number of shares issued and fully paid, and issued but not fully paid
- (iii) a reconciliation of the number of shares outstanding at the beginning and end of the accounting period
- (iv) the rights, preferences and restrictions attaching to that class of shares

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

The statement of comprehensive income

The statement of comprehensive income is a financial statement which shows an entity's income and expenses for the reporting period and summarises its financial performance for that period. As mentioned earlier in this chapter, IAS1 refers to this financial statement as the "statement of profit or loss and other comprehensive income". However, entities are permitted to use alternative titles for the financial statements if they so wish and the shorter title "statement of comprehensive income" is used throughout this book.

Most types of income and expenses are taken into account when calculating an entity's profit or loss for a reporting period. However, international standards require that certain classes of income or expense should be disregarded when calculating profit or loss and should instead be presented in the statement of comprehensive income under the heading "other comprehensive income". For instance:

(a) IAS16 *Property, Plant and Equipment* generally requires that surpluses arising on the revaluation of tangible non-current assets should be presented as other comprehensive income (see Chapter 5).

(b) IAS38 *Intangible Assets* makes a similar requirement in relation to surpluses arising on the revaluation of intangible assets (see Chapter 6).

Despite its name, "other comprehensive income" can include expenses as well as income and can therefore be negative.

Structure of the statement of comprehensive income

IAS1 requires that all items of income or expense that are recognised in an accounting period should be presented in *either*:

(a) a single statement of comprehensive income (with an "other comprehensive income" section following the calculation of profit or loss for the period), or

(b) two separate statements, comprising:

  (i) a statement which shows the entity's profit or loss, and

  (ii) a second statement which begins with the profit or loss for the period and shows the entity's other comprehensive income.

In either case, the entity must present figures showing its profit or loss, the total of its other comprehensive income (if any) and its "total comprehensive income" for the period, which is equal to the sum of its profit or loss and its other comprehensive income.

Information presented in the statement of comprehensive income

As with the statement of financial position, IAS1 does not prescribe a specific format for the statement of comprehensive income. Instead, the standard provides a list of line items that should be presented separately in this statement (in addition to items required by other international standards). Further line items, headings and subtotals should be presented where relevant. The main items listed by IAS1 are as follows:

		Chapter of this book
(a)	revenue	13
(b)	finance costs	9,11
(c)	profits or losses accounted for by the equity method	20
(d)	tax expense	15
(e)	a single amount for the total of discontinued operations	8
(f)	each class of other comprehensive income	5,6,11,14,21

The order of the items and the descriptions used may be amended where this is necessary to explain the entity's financial performance. An important further requirement of IAS1 is that an entity should *not* present any items of income or expense as "extraordinary" items, either in the statement of comprehensive income or in the notes.

Classification of other comprehensive income

IAS1 requires that an entity's other comprehensive income (see above) should be presented in two categories. These are:

(a) items of other comprehensive income which, if certain conditions are satisfied, will be "reclassified to profit or loss" in a subsequent reporting period (i.e. they will take part in the calculation of the profit or loss for that period)

(b) items of other comprehensive income which will not be reclassified to profit or loss.

Items that may be reclassified to profit or loss are few and tend to be rather technical in nature (e.g. certain foreign exchange differences). The only items of other comprehensive income that will occur in practical exercises in this book are items which cannot be reclassified to profit or loss (e.g. revaluation surpluses).

Groups of companies

If the financial statements are for a group of companies, the statement of comprehensive income must also disclose:

(a) the amount of the profit or loss for the period which is attributable to non-controlling interests and the amount which is attributable to the owners of the parent company

(b) the amount of the total comprehensive income for the period which is attributable to non-controlling interests and the amount which is attributable to the owners of the parent company.

The financial statements of groups of companies and the meaning of terms such as "non-controlling interest" are explained in Chapters 18 and 19 of this book.

Information in the statement of comprehensive income or in the notes

In addition to the items which must be presented in the statement of comprehensive income, further items of income and expense should be disclosed separately (either in the statement itself or in the notes) if material. The entity must also present an analysis of expenses using a classification based on either:

(a) the nature of the expenses, or

(b) the function of the expenses within the entity.

Entities are encouraged to present this analysis in the statement of comprehensive income but it may be presented instead in the notes which accompany the financial statements. An analysis which is based on the nature of the expenses might include headings such as depreciation, employee benefits, motor expenses etc. An analysis based on function would normally classify expenses into cost of sales, distribution costs and administrative expenses. An entity which analyses expenses by function must also provide additional information on the nature of expenses, including depreciation and employee benefits.

Format of the statement of comprehensive income

The implementation guidance which accompanies IAS1 provides two main illustrations of the statement of comprehensive income. One of these shows a single statement with expenses analysed by function and the other shows two separate statements with expenses analysed by nature. Simplified versions of these illustrations are shown in Figures 3.2a, 3.2b and 3.2c below. As with the statement of financial position, IAS1 makes it clear that these formats are only illustrations and that other formats may be used if appropriate.

XYZ plc - Statement of comprehensive income for year to 31 December 2019

	2019	2018
	£000	£000
Revenue	xxx	xxx
Cost of sales	(xxx)	(xxx)
Gross profit	xxx	xxx
Other income	xxx	xxx
Distribution costs	(xxx)	(xxx)
Administrative expenses	(xxx)	(xxx)
Other expenses	(xxx)	(xxx)
Finance costs	(xxx)	(xxx)
Profit before tax	xxx	xxx
Tax expense	(xxx)	(xxx)
PROFIT FOR THE YEAR	xxx	xxx
Other comprehensive income:		
***Items that will not be reclassified to profit or loss*:**		
Gains on property revaluation	xxx	xxx
Investments in equity instruments	xxx	xxx
Tax relating to items that will not be reclassified	(xxx)	(xxx)
Other comprehensive income for the year net of tax	xxx	xxx
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	xxx	xxx

Figure 3.2a Single statement of comprehensive income (expenses analysed by function)

XYZ plc - Statement of profit or loss for year to 31 December 2019

	2019	2018
	£000	£000
Revenue	xxx	xxx
Other income	xxx	xxx
Changes in inventories of finished goods and WIP	(xxx)	(xxx)
Raw material and consumables used	(xxx)	(xxx)
Employee benefits expense	(xxx)	(xxx)
Depreciation and amortisation expense	(xxx)	(xxx)
Impairment of property, plant and equipment	(xxx)	(xxx)
Other expenses	(xxx)	(xxx)
Finance costs	(xxx)	(xxx)
Profit before tax	xxx	xxx
Tax expense	(xxx)	(xxx)
PROFIT FOR THE YEAR	xxx	xxx

Figure 3.2b Separate statement of profit or loss (expenses analysed by nature)

XYZ plc - Statement of comprehensive income for year to 31 December 2019

	2019	**2018**
	£000	£000
Profit for the year	xxx	xxx
Other comprehensive income:		
***Items that will not be reclassified to profit or loss*:**		
Gains on property revaluation	xxx	xxx
Investments in equity instruments	xxx	xxx
Tax relating to items that will not be reclassified	(xxx)	(xxx)
Other comprehensive income for the year net of tax	xxx	xxx
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	xxx	xxx

Figure 3.2c Separate statement of comprehensive income

The statement of changes in equity

A statement of changes in equity shows how each component of equity has changed during an accounting period. In the case of a company, the components of equity will be share capital and each of the company's reserves. IAS1 requires that the following items are presented in the statement of changes in equity:

(a) total comprehensive income for the period

(b) for each component of equity, the effects of any retrospective application of an accounting policy or retrospective restatement of items, in accordance with international standard IAS8 (see Chapter 4)

(c) for each component of equity, a reconciliation of the opening and closing balance of that component, separately disclosing changes resulting from:

  (i) profit or loss

  (ii) other comprehensive income

  (iii) transactions with the owners of the entity, separately showing distributions to owners (e.g. dividends) and contributions by owners (e.g. share issues).

Further information must be provided either in the statement of changes in equity or in the notes. This information consists of:

(d) for each component of equity, an analysis of other comprehensive income by item

(e) the amount of dividends per share.

The implementation guidance to IAS1 provides an illustration of the statement of changes in equity. A simplified version of this illustration is shown in Figure 3.3.

XYZ plc - Statement of changes in equity for the year to 31 December 2019

	Share capital £000	*Retained earnings* £000	*Revaluation reserve* £000	*Total equity* £000
Balance at 1 January 2018	xxx	xxx	xxx	xxx
Changes in equity for 2018				
Total comprehensive income		xxx		xxx
Dividends		(xxx)		(xxx)
Balance at 31 December 2018	xxx	xxx	xxx	xxx
Balance at 1 January 2019	xxx	xxx	xxx	xxx
Changes in equity for 2019				
Changes in accounting policy		xxx		xxx
Restated balance	xxx	xxx	xxx	xxx
Issue of share capital	xxx			xxx
Total comprehensive income		xxx	xxx	xxx
Dividends		(xxx)		(xxx)
Balance at 31 December 2019	xxx	xxx	xxx	xxx

Figure 3.3 Statement of changes in equity

Tutorial notes:

(a) This statement of changes in equity is for the year to 31 December 2019. The first few lines of the statement show comparative figures for 2018.

(b) In the year to 31 December 2018, the company's retained earnings were increased by the profit for the year but reduced by dividends paid to shareholders. There were no other changes in equity.

(c) The company changed an accounting policy in the year to 31 December 2019 and this necessitated an adjustment to retained earnings brought forward (see Chapter 4). Other changes in equity during 2019 were as follows:

   (i) Share capital increased because of a share issue during the year.

   (ii) Retained earnings were increased by the profit for the year but were reduced by dividends paid to shareholders.

   (iii) The revaluation reserve increased (presumably because there was a revaluation gain during the year). This gain would have been presented in the statement of comprehensive income as "other comprehensive income".

The notes to the financial statements

As mentioned earlier in this chapter, the notes which accompany the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity are an integral part of the financial statements and so fall within the scope of international standards. IAS1 states that the notes should:

(a) present information about the basis of preparation of the financial statements and the accounting policies which have been used, including:
   - the measurement bases used in preparing the financial statements
   - other accounting policies relevant to an understanding of the financial statements

(b) disclose information required by international standards, to the extent that this is not presented elsewhere in the financial statements

(c) provide any additional information which is relevant to an understanding of any of the financial statements.

The notes should be presented in a systematic manner and should be cross-referenced to the four primary financial statements. The notes normally begin with a statement of compliance with international standards. There should then be a section on significant accounting policies, followed by supporting information for line items presented in the four primary statements and further disclosures as necessary.

Sources of estimation uncertainty

When determining the amount at which assets or liabilities should be shown or "carried" in the financial statements, it may be necessary to estimate the effects of uncertain future events (such as technological change) and make assumptions. If there is a significant risk that these uncertain future events may cause a material adjustment to the carrying amount of assets or liabilities within the next financial year, IAS1 requires that the notes to the financial statements should explain the key sources of estimation uncertainty and disclose the assumptions that have been made.

Other disclosures

Other disclosures required in the notes include:

(a) the amount of any dividends proposed before the financial statements were authorised for issue but not recognised during the period (see Chapter 12)

(b) the amount of any unrecognised cumulative preference dividends

(c) unless disclosed elsewhere, the entity's domicile and legal form, its country of incorporation, the address of its registered office and the nature of its operations.

If an entity is a subsidiary (see Chapter 18) it should disclose the name of its parent and the name of the ultimate parent of the group.