

Requirements for financial statements under the International Financial Reporting Standards

Deloitte Hungary issues its monthly newsletter to inform its clients about the most recent developments involving International Financial Reporting Standards (IFRSs) and the most critical issues surrounding their adoption. This edition of our newsletter provides a brief overview of the requirements for financial statements under IFRS.

Presentation of financial statements

Upon transition to IFRS (first-time adoption), entities must meet the requirements of IFRS 1 when preparing their financial statements; an overview of this standard is provided in the July edition of our newsletter. Below we would like to briefly summarise the requirements regarding the presentation of financial statements.

Disclosure requirements provide guidance on the types of information to be presented in the financial statements, whether such data are qualitative or quantitative. The disclosure requirements are explained in detail in the respective standards, while the overall requirements are set forth in IAS 1 Presentation of Financial Statements (hereinafter: IAS 1).

Under IAS 1, complete financial statements contain the following elements:

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

Notes, comprising a summary of significant accounting policies and other explanatory information

Statement of financial position

IAS 1 regulates, amongst others, the compulsory elements of the statement of financial position, the formats available and the criteria for the classification of assets and liabilities. It does not prescribe a fixed structure for the statement of financial position, but it does provide the minimum scope of information to be presented. In addition to the minimum format, an entity must include additional rows, summary rows and partial sums in the statement of financial position if their presentation is relevant to understanding the financial position of the entity. Unless other standards or interpretations provide otherwise, comparable information for the previous period must be disclosed in the case of all figures presented in the financial statements. Furthermore, comparable data must be provided within explanatory or descriptive information if this is crucial for understanding the financial statements for the current period.

Entities must present non-current and current assets and liabilities separately, and such separation must be based on the entity's operating cycle.

Statement of comprehensive income

In terms of the statement of comprehensive income, IAS 1 regulates, amongst others, items whose inclusion in the statement of comprehensive income is essential, the available formats for the statement, as well as procedures for calculating profits. As in the case of the statement of financial position, the standard does not provide a fixed structure, but only a minimum level of content. Currently, an important difference compared to the Hungarian accounting rules is that no figures may be presented in IFRS financial statements as extraordinary items; however, as from 2016, this will be subject to change in the Hungarian accounting regulations as well.

Statement of changes in equity

Under IAS 1, changes within equity must be detailed in a separate statement, broken down by items. The statement must include the presentation of comprehensive income attributable to the parent company and non-controlling interests, the opening and closing balances of all elements of equity, changes in such elements, as well as the effects of retrospective application under IAS 8 for all elements of equity.

Statement of cash flows

The information included in the statement of cash flows provides a basis for users to assess the entity's ability to generate cash and cash equivalents and the purposes for which the entity used the cash flows generated during the financial year and the previous period. The requirements for presenting statements of cash flows and the related disclosures are set forth in detail in IAS 7.

Notes

The notes must present information about the basis for the preparation of the financial statements and the specific accounting policy applied, disclose information required by IFRSs which are not provided elsewhere in the financial statements, and provide information not presented elsewhere in the financial statements which is relevant for understanding the information contained in the financial statements.

Under IAS 1, the recommended order of the notes is as follows:

	Declaration on compliance with IFRSs
	Summary of significant accounting policies applied
	Additional information regarding items in the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows, listed in the order in which the respective statements and rows are presented
	Other disclosures, including:
	Contingent liabilities and unrecognized contractual obligations
	Non-financial disclosures, such as the financial risk management objectives and policies of the entity

Other disclosures

Entities must disclose the following in the notes:

	The amount of dividends proposed or approved before the approval of the financial statements for disclosure if such amount was not recognised as distributions to owners during the period, as well as the relevant amount per share
	The unrecognized amount of accumulated priority dividends

Entities must disclose the following if such information is not disclosed in the information disclosed along with the financial statements:

	The entity's address, legal form, country of incorporation and the address of its registered office
	Description of the nature of the entity's operation and its core activities
	The name of the parent company and the group's main subsidiary

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For further information on IFRS, please visit the following website:

Deloitte. IAS*Plus*
The #1 website for global accounting news

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