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

Module 4 – Statement of Financial Position

IFRS™

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

including the full text of
Section 4 *Statement of Financial Position*
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

IFRS Foundation®
30 Cannon Street
London EC4M 6XH
United Kingdom

Telephone: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Email:info@ifrs.org

Publications Telephone: +44 (0)20 7332 2730
Publications Fax: +44 (0)20 7332 2749
Publications Email: publications@ifrs.org
Web: www.ifrs.org

IFRS Foundation®
30 Cannon Street | London EC4M 6XH | United Kingdom
Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: ww.ifrs.org

Please address publication and copyright matters to:
IFRS Foundation Publications Department
30 Cannon Street London EC4M 6XH United Kingdom
Telephone: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

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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 presentation of the statement of financial position in accordance with Section 4 *Statement of Financial Position* of the *IFRS for SMEs*. Section 3 *Financial Statement Presentation* sets out general presentation requirements and Sections 4–8 focus on the requirements for the presentation of the 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 indicates significant judgements that are required in presenting a statement of financial position. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case studies to develop the learner's ability to present a statement of financial position in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the financial reporting requirements for the presentation of the statement of financial position in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, you should have enhanced your ability to present a statement of financial position in accordance with the *IFRS for SMEs*. In particular you should, in the context of the *IFRS for SMEs*:

- know the purpose of the statement of financial position
- understand the requirements for presenting the statement of financial position
- be able to classify assets and liabilities as current or non-current.

Module 4 – Statement of Financial Position

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.

Section 3 *Financial Statement Presentation* prescribes general requirements for the presentation of financial statements.

Section 4 specifies line items to be presented in the statement of financial position and provides mandatory guidance on the sequencing of items and the level of aggregation. It specifies other information to be presented either in the statement of financial position or in the notes. It also determines how to distinguish current assets and current liabilities from non-current assets and non-current liabilities and it stipulates when a current/non current distinction must be made.

Module 4 – Statement of Financial Position

REQUIREMENTS AND EXAMPLES

The contents of Section 4 *Statement of Financial Position* 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. They are in bold type the first time they appear in the text of Section 4. 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

4.1 This section sets out the information that is to be presented in a **statement of financial position** and how to present it. The statement of financial position (sometimes called the balance sheet) presents an entity's **assets, liabilities** and **equity** as of a specific date—the end of the **reporting period**.

Notes

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. In meeting that objective, financial statements also show the results of management's stewardship of the resources entrusted to it (see paragraphs 2.2 and 2.3).

The elements of financial statements directly related to the measurement of financial position are assets, liabilities and equity. These elements are defined as follows:

- An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (see paragraphs 2.15(a) and 2.17–2.19).
- A liability is a present obligation of the 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 paragraphs 2.15(b), 2.20 and 2.21).
- Equity is the residual interest in the assets of the entity after deducting all its liabilities (see paragraphs 2.15(c) and 2.22).

Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for recognition. The recognition and measurement of assets, liabilities and equity items are determined by other sections of the IFRS. Section 4 specifies how transactions and events recognised and measured in accordance with other sections of the *IFRS for SMEs* are presented in the statement of financial position.

Module 4 – Statement of Financial Position

Information to be presented in the statement of financial position

4.2 As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) cash and **cash equivalents**. *[Refer: Section 11]*

(b) trade and other receivables. [*Refer Section 11]*

(c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k)). [*Refer Sections 11 and 12]*

(d) **inventories**. *[Refer: Section 13]*

(e) **property, plant and equipment**. *[Refer: Section 17]*

(f) **investment property** carried at fair value through profit or loss. *[Refer: Section 16]*

(g) **intangible assets**. *[Refer: Section 18]*

(h) **biological assets** carried at cost less accumulated depreciation and impairment. *[Refer: Section 34]*

(i) biological assets carried at fair value through profit or loss. *[Refer: Section 34]*

(j) investments in **associates**. *[Refer: Section 14]*

(k) investments in **jointly controlled entities**. *[Refer: Section 15]*

(l) trade and other payables. *[Refer: Sections 11 and 12]*

(m) **financial liabilities** (excluding amounts shown under (l) and (p)). *[Refer: Sections 11 and 12]*

(n) liabilities and assets for **current tax**. *[Refer: Section 29]*

(o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current). *[Refer: Section 29]*

(p) **provisions**. *[Refer: Section 21]*

(q) **non-controlling interest**, presented within **equity** separately from the equity attributable to the **owners** of the **parent**. *[Refer: Section 9]*

(r) equity attributable to the owners of the parent. *[Refer: Section 9]*

Notes

When applicable, the entity shall also refer to presentation and disclosure requirements for specific account balances and transactions in other sections of the *IFRS for SMEs*.

4.3 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's **financial position**.

Example – presentation of a statement of financial position

Ex 1 A group prepares its consolidated financial statements in accordance with the *IFRS for SMEs*. The group's consolidated statement of financial position is set out below.

A Group's consolidated statement of financial position at 31 December 20X7

(in currency units[1])

	31 December 20X7	*31 December 20X6*
ASSETS		
Current assets		
Cash and cash equivalents	312,400	322,900
Trade receivables	91,600	110,800
Other financial assets—derivative hedging instruments	2,000	1,100
Inventories	135,230	132,500
Other current assets	23,650	11,350
Total current assets	564,880	578,650
Non-current assets		
Financial assets—investments in shares	100,150	110,770
Investments in associates	100,500	121,000
– carried at fair value	60,000	71,000
– carried at cost less impairment	40,500	50,000
Investments in jointly controlled entities	42,000	35,000
– carried at fair value	20,000	13,000
– carried at cost less impairment	22,000	22,000
Investment property—carried at fair value	150,000	120,000
Property, plant and equipment—carried at cost less accumulated depreciation	200,700	240,020
Biological assets	70,000	75,000
– carried at fair value	30,000	25,000
– carried at cost less impairment	40,000	50,000
Goodwill	80,800	91,200
Other intangible assets	107,070	127,560
Deferred tax assets	50,400	25,000
Total non-current assets	901,620	945,550
Total assets	**1,466,500**	**1,524,200**

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

	31 December 20X7	31 December 20X6
LIABILITIES AND EQUITY		
Current liabilities		
Bank overdrafts	10,000	17,000
Trade and other payables	90,100	160,620
Short-term borrowings	150,000	200,000
Current portion of bank loans	20,000	20,000
Current portion of obligations under finance leases	1,500	1,200
Current portion of employee benefit obligations	15,000	10,000
Current tax payable	23,500	40,800
Short-term provisions	5,000	4,800
Total current liabilities	315,100	454,420
Non-current liabilities		
Bank loans	65,000	85,000
Obligations under finance leases	2,300	3,800
Environmental restoration provision	26,550	48,440
Long-term employee benefit obligations	78,000	75,000
Deferred tax liabilities	5,800	26,040
Total non-current liabilities	177,650	238,280
Total liabilities	**492,750**	**692,700**
Equity		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Actuarial gains on defined benefit pension plan	8,200	20,100
Gains on hedges of foreign exchange risks of firm commitments	2,000	1,100
Total equity attributable to owners of the parent	903,700	782,900
Non-controlling interests	70,050	48,600
Total equity	**973,750**	**831,500**
Total equity and liabilities	**1,466,500**	**1,524,200**

Current/non-current distinction

4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Example – current/non-current distinction

Ex 2 The entity in example 1 presents current and non-current assets and current and non-current liabilities separately. The entity in this example presents assets and liabilities in order of approximate liquidity.

An entity's statement of financial position at 31 December 20X8
(in thousands of currency units)

		20X8		*20X7*
Assets				
Cash and cash equivalents		230		160
Trade receivables		1,900		1,200
Inventory		1,000		1,950
Portfolio investments cost		2,500		2,500
Property, plant and equipment		2,280		850
– cost	3,730		1,910	
– accumulated depreciation	(1,450)		(1,060)	
Total assets		**7,910**		**6,660**
Liabilities				
Trade payables		250		1,890
Interest payable		230		100
Income taxes payable		400		1,000
Long-term debt		2,300		1,040
Total liabilities		**3,180**		**4,030**
Shareholders' equity				
Share capital		1,500		1,250
Retained earnings		3,230		1,380
Total shareholders' equity		**4,730**		**2,630**
Total equity and liabilities		**7,910**		**6,660**

Current assets

4.5 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Notes

Current assets include assets (such as inventories (eg consumables, raw materials, work in progress and finished goods) and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.

The *IFRS for SMEs* does not define an operating cycle. In the absence of guidance, an entity may (but is not required to) consider the guidance in full IFRSs (see paragraph 10.6 of the *IFRS for SMEs*). Paragraph 68 of IAS 1 of full IFRSs (as issued at 9 July 2009) specifies that the operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Consider an entity that:

- maintains a physical inventory of 1 month's raw materials;
- converts those raw materials into finished goods in a 14-month production process;
- maintains 1 month's physical inventory of finished goods; and
- receives payment for the sale of its goods 3 months after the date of sale.

The entity's operating cycle is 19 months (ie 1 month in raw materials + 14 months in production + 1 month in finished goods + 3 months in trade receivables).

Other non-cash assets that are not part of the entity's normal operating cycle and are not involved in the production process are current assets only if the entity expects to realise the asset within twelve months after the end of the reporting period. The length of the operating cycle is not relevant to determining whether such assets are current.

Examples – current assets

Ex 3 **An entity produces whisky from barley, water and yeast in a 24-month distillation process.**

At the end of the reporting period the entity has one month's supply of barley and yeast raw materials, 600 barrels of partly distilled whisky and 100 barrels of distilled whisky.

All raw materials (barley and yeast) work in process (partly distilled whisky) and finished goods (distilled whisky) are inventories. The raw materials are expected to be realised (ie turned into cash after being processed into whisky) in the entity's normal operating cycle. Therefore, even though the realisation is expected to take place more than twelve months after the end of the reporting period, the raw materials, work in progress and finished goods are current assets.

Ex 4 **At the end of the reporting period a tomato grower's vines are bearing partially developed tomatoes. The life of a tomato vine is about six months.**

In accordance with Section 34 *Specialised Activities*, the vines and the fruit they bear are accounted for as a single biological asset until the point of harvest. Until the point of harvest the vines and the fruit they bear are a current asset.

4.6 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Examples – non-current assets

Ex 5 **An entity owns a machine with which it manufactures goods for sale. It also owns the building in which it carries out its commercial activities.**

The machine and the building are non-current assets—they are not cash or cash equivalents; they are not expected to be realised or consumed in the entity's normal operating cycle; they are not held for the purpose of trading; and they are not expected to be realised within twelve months of the end of the reporting period.

Ex 6 **On 31 December 20X0 an entity replaced a machine in its production line. The replaced machine was sold to a competitor for CU200,000. Payment is due 14 months after the end of the reporting period.**

The receivable is a non-current asset—it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

Note: If payment was due in less than twelve months of the end of the reporting period it would be a current asset.

Ex 7 **On 1 January 20X7 an entity invested CU900,000 surplus funds in corporate bonds that bear interest at 5 per cent per year (fixed rate). Interest is payable on the corporate bonds on 1 January of each year. The capital is repayable in three annual instalments of CU300,000 starting on 31 December 20X8.**

In its statement of financial position at 31 December 20X7 the entity must present the CU45,000 accrued interest and CU300,000 current portion of the non-current loan (ie the portion repayable on 31 December 20X8) as current assets—they are expected to be realised within twelve months of the end of the reporting period.

The CU600,000 due later than twelve months after the end of the reporting period is presented as a non-current asset—it is not cash or a cash equivalents; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

Ex 8 **At the end of the reporting period a citrus grower's fruit trees bear partially developed oranges. Citrus trees bear fruit over many years.**

In accordance with Section 34 *Specialised Activities*, the citrus trees and the fruit they bear are accounted for as a single biological asset until the point of harvest. The trees and the fruit they are bearing are classified as non-current assets.

Once harvested the fruit would be classified as current.

Current liabilities

4.7 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

Notes

Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

Other current liabilities that are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading, are classified as current. Examples are certain financial liabilities, bank overdrafts and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities.

Examples – current liabilities

Ex 9 **At the end of the reporting period a manufacturer has an obligation to its suppliers for the purchase of raw materials.**

The trade payables are current liabilities—they are part of the entity's working capital used in its normal operating cycle.

Ex 10 **At the end of the reporting period, an entity was in breach of a loan covenant in respect of a long-term loan from a bank that is otherwise repayable three years after the end of the reporting period. Because of the breach, the bank is entitled (but not obliged) to require the immediate repayment of the loan.**

The loan is a current liability—at the end of the reporting period the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the end of the reporting period.

Ex 11 **The facts are the same as in example 10. However, in this example, after the end of the reporting period and before the financial statements were approved for issue, the bank formally agreed not to demand early repayment of the loan.**

The loan is a current liability—at the end of the reporting period the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the end of the reporting period—the subsequent agreement is a non-adjusting event (see Section 32 *Events after the End of the Reporting Period*).

4.8 An entity shall classify all other liabilities as non-current.

Examples – non-current liabilities

Ex 12 **On 1 January 20X1 an entity issued 100,000 CU10 bonds for CU1,000,000 in a private transaction. On 1 January each year interest at the fixed rate of 5 per cent per year is payable on outstanding capital amount of the bonds (ie the first payment will be made on 1 January 20X2).**

On 31 December each year (from 31 December 20X2), the entity has a contractual obligation to redeem 10,000 of the bonds at CU10 per bond.

In its statement of financial position at 31 December 20X1, the entity must present CU50,000 accrued interest and CU100,000 current portion of the non-current bond (ie the portion repayable on 31 December 20X2) as current liabilities. The CU900,000 due later than 12 months after the end of the reporting period is presented as a non-current liability.

Ex 13 **At the end of the reporting period, the carrying amount of an entity's unfunded obligation for long-service leave was CU100,000, CU40,000 of which employees are entitled to take as leave in the twelve months following the end of the reporting period. The balance of CU60,000 is in respect of leave that employees are entitled to take only after the end of the next annual reporting period.**

The entity anticipates that only 75 per cent of its employees will take the leave due during the next annual reporting period (ie approximately CU10,000 (of the CU40,000) is expected to be carried forward).

CU40,000 of the provision for long-service leave is a current liability—the employee decides whether to take this leave during the next annual reporting period (ie the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period).

The remaining CU60,000 of the provision for long-service leave is a non-current liability—the employee is not entitled to take the leave until after the end of the next annual reporting period (ie the entity has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period).

Sequencing of items and format of items in the statement of financial position

4.9 This IFRS does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position, and

(b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

4.10 The judgement on whether additional items are presented separately is based on an assessment of all of the following:

(a) the amounts, nature and liquidity of assets.

(b) the function of assets within the entity.

(c) the amounts, nature and timing of liabilities.

Notes

In accordance with the *IFRS for SMEs* assets and liabilities are generally classified by nature and function, and each major classification is presented separately.
For example, an entity owns two buildings—one houses the entity's manufacturing operations and the other is held with a view to recovering its carrying amount through rental income. The fair value of the buildings can be reliably determined without undue cost or effort on an ongoing basis. In accordance with the *IFRS for SMEs* the factory building is classified as property, plant and equipment (see Section 17 *Property, Plant and Equipment*) and the other building is classified an investment property (see Section 16 *Investment Property*). The entity presents property, plant and equipment separately from its investment property.

The use of different measurement bases for different classes of assets suggests that their liquidity, nature or function differs and, therefore, that an entity presents them as separate line items. For example, when an entity accounts for its investments in associates using the cost model, its investments in associates that are quoted on a securities exchange are carried at fair value (see Section 14 *Investments in Associates*)—because a different measurement basis is applied to the listed investments in associates they are presented separately from those that are carried at cost

Information to be presented either in the statement of financial position or in the notes

4.11 An entity shall disclose, either in the statement of financial position or in the notes, the following subclassifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity.

Notes

A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations (see the Glossary). Judgement must be exercised to determine the subclassifications that are appropriate to a particular entity.
The following are examples of separate classes:

(a) vacant land on which the entity plans to construct its head office;

(b) land and buildings;

(c) machinery;

(d) boats;

(e) aircraft;

(f) motor vehicles;

(g) furniture and fixtures; and

(h) office equipment.

Example – subclassifications of property, plant and equipment

Ex 14 An entity could present separate classes of property, plant and equipment as follows:

Extract from an entity's statement of financial position at 31 December 20X2

	Note	*20X2*	*20X1*
		CU	*CU*
ASSETS			
…			
Non-current assets			
Vacant land		900	1,100
Land and buildings		8,470	5,600
Machinery		12,300	9,800
Motor vehicles		2,550	2,100
Office equipment		1,850	2,000
Property, plant and equipment	9	26,070	20,600

Alternatively, the entity may present in the statement of financial position the total amount of property, plant and equipment. In this case, information about each subclassification of property, plant and equipment is presented in the notes.

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed.

Example – presenting trade and other receivables

Ex 15 A group entity could present trade and other receivables of the group as follows:

Extract from a group's consolidated statement of financial position at 31 December 20X2

	Note	*20X2*	*20X1*
		CU	*CU*
ASSETS			
Current assets			
…			
Trade and other receivables	10	19,100	16,900
…			

Extract from a group's consolidated notes at 31 December 20X2
Note 10. Trade and other receivables

	20X2	*20X1*
	CU	*CU*
Trade receivables	9,000	8,100
Receivables from related parties	7,000	3,500
Accrued income not yet billed	1,000	1,500
Prepaid expenses	2,100	3,800
Trade and other receivables	19,100	16,900

Alternatively, the group may present each of the line items presented in note 10 in its consolidated statement of financial position.

(c) inventories, showing separately amounts of inventories:
   (i) held for sale in the ordinary course of business.
   (ii) in the process of production for such sale.
   (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Example – presenting inventories

Ex 16 An entity could present inventories as follows:

Extract from an entity's statement of financial position at 31 December 20X2

	Note	*20X2*	*20X1*
		CU	*CU*
ASSETS			
Current assets			
…			
Raw materials		5,900	8,700
Work in progress		28,400	25,500
Finished goods		232,500	220,100
Inventories	11	266,800	254,300

Alternatively, the entity may present a single line item for inventories in its statement of financial position showing the total amount of inventories. In this case, information about each subclassification of inventories is presented in the notes.

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals.

Example – presenting trade and other payables

Ex 17 A group could present trade and other payables as follows:

Extract from a group's consolidated statement of financial position at 31 December 20X4

	Note	*20X4* *CU*	*20X3* *CU*
LIABILITIES			
…			
Current liabilities			
Bank overdrafts	10	5,600	4,800
Trade payables	11	135,200	112,500
Interest payable	12	3,500	3,250
Current tax liability	13	3,500	3,000
…			

Extract from a group's consolidated notes at 31 December 20X4

Note 11. Trade payables

	20X4 *CU*	*20X3* *CU*
Trade suppliers	85,000	79,800
Associate	47,300	30,500
Utilities suppliers	2,900	2,200
TOTAL	135,200	112,500

Alternatively, the group may present each of the line items presented in note 11 in its consolidated statement of financial position.

(e) provisions for **employee benefits** and other provisions.

Example – presenting provisions

Ex 18 An entity could present provisions as follows:

Extract from an entity's statement of financial position at 31 December 20X2

	Note	20X2	20X1
		CU	CU
LIABILITIES			
…			
Non-current liabilities			
Provisions	12	6,000	3,000
Current liabilities			
Provisions	12	31,500	33,000

Extract from an entity's notes at 31 December 20X2

Note 12. Provisions

	20X2	20X1
	CU	CU
Short-term employee benefits	9,500	9,000
Other long-term employee benefits	8,000	5,000
Total provision for employee benefits	17,500	14,000
Product warranties	20,000	22,000
Total	37,500	36,000
Less: non-current portion of provision for other long-term employee benefits	(6,000)	(3,000)
Current portion of provisions	31,500	33,000

Alternatively, the entity may present each of the line items presented in note 12 in its statement of financial position.

(f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that, as required by this IFRS, are recognised in other comprehensive income and presented separately in equity.

Example – presenting equity

Ex 19 A group presents its equity as follows:

Extract from a group's consolidated statement of financial position at 31 December 20X2

	Note	20X2	20X1
		CU	CU
EQUITY			
Share capital	20	22,000	20,000
Cash flow hedges		3,000	2,000
Retained earnings		12,100	10,900
Equity attributable to the parent's shareholders		37,100	32,900
Non-controlling interest		7,900	6,100
Total equity		45,000	39,000

Alternatively, the entity may present in the statement of financial position the total amount of equity. In this case, information about each class of equity is presented in the notes.

4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised.

(ii) the number of shares issued and fully paid, and issued but not fully paid.

(iii) par value per share, or that the shares have no par value.

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period.

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.

(vi) shares in the entity held by the entity or by its subsidiaries or associates.

(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

(b) a description of each reserve within equity.

Example – presentation for an entity with share capital

Ex 20 The share capital of an entity could be presented as follows:

Extract from an entity's statement of financial position at 31 December 20X2

Note 20 Share capital

Share capital comprises 3,000 shares (20X1: 2,800 shares) fully paid up ordinary shares with no par value. A further 1,000 shares (20X1: 1,200 shares) are authorised but not issued.

Reconciliation of the number of ordinary shares in issue:

	20X2	*20X1*
At 1 January	2,800	2,800
Issued during the year	200	–
At 31 December	3,000	2,800

A covenant arising from the long-term loan from Bank A prevents the distribution of dividends when the group's current ratio (current assets ÷ current liabilities) is less than 3:1.

4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

Example – presentation for an entity without share capital

Ex 21 The 'capital' of an entity without share capital could be presented as follows:

Extract from a partnership's statement of financial position at 31 December 20X2

Note 5 Equity

In accordance with the legislation of jurisdiction A the partnership is required to hold 10 per cent of its earnings as a 'statutory reserve'. In accordance with the partnership agreement the partnership holds a further 15 per cent of its earnings in a 'constitutional reserve'. Except in the event of liquidation, the partnership cannot distribute the statutory reserve and the constitutional reserve to its partners.

Reconciliation of the statutory reserves and the constitutional reserves:

(in currency units)

Statutory reserves

	20X2	*20X1*
At 1 January	1,290	1,200
10 per cent of earnings	120	90
At 31 December	1,410	1,290

Constitutional reserves

	20X2	*20X1*
At 1 January	1,935	1,800
15 per cent of earnings	180	135
At 31 December	2,115	1,935

4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities.

(b) a description of the facts and circumstances of the sale or plan.

(c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Ex 22 **A group that has entered into a binding sale agreement to dispose of a group of its assets at a future date could make the following disclosures:**

Extract from a group's statement of financial position at 31 December 20X2

Note 25 Commitment to dispose of assets

In December 20X2 the group entered into a binding agreement for the sale of its box manufacturing plant to an independent third party for CU13,000. The sale entity will continue to operate the plant until it is transferred to the buyer on 31 March 20X3.

At 31 December 20X2 the carrying amount of the assets to be disposed is:

	CU
Factory building	10,000
Machinery	3,000
Total	**13,000**

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 the financial position, performance and cash flows of an entity. 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 key 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.

Presentation

In many cases little difficulty is encountered in presenting the statement of financial position in accordance with the *IFRS for SMEs*. However, in some cases significant judgement is required. Examples of situations that might require significant judgements include:

- making the current/non-current distinction;
- assessing which additional line items, headings and subtotals are relevant to an understanding of the entity's financial statements; and
- whether the presentation of assets and liabilities in order of approximate liquidity is more relevant, complete and reliable than the current/non-current classification.

COMPARISON WITH FULL IFRSs

A high level overview of differences between the requirements at 9 July 2009 for presenting the statement of financial position in accordance with full IFRSs (see IAS 1 *Presentation of Financial Statements*) and the *IFRS for SMEs* (see Section 4 *Statement of Financial Position*) includes:

- The *IFRS for SMEs* is drafted in plain language and includes significantly less guidance on how to apply the principles.
- When financial statements are restated retrospectively full IFRSs require presentation of three statements of financial position. The *IFRS for SMEs* requires only two.

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for presenting a statement of financial position 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

Section 4 *Statement of Financial Position* of the *IFRS for SMEs*:

- ☐ (a) prescribes information to be presented in a statement of financial position.
- ☐ (b) prescribes the sequence or format in which items are to be presented in the statement of financial position.
- ☐ (c) does not permit the presentation of the additional line items, headings and subtotals in the statement of financial position in addition to those set out in paragraph 4.2.

Question 2

In accordance with the *IFRS for SMEs*, an entity must present additional line items in a statement of financial position when:

- ☐ (a) such presentation is relevant to an understanding of the entity's financial position.
- ☐ (b) such presentation is a generally accepted practice in the sector in which the entity operates.
- ☐ (c) such presentation is required by the tax authorities of the jurisdiction in which the entity operates.

Question 3

In accordance with the *IFRS for SMEs*, in presenting a statement of financial position, an entity:

- ☐ (a) must make the current/non-current presentation distinction.
- ☐ (b) must present assets and liabilities in order of liquidity.
- ☐ (c) must choose either the current/non-current or the liquidity presentation formats (ie a 'free' choice of presentation format).
- ☐ (d) must make the current/non-current presentation distinction except when a presentation based on liquidity provides information that is reliable and more relevant.

Question 4

Assets to be sold, consumed or realised as part of the entity's normal operating cycle are:

- [ ] (a) current assets
- [ ] (b) non-current assets
- [ ] (c) classified as current or non-current in accordance with other criteria.

Question 5

When there is much variability in the duration of the entity's normal operating cycle, the operating cycle is measured at:

- [ ] (a) its mean value
- [ ] (b) its median value
- [ ] (c) twelve months
- [ ] (d) three years

Question 6

Liabilities that an entity expects to settle in its normal operating cycle are:

- [ ] (a) classified as non-current liabilities
- [ ] (b) classified as current or non-current liabilities in accordance with other criteria
- [ ] (c) classified as current liabilities

Question 7

A dividend declared by the entity before its year-end and payable to its shareholders three months after the end of the reporting period is classified as:

- [ ] (a) a non-current liability
- [ ] (b) a current liability
- [ ] (c) equity
- [ ] (d) a current asset

Question 8

An entity must present each of the line items listed in paragraph 4.2:

- [ ] (a) even if the amount recognised for the line item is nil
- [ ] (b) unless the amount recognised of the line item is nil
- [ ] (c) unless the line item is either immaterial or irrelevant

Question 9

In accordance with the *IFRS for SMEs*, the financial statement that presents an entity's assets, liabilities and equity at a point in time:

- ☐ (a) must be titled the statement of financial position
- ☐ (b) must be titled the balance sheet
- ☐ (c) could be titled the statement of financial position or the balance sheet
- ☐ (d) could be titled the statement of financial position, the balance sheet or any other title that is not misleading

Question 10

A partnership that prepares its financial statements in accordance with the *IFRS for SMEs*:

- ☐ (a) is required to disclose information equivalent to that required by paragraph 4.12(a) showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity
- ☐ (b) is required to disclose information equivalent to that required by paragraph 4.12(a) if the partners' interests are classified as equity
- ☐ (c) is not required to report information about its equity

Module 4 – Statement of Financial Position

Answers

Q1 (a) see paragraph 4.1
Q2 (a) see paragraph 4.3
Q3 (d) see paragraph 4.4
Q4 (a) see paragraph 4.5
Q5 (c) see paragraph 4.6
Q6 (c) see paragraph 4.7
Q7 (b) see paragraph 4.7
Q8 (c) see paragraphs 3.15, 3.16 and 10.3
Q9 (d) see paragraphs 3.22 and 4.1
Q10 (a) see paragraph 4.13

Module 4 – Statement of Financial Position

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting a statement of financial position in accordance with the *IFRS for SMEs* by solving the case studies below.

Once you have completed the case studies check your answers against those set out at the end of this test.

Case study 1

SME A Group draft statement of financial position for the year ended 31 December 20X1 (in thousands of currency units):

ASSETS	*20X1*	*20X0*
Cash	200	140
Cash equivalent	30	20
Non-controlling interests' share of profit for the year	120	150
Dividends declared by SME A	100	190
Accounts receivable	1,900	1,200
Inventory, cost	1,000	1,950
Inventory, fair value less costs to complete and sell	180	150
Investment property, fair value	2,500	2,500
Property, plant and equipment, cost	4,324	4,818
Total assets	10,354	11,118
CLAIMS AGAINST ASSETS		
Long-term debt (CU500 capital due on 1 January each year)	2,300	2,800
Interest accrued on long-term debt (due in less than 12 months)	230	280
Share capital	1,500	1,250
Retained earnings at the beginning of the year	1,910	1,000
Profit for the year	1,000	1,250
Non-controlling interest	730	630
Accumulated depreciation on property, plant and equipment	1,450	1,060
Provision for doubtful receivables	200	115
Trade payables	250	1,890
Accrued expenses	3	2
Warranty provision (expires 12 months after the date of sale)	400	390
Environmental restoration provision (restoration is expected to take place in 20X9)	280	260
Provision for vacation leave (unused leave expires 12 months after the year in which it accrues)	1	1
Dividends payable	100	190
Total claims against assets	10,354	11,118

Prepare, in compliance with the *IFRS for SMEs*, a consolidated statement of financial position at 31 December 20X1 distinguishing between current and non-current items.

Answer to case study 1

SME A Group – Statement of financial position at 31 December 20X1
(in thousands of currency units)

	20X1	*20X0*
ASSETS		
Non-current assets		
Property, plant and equipment[(a)]	2,874	3,758
Investment property	2,500	2,500
Total non-current assets	5,374	6,258
Current assets		
Inventory[(b)]	1,180	2,100
Trade and other receivables[(c)]	1,700	1,085
Cash and cash equivalents[(d)]	230	160
Total current assets	3,110	3,345
Total assets	**8,484**	**9,603**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	1,500	1,250
Retained earnings[(e)]	2,690	1,910
Non-controlling interests	730	630
Total equity	**4,920**	**3,790**
Non-current liabilities		
Long-term debt[(f)]	1,800	2,300
Long-term provisions (environmental restoration)	280	260
Total non-current liabilities	2,080	2,560
Current liabilities		
Trade and other payables[(g)]	253	1,892
Current portion of long-term debt[(f)]	500	500
Interest accrued on long-term debt	230	280
Warranty provision	400	390
Other short-term provisions	1	1
Dividends declared	100	190
Total current liabilities	1,484	3,253
Total liabilities	**3,564**	**5,813**
Total equity and liabilities	**8,484**	**9,603**

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) PPE 20X1: CU4,324 less CU1,450 = CU2,874;
PPE 20X0: CU4,818 less CU1,060 = CU3,758.

(b) Inventory 20X1: CU1,000 + CU180 = CU1,180;
Inventory 20X0: CU1,950 + CU150 = CU2,100.

(c) Trade receivables 20X1: CU1,900 less CU200 = CU1,700;
Trade receivables 20X0: CU1,200 less CU115 = CU1,085.

(d) Cash and cash equivalents 20X1: CU200 + CU30 = CU230; Cash and cash equivalents 20X0: CU140 + CU20 = CU160.

(e) Retained earnings 20X1: CU1,910 + CU1,000 less CU120 less CU100 = CU2,690;
Retained earnings 20X0: CU1,000 + CU1,250 less CU150 less CU190 = CU1,910.
Retained earnings at the end of the year = Retained earnings at the beginning of the year plus profit for the year less non-controlling interests' share of profit for the year less dividends declared.

(f) Long-term debt 20X1: CU2,300 less CU500 = CU1,800;
Long-term debt 20X0: CU2,800 less CU500 = CU2,300.
Short-term debt 20X1: CU500;
Short-term debt 20X0: CU500.

(g) Trade and other payables 20X1: CU250 + CU3 = CU253;
Trade and other payables 20X0: CU1,890 + CU2 = CU1,892.

Case study 2

SME B Group draft balance sheet for the year ended 31 December 20X8

	20X8	*20X7*
ASSETS		
Property, plant and equipment	37,200	33,450
Vacant land	3,200	3,200
Land and buildings	9,600	9,850
Plant	4,500	4,720
Equipment	8,300	6,520
Investments in associates - carried at fair value	5,100	5,345
Investment property - carried at fair value	6,500	3,815
Intangible assets	15,200	15,200
Investments in associates - carried at cost	560	560
Deferred tax assets	320	260
Inventories	15,800	10,500
Trade and other receivables	1,200	1,300
Prepayments	500	450
Cash and cash equivalents	1,298	6,858
Total assets	**72,078**	**68,578**
EQUITY AND LIABILITIES		
Issued capital	22,500	22,500
Treasury shares	(340)	(340)
Retained earnings	10,360	9,520
Other reserves	4,250	4,250
Non-controlling interests	2,380	2,260
Total equity	39,150	38,190
Non-current liabilities		
Interest-bearing loans and borrowings	9,544	8,834
Government grants	925	960
Deferred revenue	65	56
Other liabilities	2,130	1,980
Long-term provisions	1,780	1,560
Total non-current liabilities	14,444	13,390
Current liabilities		
Trade and other payables	9,630	8,292
Interest-bearing loans and borrowings	5,000	5,260
Government grants	1,260	978
Deferred revenue	589	365
Income tax payable	225	215
Short-term provisions	1,235	1,398
Deferred tax liability	545	490
Total current liabilities	18,484	16,998
Total liabilities	32,928	30,388
Total equity and liabilities	**72,078**	**68,578**

Is SME B's consolidated statement of financial position for the year ended 31 December 20X8 prepared in accordance with the Section 4 of *IFRS for SMEs*?

Answer to case study 2

There are a number of errors in SME B's draft consolidated statement of financial position.

- Investment properties carried at fair value are not property, plant and equipment. They must be presented as investment property separately from property, plant and equipment as required by Section 16 *Investment Property*.
- Investments in associates carried at fair value are not property, plant and equipment. They must be presented as investments in associates as required by Section 14 *Investments in Associates*.
- SME B must present current and non-current assets separately as required by paragraph 4.4.
- The deferred tax liability must be classified as a non-current liability as required by paragraph 4.2(o).
- The presentation currency must be disclosed.
- The statement of financial position is presented at 31 December 20X8 (ie it is not 'for the year ended').
- A line item for equity attributable to owners of the parent must be disclosed.

An appropriate presentation of the consolidated statement of financial position is set out below.

SME B Group – Statement of financial position[(a)] at 31 December 20X8

(in thousands of currency units)

	20X8		***20X7***	
ASSETS				
Non-current assets				
Property, plant and equipment	25,600		24,290	
Vacant land		3,200		3,200
Land and buildings		9,600		9,850
Plant		4,500		4,720
Equipment		8,300		6,520
Investment property - carried at fair value	6,500		3,815	
Intangible assets	15,200		15,200	
Investments in associates	5,660		5,905	
carried at fair value		5,100		5,345
carried at cost		560		560
Deferred tax assets	320		260	
Total non-current assets	**53,280**		**49,470**	
Current assets				
Inventories	15,800		10,500	
Trade and other receivables	1,200		1,300	
Prepayments	500		450	
Cash and cash equivalents	1,298		6,858	
Total current assets	**18,798**		**19,108**	
Total assets	**72,078**		**68,578**	

The calculations and explanatory note below do not form part of the answer to this case study:

(a) It is acceptable to refer to the statement of financial position as a 'balance sheet'.

Continued…

…continued

	20X8		20X7	
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	36,770		35,930	
Issued capital		22,500		22,500
Treasury shares		(340)		(340)
Retained earnings		10,360		9,520
Other reserves		4,250		4,250
Non-controlling interests	2,380		2,260	
Total equity	**39,150**		**38,190**	
Non-current liabilities				
Interest-bearing loans and borrowings	9,544		8,834	
Government grants	925		960	
Deferred revenue	65		56	
Other liabilities	2,130		1,980	
Deferred tax liability	545		490	
Long-term provisions	1,780		1,560	
Total non-current liabilities	14,989		13,880	
Current liabilities				
Trade and other payables	9,630		8,292	
Interest-bearing loans and borrowings	5,000		5,260	
Government grants	1,260		978	
Deferred revenue	589		365	
Income tax payable	225		215	
Short-term provisions	1,235		1,398	
Total current liabilities	17,939		16,508	
Total liabilities	**32,928**		**30,388**	
Total equity and liabilities	**72,078**		**68,578**	