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# LKAS 1 – Presentation of Financial Statements

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## History of the standard

March 1974	Exposure Draft E1 <i>Disclosure of Accounting Policies</i>
January 1975	IAS 1 <i>Disclosure of Accounting Policies</i>
October 1976	IAS 5 <i>Information to Be Disclosed in Financial Statements</i>
November 1979	IAS 13 <i>Presentation of Current Assets and Current Liabilities</i>
1994	IAS 1, IAS 5, and IAS 13 were reformatted
August 1997	IAS 1 (1997) <i>Presentation of Financial Statements</i> superseded IAS 1 (1975), IAS 5, and IAS 13 (1979)
18 December 2003	Revised version of IAS 1 (2003) issued by the IASB
18 August 2005	IAS 1 amended to add disclosures about capital (on issuing IFRS 7)
6 September 2007	Revised IAS 1 (2007) issued
14 February 2008	IAS 1 amended to add New Disclosure Requirements for puttable instruments and obligations arising on liquidation
22 May 2008	IAS 1 amended for <i>Annual Improvements to IFRSs 2007</i> in regards to classification of derivatives as current or non-current
16 April 2009	AS 1 amended for Annual Improvements to IFRSs 2009 about classification of liabilities as current
27 May 2010	Exposure Draft of proposed amendments to IAS 1 relating to Presenting Comprehensive Income
16 June 2011	Amendments to IAS 1 issued.
1 January 2011	Effective date of May 2010 amendment to IAS 1

## New Developments

Standard	Existing Para Reference	Replaced /added paragraph
LKAS 1	Para 7 (d) & (f)	The components of other comprehensive income include: (d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of SLFRS 9 Financial Instruments; (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of SLFRS 9).
	Para 69 (d)	<b>Current liabilities</b> An entity shall classify a liability as current when: (d) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification
	Para 123(a)	[deleted]

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# LKAS 1 – Presentation of Financial Statements

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## OBJECTIVE

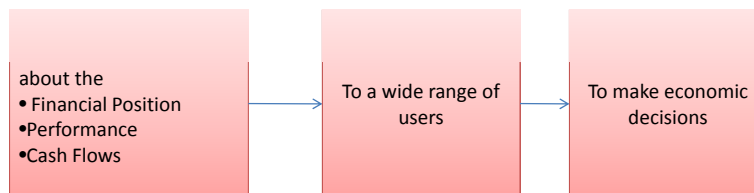
- The standard prescribe the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

## SCOPE

- An entity shall apply this standard in preparing and presenting general purpose financial statements in accordance with Sri Lanka Accounting Standards. (SLFRSs)
- This standard, except for Paragraph 15-35 ,doesn't apply to the structure and content of condensed interim financial statements prepared in accordance with Interim Financial Reporting.
- Terminology – Suitable for profit oriented entities. ( including public sector entities)
- Not-for-profit entities may amend the descriptions used for particular line items
- Entities that do not have equity as defined in LKAS 32 *Financial Instruments: Presentation* (e.g. some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unit holders' interests.

## FINANCIAL STATEMENTS

- *General purpose financial statements* (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.
- Purpose of Financial Statements  
Financial statements are a structured representation of the financial position and financial performance of an entity.



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### complete set of financial statements

A statement of financial position as at the end of the period

A statement of 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

A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

- Reports and Statements presented outside financial statements are outside the scope of SLFRS

[Illustrative set of financial statements](#)

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## Titles of financial statements

- The exposure draft of 2006 proposed changes to the titles of some of the financial statements- from “balance sheet’ to ‘statement of financial position’, from ‘income statement’ etc.
- Proposed new titles better reflect the function of each financial statement.  
Ex:- ‘Statement of Financial Position’ not only better reflects the functions of the statement but is consistent with the Framework for the preparation and presentation of financial statements which contains several references to ‘financial position’
- An entity may use titles for the statements other than those used in this standard (section 10)

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### General Features

#### Fair Presentation and Compliance with SLFRS

Financial statements are required to be presented fairly as set out in the frame-work and in accordance with SLFRS and are required to comply with all requirements of SLFRSs.

Fair presentation requires entities to select appropriate accounting policies as per LKAS 8 **explicit and unreserved statement** of such compliance in the notes.

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material

IAS 1 acknowledges that, in extremely rare circumstances, management may conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure (Sec. 20).

#### Going Concern

Financial statements are required to be prepared on a going concern basis (unless entity is in liquidation or has ceased trading or there is an indication that the entity is not a going concern).

To assess whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. [Scope of the Presentation](#)

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<b>Accrual Basis of Accounting</b>	Entities are required to use accrual basis of accounting except for cash flow information.
<b>Presentation Consistency</b>	An entity is required to retain presentation and classification from one period to the next.
<b>Materiality and Aggregation</b>	<p>Each material class of similar assets and items of dissimilar nature or function is to be presented separately.</p> <ul style="list-style-type: none"> <li>• If a line item is not individually material, it is aggregated with other items either in those statements or in the notes</li> <li>• An entity need not provide a specific disclosure required by a Standard if the information is not material</li> </ul>
<b>Offsetting</b>	<p>Offsetting of assets and liabilities or income and expenses is not permitted unless required by other IFRSs.</p> <p>Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.</p> <p>Other transactions that do not generate revenue but are incidental to the main revenue-generating activities. Can presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction</p>

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<b>Frequency of reporting</b>	Present a complete set of financial statements (including comparative information) at least annually.
<b>Comparative Information</b>	<p>Shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements.</p> <p>In the event of Retrospective adjustment, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:</p> <ol style="list-style-type: none"> <li>the end of the current period,</li> <li>the end of the previous period (which is the same as the beginning of the current period),</li> <li>the beginning of the earliest comparative period.</li> </ol> <p><b>Reclassification</b></p> <p>In the event of change in presentation or classification of items , reclassify comparative amounts unless reclassification is impracticable and disclose the following:</p> <ol style="list-style-type: none"> <li>the nature of the reclassification;</li> <li>the amount of each item or class of items that is reclassified; and</li> <li>the reason for the reclassification.</li> </ol>
<b>Consistency of presentation</b>	Consistency of presentation and classification of items in FS should be retained.

## STRUCTURE AND CONTENT

### IDENTIFICATION OF THE FINANCIAL STATEMENTS

Financial Statements must be clearly identified and distinguished from other information in the same published document, and must identify:

- Name of the reporting entity.
- Whether the financial statements cover the individual entity or a group of entities.
- The statement of financial position date (or the period covered).
- The presentation currency.
- The level of rounding used.

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### STATEMENT OF FINANCIAL POSITION

- Present Current and Non-current items separately; or
- Present items in order of liquidity.
- Entity shall not classify deferred tax assets (Liabilities) as current asset (Liability)

#### Current Assets

- Expected to be realized in, or is intended for sale or consumption in the entity's **normal operating cycle**. – *(if the entities normal operating cycle is not clearly identifiable it is assumed to be twelve months)*
- Held primarily for trading.
- Expected to be realized within 12 months.
- Cash or cash equivalents.

**All other assets are required to be classified as non-current.**

#### Current Liabilities

- Expected to be settled in the entity's normal operating cycle.
- Held primarily for trading.
- Due to be settled within 12 months.

• The entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period – **this will be replaced by the 2011 amendments as follows**  
**It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification**

**All other liabilities are required to be classified as non-current**

- The use of different measurement bases for different classes of assets, For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with LKAS 16.

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- Entity shall disclose the amounts expected to be recovered or settled after more than twelve months for each asset or liability line item

**Is it the same for Financial Institutions?**

When it comes to financial institutions' financial statements this is achieved through maturity analysis since there is no current/non current segregation on the face of the balance sheet

**For entities with diverse operations**

Entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant.

**SLFRS 7 Financial Instruments: Disclosures requirement**

Disclosure of the maturity dates of financial assets and financial liabilities.

**Operating cycle**

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.

**In the event of breach of a long-term loan arrangement**

An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

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- INFORMATION TO BE PRESENTED IN THE STATEMENT OF FINANCIAL POSITION OR IN THE NOTES**

**An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes**

- for each class of share capital:
  - the number of shares authorised
  - the number of shares issued and fully paid, and issued but not fully paid
  - par value per share, or that the shares have no par value;
  - a reconciliation of the number of shares outstanding at the beginning and at the end of the period
  - the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital
  - shares in the entity held by the entity or by its subsidiaries or associates; and
  - shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- a description of the nature and purpose of each reserve within equity

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## STATEMENT OF COMPREHENSIVE INCOME

*Total comprehensive income* is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

- Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.
- Apart from 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals as long as the meaning is clear.( E.g.:- 'net income' to describe profit or loss. )

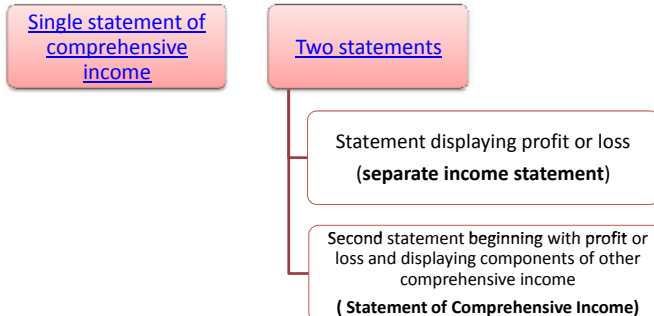
The term 'Comprehensive income' is not defined in the framework, but is **used in the standard to describe the changes in equity of an entity during a period from transactions, events and circumstances other than those resulting from transactions with owners in their capacity as owners.**

The term 'other comprehensive income refers to income and expenses that under IFRSs are included in comprehensive income but excluded from profit or loss.

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## STATEMENT OF COMPREHENSIVE INCOME

- An entity shall present all its income and expenses; either as part of



- When an Income Statement is presented it is a part of a complete set of financial statements and shall be displayed immediately before the Statement of Comprehensive Income.
- Entity shall not present any items of income or expenses as extraordinary items, in the statement of comprehensive income or the separate income statement or in notes.

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### Profit or loss for the period

- *Profit or loss is the total of income less expenses, excluding the components of other comprehensive income*
- An entity shall recognize all items of income and expense in a period in profit or loss unless a Standard requires or permits otherwise
- Some SLFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current period.
- For Ex:- LKAS 8 specify two scenarios
  - the correction of errors and the
  - effect of changes in accounting policies.
- Other SLFRSs require or permit components of other comprehensive income that meet the *Framework's* definition of income or expense to be excluded from profit or loss.
  - Revaluation Surplus
  - Translation of Foreign Currency (on foreign operations)

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### Other Comprehensive Income for the period

- *Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other SLFRSs.*
- Disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes (option to present net of income tax is also available).
- No more extraordinary items in the statements (sec. 87) .
- However as per sec. 97 separate disclosures to be made on nature and amount of an item, if it is material.

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**The components of Other Comprehensive Income include;**

- a) changes in revaluation surplus (see LKAS 16 *Property, Plant and Equipment* and LKAS 38 *Intangible Assets*);
- b) actuarial gains and losses on defined benefit plans recognized in accordance with paragraph 93A of LKAS 19 *Employee Benefits*
- c) gains and losses arising from translating the financial statements of a foreign operation (see LKAS 21 *The Effects of Changes in Foreign Exchange Rates*)
- d) gains and losses on remeasuring available-for-sale financial assets (see LKAS 39 *Financial Instruments: Recognition and Measurement*) – ***This will be replaced by the 2011 amendments as follows:***  
**gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of SLFRS 9 *Financial Instruments*;**
- e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see LKAS 39).

***Apart from the above the following has been added to the list of component of Other Comprehensive Income***

- f) **for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of SLFRS 9).**

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**What are re classification adjustments?**

Other SLFRSs specify whether and when amounts previously recognized in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments.

Ex:- **Gains realized on the disposal of available-for-sale financial assets** are included in profit or loss of the current period. **These amounts may have been recognized in other comprehensive income as unrealized gains in the current or previous periods.** Those **unrealized gains must be deducted from other comprehensive income** in the period in which the realized gains are reclassified to profit or loss to avoid including them in total comprehensive income twice

- **Impracticable** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

**When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

- (a) the reason for not reclassifying the amounts, and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

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Analysis of expenses

By nature

*Useful in predicting future cash flows*

Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	X
Raw materials and consumables used	X
Employee benefit expenses	X
Depreciation & amortisation expenses	X
Other expenses	X
Total expenses	X
Profit before tax	X

By function

*Additional disclosure is required*

Revenue	X
Cost of sales	X
Gross profit	X
Other income	X
Distribution cost	X
Administrative expenses	X
Other expenses	X
Profit before tax	X

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**Information to be presented in the statement of comprehensive income or in the notes**

- When items of income or expense are material, an entity shall disclose their nature and amount separately.

**Circumstances that would give rise to the separate disclosure of items of income and expense include**

- write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs
- restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring
- disposals of items of property, plant and equipment
- disposals of investments
- discontinued operations
- litigation settlements
- other reversals of provisions

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## STATEMENT OF CHANGES IN EQUITY

- *Owners are holders of instruments classified as equity*

### In the Statement of changes in equity

- Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests
- For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with LKAS 8
- For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from
  - I. profit or loss
  - II. each item of other comprehensive income
  - III. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control
- An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount per share.

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## STATEMENT OF CHANGES IN EQUITY

- The standard requires an entity to provide a reconciliation of changes in each components of equity. With the introduction of improvements to IFRS issued in May 2010, an entity may present the required reconciliations for each components of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements
- Components of equity includes, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

[Statement of Other Comprehensive Income and the Statement of Changes in Equity](#)

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## STATEMENT OF CASH FLOWS

- Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
- LKAS 7 sets out requirements for the presentation and disclosure of cash flow statements.

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## NOTES

### The Notes Shall:

- present information about the basis of preparation of the financial statements and the specific accounting policies
  - disclose the information required by SLFRSs that is not presented elsewhere in the financial statements
  - provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them
- 
- An entity shall, as far as practicable, present notes in a [systematic manner](#).
  - An entity shall cross-reference each item in the Financial Statements.

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## SOURCES OF ESTIMATION UNCERTAINTY

- An entity shall disclose information about the assumptions it makes about the future,
- other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
  - their nature
  - their carrying amount as at the end of the reporting period

*Refer to next slide for examples.*

### ***LKAS 37 Provisions , contingent liabilities and contingent assets :***

Requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions.

### ***SLFRS 7 Financial Instruments: Disclosures***

Requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value

### ***LKAS 16 Property, Plant and Equipment***

Requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment



## DISCLOSURE OF ACCOUNTING POLICIES

- An entity shall disclose in the summary of significant accounting policies:
  - the measurement basis (or bases)
  - the other accounting policies used
- **Why we should inform the users about the measurement basis?**  
basis on which an entity prepares the financial statements significantly affects users' analysis
- **An entity shall disclose, in the summary of significant accounting policies or other notes, the *judgments*, apart from those involving estimations, 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**
  - whether financial assets are held-to-maturity investments – *This has been deleted after 2011 amendments*
  - whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue
  - whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity

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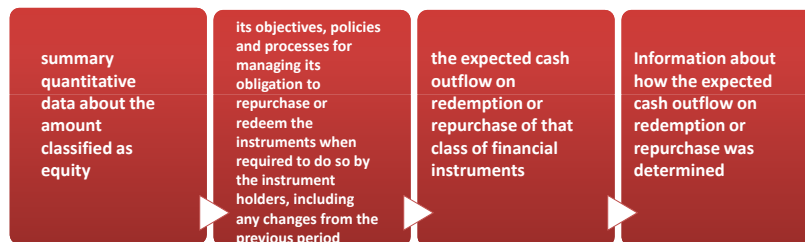
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## CAPITAL

- An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital

## PUTTABLE FINANCIAL INSTRUMENTS CLASSIFIES AS EQUITY

- For puttable financial instruments classified as equity instruments, an entity shall disclose



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## OTHER DISCLOSURES

### An entity shall disclose in the notes

- a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
  - b) the amount of any cumulative preference dividends not recognised.
- An entity shall disclose the [following](#), if not disclosed elsewhere in information published with the financial statements:
    - the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office)
    - a description of the nature of the entity's operations and its principal activities
    - the name of the parent and the ultimate parent of the group; and
    - if it is a limited life entity, information regarding the length of its life.

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## RELATED INTERPRETATIONS

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## IFRIC 17 - DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

• Applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets

• IFRIC 17 applies to pro rata distributions of non-cash assets (all owners are treated equally) but does not apply to common control transactions.

- Recognise a dividend payable when the dividend is appropriately authorised and is no longer at the discretion of the entity
- Measure the dividend payable at the fair value of the net assets to be distributed
- Remeasure the liability at each reporting date and at settlement, with changes recognised directly in equity
- Recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should **disclose** it separately
- Provide **additional disclosures** if the net assets being held for distribution to owners meet the definition of a discontinued operation

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## SIC 27 - EVALUATING THE SUBSTANCE OF TRANSACTIONS IN THE LEGAL FORM OF A LEASE

- Addresses issues that may arise when an arrangement between an enterprise and an investor involves the legal form of a lease.
- Accounting for arrangements between an enterprise and an investor should reflect the substance of the arrangement
- All aspects of the arrangement should be evaluated to determine its substance
- If an arrangement does not meet the definition of a lease, SIC 27 addresses whether a separate investment account and lease payment obligation that might exist represent assets and liabilities of the enterprise; how the enterprise should account for other obligations resulting from the arrangement; and how the enterprise should account for a fee it might receive from an investor
- A series of transactions that involve the legal form of a lease is linked, and therefore should be accounted for as one transaction, when the overall economic effect cannot be understood without reference to the series of transactions as a whole

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## SIC 29 - DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS

- Prescribes the information that should be **disclosed** in the notes to the financial statements of a concession operator and a concession provider when the two parties are joined by a service concession arrangement.

Under SIC 29, the following **should be disclosed** in each period

- Description of the arrangement;
- Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows
- The nature and extent (quantity, time period, or amount, as appropriate) of:
  - rights to use specified assets;
  - obligations to provide or rights to expect provision of services;
  - obligations to acquire or build items of property, plant and equipment;
  - obligations to deliver or rights to receive specified assets at the end of the concession period;
  - renewal and termination options; and
  - other rights and obligations (for instance, major overhauls); and
- Changes in the arrangement occurring during the period



# THE WAY FORWARD

17 May 2012	Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)
1 July 2012	Effective date of June 2011 amendments to IAS 1
1 January 2013	Effective date of May 2012 amendments (Annual Improvements 2009-2011 Cycle)

**Other Related Interpretations**

IAS 1 (2003) supersedes SIC 18 *Consistency - Alternative Methods*

**Amendments Under Consideration by IASB**

[Financial Statement Presentation \(Phase 2\)](#)

THANK YOU