NAS 01

NEPAL ACCOUNTING STANDARDS ON PRESENTATION OF FINANCIAL STATEMENTS

CONTENTS **Paragraphs**

Nepal Accounting Standard, 01 Presentation of Financial statements (NAS 01) is set out in paragraphs 1-121 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold italic type** state the main principles. NAS 01 should be read in the context of its objective, the *Preface to Nepal Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. NAS 02 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their contents. The recognition, measurement and disclosure of specific transactions and events are dealt with in other Nepal Accounting Standards.

Scope

1. ***This Standard shall be applied to all general purpose financial statements prepared and presented in accordance with Nepal Accounting Standards.***

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Standard does not apply to the structure and content of condensed interim financial information. This Standard applies equally to the financial statements of individual entities and to consolidated financial statements for a group of entities. However, it does not preclude the presentation of consolidated financial statements complying with Nepal Accounting Standards and financial statements of the parent company under national requirements within the same documents, as long as the basis of preparation of each is clearly disclosed in the statement of accounting policies.

3. This Standard applies to all companies including Public Sector Business Enities.

4. This Standard uses terminology that is suitable for an entity with a profit objective. Public sector business entities shall therefore apply the requirements of this Standard. Non – profit, government and other public sector entities seeking to apply this Standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such entities may also present additional components of the financial statements.

Purpose of financial statements

5. Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

   a. assets;

   b. liabilities;

c. equity;

d. income and expenses, including gains and losses;

e. other changes in equity; and

f. cash flows.

This information, along with other information in the notes to financial statements, assists users in predicting the entity's future cash flows and in particular the timing and certainty of the generation of cash and cash equivalents.

Responsibility for financial statements

6. The board of director and / or other governing body of an entity is responsible for the preparation and presentation of its financial statements.

Components of financial statements

7. A Complete set of financial statements includes the following components:

a. a balance sheet;

b. an income statement;

c. a statement of changes in equity showing either:

i. all changes in equity, or

ii. changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

d. a cash flow statement; and

e. notes,comprising a summary of significant accounting policies and other explanatory notes.

8. Entities are encouraged to present, outside the financial statements, a financial review by management which describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of :

a. the main factors and influences determining performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance performance, including its dividend policy,

b. the entity's source of funding, the policy on gearing and its risk management policies; and

c. the strengths and resources of the entity whose value is not reflected in the balance sheet under Nepal Accounting Standards.

9. Many entities present, outside the financial statements, an additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and when employees are considered to be an important user group. Entities are encouraged to present such additional

statements if management believes they will assist users in making economic decisions.

Definitions

10. ***The following terms are used in this Standard with the meanings specified:***

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

Nepal Accounting Standards are Standards adopted by the Nepal Accounting Standard Board.

Material Omission or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

11. **Assessing whether an omission or misstatement could influence economic decision of users, and so be material, requires consideration of the characteristics of those users. The Framework for the *Preparation and Presentation of Financial Statements* states in paragraph 27 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. 'Therefore, the assessment needs to take into account how users with such attributes could reasonabley be expected to be influenced in making economic decisions.**

Overall considerations

Fair presentation and compliance with Nepal Accounting Standards

12. ***Financial statements shall present fairly the financial position, financial performance and cash flows of the entity. The appropriate application of Nepal Accounting Standards, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation.***

13. ***An entity whose financial statements comply with Nepal Accounting Standards shall disclose that fact. Financial statements shall not be described as complying with Nepal Accounting Standards unless they comply with all the requirements of each applicable Standards..***

14. ***Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.***

15. ***In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be misleading, and therefore departure from a requirement is necessary to achieve a fair presentation, an entity shall disclose:***

    a. ***that management has concluded that the financial statements fairly present the entity's financial position, financial performance and cash flows;***

    b. ***that it has complied in all material respects with applicable Nepal Accounting Standards, except that it has departed from a Standard in or order to achieve a fair presentation;***

    c. ***the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances and the treatment adopted; and***

    d. ***the financial impact of the departure on the entity's net profit or loss, assets, liabilities, equity and cash flows for each period presented.***

16. In order to ensure that financial statements that state compliance with Nepal Accounting Standards will meet the Standard required by users, this Standard includes an overall requirement that financial statements shall give a fair presentation, guidance on how the fair presentation requirement is met and further guidance for determining the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure.

17. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable Nepal Accounting Standards. A fair presentation also requires:

    a. Selecting and applying accounting policies in accordance with paragraph 22;

    b. Presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and

    c. Providing additional disclosures when the requirements in Nepal Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the entity's financial position and financial performance.

18. In extremely rare circumstances, application of a specific requirement in a Nepal Accounting Standard might result in misleading financial statements. This will be the case only when the treatment required by the Standard is clearly inappropriate and thus a fair presentation cannot be achieved either by applying the Standard or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a fair presentation.

19. When assessing whether a departure from a specific requirement in Nepal Accounting Standards is necessary, consideration is given to:

a. The objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and

b. The way in which the entity's circumstances differ from those of other entities which follow the requirement.

20. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgment, it is important that users are aware that the entity has not complied in all material respects with Nepal Accounting Standards. It is also important that they are given sufficient information to enable them to make an informed judgment on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard. The Accounting Standards Board will monitor instances of non – compliance that are brought to its attention (by entities, their auditors and regulators, for example) and will consider the need for clarification through interpretations of amendments to Standards, as appropriate, to ensure that departure remain necessary only in extremely rare circumstances.

21. When, in accordance with specific provisions in that Standard, Nepal Accounting Standard is applied before its effective date, the fact shall be disclosed.

Accounting policies

22. Management shall select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable Nepal Accounting Standard. When there is not specific requirement, management shall develop policies to ensure that the financial statements provide information that is:

a. Relevant to the decision – making needs of users; and

b. Reliable in that they:

i. Represent faithfully the results and financial position of the entity;

ii. Reflect the economic substance of events and transactions and not merely the legal form;

iii. Are neutral, that is free from bias;

iv. Are prudent; and

v. Are complete in all material respects.

23. In the absence of a specific Nepal Accounting Standard, management shall, whenever practicable, adopt the relevant International Accounting Standard and use its judgment in developing an accounting policy giving consideration to definitions, recognition and measurement criteria for assets, liabilities, income and expenses set out in the Framework to provide most useful information to users of the entity's financial statements.

24. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Going concern

25. ***When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered as a going concern.***

26. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which shall be at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

27. ***An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.***

28. Under the accrual basis of accounting, transactions and events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching). However, the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Consistency of presentation

29. ***The presentation and classification of items in the financial statements shall be retained from one period to the next unless:***

    a. ***A significant change in the nature of the operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or***

    b. ***A change in presentation is required by a Nepal Accounting Standard.***

30. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. Only if the revised structure is likely to continue or if the benefit of an alternative presentation is clear, shall an entity change the presentation of its

financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 40.

Materiality and aggregation

31. ***Each material item shall be presented separately in the financial statements. Immaterial amounts shall be aggregated with amounts of a similar nature or function and need not be presented separately.***

32. Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups in according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of financial statements may nevertheless be sufficiently material that it shall be presented separately in the notes.

33. Materiality provides that the specific disclosure requirements of Nepal Accounting Standards need not be met if the resulting information is not material.

Offsetting

34. ***Assets and liabilities, and income and expenses, shall not be offset except when offsetting is required or permitted by another Nepal Accounting Standard.***

35. It is important that assets and liabilities, and income and expenses, when material, are reported separately. Offsetting in either the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or events detracts from the ability of users both to understand the transactions undertaken and to assess the future cash flows of the entity. The reporting of assets net of valuation allowances, for example obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting.

36. *Revenue* is to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions which do not generate revenue but which are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

a. gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

b. expenditure that is reimbursed under a contractual arrangement with a third party (a sub-letting agreement, for example) is netted against the related reimbursement; and

37. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. Such gains and losses are, however, reported separately if their size, nature or incidence is such that separate disclosure is required by NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors.

Comparative information

38. ***Except when a Nepal Accounting Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***

39. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and about the steps that have been taken during the period to resolve the uncertainty.

40. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless it is impracticable. When comparative amounts are reclassified, an entity shall disclose:

a. the nature of the reclassification;

b. the amount of each item or class of items that is reclassified; and

c. the reason for the reclassification

41. 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.

42. Circumstances may exit when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period (s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the provision of NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors shall be applied retrospectively.

Structure and content

Introduction

43. ***This Standard requires certain disclosures on the face of the financial statements, requires other line items to be disclosed either on the face of financial statements***

or in the notes, and sets out recommended formats are described in the as an appendix to the Standard which an entity shall follow as appropriate in its own circumstances. NAS 03 provides a structure for the presentation of the cash flow statement. These formats show the minimum disclosure requirements.

44. Banking and Finance companies registered under Bank and Financial Institution Act, 2063; Insurance Companies Registered under Insurance Board Act, 2049 (second amendment 2059) and other entities registered under Company Act, 2063 shall present the financial statements in accordance with the requirements prescribed by their respective regulatory authorities. In addition to the requirements of the respective regulatory authority, all the said entities shall attach therewith a Statement of Changes in Equity in a separate schedule as prescribed in Appendix.

45. This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of each financial statement, as well as in the notes to the financial statements. Disclosures required by other Nepal Accounting Standards are made in accordance with the requirements of those Standards. Unless this or another Standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes.

Identification of the financial statements

46. ***The financial statements shall clearly be identified and distinguished from other information in the same published document.***

47. Nepal Accounting Standards apply only to financial statements (which includes the notes thereto), and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using Nepal Accounting Standards from other information which may be useful to users but is not the subject of Standards.

48. Each component of the financial statements shall clearly be identified. In addition, the following information shall prominently be displayed, and repeated when it is necessary for a proper understanding of the information presented:

a. the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;

b. whether the financial statements cover the individual entity or a group of entity;

c. the balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

d. the reporting currency; and

e. the level of precision used in presentation of figures in the financial statements.

49. The requirements in paragraph 48 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements.

Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used; the above items are then presented frequently enough to ensure a proper understanding of the information given.

50. Financial statements are often made more understandable by presenting information in thousands of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

Reporting period

51. Financial statements shall be presented at least annually. When, in exceptional circumstances, an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

a. the reason for a period other than one year being used; and

b. the fact that comparative amounts for the income statement, changes in equity, cash flow and related notes are not comparable.

52. Normally, financial statements are consistently prepared covering a one – year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Balance sheet

The current/non-current distinction

53. An entity shall determine, based on the nature of its operations, whether or not to present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet. Paragraphs 59 to 67 of this Standard apply when this distinction is made. When an entity chooses not to make this classification, assets and liabilities shall be presented broadly in order of their liquidity.

54. Whichever method of presentation is adopted, an entity shall disclose, for each asset and liability line item that combines amounts expected to be recovered or settled both before and after twelve months from the balance sheet date, the amount expected to be recovered or settled after more than twelve months.

55. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

56. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is

reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

57. In applying paragraph 56, an 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 is more relevant. The need for a mixed basis for presentation might arise when an entity has diverse operations.

58. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such inventories and provisions is also useful whether or not assets and liabilities are classified between current and non – current. For example, an entity discloses the amount of inventories which are expected to be recovered after more than one year from the balance sheet date.

Current assets

59. An asset shall be classified as current assets when it satisfies any of the following criteria:

a. it is expected to be realized in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or

b. it is held primarily for the trading purposes or for the short – term and expected to be realized within twelve months of the balance sheet date; or

c. is cash or a cash equivalent asset which is not restricted in its use for at least twelve months after the balance sheet date.

All other assets shall be classified as non-current assets.

60. This Standard uses the term 'non-current' to include tangible, intangible, operating and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

61. The operating cycle of an entity is the time between the acquisition of materials entering into a process and its realization in cash or an instrument that is readily convertible into cash. Current assets include inventories 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 balance sheet date. Marketable securities are classified as current assets if they are expected to be realized within twelve months of the balance sheet date; otherwise they are classified as non-current assets.

Current liabilities

62. A liability shall be classified as a current liability when it satisfies any of the following criteria:

a. it is expected to be settled in the normal course of entity's operating cycle; or

b. it is held primarily for the purpose of being trade;

c. ***is due to be settled within twelve months of the balance sheet date; or***

d. ***the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.***

All other liabilities shall be classified as non-current liabilities.

63. Current liabilities can be categorized in a similar way to current assets. Some current liabilities, such as trade payables and accruals for employee and other operating costs, form part of the working capital used in the normal operating cycle of the business. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from the balance sheet date.

64. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months of the balance sheet date or held primarily for the purpose of being traded. Examples are current portion of interest – bearing liabilities, bank overdrafts, dividends payable, income taxes and other non – trade payables. Financial liabilities that provide the financing on a long – term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve month of the balance sheet date, are non – current liabilities.

65. An entity shall classify its financial liabilities as current when they are due to be settled within twelve months of the balance sheet date, even if:

a. ***the original term was for a period of more than twelve months;***

b. ***an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorized for issue;***

66. Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or 'rolled over' at the discretion of the entity and , therefore, are not expected to use current working capital of the entity. Such obligations are considered to form part of the entity's long – term financing and shall be classified as non – current. However, in situation in which refinancing is not at the discretion of the entity (as would be the case if there were no agreement to refinance), the refinancing cannot be considered automatic and the obligation is classified as current unless the completion of a refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the balance sheet date was long – term.

67. Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non – current only when:

a. The lender has agreed, prior to the approval of the financial statements, not to demand payment as a consequence of the breach; and

b. It is not probable that further breaches will occur within twelve months of the balance sheet date.

Information to be presented on the face of the balance sheet

68. As a minimum, the face of the balance sheet shall include line items which present the following amounts:

a. property, plant and equipment;

b. intangible assets;

c. financial assets (excluding amounts shown under (d), (f) and (g);

d. investments;

e. inventories;

f. trade and other receivables;

g. cash and cash equivalents;

h. trade and other payables;

i. tax liabilities;

j. provisions;

k. non – current interest – bearing liabilities and other long term liabilities;

l. where consolidated financial statements are prepared, minority interest; and

m. issued capital and reserves.

69. Additional line items, headings and subtotals shall be presented on the face of the balance sheet when a Nepal Accounting Standard or the format prescribed by regulatory authority as described in paragraph 44 requires it, or when such presentation is necessary to present fairly the entity's financial position.

70. This Standard prescribes the order or format in which items are to be presented. Paragraph 68 simply provides a list of items that are so different in nature or function that they deserve separate presentation on the face of the balance sheet. Prescribed formats are explained in paragraph 44, in addition:

a. line items are added when another Nepal Accounting Standards or prevailing laws require separate presentation on the face of the balance sheet, or when the size, nature or function of an item is such that separate presentation would assist in presenting fairly the entity's financial position; and

b. the descriptions used and the ordering of items may be amended according to the nature of the entity and its transactions, to provide information that is necessary for an understanding of the entity's financial position. For example, a bank or financial institution amends the above descriptions in order to apply more specific description as required for the bank (those provided in Nepal Rastra Bank's Directives).

71. The line items listed in paragraph 68 are broad in nature and need not be limited to items falling within the scope of other Standards. For example, the line item intangible assets include goodwill and assets arising from development expenditure.

72. The judgment on whether additional items are separately presented is based on an assessment of:

a. the nature and liquidity of assets

b. their function within the entity, and

c. the amount, nature and timing of liabilities

73. Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they shall be presented as separate line items.

Information to be presented either on the face of the balance sheet or in the notes

74. An entity shall disclose, either on the face of the balance sheet or in the notes to the balance sheet, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. Each items shall be sub – classified, when appropriate, by its nature and, amounts payable to and receivable from the parent entity, fellow subsidiaries and associates and other related parties shall be disclosed separately.

75. The detail provided in sub-classifications, either on the face of the balance sheet or in the notes, depends on the requirements of Nepal Accounting Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph 72 are also used to decide the basis of sub-classification. The disclosures vary for each item, for example:

a. Tangible assets are usually classified by class;

b. Receivables are analysed between amounts receivable from trade customers, other members of the group, receivables from related parties, prepayments and other amounts;

c. inventories are sub-classified into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

d. provisions are analysed showing separately provisions for employee benefit costs and any other items classified in a manner appropriate to the entity's operations; and

e. equity capital and reserves are analysed showing separately the various classes of paid in capital, share premium and reserves.

76. An entity shall disclose the following, either on the face of the balance sheet 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;

iv. a reconciliation of the number of shares outstanding at the beginning and at the end of the year;

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 itself or by subsidiaries or associates of the entity; and

vii. shares reserved for issuance under options and sales contracts, including the terms and amounts;

***b.** a description of the nature and purpose of each reserve within owners' equity.*

An entity without share capital, such as a partnership or public corporation, shall disclose information equivalent to that required above, showing movements during the period in each category of equity inter interest, and the rights, preferences and restrictions attaching to each category of equity interest.

Income statement

Information to be Presented on the Face of the Income Statement

77. As a minimum, the face of the income statement shall include line items which present the following amounts:

a. Revenue

b. The result of operating activities;

c. finance costs;

d. share of the profit or loss of associates and joint ventures accounted for using the equity method;

e. tax expense;

f. profit or loss from or ordinary activities;

g. where consolidated financial statements are prepared, minority interest; and

h. net profit or loss for the period.

Additional line items, headings and subtotals shall be presented on the face of the income statement when required by a Nepal Accounting Standard, or when such presentation is necessary to present fairly the entity's financial performance.

78. The effects of an entity's various activities, transactions and other events differ in stability, risk and predictability, and the disclosure of the elements of performance assists in an understanding of the financial performance achieved and in assessing future results. Additional line items are included on the face of the income statement, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. Factors to be taken into consideration include materiality and the nature and function of the various components of income and expenses. For example, a bank amends the descriptions in order to apply the more specific requirements of Nepal Accounting

Standard. Income and expenses items are offset only when the criteria in paragraph 34 are met.

79. An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.

Information to be presented either on the face of the income statement or in the notes

80. When items of income and expense are material, their nature and amount shall be disclosed separately.

81. Circumstances that would give rise to the separate disclosure of items of income and expense include;

    i. 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'

    ii. restructurings of the activities of an entity and reversals of any provisions for the cost of restructuring;

    iii. disposals of items of property, plant and equipments;

    iv. disposals of investments;

    v. discontinued operations;

    vi. litigation settlement; and

    vii. other reversals of provisions.

82. An entity shall present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity.

83. Entities are encouraged to present the analysis in paragraph 82 on the face of the income statement.

84. Expenses items are further sub – classified in order to highlight a range of components of financial performance which may differ in terms of stability, potential for gain or loss and predictability. This information is provided in one of two ways.

85. The first analysis is referred to as the nature of expense method. Expenses are aggregated in the income statement according to their nature, (for example depreciation, purchase of materials, transport costs, wages and salaries, advertising costs), and are not reallocated amongst various functions within the entity. This method is simple to apply in many smaller entities because no allocation of operating expenses between functional classifications is necessary. An example of a classification using the nature of expense method is as follows:

Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	X

Raw materials and consumables used	X		
Staff costs	X		
Depreciation and amortisation expense	X		
Other expenses	X	X	Total expenses
(X)			
Profit		X	

86. The second analysis is referred to as the function of expense or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, distribution or administrative activities. This presentation often provides more relevant information to users than the classification of expenses by nature, but the allocation of costs to functions can be arbitrary and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of Sales	(X)
Gross Profit	X
Other Income	X
Distribution Costs	(X)
Administrative Expenses	(X)
Other Expenses	(X)
Profit	X

87. Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.

88. The choice of analysis between the function of expense method and the nature of expense method depends on both historical and industry factors and the nature of the organization. Both methods provide an indication of those costs which might be expected to vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entity, this Standard requires a choice between classification based on that which most fairly presents the elements of the entity's performance. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the cost of sales classification is used.

89. An entity shall disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

Statement of Changes in equity

90. An entity shall present a statement of changes in equity showing on the face of the statement:

a. profit or loss for the period;
b. each item of income and expense for the period, which, as required by other Standards, is recognized directly in equity, and the total of these items; and
c. total income and expense for the period (calculated as the sum of (a) and (b):, showing separately the total amounts attributable to equity holders of the parent and to minority interest; and
d. the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatments in NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors.

In addition, an entity shall present, either within this statement or in the notes:

e. Capital transactions with owners and distributions to owners;
f. The balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and
g. A reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.

91. Changes in an entity's equity between two balance sheet dates reflect the increase or decrease in its net assets or wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Except for changes resulting from transactions with shareholders, such as capital contributions and dividends, the overall change in equity represents the total gains and losses generated by the entities activities during the period.

92. NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors requires all items of income and expenses recognized in a period to be included in the determination of net profit or loss for the period unless a Nepal Accounting Standard requires or permits otherwise. Other Standards require gains and losses, such as revaluation surplus and deficits and certain foreign exchange differences, to be recognized directly as changes in equity along with capital transactions with and distributions to the entity's owners. Since it is important to take into consideration all gains and losses in assessing the changes in an entity's financial position between two balance sheet dates, this Standard requires a separate component of the financial statements which highlights an entity's total gains and losses, including those that are recognized directly in equity.

93. The requirements in paragraph 90 may be met in a number of ways. One approach follows a columnar format which reconciles between the opening and closing balances of each element within shareholders' equity, including items (a) to (f). An alternative is to present a separate component of the financial statements which presents only items (a) to (c). Under this approach, the items described in (d) to (f) are shown in the notes to the financial statements. Both approaches are illustrated in the appendix to this Standard. Whichever approach is adopted, paragraph 90 requires a sub – total of the items in (b) to enable users to derive the total gains and losses arising from the entity's activities during the period.

Cash flow statement

94. NAS 03 Cash Flow Statements sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing 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 utilize those cash flows.

Notes to the financial s tatements
Structure

95. The notes to the financial statements of an entity shall:
   a. present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;
   b. disclose the information required by Nepal Accounting Standards that is not presented elsewhere in the financial statements; and
   c. provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

96. Notes to the financial statements shall, as far as practicable, be presented in a systematic manner. each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross – referenced to any related information in the notes.

97. Notes to the financial statements include narrative descriptions or more detailed analyses of amounts shown on the face of the balance sheet, income statement, cash flow statement and statement of changes in equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by Nepal Accounting Standards, and other disclosures necessary to achieve a fair presentation.

98. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
   a. statement of compliance with Nepal Accounting Standards (see paragraph 13);
   b. statement of the measurement basis (bases) and accounting policies applied;
   c. Supporting information for items presented on the face of each financial statement in order in which each line item and each financial statement is presented; and
   d. other disclosures, including:
      i. contingencies, commitments and other financial disclosures; and
      ii. non-financial disclosures.

99. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on interest rate and fair value adjustments may be combined with information on maturities of financial instruments, although the former are income statement and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.

100. Information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of accounting policies

101. An entity shall disclose in the summary of significant accounting policies:
- ***a. the measurement basis (or bases) used in preparing the financial statements; and***
- ***b. the other accounting policy used that are relevant to an understanding of the financial statements.***

102. In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realizable value, fair value or present value) because they form the basis on which the whole of the financial statements are prepared. When more than one measurement basis is used in the financial statements, for example when certain non – current assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

103. In deciding whether a particular accounting policy shall be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported financial performance and financial position. The accounting policies that an entity might consider presenting include, but are not restricted to, the following:
- a. revenue recognition;
- b. consolidation principles, including subsidiaries and associates;
- c. business combination;
- d. joint ventures;
- e. recognition and depreciation / amortization of tangible and intangible assets;
- f. capitalization of borrowing costs and other expenditure;
- g. construction contract;
- h. investment properties;
- i. financial instruments and investments;
- j. leases;
- k. research and development costs;
- l. inventories;
- m. taxes;
- n. provisions;

o. employee benefit costs;
p. foreign currency translation and hedging;
q. definition of business and geographical segments and the basis for allocation of costs between segments;
r. definition of cash and cash equivalent; and
s. government grant.

Other Nepal Accounting Standards specifically require disclosure of accounting policies in many of these areas.

104. Each entity considers the nature of its operations and the policies which the users of its financial statements would expect to be disclosed for that type of entity. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses and the hedging of such gains and losses would be expected. In consolidated financial statements, the policy used determining goodwill and minority interest is disclosed.

105. An accounting policy may be significant even if the amounts shown for current and prior periods are not material. It is also appropriate to disclose the accounting policy for each policy not covered by existing Nepal Accounting Standards, but selected and applied in accordance with NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors.

106. An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 107), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Key sources of estimation uncertainty

107. An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing 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:

a. their nature; and
b. their carrying amount as at the balance sheet date.

108. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolensence on inventories, provisions subject to the future outcome of litigation in progress and long-term employee benefit liabilities such as

pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs.

109. The key assumption and other key sources of estimation uncertainty disclosed in accordance with paragraph 107 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

110. The disclosures in paragraph 107 are not required for assets and liabilities with a significant risk that their carrying amount might change materially within the next financial year if, at the balance sheet date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty the balance sheet date).

111. The disclosures in paragraph 107 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

a. the nature of the assumption or other estimation uncertainty;
b. the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
c. the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts for the assets and liabilities affected; and
d. an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

112. It is not necessary to disclose budget information or forecasts in making the disclosure in paragraph 107.

113. When it is impracticable to disclose the extent of the possible effects for a key assumption or another key sources of estimation uncertainty at the balance sheet date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

114. The disclosures in paragraph 106 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 107.

Capital

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

116. To comply with paragraph 115, the entity discloses the following:

a. Qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
   i. a description of what it manages as capital;
   ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
   iii. how it is meeting its objectives for managing capital.

b. summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

c. any changes in (a) and (b) from the previous period.

d. whether during the period it complied with any externally imposed capital requirements to which it is subject;

e. when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

117. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other Disclosures

118. An entity shall disclose in the notes:

a. The amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to equity holders during the period, and the related amount per share; and;

b. the amount of any cumulative preference dividends not recognized.

119. An entity shall disclose the following if not disclosed elsewhere in information published with the financial statements:

- ***a. the domicile and legal form of the entity, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office);***
- ***b. a description of the nature of the entity's operations and its principal activities;***
- ***c. where consolidated financial statements are prepared, the name of the parent entity and the ultimate parent entity of the group; and***

Compliance with International Accounting Standards

120. Compliance with this NAS ensures compliance in all material respects with IAS 01 Presentation of Financial Statements.

Effective date

121. This Nepal Accounting Standard becomes operative for financial statements covering periods beginning on or after 01 Shrawan 2065 corresponding to 17 July 2008.

Appendix A

Illustrative statement of changes in equity

The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet and the income statement as well as for the presentation of changes in equity. It also establishes further items that may be presented either on the face of the relevant financial statement or in the notes. The purpose of the Appendix is to provide example in which the requirements for the changes in equity might be presented in the primary financial statements. The order of presentation and the descriptions used for line items shall be changed where necessary in order to achieve a fair presentation in each entity's particular circumstances. The approach to presenting changes in equity is illustrated. (For Cash Flow Statement refer to NAS 03)