What is the Structure of Notes to Financial Statements?

Worksheet

Notes to financial statements are structured in a standard order: general information and basis of preparation, then significant accounting policies, then supporting detail for balance sheet items, then income statement items, then other disclosures like contingencies and related parties.

Questions

1. What typically comes first in the notes to financial statements?
A) Contingent liabilities
B) General information and basis of preparation
C) Related party transactions
D) Subsequent events

2. Where is the depreciation method for buildings disclosed?
A) In the auditor's report
B) In the summary of significant accounting policies
C) On the cash flow statement face
D) In the directors' remuneration report

3. A lawsuit with a possible (not probable) outflow is disclosed as a...
A) Recognized liability
B) Contingent liability in the notes
C) Contingent asset
D) Revenue item

4. Why does IAS 1 prescribe a standard note order?
A) To satisfy tax authorities only
B) To help users find and compare information efficiently
C) To reduce audit fees
D) To avoid disclosing accounting policies

5. A company is being sued and the outcome is uncertain, with a possible but not probable payout. Where does this appear in the notes?

6. A company wants to explain why it depreciates buildings over 40 years and equipment over 8 years. Where does this belong?

7. An investor wants to see the breakdown of 'Trade and other receivables' shown as one line on the balance sheet. Where do they look?

8. Define: What is the purpose of notes to financial statements?

9. Define: What comes first in the standard note structure?

10. Define: Where do accounting policies appear in the notes?

Answer Key

1. B) General information and basis of preparation — IAS 1 places basis of preparation and general information at the start of the notes.
2. B) In the summary of significant accounting policies — Depreciation method and useful life are accounting policy disclosures.
3. B) Contingent liability in the notes — Possible obligations are disclosed as contingent liabilities, not recognized on the balance sheet.
4. B) To help users find and compare information efficiently — A consistent order improves comparability and usability of the financial statements.
5. This is a contingent liability under IAS 37, not recognized on the balance sheet It is disclosed in the 'other disclosures' section of the notes Disclose the nature of the dispute and an estimate of the financial effect, if practicable
6. This is part of the summary of significant accounting policies It appears early in the notes, right after the basis of preparation Each major class of property, plant and equipment states its depreciation method and useful life
7. This detail sits in the notes supporting the balance sheet Look for the receivables note, which typically splits the balance by trade receivables, allowances for expected credit losses, and other receivables
8. To provide the detail, context and accounting basis behind the summary figures in the primary statements.
9. General information about the entity and the basis of preparation of the statements.
10. Early on, right after general information, as a summary of significant accounting policies.