JOURNAL OF CRITICAL REVIEWS

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

FINANCIAL STATEMENTS COMPLIANCE WITH IFRS

Sunita[1], Pardeep Kaur[2]
[1,2]Guru Kashi University, Talwandi Sabo

ABSTRACT

Its gross profit for this year was 1640 million pounds, an increase of 88 million pounds over the previous year's figure. Because the company has made more money this year than it did last year. Efforts have been made to minimise the cost of sales in order to improve long-term profit margins.Investment in Associates, joint ventures, and other vehicles has decreased by 0.1 million pounds. It's conceivable that the company has already sold its stake. Other financial assets have increased by 6.9 million pounds since last year.

Keywords: financial, statements,compliance ,ifrss

I. Introduction

UK-based Easyjet plc is a low-cost European point-to-point airline. For low prices and a warm welcome in the sky, we are able to use our cost advantage, operational efficiency and first-mover advantage in major airports to connect Europe seamlessly. An multinational low-cost airline company based in London, England, easyJet plc is known as easyJet or easyJet plc. 1996 saw the beginning of this enterprise. More than 1,000 domestic and international scheduled flights are provided by the company's subsidiary airlines EasyJet UK, EasyJet Switzerland, and EasyJet Europe.

II. Financial statements compliance with IFRS

Easy Jet plc and the group's financial statements were produced in accordance with IFRS, which were recognised for use in the European Union and the 2006 Company Act. The financial accounts were compiled in accordance with the principles of historical costs(Maama, &Mkhize, 2020). Various financial instruments, pension assets and liabilities, as well as obligations paid on a share basis, are valued at their fair market value when they are traded or acquired.

The Group's financial statements were prepared using the continuing interest criterion, which took into account the Group's main risks and business activities, as well as uncertainties. The Board of Directors has assessed that the company has adequate resources to continue operations based on its cash flow forecasts and forecasting(Efimova, &Rozhnova, 2018). That's why it's deemed reasonable for the company's Board of Directors to continue using interest criteria for the fiscal year ending January 25, 2020, as a consequence.

III. Examples of IFRSs

Initial identification of financial instruments and subsequent measurement of such instruments: Financial assets include:

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

Non-financial contracts that are sold in accordance with IFRS 9 Financial Instruments: Recognition and Measurement are included in the scope of IFRS 9 Financial Instruments: Recognition and Measurement. When a company becomes a party to a contract with provisional liabilities, financial instruments are first recognised(Prodanova, *et al.* 2019). Depending on the type of instrument, they are then categorised into numerous subcategories, and the instrument's measurement is decided by the instrument's categorization (usually amortised cost or fair value).

When preparing the company's financial statements in conformity with IFRS 9, financial assets are classified and valued at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL) (FVPL).

There are two criteria used for classification.

- An asset manager's business model.
- A contractual cash flow is defined as "just payments of principle and interest" on the primary amount owing by one party to the other.

The following is a list of the financial assets in their entirety:

Financialassets	**ClassificationunderIFRs9**
• Derivate are not represented ashedging instruments • Derivativesdesignatedashedginginstruments • Customerandotherreceivables • Cashandshorttermdeposits • Nonlistedequityinstrument	• Fairvalue throughprofitandloss • Hedginginstrumentthroughprofitandloss • Amortizedcost–holdtocollectbusinessmodel • Amortizedcost • FairvaluethroughOCI

IV. Subsequent measurement

A financial asset is one whose market value has been determined. Net losses or profits are the terms used to describe the amount of dividends and interest received, respectively, on the balance sheet.

The amortised cost of financial assets is calculated with the effective interest rate technique. Amortised costs are used to appraise financial assets(Rowbottom, *et al.* 2021).The amount of impairment losses is deducted from the amortised cost. Profit or loss is determined by taking into account interest income, impairment, and the gain or loss on the recognition of DEs.

Equity instruments at FVOCI are evaluated at fair value, and dividends are reported as income in profit and loss since the distribution indicates a recovery of the investment's cost, which is recognised in other comprehensive income(Unerman, *et al.* 2018). Other comprehensive income should be recorded for any additional profits or losses, rather than profit and loss.

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

V. Customer and Other Receivables

Damage allowance is deducted from customer receivables and other accounts receivables to determine the amount due to customers. Trade receivables are recorded as a liability if you are a party to a contract that is formed when the goods are shipped. Due to its expiration, it is no longer included in your portfolio.

ECL provisions for customers and other receivables are recognised in accordance with the Group's impairment accounting policy for financial assets(IFRS 8 2021). When customers make advance payments that aren't in line with the ECL, IFRS 9 requires an impairment provision to be reported. The consolidated entity has been streamlined in accordance with IFRS 9 in order to guarantee that losses associated with accounts receivable may be quantified at the time of first recognition and at the same amount as lifetime ECL.

VI. Foreign currency derivatives – cash flow hedges

The ineffective part of the gain or loss on the hedging instrument is recognised in the income statement as soon as it is realised in line with International Financial Reporting Standards (IFRS 9). During the course of the year, the hedged item's fair value fluctuates, and this causes the cash flow hedging reserve to be adjusted to reflect this. In order to protect itself from currency volatility, the Group employs forward currency and option contracts for future transactions and firm commitments(IAS 1 Presentation of Financial Statements 2019). We classify changes in fair value relating to both spot and future aspects as "hedging metrics" since the Group uses forward contracts to hedge anticipatory transactions. On foreign currency contracts, profit or loss on unprofitable parts is reflected in the income statement's other income line.

VII. Financial performance and financial health

Its gross profit for this year was 1640 million pounds, an increase of 88 million pounds over the previous year's figure. Because the company has made more money this year than it did last year. Efforts have been made to minimise the cost of sales in order to improve long-term profit margins.

The firm's operating profit does not expand as much as the company's gross profit when compared to the increase in operating profit. The company's comprehensive income statement shows a lot of losses. Operating profit has decreased as a result of the company's increasing selling/distribution costs and administrative costs. A jump in bad debts this year, or a rise in the company's selling expenses that make it hard for the company to overcome this situation, are plausible explanations. An associate company loss of 0.4 million pounds decreases the firm's operating profit as well. This year's net profit is 610.2 million pounds, an increase of 11.1 million pounds over last year. Even if his company's overall performance has improved from the previous year, his efforts to keep his selling costs and administrative costs in check might still result in a profit. Profitability suffers as a result.

The company's total assets have declined by 69.3 million pounds in comparison to the previous year. As a result of the following, this might be the case:

It has declined by £13.6 million in the value of property, plant, and equipment. Asset depreciation, corporate asset disposal, or a decrease in fair market value might all be contributing factors to this reduction(IFRS 16 leases 2018). One million pound ($1.54 million) has been added to the company's intangible asset valuation. There is a possibility that this growth is due to an increase in the fair value of intangible assets that the company

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

has just purchased. 91.1 million pounds have been taken out of the right-of-use asset. This year, the corporation's right-of-use assets have decreased by 943.8 million pounds over the previous year. There is a possibility that this reduction is due to the company returning assets that have been leased at the conclusion of the lease period.

Investment in Associates, joint ventures, and other vehicles has decreased by 0.1 million pounds. It's conceivable that the company has already sold its stake. Other financial assets have increased by 6.9 million pounds since last year.

This has resulted in an increase in the closing inventory. A total of 24.8 million pounds have been added to the closing inventory. A variety of factors might be at play, including the company's expansion of product manufacturing, or the company's inability to meet its sales target. There has been an increase of 29.9 million pounds in customer and other receivables in the current fiscal year(Agility 2020). According to this increase, either more credit sales were made or the company's debtors have not been able to pay the whole amount due during the current fiscal year. A total of 69.7 million pounds has been withdrawn from cash and other short-term deposits. Indicating that the company's creditors haven't been repaid, cash flow has decreased. As a result of the firm's present cash constraint, the company may become less liquid. It is imperative that they increase their cash and short-term deposits either by collecting the money owing from debtors or by reducing the amount of money they owe to creditors.

144.6 million pounds have been wiped from the company's debts. There's little doubt that the company has paid a large chunk of its debts with this reduction. Bank loans and overdrafts have fallen significantly in recent years.

The firm has paid a greater portion of its debt, which is why the corporation has a smaller amount of liquid assets(Rowbottom, *et al.* 2021). The repayment of a debt is beneficial to the firm. The current year's trade payables and liabilities are practically identical to the previous year's figures, indicating that there has been no growth in the current year. The company's overall performance has improved significantly compared to the prior year.

VIII. IFRS 16 "Leases"

There will be an early application of the new accounting standard, IFRS 16, for annual reporting periods starting on or after January 1, 2019, provided that IFRS 15 is in effect at the time of early application.

It is the fundamental objective of IFRS 16 to record information that

- appropriately portrays the lease transaction and
- Establishes an accounting basis on which the amount, timing and uncertainty of cash earned as a result of the lease are determined.

These goals can only be achieved if the renter is aware of the financial implications of the lease's assets and obligations.

Lease assets and liabilities must be recognised for at least a year, and up to 24 months if the asset's value is low, in compliance with the IFRS 16 accounting model for leases. Having a registered asset that embodies the lease agreement obligation is a must for lessees.

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

IFRS16 "Leases" is a new accounting standard that applies to the Group. For the first time in 2020, further adjustments and interpretations will be applied, although they will not affect the consolidated financial statements at all(Maama, &Mkhize, 2020). Any accounting period starting on or after January 1, 2019, is subject to IFRS16. Reapplying previous year's comparability criteria to comply with IFRS16, the group will retroactively implement the new standard. Low-cost rents may be achieved in two ways: by applying the conversion lease idea to the grandfather, and by using a recognised exemption.

IX.Impact to financial statements

As a result of these adjustments, Easy Jet plc's 2018/19 financial statements have been redrawn to show opening licence assets of £948.9 million and lease liabilities of £1,379.6 million. An estimated £196.3 million was taken from the group's retained earnings at time of conversion due to working capital adjustments mandated by IAS 17(Unerman, *et al.* 2018). Dividend payments to shareholders were not affected by these changes. “Retail portfolios, in particular, are among the most substantial leasing commitments. Under IAS 17, lease obligations under IFRS 16 are lower than those previously reported in operational lease agreements (mainly as a result of discounting future payments).

This means that the original licence asset is smaller than the leasing asset because of Hanley's incentive. License assets depreciate faster than lease debt and accumulated interest over the course of the same period. A pre-tax profit gain of £20.0 million (2019: $10.7 million) is indicated in the income statement for the fiscal year ending in January 2020. As a consequence of decreased depreciation on the licenced asset, operating income grew by £81.8 million (2019: £79.1) compared to the previous year(Prodanova, *et al.* 2019). There was an increase of £61.8 million (2019: £68.4 million) in interest charges imposed on the statement of comprehensive income as a result of additional financial expenditures being added to the newly recognised lease liabilities. The group's tax rate will not change as a result of the implementation of IFRS16.

Cash flow was unaffected despite significant changes in how the cash flow statement was reported throughout the period under study(Agility 2020). On the other hand, a rise in net cash outflows from finance offset an increase in operating cash inflows of £224.4 million (2019: £214.5 million). More than $224 million (2019:$214.5 million) was spent.

X. Conclusion

Firms, whether they are independent or individual financial statements, as well as those of a group in which the controlling company is located are subject to IFRS8's requirements. To trade or issue any kind of debt or equity instrument on the open market, a company must file its financial statements with the Securities and Exchange Commission or any other regulatory agency, which is known as "filing." Whereas, segmented information should be presented on the basis of the parent company's consolidated balance sheet if all three sets of financial statements are included together in one financial report. It was predicted that IFRS 8's disclosure of operating divisions would be profitable in the vast majority of circumstances. International Financial Reporting Standards 8 does not appear to have an influence on the operational segment information required by the company's age, ownership dispersion, amount of leverage, or business type. According to this result, the average percentage of sales segment disclosures should be at least 50%, and the mandatory enforcement monitoring mechanism for

ISSN- 2394-5125 VOL 08, ISSUE 03, 2021

sales segment disclosure should be evaluated. The studies also shed new light on the variables influencing sales industry disclosure practises.

References

Agility: The new standard for financial planning and analysis. (2020). Retrieved from IBM: https://www.ibm.com/ae-en/analytics/financial-planning-analysis?p1=Search&p4=43700056949604416&p5=b&cm_mmc=Search_Google-_-1S_1S-_-EA_PK-_-

%2Bfinancial%20%2Banalysis_b&cm_mmca7=71700000071702150&cm_mmca8=kwd-20728240854&cm_mmca9=CjwKCAiAv4n9BRA9EiwA30WNDz

IAS 1 Presentation of Financial Statements. (2019). Retrieved from INTERNATIONAL FINANCIAL REPORTING TOOL:

https://www.readyratios.com/reference/ifrs/ias_1_presentation_of_financial_statements.html

IFRS 16 leases . (2018). Retrieved from IFRS: https://www.ifrs.org/issued-standards/list-of-standards/ifrs- 16-leases/#:~:text=The%20objective%20of%20IFRS%2016,cash%20flows%20arising%20from

%20leases.

IFRS 8 — Operating Segments. (2021). Retrieved from Deloitte: https://www.iasplus.com/en/standards/ifrs/ifrs8

Unerman, J., Bebbington, J., &O'dwyer, B. (2018). Corporate reporting and accounting for externalities. Accounting and business research, 48(5), 497-522. https://www.tandfonline.com/doi/abs/10.1080/00014788.2018.1470155

Rowbottom, N., Locke, J., &Troshani, I. (2021). When the tail wags the dog? Digitalisation and corporate reporting. Accounting, Organizations and Society, 92, 101226. https://www.sciencedirect.com/science/article/pii/S0361368221000027

Prodanova, N., Plaskova, N., Bochkareva, N., Babalykova, I., Gazizyanova, Y., &Zherelina, O. (2019). Integrated corporate reporting as an innovative business reporting model. *International Journal of Engineering and Advanced Technology*, *8*(5), 2075-2078. https://elibrary.ru/item.asp?id=38612944

Efimova, O., &Rozhnova, O. (2018, October). The corporate reporting development in the digital economy. In *The 2018 International Conference on Digital Science* (pp. 71-80). Springer, Cham.https://link.springer.com/chapter/10.1007/978-3-030-02351-5_10

Maama, H., &Mkhize, M. (2020). Integration of non-financial information into corporate reporting: a theoretical perspective. *Academy of Accounting and Financial Studies Journal*, *24*(2), 1-15. https://www.researchgate.net/profile/Haruna-Maama/publication/342788463_INTEGRATION_OF_NON-FINANCIAL_INFORMATION_INTO_CORPORATE_REPORTING_A_THEORETICAL_PERSPECTIVE/links/5f06457ea6fdcc4ca457425b/INTEGRATION-OF-NON-FINANCIAL-INFORMATION-INTO-CORPORATE-REPORTING-A-THEORETICAL-PERSPECTIVE.pdf