IAS 33, IAS 34 and IFRS 8

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Today's Agenda

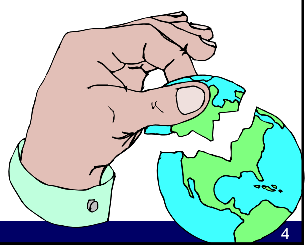
- IAS 33 Earnings per Share
- IAS 34 Interim Financial Reporting
- IFRS 8 Operating Segments

Earnings per Share (IAS 33)

1. Objective of IAS 33
2. Scope of IAS 33
3. Basic EPS
4. Diluted EPS
5. Retrospective Adjustments
6. Presentation
7. Disclosures

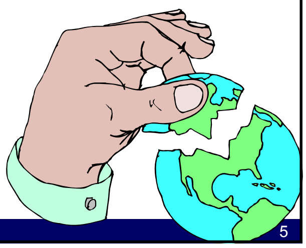
1. Objective of IAS 33

- The objective of IAS 33 Earnings per Share (EPS) is
  - to prescribe principles for the determination and presentation of earnings per share
  - so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.
- Even though EPS data have limitations because of the different accounting policies that may be used for determining 'earnings'
  - a consistently determined denominator enhances financial reporting.
- The focus of IAS 33 is on
  - the denominator of the EPS calculation



2. Scope of IAS 33

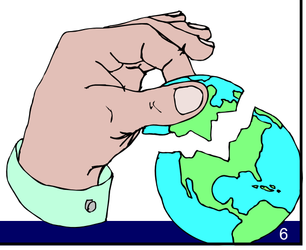
- IAS 33 shall be applied by entities:
  - a) whose ordinary shares or potential ordinary shares are publicly traded and
  - b) that are in the process of issuing ordinary shares or potential ordinary shares in public markets.
- An entity that discloses EPS shall calculate and disclose EPS in accordance with IAS 33.
- When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with IAS 27
  - the disclosures required by IAS 33 need be presented only on the basis of the consolidated information.
- An entity that chooses to disclose EPS based on its separate financial statements
  - shall present such EPS information only on the face of its separate income statement.
  - shall not present such EPS information in the consolidated financial statements.



Measurement of EPS

- EPS can be divided into

Basic EPS and **Diluted EPS**



3. Basic EPS

- An entity shall calculate basic EPS amounts for
  - profit or loss attributable to ordinary equity holders of the parent entity and
  - if presented, profit or loss from continuing operations attributable to those equity holders.
- Basic EPS shall be calculated
  - by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator)
  - by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Earnings

Shares

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holder of the parent entity}}{\text{Weighted average no. of ordinary shares outstanding during the period}}$$

3. Basic EPS – Earnings

- For the purpose of calculating basic EPS, the amounts attributable to ordinary equity holders of the parent entity in respect of:
  a) profit or loss from continuing operations attributable to the parent entity; and
  b) profit or loss attributable to the parent entity

  shall be the amounts in (a) and (b) adjusted for
  - the after-tax amounts of preference dividends,
  - differences arising on the settlement of preference shares, and
  - other similar effects of preference shares classified as equity.

Earnings

- For the purpose of calculating EPS based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for minority interests.

3. Basic EPS – Shares

- For the purpose of calculating basic EPS, the no. of ordinary shares shall be
  – the weighted average no. of ordinary shares outstanding during the period.
- The weighted average no. of ordinary shares outstanding during the period is
  – the no. of ordinary shares outstanding at the beginning of the period,
  – adjusted by the no. of ordinary shares bought back or issued during the period
  – multiplied by a time-weighting factor.

Shares

The time-weighting factor is
- the no. of days that the shares are outstanding as a proportion of the total number of days in the period;
- a reasonable approximation of the weighted average is adequate in many circumstances.

3. Basic EPS

Example

$$\textbf{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holder of the parent entity}}{\text{Weighted average no. of ordinary shares outstanding during the period}}$$

Issue of shares during the year at the full market price

– To determine the EPS denominator, the weighted average number of shares in issue during the period must be calculated
– For example:

	31 Dec 04	31 Dec 05
Earnings	$1,000	$1,300
Ordinary shares in issue at 1 January	5,000	6,000

On 1 April 2005, 1,000 more shares were issued at the full market price.

Weighted average no. of shares in issue for 2005
= 5,000 x ¼ + 6,000 x ¾ = 5,750 shares

Then	- Earnings	$1,000	$1,300
	- Weighted average no. of shares	5,000	5,750
Basic EPS		$0.200	$0.226

3. Basic EPS

No. of ordinary shares outstanding changed with no resources changed

– The weighted average no. of ordinary shares outstanding during the period and for all periods presented shall be adjusted for

- events, other than the conversion of potential ordinary shares, that have changed the no. of ordinary shares outstanding without a corresponding change in resources.

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holder of the parent entity}}{\text{Weighted average no. of ordinary shares outstanding during the period}}$$

3. Basic EPS

Example

- Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources.
- Examples include:
  a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);
  b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
  c) a share split; and
  d) a reverse share split (consolidation of shares).

More details and an example on bonus issue ……

More details and an example on rights issue ……

3. Basic EPS – Capitalisation

Capitalisation, bonus issue or share split

- In such cases, ordinary shares are issued to existing shareholders for no additional consideration.
- Therefore, the no. of ordinary shares outstanding is increased without an increase in resources.
- The no. of ordinary shares outstanding before the event is adjusted for the proportionate change in the no. of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

all comparative EPS amounts are also restated

3. Basic EPS – Capitalisation

Example

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holder of the parent entity}}{\text{Weighted average no. of ordinary shares outstanding during the period}}$$

Bonus Issue of Shares

Assuming the same earnings and shares as the previous example

But in addition, there was a 1 for 5 bonus issue on 1 April 2008

		31 Dec 07	31 Dec 08
Earnings		$1,000	$1,300
Ordinary shares in issue at 1 January		5,000	6,000
Then	- Earnings	$1,000	$1,300
	- Weighted average no. of shares *(for 2004: 5,000 + 1,000)*	6,000	6,000
Basic EPS		$0.167	$0.217

3. Basic EPS – Rights Issue

Rights issues

- In a rights issue, the exercise price is often less than the fair value of the shares.
- Such a rights issue includes a bonus element.
- If a rights issue is offered to all existing shareholders, the no. of ordinary shares to be used in calculating basic and diluted EPS for all periods before the rights issue is
  - the no. of ordinary shares outstanding before the issue, multiplied by the following factor:

$$\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

3. Basic EPS – Rights Issue

Rights issues

- The theoretical ex-rights fair value per share is calculated by
  - adding the aggregate market value of the shares immediately before the exercise of the rights
  - to the proceeds from the exercise of the rights, and
  - dividing by the no. of shares outstanding after the exercise of the rights.
- Where the rights are to be publicly traded separately from the shares before the exercise date
  - fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights.

$$\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

3. Basic EPS – Rights Issue

Example

Basic EPS = Profit or loss attributable to ordinary equity holder of the parent entity / Weighted average no. of ordinary shares outstanding during the period

Rights Issue of Shares

- Assuming the same earnings and shares as the previous examples
- But, there was a 1 for 5 rights issue for $2 per share on 1 April 2008
- Market price is $2.5 per share

	31 Dec 07	31 Dec 08
Earnings	$1,000	$1,300
Ordinary shares in issue at 1 January	5,000	6,000

- Theoretical ex-rights price

	1 share @ $2.00	$ 2.0
	5 shares @ $2.50	12.5
i.e.	6 shares @ $2.42	14.5

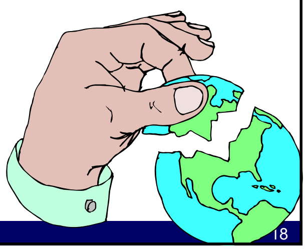
- Then - Weighted average no. of shares

	31 Dec 07	31 Dec 08
Weighted average no. of shares	5,000	5,165 x 1/4
	x 2.5/2.42	+ 6,000 x 3/4
	5,165	5,791
Basic EPS	$0.1936	$0.2245

4. Diluted EPS

- EPS can be divided into

Basic EPS and **Diluted EPS**



4. Diluted EPS

- An entity shall calculate diluted EPS amounts for
  - profit or loss attributable to ordinary equity holders of the parent entity and,
  - if presented, profit or loss from continuing operations attributable to those equity holders.
- For the purpose of calculating diluted EPS, an entity shall adjust
  - profit or loss attributable to ordinary equity holders of the parent entity, and
  - the weighted average no. of shares outstanding,

  for the effects of all dilutive potential ordinary shares.

Earnings

Shares

- A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

4. Diluted EPS

- For the purpose of calculating diluted EPS, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with basic EPS before, by the after-tax effect of:
  a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated in accordance with basic EPS before;
  b) any interest recognised in the period related to dilutive potential ordinary shares; and
  c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

Earnings

4. Diluted EPS

- For the purpose of calculating diluted EPS, the number of ordinary shares shall be
  - the weighted average no. of ordinary shares calculated in accordance with basic EPS,
  - plus the weighted average no. of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.
- Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at
  - the beginning of the period or,
  - if later, the date of the issue of the potential ordinary shares. (IAS 33.36)

Shares

$$\text{Diluted EPS} = \frac{\text{Earnings} \pm \text{Adjustments to Earnings}}{\text{Shares} + \text{Potential Ordinary Shares}}$$

4. Diluted EPS

Determine dilutive potential ordinary shares

- Potential ordinary shares
  - are weighted for the period they are outstanding.
  - that are cancelled or allowed to lapse during the period
    - are included in the calculation of diluted EPS only for the portion of the period during which they are outstanding.
  - that are converted into ordinary shares during the period
    - are included in the calculation of diluted EPS from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted EPS.

$$\text{Diluted EPS} = \frac{\text{Earnings} \pm \text{Adjustments to Earnings}}{\text{Shares} + \text{Potential Ordinary Shares}}$$

4. Diluted EPS

Antidilutive

- Potential ordinary shares shall be treated as dilutive when, and only when
  - their conversion to ordinary shares would decrease EPS or increase loss per share from continuing operations.
- Potential ordinary shares are antidilutive
  - when their conversion to ordinary shares would increase EPS or decrease loss per share from continuing operations.
- The calculation of diluted EPS does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on EPS.

$$\text{Diluted EPS} = \frac{\text{Earnings} \pm \text{Adjustments to Earnings}}{\text{Shares + Potential Ordinary Shares}}$$

4. Diluted EPS

Determine dilutive or antidilutive

- In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.
- The sequence in which potential ordinary shares are considered may affect whether they are dilutive.
- Therefore, to maximise the dilution of basic EPS, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive

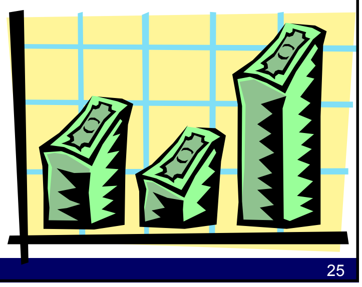
  i.e. dilutive potential ordinary shares with the lowest *'earnings per incremental share'* are included in the diluted EPS calculation before those with a higher earnings per incremental share.
- Options and warrants are generally included first because they do not affect the numerator of the calculation.

4. Diluted EPS

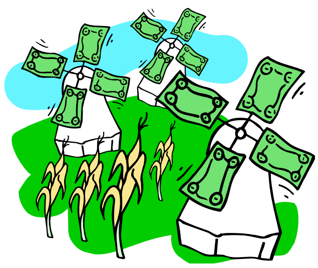
Options, warrants and their equivalents

- For the purpose of calculating diluted EPS
  - an entity shall assume the exercise of dilutive options and warrants of the entity.
  - The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period.
- The difference between
  - the number of ordinary shares issued and
  - the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period

  shall be treated as an issue of ordinary shares for no consideration.



4. Diluted EPS



Contracts that may be settled in ordinary shares or cash

- When an entity has issued a contract that may be settled in ordinary shares or in cash at the entity's option, the entity shall presume that
  - the contract will be settled in ordinary shares, and
  - the resulting potential ordinary shares shall be included in diluted EPS if the effect is dilutive.

4. Diluted EPS

Written put options

- Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted EPS if the effect is dilutive.
- If these contracts are 'in the money' during the period (i.e. the exercise or settlement price is above the average market price for that period), the potential dilutive effect on EPS shall be calculated as follows:
  a) it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;
  b) it shall be assumed that the proceeds from the issue are used to satisfy the contract (i.e. to buy back ordinary shares); and
  c) the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted EPS.

4. Diluted EPS

Example

Net profit for the year	$120,000
Number of ordinary shares in issue	500,000
Average fair value of one ordinary share	$2.00
Shares under the option during the year	100,000
Exercise price of shares under option	$1.50

Requirement: Calculate the basic and fully diluted earning per share.

	Earnings	Shares	EPS
Basic EPS	$120,000	500,000	24.0p
Additional shares (100,000 – 75,000)			
(100,000 x 1.5 / 2 = 75,000)		25,000	
Diluted EPS	120,000	525,000	22.9p

4. Diluted EPS

Example

Issued share capital as at 31 Dec. 06 and 07: 2 million ordinary shares of 10p each

1. The average market price of the shares during the year was $0.75.
2. Options have been granted to the directors and certain senior executives giving them the right to subscribe for 100,000 ordinary shares between 2012 and 2015 at $0.60 per share.
3. 800,000 8% convertible cumulative preference shares of $1 each. Each preference share is convertible into 2 ordinary shares.
4. $1,000,000 of 5% Convertible bonds. Each $1 bond is convertible into 2 ordinary shares.
5. The price of 2.5% Consolidated Stock on the 1 Jan. 07 for the purpose of this question is to be taken at $25.
6. Net profit attributable to ordinary shareholders for the year ended 31 Dec. 07 is $100,000 all of which relates to continuing operations.
7. Corporation tax at 35%

4. Diluted EPS

Example

Adjustments to earnings

Preference dividends	8% x 800,000 = 64,000
Convertible loan stock interest	5% x 1,000,000 @ 65% = 32,500
Options	No adjustment to earnings

Potential ordinary shares

Convertible preference shares	800,000 x 2 = 1,600,000
Convertible loan stock	1,000,000 x 2 = 2,000,000
Options – additional shares	100,000 – 100,000 x 0.6 / 0.75 = 20,000

To rank them

	Earnings	Shares	EPS	Rank
Convertible preference shares	64,000	1,600,000	$0.040	3
Convertible loan stock	32,500	2,000,000	$0.016	2
Options – additional shares	Nil	20,000	Nil	1

4. Diluted EPS

Example

	Earnings	Shares	EPS	
Basic	100,000	2,000,000	$0.0500	
Options – additional shares	Nil	20,000		
	100,000	2,020,000	$0.0495	
Convertible loan stock	32,500	2,000,000		
	132,500	4,020,000	$0.0330	
Convertible preference shares	64,000	1,600,000		
	196,500	5,620,000	$0.0350	*Antidilution*

Antidilution is an increase in EPS or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

- In this case, the Diluted EPS (most dilution) would be $0.033, not $0.035.

5. Retrospective Adjustments

- If the no. of ordinary or potential ordinary shares outstanding ⇨ the calculation of basic and diluted EPS for all periods presented shall be adjusted retrospectively.
  - increases as a result of a capitalisation, bonus issue or share split, or
  - decreases as a result of a reverse share split
- If these changes occur after the balance sheet date but before the financial statements are authorised for issue ⇨ the per share calculations for those and any prior period financial statements presented shall be based on the new no. of shares.
- The fact that per share calculations reflect such changes in the no. of shares shall be disclosed.

5. Retrospective Adjustments

Correction of errors and changes in accounting policies

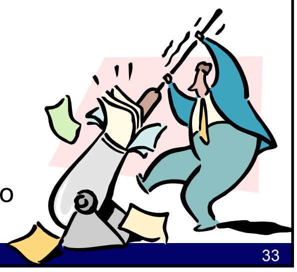
In addition, basic and diluted EPS of all periods presented shall be adjusted for

- the effects of errors and
- adjustments resulting from changes in accounting policies accounted for retrospectively.

Changes in the assumptions or conversion of potential ordinary shares

An entity does not restate diluted EPS of any prior period presented

- for changes in the assumptions used in EPS calculations or
- for the conversion of potential ordinary shares into ordinary shares.



6. Presentation

- An entity shall present on the face of the income statement basic and diluted EPS
  - for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and
  - for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period.
- An entity shall present basic and diluted EPS with equal prominence for all periods presented.
- EPS is presented for every period for which an income statement is presented.

6. Presentation

- If diluted EPS is reported for at least one period, it shall be reported for all periods presented, even if it equals basic EPS.
- If basic and diluted EPS are equal, dual presentation can be accomplished in one line on the income statement.
- An entity that reports a discontinuing operation shall disclose the basic and diluted amounts per share for the discontinuing operation
  - either on the face of the income statement or
  - in the notes to the financial statements.
- An entity shall present basic and diluted EPS, even if the amounts are negative
  - i.e. a loss per share

7. Disclosure

- An entity shall disclose the following:
  a) the amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects EPS.
  b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects EPS.
  c) instruments (including contingently issuable shares) that could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period(s) presented.
  d) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, that occur after the balance sheet and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

7. Disclosure

- If an entity discloses, in addition to basic and diluted EPS,
  - amounts per share using a reported component of the income statement other than one required by IAS 33,
  - such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with IAS 33.
- Basic and diluted amounts per share relating to such a component shall be
  - disclosed with equal prominence and
  - presented in the notes to the financial statements.
- An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax.
- If a component of the income statement is used that is not reported as a line item in the income statement
  - a reconciliation shall be provided between the component used and a line item that is reported in the income statement.

Interim Financial Reporting (IAS 34)

1. Scope and Definitions
2. Content of an Interim Financial Report
3. Disclosure in Annual Financial Statements
4. Recognition and Measurement
5. Restatement of Previously Reported Interim Periods

1. Scope and Definition

- IAS 34 does not mandate
  - which entities should be required to publish interim financial reports,
  - how frequently, or
  - how soon after the end of an interim period.
- However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports.
- IAS 34 applies
  - if an entity is required or elects to publish an interim financial report in accordance with IFRSs.

1. Scope and Definition

- Interim period
  - is a financial reporting period shorter than a full financial year.
- Interim financial report means a financial report containing either
  - a complete set of financial statements (as described in IAS 1 *Presentation of Financial Statements*) or
  - a set of condensed financial statements (as described in IAS 34) for an interim period. (IAS 34.4)

2. Contents of Interim F. Report

Complete set of financial statements as defined in IAS 1 contains	Interim Financial Report (minimum components as set out in IAS 34)
a) a balance sheet;	Condensed balance sheet
b) an income statement;	Condensed 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;	Condensed statement of CE
d) a cash flow statement; and	Condensed cash flow statement
e) notes, comprising a summary of significant accounting policies and other explanatory notes.	Selected explanatory notes

2. Contents of Interim F. Report

Complete set of financial statements as defined in IAS 1 contains

Interim Financial Report (minimum components as set out in IAS 34)

- In the interest of timeliness and cost considerations and to avoid repetition of information previously reported,
  - an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements.
- IAS 34 defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes.
- The interim financial report is intended to provide an update on the latest complete set of annual financial statements.
  - Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

2. Contents of Interim F. Report

Complete set of financial statements
as defined in IAS 1 contains

Interim Financial Report
(minimum components as set out in IAS 34)

- Nothing in IAS 34
  - is intended to prohibit or discourage an entity from publishing
    - a complete set of financial statements (as described in IAS 1) in its interim financial report,
    - rather than condensed financial statements and selected explanatory notes.

An entity can choose to provide a complete set of fin. statements

- Nor does IAS 34
  - prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in IAS 34.

An entity can provide more than the minimum line items

2. Contents of Interim F. Report

Complete set of financial statements
as defined in IAS 1 contains

Interim Financial Report
(minimum components as set out in IAS 34)

- The recognition and measurement guidance in IAS 34 applies also to
  - complete financial statements for an interim period, and such statements would include all of the disclosures required by IAS 34 (particularly the selected note disclosures in IAS 34.16) as well as those required by other IAS.

2. Contents of Interim F. Report

- An interim financial report shall include, at a minimum, the following components:
  a) condensed balance sheet;
  b) condensed income statement;
  c) condensed statement showing either
     i) all changes in equity or
     ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
  d) condensed cash flow statement; and
  e) selected explanatory notes. (IAS 34.8)

Interim Financial Report
(minimum components as set out in IAS 34)

- Condensed balance sheet
- Condensed income statement
- Condensed statement of CE
- Condensed cash flow statement
- Selected explanatory notes

2. Contents of Interim F. Report

Complete set of financial statements
as defined in IAS 1 contains

- If an entity publishes a complete set of financial statements in its interim financial report,
  – the form and content of those statements shall conform to the requirements of IAS 1 for a complete set of financial statements. (IAS 34.9)

Additional line items or notes shall be included
- if their omission would make the condensed interim financial statements misleading. (IAS 34.10)

Interim Financial Report
(minimum components as set out in IAS 34)

- If an entity publishes a set of condensed financial statements in its interim financial report,
  – those condensed statements shall include, at a minimum,
    - each of the headings and subtotals that were included in its most recent annual financial statements and
    - the **selected explanatory notes** as required by IAS 34. (IAS 34.10)

2. Contents of Interim F. Report

Complete set of financial statements as defined in IAS 1 contains	Interim Financial Report (minimum components as set out in IAS 34)

- Basic and diluted earnings per share
  - shall be presented on the face of an income statement, complete or condensed, for an interim period.

2. Contents of Interim F. Report

Selected Explanatory Notes

- An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report.
  - The information shall normally be reported on a financial year-to-date basis.
- However, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period:

a) a statement that
   - the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or,
   - if those policies or methods have been changed, a description of the nature and effect of the change;

b) explanatory comments about the seasonality or cyclicality of interim operations;

2. Contents of Interim F. Report

Selected Explanatory Notes

c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;

d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

e) issuances, repurchases, and repayments of debt and equity securities;

f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;

2. Contents of Interim F. Report

Selected Explanatory Notes

g) the specified segment information in IAS 34 (disclosure of segment data information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment data information in its annual financial statements)

h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

i) the effect of changes in the composition of the entity during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*; and

j) changes in contingent liabilities or contingent assets since the end of the last annual reporting period. (IAS 34.16)

2. Contents of Interim F. Report

Example

- Examples of the kinds of disclosures that are required by IAS 34.16 are set out below. Individual Standards and Interpretations provide guidance regarding disclosures for many of these items:
  1. the write-down of inventories to net realisable value and the reversal of such a write-down;
  2. recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
  3. the reversal of any provisions for the costs of restructuring;
  4. acquisitions and disposals of items of property, plant and equipment;
  5. commitments for the purchase of property, plant and equipment;
  6. litigation settlements;
  7. corrections of prior period errors;
  8. any loan default or breach of a loan agreement that has not been remedied on or before the balance sheet date; and
  9. related party transactions.

2. Contents of Interim F. Report

Disclosure of Compliance with IFRSs

- If an entity's interim financial report is in compliance with IAS 34, that fact shall be disclosed.
- An interim financial report shall not be described as complying with Standards unless it complies with all of the requirements of IFRSs. (IAS 34.19)

2. Contents of Interim F. Report

Periods for which Interim Financial Statements are Required to be Presented

- Interim reports shall include interim financial statements (condensed or complete) for periods as follows:
  a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;
  b) income statements for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;
  c) statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and
  d) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. (IAS 34.20)

2. Contents of Interim F. Report

Example

- Entity A ends its financial statement at 31 Dec. and proposes to report an interim financial report for the three-month period ended 30.9.2008.

Entity A will report the following in its interim financial report:

	Current	Comparative
Balance sheet as at	30.9.2008	31.12.2007
Income statement		
For 3-month period	1.7.2008 to 30.9.2008	1.7.2007 to 30.9.2007
For 9-month period	1.1.2008 to 30.9.2008	1.1.2007 to 30.9.2007
Statement of changes in equity		
For 9 month period	1.1.2008 to 30.9.2008	1.1.2007 to 30.9.2007
Cash flow statement		
For 9-month period	1.1.2008 to 30.9.2008	1.1.2007 to 30.9.2007

2. Contents of Interim F. Report

Periods for which Interim Financial Statements are Required to be Presented

- For an entity whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful.
  - Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in IAS 34.

2. Contents of Interim F. Report

Materiality

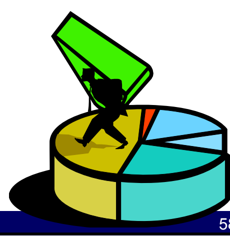
- In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.
- In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data. (IAS 34.23)

3. Disclosures in Annual Fin. S.

- If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period,
  - the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year. (IAS 34.26)

4. Recognition and Measurement

- An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements,
  - except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.
- However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results.
- To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis. (IAS 34.28)



4. Recognition and Measurement

Revenue Received Seasonally, Cyclically, or Occasionally

- Revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. (IAS 39.37)
- Examples include dividend revenue, royalties, and government grants.
- Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers.
  - Such revenues are recognised when they occur.

4. Recognition and Measurement

Costs Incurred Unevenly During the Financial Year

- Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if,
  - it is also appropriate to anticipate or defer that type of cost at the end of the financial year. (IAS 34.39)

4. Recognition and Measurement

Example

Applying Recognition and Measurement Principles

- The nature of year-end bonuses varies widely.
  - Some are earned simply by continued employment during a time period.
  - Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

> ➢ A bonus is anticipated for interim reporting purposes if, and only if,
>
> a) the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments, and
>
> b) a reliable estimate of the obligation can be made.
>
> IAS 19 *Employee Benefits* provides guidance.

4. Recognition and Measurement

Example

Applying Recognition and Measurement Principles

- An entity will apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period.

> ➢ Costs incurred before the recognition criteria for an intangible asset are met
> - are recognised as an expense.
>
> ➢ Costs incurred after the specific point in time at which the criteria are met
> - are recognised as part of the cost of an intangible asset.
>
> ➢ "Deferring" costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year is not justified.

4. Recognition and Measurement

Example

Applying Recognition and Measurement Principles

- An entity's budget may include certain costs expected to be incurred irregularly during the financial year, such as charitable contributions and employee training costs.

- Those costs generally are discretionary even though they are planned and tend to recur from year to year.
- Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally
  - is not consistent with the definition of a liability.

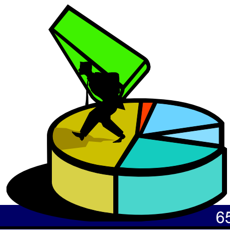
4. Recognition and Measurement

Use of Estimates

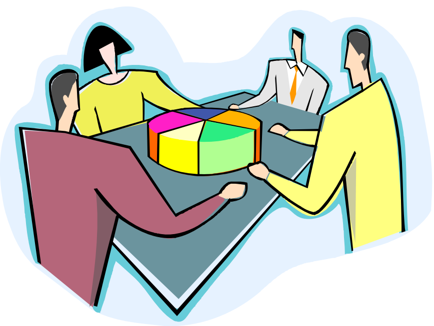
- The measurement procedures to be followed in an interim financial report shall be designed to ensure
  - that the resulting information is reliable and
  - that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed.
- While measurements in both annual and interim financial reports are often based on reasonable estimates,
  - the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports. (IAS 34.41)

5. Restatement of Previously Reports

- A change in accounting policy, other than one for which the transition is specified by a new Standard or Interpretation, shall be reflected by:
  a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8; or
  b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.



Operating Segments (IFRS 8)



Background

- IFRS 8 arises from the IASB's consideration of
  - FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131 of United States) issued in 1997, compared with IAS 14 *Segment Reporting*, which is similar to IAS 14.
- IFRS 8 achieves convergence with the requirements of SFAS 131.
  - The wording of IFRS 8 is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs.

Today's Agenda

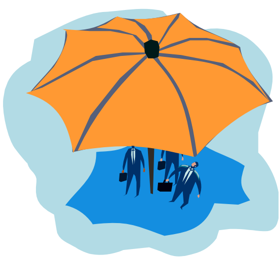
1. Core Principle and Scope
2. Operating Segments
3. Reportable Segments
4. Disclosure
5. Measurement
6. Entity-Wide Disclosures

1. Core Principle and Scope

Core Principle

- An entity shall disclose information to enable users of its financial statements to evaluate
  - the nature and financial effects of the business activities in which it engages and
  - the economic environments in which it operates.

1. Core Principle and Scope



Scope

- IFRS 8 applies to:
  - the separate or individual financial statements of an entity with listed debt and equity
  - the consolidated financial statements of a group with a parent with listed debt and equity
  - The segment information of an entity which chooses to follow IFRS 8
- If a financial report contains both the parent's consolidated financial statements and separate financial statements,
  - segment information is required only in the consolidated financial statements.

2. Operating Segments

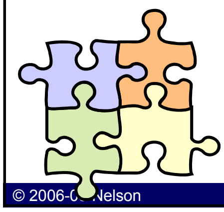
- An **operating segment** is a component of an entity:
  a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
  b) whose operating results are regularly reviewed by the entity's **chief operating decision maker** to
     - make decisions about resources to be allocated to the segment and
     - assess its performance, and
  c) for which discrete financial information is available.

A business activity might have not yet earned any revenue

For example: CEO, COO, or a group of executive directors

Not necessary be geographical areas or products

Operating Segments



- Not every part of an entity is necessarily an operating segment or part of an operating segment, say corporate headquarter

2. Operating Segments

Case

HSBC

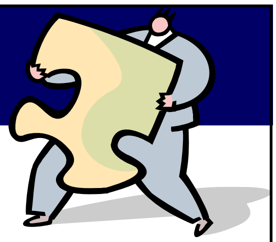
Annual Report 2006

- IFRS 8 'Operating Segments' (IFRS 8), which replaces IAS 14 'Segment Reporting' (IAS 14), was issued on 30 November 2006 and is effective for annual periods beginning on or after 1 January 2009.
- This standard specifies how an entity should report information about its **operating segments**,
  – based on information about the components of the entity that management uses to make operating decisions.
- HSBC currently presents two sets of **segments** in accordance with IAS 14,
  – one geographical and one based on customer groups, which reflect the way the businesses of the Group are managed.
- HSBC currently expects to adopt IFRS 8 with effect from 1 January 2009, and will accordingly present segmental information which reflects the operating segments used to make operating decisions at that time.

IFRS 8

IAS 14

3. Reporting Segments



Reportable Segment

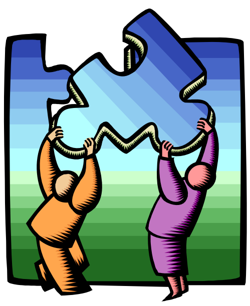
Operating Segments
↓
Aggregation Criteria
↓
Quantitative Thresholds
↓
Other Situations

- An entity shall report separately information about each operating segment that
  a) has been identified as operating segment or results from aggregating two or more of those segments under the **aggregation criteria**, and
  b) exceeds the **quantitative thresholds** ("10% or more test").
- There are also other situations in which separate information about an operating segment shall be reported.

3. Reporting Segments

Aggregation Criteria

- Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.
  - For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar.



3. Reporting Segments

Aggregation Criteria

Aggregate segments if desired

- Two or more operating segments may be aggregated into a single operating segment if
  - aggregation is consistent with the core principle of IFRS 8,
  - the segments have similar economic characteristics, and
  - the segments are similar in each of the following respects:
    - a) the nature of the products and services;
    - b) the nature of the production processes;
    - c) the type or class of customer for their products and services;
    - d) the methods used to distribute their products or provide their services; and
    - e) if applicable, the nature of the regulatory environment, e.g., banking or public utilities.

3. Reporting Segments

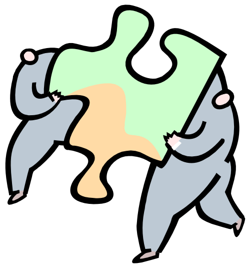
Quantitative Thresholds

- An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
  - a) Its reported revenue (including both sales to external customers and intersegment sales or transfers) is 10% or more of the combined revenue (internal and external) of all operating segments.
  - b) The absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of
    - i) the combined reported profit of all operating segments that did not report a loss and
    - ii) the combined reported loss of all operating segments that reported a loss.
  - c) Its assets are 10% or more of the combined assets of all operating segments.

3. Reporting Segments

- Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed,
  - if management believes that information about the segment would be useful to users of the financial statements.

Quantitative Thresholds



3. Reporting Segments

Combination of Segments

- An entity may combine information (combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds) to produce a reportable segment
  - only if the operating segments
    - have similar economic characteristics and
    - share a majority of the aggregation criteria.
- If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue,
  - additional operating segments shall be identified as reportable segments (even if they do not meet the quantitative thresholds) until at least 75% of the entity's revenue is included in reportable segments.

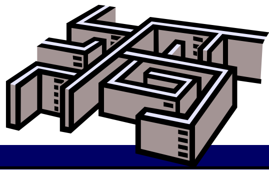
Other Situations

3. Reporting Segments

Restate Comparatives for New Segments

- If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds,
  - segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment,
    - even if that segment did not satisfy the criteria for reportability in the prior period,
    - unless the necessary information is not available and the cost to develop it would be excessive.

Other Situations



4. Disclosure

- To give effect to the core principle, an entity shall disclose the following for each period for which an income statement is presented:
  a) general information as described in IFRS 8;
  b) information about
    - reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss,
    - segment assets, and
    - the basis of measurement; and
  c) reconciliations of the totals of
    - segment revenues,
    - reported segment profit or loss,
    - segment assets, and
    - other material segment items

  to corresponding entity amounts.

General Information

Other Information

Reconciliations

4. Disclosure – Reconciliations

- Reconciliations of balance sheet amounts for reportable segments
  - to the entity's balance sheet amounts are required for each date at which a balance sheet is presented.
- Previously reported information for prior periods shall be restated.

Reconciliations

4. Disclosure – General Information

- An entity shall disclose the following general information:
  a) factors used to identify the entity's reportable segments, including the basis of organisation, for example,
     - whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and
     - whether operating segments have been aggregated, and
  b) types of products and services from which each reportable segment derives its revenues.

General Information

4. Disclosure – Other Information

- An entity shall report a measure of profit or loss and total assets for each reportable segment.
- An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.

Other Information

4. Disclosure – Other Information

- An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:
  a) revenues from external customers;
  b) revenues from transactions with other operating segments of the same entity;
  c) interest revenue;
  d) interest expense;
  e) depreciation and amortisation;
  f) material items of income and expense disclosed in accordance with IAS 1;
  g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
  h) income tax expense or income; and
  i) material non-cash items other than depreciation and amortisation.

Other Information

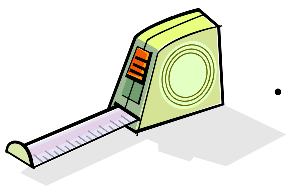
5. Measurement

- The amount of each segment item reported shall be the measure reported to the chief operating decision maker
  - for the purposes of making decisions about allocating resources to the segment and assessing its performance.

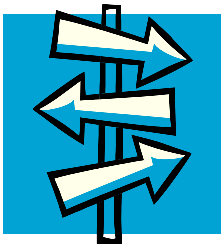
- Compared with IAS 14,
  - IAS 14 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
  - IAS 14 defines segment revenue, segment expense, segment result, segment assets and segment liabilities
  - IFRS 8 does not define these terms but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

5. Measurement

- Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if
  - they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker.
- Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment.
- If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.



5. Measurement



- If the chief operating decision maker uses only one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources,
  - segment profit or loss, assets and liabilities shall be reported at those measures.
- If the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities,
  - the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

5. Measurement

- An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment.
- At a minimum, an entity shall disclose the following:
  - i) the basis of accounting.
  - ii) the nature of any differences (if not apparent from the reconciliations) between
    - the measurements of the reportable segments' profits or losses, assets and liabilities, and
    - the entity's profits or losses, assets and liabilities (in the financial statements).
  - iii) the nature of any changes from prior periods in the measurement methods.
  - iv) the nature and effect of any asymmetrical allocations to reportable segments.

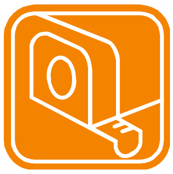
5. Measurement

Example

<u>Measurement of operating segment profit or loss, assets and liabilities</u>

- The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies
  - except that pension expense for each operating segment is recognised and measured <u>on the basis of cash payments</u> to the pension plan.
- Tony Corporation evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.
- Tony Corporation accounts for intersegment sales and transfers as if the sales or transfers were to third parties, ie at current market prices.

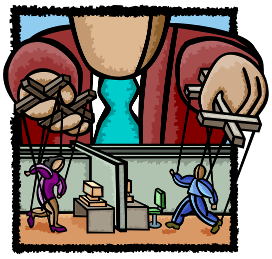
5. Measurement – Reconciliations



- An entity shall <u>provide reconciliations</u> of all of the following:
  - a) the total of the reportable segments' revenues to the entity's revenue.
  - b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations.
  - c) the total of the reportable segments' assets to the entity's assets
  - d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with IFRS 8.23.
  - e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.
- All material reconciling items shall be separately identified and described.

5. Measurement – Reconciliations

- If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change,
  - the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive (for each individual item of disclosure)
- Following a change in the composition of its reportable segments,
  - an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.



5. Measurement – Reconciliations

- If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change,
  - the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

6. Entity-Wide Disclosures

- All entities subject to IFRS 8, including those that have a single reportable segment, are also required to have certain entity-wide disclosures, including:
  - the revenues from external customers for each product and service, or each group of similar products and services
  - certain geographical information
  - information about the extent of its reliance on its major customers.

Products and Services

Geographical Areas

Major Customers

IAS 33, IAS 34 and IFRS 8

November 2008

Full set of slides in PDF can be found in www.NelsonCPA.com.hk

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IAS 33, IAS 34 and IFRS 8

November 2008

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