Preparation and Presentation of Financial Statements – Part 1

17 September 2013

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Today's Agenda

- Presentation of Financial Statements (IAS 1)
- Events after the Reporting Period (IAS 10)
- Related Party Disclosures (IAS 24)

- **Simple but Comprehensive**
- **Recap and key issues**
- **Real Life Cases and Examples**

Presentation of Financial Statements
(IAS 1)

Presentation of Financial Statements
(IAS 1)

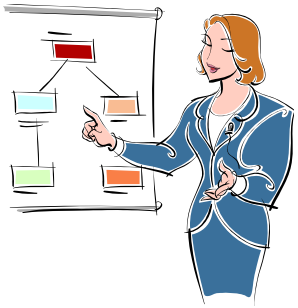
I. Introduction

II. Complete Set of Financial Statements

III. General Features of Financial Statements

IV. Structure & Contents of Financial Statements

1. Statement of Financial Position
2. Statement of Comprehensive Income
3. Statement of Changes in Equity
4. Statement of Cash Flows
5. Notes



I. Introduction

- An entity is required to apply IAS 1 *Presentation of Financial Statements* in preparing and presenting general purpose financial statements in accordance with IFRS. (IAS 1.2)
  - General purpose financial statements can also be referred to as financial statements and are defined as:
    - those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

I. Introduction

- To provide information about
  - financial position,
  - financial performance, and
  - cash flows of an entity,

  That is useful to a wide range of users in making economic decisions
- To also show the results of management's stewardship of the resources entrusted to it

- To meet this objective, financial statements provide information about the entity's:
  - Assets
  - Liabilities
  - Equity
  - Income and expenses, including gains and losses
  - Other changes in equity
  - Cash flows

Thus, we have ……

II. Complete Set of Fin. Statements

- A complete set of financial statements comprises:
  a) a statement of financial position as at the end of the period;
  b) a statement of comprehensive income for the period;
  c) a statement of changes in equity for the period;
  d) a statement of cash flows for the period;
  e) notes, comprising a summary of significant accounting policies and other explanatory information; and
  f) a statement of financial position as at the beginning of the earliest comparative period
     - when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
     - when it reclassifies items in its financial statements. (IAS 1.10)

Previously, we call it "Balance Sheet"

Previously, we call it "Income Statement"

Sorry! Changed!

3rd years' "balance sheets"

II. Complete Set of Fin

As amended by Improvements to IFRS 2009-2011

- A complete set of financial statements comprises:
  a) a statement of financial position as at the end of the period;
  b) a **statement of profit or loss and other comprehensive income** for the period;
  c) a statement of changes in equity for the period;
  d) a statement of cash flows for the period;
  e) notes, comprising a summary of significant accounting |policies and other explanatory information;
  f) comparative information in respect of the preceding period as specified in IAS 1.38 and 38A; and
  g) a statement of financial position as at the beginning of the preceding period
     - when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
     - when it reclassifies items in its financial statements in accordance with IAS 1.40A-40D (IAS 1.10)

Previously, we call it "Balance Sheet"

Previously, we call it "Income Statement"

Sorry! Changed!

Amended (to be discussed)

II. Complete Set of Fin. Statements

Complete Set of Financial Statements

Previous title or changes

Statement of Financial Position as at the end of the period

Previous title: "Balance Sheet"

To use a single statement to present all items of income and expense

To use two statements to present all items of income and expense

Statement of Profit or Loss and Other Comprehensive Income for the period

Statement of Profit or Loss for the period — New title

Statement of P/L and OCI for the period — New title

Statement of Changes in Equity for the period

Statement of Cash Flows for the period

Notes

A statement of financial position as at the beginning of the earliest comparative period, if required

 Sourced from Intermediate Financial Reporting (2012) by Nelson Lam and Peter Lau

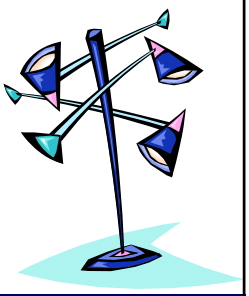
III. General Features of Fin. Statements

- IAS 1 sets out certain general features that financial statements must possess and these general features include:
  a. True and fair view (fair presentation) and compliance with IFRSs,
  b. Going concern,
  c. Accrual basis of accounting,
  d. Materiality and aggregation,
  e. Offsetting,
  f. Frequency of reporting,
  g. Comparative information, and
  h. Consistency of presentation.

III. General Features of Fin. Statements

a. True and fair (fair presentation) and compliance with IFRSs

- An entity whose financial statements comply with IFRSs is required to make an explicit and unreserved statement of such compliance in the notes. (IAS 1.16)
- An entity cannot describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. (IAS 1.16)
- An entity cannot rectify inappropriate accounting policies either
  - by disclosure of the accounting policies used or
  - by notes or explanatory material. (IAS 1.18)



III. General Features of Fin. Statements

Case

Vodafone Group plc

- In its annual report 2012, Vodafone in stated that its financial statements comply with IFRSs and the IFRSs adopted by the European Union as follows:
  - The consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board and are also prepared in accordance with IFRS adopted by the European Union ('EU'), the Companies Act 2006 and Article 4 of the EU IAS Regulations.
- Certain countries and places , including Australia, EU, HK and Singapore, have converged their local standards with the IFRSs.
- Financial statements prepared by the entities incorporated in these places and countries are in compliance with the IFRSs, and their respective local standards can achieve and declare a dual compliance, as Vodafone has done.

Sourced from Intermediate Financial Reporting (2012) by Nelson Lam and Peter Lau

III. General Features of Fin. S

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Minimum comparative information

- Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements.
- An entity shall include comparative information for narrative and descriptive information
  - if it is relevant to an understanding of the current period's financial statements (IAS 1.38)

III. General Features of Fin. S

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Minimum comparative information

- An entity shall present, as a minimum,
  - two statements of financial position,
  - two statements of profit or loss and other comprehensive income,
    - two separate statements of profit or loss (if presented),
  - two statements of cash flows and
  - two statements of changes in equity, and
  - related notes (IAS 1.38A)
- In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period (IAS 1.38B)

III. General Features of Fin. Statements

Example

g. Comparative information – Minimum comparative information

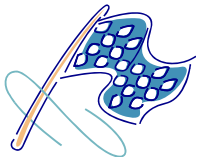
- For example, an entity discloses in the current period details of a legal dispute,
  - the outcome of which was uncertain at the end of the preceding period and is yet to be resolved
  - users may benefit
    - from the disclosure of information that the uncertainty existed at the end of the preceding period and
    - from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty. (IAS 1.38B)

III. General Features of Fin.

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Additional comparative information

- An entity may present comparative information in addition to the minimum comparative financial statements required by IFRSs,
  - as long as that information is prepared in accordance with IFRSs.
    - This comparative information may consist of one or more statements referred to in IAS 1.10, but need not comprise a complete set of financial statements.
    - When this is the case, the entity shall present related note information for those additional statements. (IAS 1.38C)

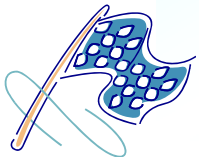


III. General Features of Fin. Statements

Example

g. Comparative information – Additional comparative information

- For example, an entity may present a third statement of profit of loss and other comprehensive income (thereby presenting the current period, the preceding period and one additional comparative period).
  - However, the entity is not required to present
    - a third statement of financial position,
    - a third statement of cash flows or
    - a third statement of changes in equity (ie an additional financial statement comparative).
  - The entity is required to present, in the notes to the financial statements,
    - the comparative information related to that additional statement of profit or loss and other comprehensive income (IAS 1.38D)



III. General Features of Fin. Statements

Case

- Telkom SA SOC Limited (Telkom), a South Africa telecom. company, stated in its annual report 2013:
  - The annual improvements project amendment also clarifies the difference between
    - voluntary additional comparative information and
    - the minimum required comparative information.
  - The requirements for comparative information have been clarified in two areas.
    - Firstly, when an entity voluntarily presents comparative information in excess of the minimum requirements, the additional comparative information disclosed need not represent a full set of financial statements, but must include notes.

III. General Features of Fin. Statements

Case

- Telkom SA SOC Limited (Telkom), a South Africa telecom. company, stated in its annual report 2013:
  - Secondly, when there is
    - a change in accounting policy,
    - retrospective restatement or
    - reclassification,

    an entity must present a third statement of financial position at the beginning of the preceding period, but need not present notes for the opening statement (of financial position).
  - The Group will apply the amendments when appropriate.

III. General Features of Fin.

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Change in accounting policy, retrospective restatement or reclassification

- An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in IAS 1.38A if:
  a. it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
  b. the retrospective application, retrospective restatement or the reclassification **has a material effect** on the information in the statement of financial position at the beginning of the preceding period (IAS 1.40A)

III. General Features of Fin. S

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Change in accounting policy, retrospective restatement or reclassification

- In the circumstances described in IAS 1.40A , an entity shall present three statements of financial position as at:
  a. the end of the current period;
  b. the end of the preceding period; and
  c. the beginning of the preceding period. (IAS 1.40B)
- When an entity is required to present an additional statement of financial position in accordance with IAS 1.40A, it must disclose the information required by IAS 1.41–44 and IAS 8.
  - However, it need not present the related notes to the opening statement of financial position as at the beginning of the preceding period (IAS 1.40C)

III. General Features of Fin. S

As amended by Improvements to IFRS 2009-2011

g. Comparative information – Change in accounting policy, retrospective restatement or reclassification

- The date of that opening statement of financial position shall be as at the beginning of the preceding period
  - regardless of whether an entity's financial statements present comparative information for earlier periods (as permitted in IAS 1.38C) (IAS 1.40D)

III. General Features of Fin. S

As amended by Improvements to IFRS 2009-2011

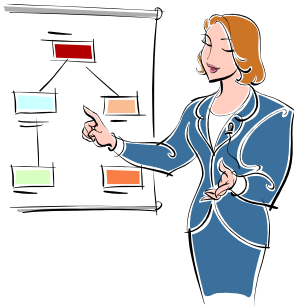
g. Comparative information – Change in accounting policy, retrospective restatement or reclassification

- If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable.
- When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):
  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 (IAS 1.41)

Presentation of Financial Statements
(IAS 1)

IV. Structure & Contents of Financial Statements

1. Statement of Financial Position
2. Statement of Profit or Loss and Other Comprehensive Income
3. Statement of Changes in Equity
4. Statement of Cash Flows
5. Notes



IV. Structures & Content of Fin. Statements

- In order to distinguish the financial statements from other information in the same published document, an entity is required to clearly identify the financial statements and distinguish these two types of information. (IAS 1.49)
- An entity is required to clearly identify each financial statement and the notes.
- It is also required to display the following information prominently, and repeat it when necessary for the information presented to be understandable:
  1. the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
  2. whether the financial statements are of an individual entity or a group of entities;
  3. the date of the end of the reporting period or the period covered by the set of financial statements or notes;
  4. the presentation currency, as defined in IAS 21; and
  5. the level of rounding used in presenting amounts in the financial statements.

Complete Set of Fin. Statements

Complete Set of Financial Statements

Previous title or changes

Statement of Financial Position as at the end of the period — Previous title: "Balance Sheet"

To use a single statement to present all items of income and expense

To use two statements to present all items of income and expense

Statement of Profit or Loss and Other Comprehensive Income for the period

Statement of Profit or Loss for the period — New title

Statement of P/L and OCI for the period — New title

Statement of Changes in Equity for the period

Statement of Cash Flows for the period

Notes

A statement of financial position as at the beginning of the earliest comparative period, if required

 Sourced from Intermediate Financial Reporting (2012) by Nelson Lam and Peter Lau

1. Statement of Financial Position

Complete Set of Financial Statements

Statement of Financial Position
as at the end of the period

Previous title
or changes

Previous title:
"Balance Sheet"

1. Statement of Financial Position

- The "statement of financial position" is previously titled as "balance sheet".
- IAS 1 revises its title to align with the contents and function of the statement
- An entity can still choose to use title other than the one used in IAS 1.
- Certain minimum line items are required to present on the face of the statement of financial position
- Other items can be presented either on the face or in the notes to the statement.

1. Statement of Financial Position

- As a minimum, the statement of financial position shall include line items that present the following amounts:
  1. property, plant and equipment;
  2. investment property;
  3. intangible assets;
  4. financial assets;
  5. investments accounted for using the equity method;
  6. biological assets;
  7. inventories;
  8. trade and other receivables;
  9. cash and cash equivalents;
  10. the total of assets classified as held for sale and assets included in disposal groups classified as held for sale;
  11. trade and other payables;
  12. provisions;
  13. financial liabilities;
  14. liabilities and assets for current tax;
  15. deferred tax liabilities and deferred tax assets;
  16. liabilities included in disposal groups classified as held for sale;
  17. non-controlling interests, presented within equity; and
  18. issued capital and reserves attributable to owners of the parent.

1. Statement of Financial Position

- An entity can present additional line items, headings and subtotals on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. (IAS 1.55)
- An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
  1. the nature and liquidity of assets;
  2. the function of assets within the entity; and
  3. the amounts, nature and timing of liabilities. (IAS 1.58)
- The use of different measurement bases for different classes of assets suggests that their nature or function of the assets differs.
  - In consequence, an entity presents the assets with different measurement basis as separate line items.

1. Statement of Financial Position

Current/Non-current Distinction

- In presenting the assets and liabilities in the statement of financial position, an entity is required to present
  - current and non-current assets, and
  - current and non-current liabilities,

  as separate classifications in its statement of financial position in accordance with IAS 1.
- When a presentation of assets and liabilities in the statement of financial position based on liquidity provides information that is reliable and more relevant,
  - an entity is required to present all assets and liabilities in order of liquidity. (IAS 1.60)

1. Statement of Financial Position

Current/Non-current Distinction

- Whichever method of presentation is adopted,
  - an entity is required to disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:
    1. no more than twelve months after the reporting period, and
    2. more than twelve months after the reporting period (IAS 1.61)

1. Statement of Financial Position

Case

香港交易所 HKEx

Consolidated statement of financial position (extract)

	Note	At 31 Dec 2012 Current $m	Non-current $m	Total $m	As restated At 31 Dec 2011 Current $m	Non-current $m	Total $m
ASSETS							
Cash and cash equivalents	21, 22	34,077	–	34,077	18,221	–	18,221
Financial assets measured at fair value through profit or loss	21, 23	4,369	123	4,492	11,169	180	11,349
Financial assets measured at amortised cost	21, 24(a)	8,442	131	8,573	15,848	403	16,251
Accounts receivable, prepayments and deposits	26	13,689	7	13,696	7,210	23	7,233
Interest in a joint venture	27(a)	–	97	97	–	–	–
Goodwill and other intangible assets	28(a)	–	18,183	18,183	–	–	–
Fixed assets	29(a)	–	1,675	1,675	–	948	948
Lease premium for land	30	–	24	24	–	25	25
Deferred tax assets	37(d)	–	20	20	–	1	1
Total assets		60,577	20,260	80,837	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	21, 31	36,786	–	36,786	34,592	–	34,592
Accounts payable, accruals and other liabilities	32	15,818	20	15,838	8,456	–	8,456
Deferred revenue		530	–	530	524	–	524
Taxation payable		178	–	178	262	–	262
Other financial liabilities	33	57	–	57	60	–	60
Participants' contributions to Clearing House Funds	21, 34	1,924	–	1,924	880	–	880
Borrowings	35	–	6,615	6,615	–	–	–
Provisions	36(a)	44	45	89	35	27	62
Deferred tax liabilities	37(d)	–	1,056	1,056	–	33	33
Total liabilities		55,337	7,736	63,073	44,809	60	44,869

1. Statement of Financial Position

Current Assets

- In classifying an asset as **current asset**, an entity shall classify an asset as current when:
  1. It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
  2. It holds the asset primarily for the purpose of trading;
  3. It expects to realise the asset within twelve months after the reporting period; or
  4. The asset is cash or a cash equivalent (as defined in IAS 7)
     - unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- An entity shall classify all other assets as **non-current assets** (IAS 1.66)

1. Statement of Financial Position

Example

- What is operating cycle?

  - The operating cycle of an entity is the time between
    - the acquisition of assets for processing and
    - their realisation in cash or cash equivalents.
  - When the entity's normal operating cycle is not clearly identifiable,
    - its duration is assumed to be 12 months.

1. Statement of Financial Position

Example

Current Assets

- Cash at bank and deposits at bank may not be classified as current assets
  - if they are pledged to the bank or other parties and are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

- Current assets include
  - assets (such as 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 reporting period;
  - assets held primarily for the purpose of trading (financial assets within this category are classified as held for trading in accordance with IAS 39); and
  - the current portion of non-current financial assets.

1. Statement of Financial Po

Current liabilities

- An entity shall classify a liability as **current** when:
  a) it expects to settle the liability in its normal operating cycle;
  b) it hold the liability primarily for the purpose of trading;
  c) The liability is due to be settled within 12 months after the reporting period; or
  d) It does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

  Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

  Additional requirements

- All other liabilities shall be classified as **non-current**. (IAS 1.69)

1. Statement of Financial Position

Revised rules on classifying a liability as current or non-current

- A liability held for being traded ⇒ **current**
- A financial liability due within 12 months after the B/S date ⇒ **current**
  - even if an agreement to refinance on a long-term basis is completed after the B/S date *(only disclosed as non-adjusting event)*
    - If an entity has discretion to refinance ⇒ **non-current**
    - If an entity without discretion to refinance ⇒ **current**

- A non-current financial liability is payable on demand with a breach on a condition of its loan agreement on or before the B/S date
  - If the lender agreed not to demand payment
    - after the B/S date ⇒ **current** *(only disclosed as non-adjusting event)*
    - by the B/S date ⇒ **non-current**

1. Statement of Financial Position

Example

Can the following be classified as current assets?

- 3-month fixed deposits pledged to a bank to secure a mortgage loan of 5 years ×
- 2-year fixed deposits with a bank ×

Can the following be classified as non-current liabilities?

- 5-year term loan matured after year end but renewed for another 5 years after year end (before the issuance of the financial statements) ×
- 2-year term loan to be matured with 12 months and the entity has a right to renew for another 2 years √

2. Statement of P/L and OCI

Complete Set of Financial Statements

To use a single statement to present all items of income and expense	To use two statements to present all items of income and expense	Previous title or changes
Statement of Profit or Loss and Other Comprehensive Income for the period	**Statement of Profit or Loss for the period**	New title
	Statement of P/L and OCI for the period	New title

Sourced from Intermediate Financial Reporting (2012) by Nelson Lam and Peter Lau

2. Statement of P/L and OCI

- IAS 1 revised in 2007 has restructured the presentation of items of income and expense and changes in equity.
- IAS 1 was further revised in 2011 to incorporate new names and additional classification
- Historically,
  - IAS 1 required the presentation of an "income statement" that included items of income expense recognised in profit or loss.
  - The items of income and expense not recognised in profit or loss and the items of owner changes in equity, for example the dividend distribution, were presented in "statement of changes in equity".
  - The statement of changes in equity in substance had included
    - profit or loss for a period,
    - other items of income and expense not recognised in profit or loss during a period, the effects of changes in accounting policies and correction of errors, and
    - items of owner changes in equity.

2. Statement of P/L and OCI

- As part of the improvement project in presenting financial performance of an entity,
  - IAS 1 revised in 2007
    - Defines clearly that owners are holders of instruments classified as equity.
    - Requires that changes in equity (same as net assets) of an entity during a period are separated into two categories:

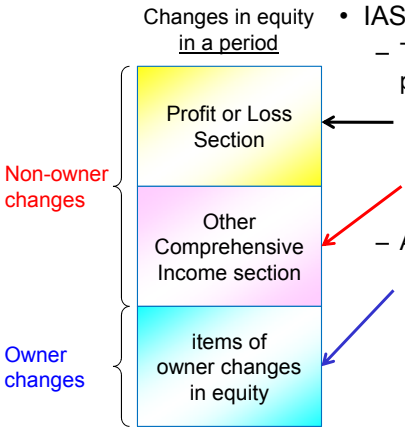
Non-owner changes

1. **Non-owner changes in equity** – represent all other changes in equity that are also the items of income and expense recognised during a period

Owner changes

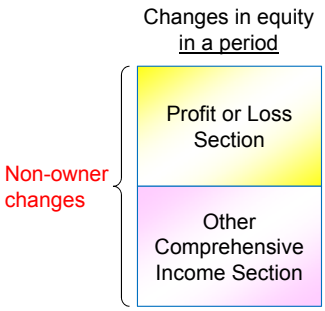
2. **Owner changes in equity** – represent changes arising from transactions with owners in their capacity as owners

2. Statement of P/L and OCI



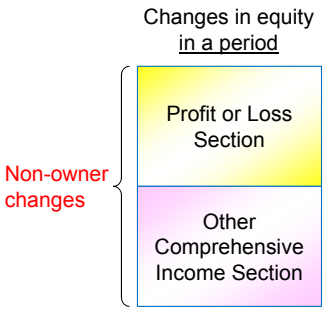
- IAS 1 requires that
  - The non-owner changes in equity during a period are further separated into two categories:
    1. Profit and loss section, being items of "profit or loss"; and
    2. Other comprehensive income section, being items of "other comprehensive income".
  - All owner changes in equity must be
    - presented separately from non-owner changes in equity and
    - presented in the statement of changes in equity.

2. Statement of P/L and OCI



- For annual periods beginning on or after 1 July 2012, IAS 1 requires:
  1. A new statement title, **statement of profit or loss and other comprehensive income**, is introduced and it can be used to distinguish from statement of comprehensive income which may be used to present comprehensive income only;
  2. Similar to the above title, another new statement title, **statement of profit or loss**, is also introduced to formally replace income statement, or separate income statement, to present items of profit or loss only (IAS 1.10A);
  3. Components of other comprehensive income is formally described as items of other comprehensive income; and
  4. A term, ie comprehensive income, is formally introduced and represents the total of profit or loss and other comprehensive income (IAS 1.81A)

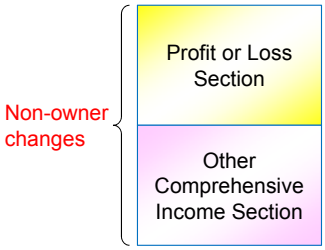
2. Statement of P/L and OCI



Two-Statement Approach **Single Statement Approach**

- IAS 1 revised in 2007 and 2011 requires an entity to present such non-owner changes in equity in a period by using either:
  1. Single statement approach – present all items of income and expense recognised in a period in a single "*statement of profit or loss and other comprehensive income*", or
  2. Two-statement approach – present all items of income and expense recognised in a period in 2 statements:
     a. a statement displaying items of profit or loss (i.e. a separate "*statement of profit or loss*") and
     b. a second statement beginning with profit or loss and displaying items of other comprehensive income (i.e. a "*statement of profit or loss and other comprehensive income*").

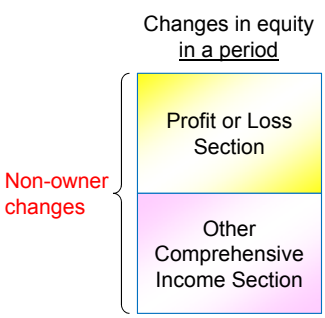
2. Statement of P/L and OCI



Single Statement Approach

- For Single Statement Approach
  - a single "statement of profit or loss and other comprehensive income", with profit or loss and other comprehensive income presented in two sections.
  - the sections shall be presented together, with
    - the "profit or loss section" presented first
    - followed directly by the "other comprehensive income section" (IAS 1.10A)

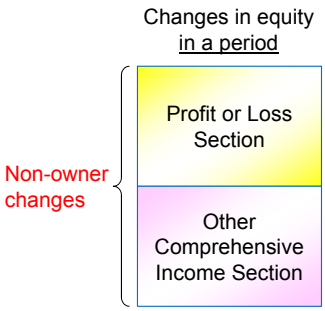
2. Statement of P/L and OCI



Two-Statement Approach

- For Two-Statement Approach
  - The profit or loss section in a separate statement of profit or loss.
  - If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss (IAS 1.10A)

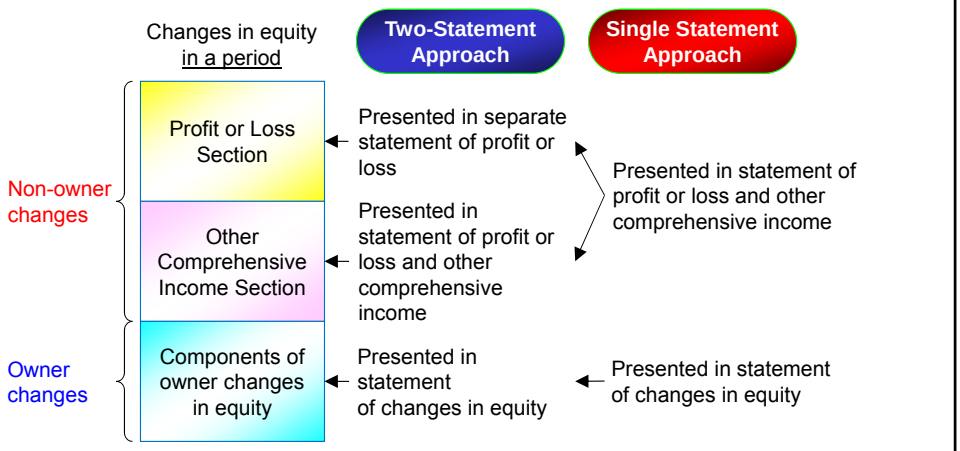
2. Statement of P/L and OCI



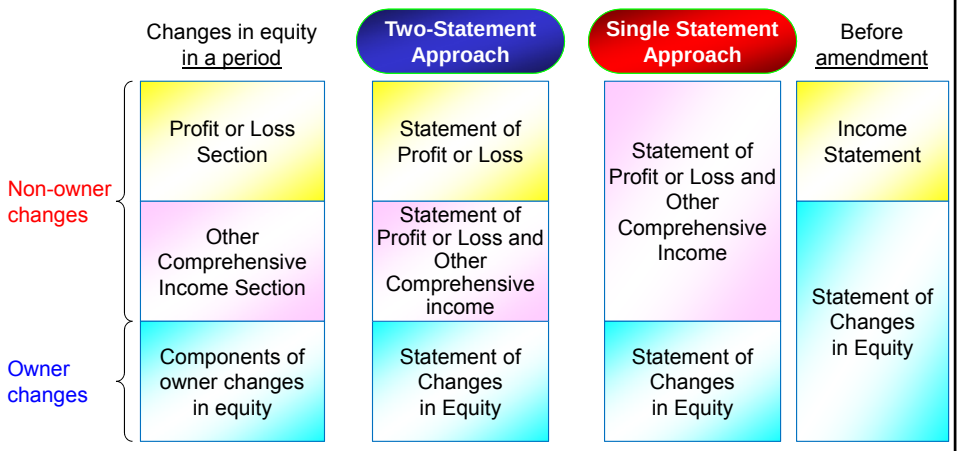
Two-Statement Approach **Single Statement Approach**

- An entity may use titles for the statements other than those used in IAS 1.
  - e.g., an entity may use
    - the title "*statement of comprehensive income*" instead of "*statement of profit or loss and other comprehensive income*" (IAS 1.10), or
    - the title "*income statement*" or "*profit and loss account*" instead of "*statement of profit or loss*"
- An entity shall present with equal prominence all of the financial statements in a complete set of financial statements (IAS 1.11)

2. Statement of P/L and OCI



2. Statement of P/L and OCI



2. Statement of P/L and OCI

Two-Statement Approach | Single Statement Approach

Profit or Loss Section

Other Comprehensive Income Section

- No matter whether a single statement or two-statement approach is adopted, an entity is required to present, in addition to profit or loss and other comprehensive income sections, the following total amounts in the statement of comprehensive income or statement of profit or loss and other comprehensive income:
  1. Profit or loss for the period;
  2. Total other comprehensive for the period; and
  3. Comprehensive income for the period, being the total of profit or loss and other comprehensive income (IAS 1.81A)

2. Statement of P/L and OCI

Two-Statement Approach | Single Statement Approach

Profit or Loss Section

Other Comprehensive Income Section

- An entity shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:
  (a) profit or loss for the period attributable to:
    (i) non-controlling interests, and
    (ii) owners of the parent.
  (b) comprehensive income for the period attributable to:
    (i) non-controlling interests, and
    (ii) owners of the parent.
- If an entity presents profit or loss in a separate statement it shall present (a) in that statement, i.e. in the separate statement of profit or loss (IAS 1.81B)

2. Statement of P/L and OCI

Profit or Loss Section

- Profit or loss
  - is the total of income less expenses, excluding the items of other comprehensive income.
  - all items of income and expense are recognised in a period in profit or loss unless an IFRS requires or permits otherwise.
- In addition to items required by other IFRSs, profit or loss section in both single statement and two-statement approach must include line items of the following amounts for the period:
  1. revenue
  2. finance costs
  3. share of the profit or loss of associates and joint ventures accounted for using the equity method
  4 tax expenses
  5. A single amount for the total of discontinued operations

2. Statement of P/L and OCI

Other Comprehensive Income Section

- Other comprehensive income
  - Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.
  - In accordance with IAS 1 revised in 2007, an entity is required to classify and present the items of other comprehensive income by nature
    - No additional grouping in the other comprehensive income section was required.
  - In June 2011, IAS 1 was further revised for annual periods beginning on or after 1 July 2012 in order to distinguish and group different items of other comprehensive income and align the presentation of other comprehensive income with the presentation in US.

2. Statement of P/L and OCI

Other Comprehensive Income Section

OCI not reclassified

OCI may be reclassified

- Other comprehensive income
  - The main amendment in 2011 requires an entity not only to classify the items of other comprehensive income in a period by nature, but also to group and present them in accordance with other IFRSs into:
    1. Those items of other comprehensive income that will not be reclassified subsequently to profit or loss; and
    2. Those items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met (IAS 1.82A)

2. Statement of P/L and OCI

Other Comprehensive Income Section

OCI not reclassified

OCI may be reclassified

- Other comprehensive income
  - In the financial statements, an entity may present items of other comprehensive income either
    1. net of related tax effects; or
    2. before related tax effects, with one amount shown for the aggregate amount of income tax relating to those items.
  - the amount of income tax relating to each item, including reclassification adjustments, either
    1. in the statement of comprehensive income or
    2. in the notes.

2. Statement of P/L and OCI

Other Comprehensive Income Section

OCI not reclassified

Those items of OCI that will not be reclassified subsequently to P/L include:

- Changes in revaluation surplus of PPE recognised under IAS 16;
- Changes in revaluation surplus of intangible assets under IAS 38;
- Actuarial gains and losses on defined benefit plans under IAS 19; and
- FV changes of investment in equity instrument recognised in OCI under IFRS 9.

OCI may be reclassified

Those items of OCI that may be reclassified subsequently to P/L include:

- Translation reserves under IAS 21;
- FV changes on available-for-sale financial assets under IAS 39; and
- Cash flow hedge reserves under IAS 39.

2. Statement of P/L and OCI

Other Comprehensive Income Section

- Other comprehensive income also comprises "reclassification adjustments".
  - Reclassification adjustments are defined as:
    - amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.
- An entity is required to disclose reclassification adjustments relating to items of other comprehensive income (IAS 1.92), either:
  - in the statement of profit or loss and other comprehensive income, or
  - in the notes (then presents the items of other comprehensive income after any related reclassification adjustments in the statement of comprehensive income)

2. Statement of P/L and OCI

Case

- Telkom SA SOC Limited (Telkom), a South Africa telecom. company, stated in its annual report 2013:
  - The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income
    - in either a single continuous statement or
    - in two separate but consecutive statements.
  - The amendments require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:
    - (a) items that will not be reclassified subsequently to profit or loss and
    - (b) items that might be reclassified subsequently to profit or loss when specific conditions are met.
  - Income tax on items of other comprehensive income is required to be allocated on the same basis.

2. Statement of P/L and OCI

Case

- Telkom SA SOC Limited (Telkom), a South Africa telecom. company, stated in its annual report 2013:
  - Entities also have the option of changing the title of the '*Statement of comprehensive income*' to '*Statement of profit or loss and other comprehensive income*'.
  - Telkom opted to change the name accordingly.
  - The amendments resulted in a change in presentation but had no impact on the recognition or measurement of items in the financial statements.
  - The relevant disclosures are provided in the statement of profit or loss and other comprehensive income.

2. Statement of P/L and OCI

Case

香港交易所 HKEx

- HKEx uses single statement approach to present its statement of comprehensive income and has not used the name of its statement of P/L and OCI

Statement of comprehensive income (extract)	Note	2012 $m	As restated 2011 $m
OPERATING PROFIT	13	5,096	6,032
Costs relating to acquisition of LME Group	14	(138)	–
Finance costs	15	(55)	–
Fair value loss on derivative component of convertible bonds	35(b)	(55)	–
Share of loss of a joint venture	27(a)(iii)	(3)	–
PROFIT BEFORE TAXATION	4	4,845	6,032
TAXATION	18(a)	(761)	(939)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	44	4,084	5,093
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences of foreign subsidiaries	2(ac)(iii)	189	–
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		189	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		4,273	5,093

2. Statement of P/L and OCI

Example

- The presentation of items of other comprehensive income in a single statement approach is illustrated in IAS 1 net of tax effects or before tax effects with one amount shown as an item as follows:

Net of related tax effects

Other comprehensive income for the year, after tax:	**2013**	**2012**
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of gain (loss) on property revaluation of associates	400	(700)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4,000	8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
	(14,500)	25,000
Other comprehensive income for the year, net of tax	(14,000)	28,000

2. Statement of P/L and OCI

Example

Before related tax effects with one amount shown for the aggregate amount of income tax relating to those items

Other comprehensive income:	**2013**	**2012**
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of gain (loss) on property revaluation of associates	400	(700)
Income tax relating to items that will not be reclassified	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
	(14,500)	25,000
Other comprehensive income for the year, net of tax	(14,000)	28,000

2. Statement of P/L and OCI

Example

- Disclosure of tax effects relating to each item of other comprehensive income can be made in the statement of profit or loss and other comprehensive income or in the notes.
- Example to disclose the tax effects relating to each comprehensive income as follows:

	2013		
	Before-tax Amount	Tax (expense) benefit	Net-of-tax amount
Gains on property revaluation	933	(333)	600
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)
Share of gain (loss) on property revaluation of associates	400	–	400
Exchange differences on translating foreign operations	5,334	(1,334)	4,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)
Cash flow hedges	(667)	167	(500)
Other comprehensive income	(18,667)	4,667	(14,000)

2. Statement of P/L and OCI

Other Comprehensive Income Section

- Other comprehensive income also comprises "reclassification adjustments".
  - **Reclassification adjustments** are defined as:
    - amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.
- An entity is required to disclose reclassification adjustments relating to items of other comprehensive income (IAS 1.92)
  - either in:
    - the statement of comprehensive income, or
    - the notes (then presents the items of other comprehensive income after any related reclassification adjustments in the statement of comprehensive income)

2. Statement of P/L and OCI

Example

- Other comprehensive income also comprises "reclassification adjustments" arising from:

Other Comprehensive Income Section

OCI may be reclassified

Those items of OCI that may be reclassified subsequently to P/L include:
- Translation reserves under IAS 21;
- FV changes on available-for-sale financial assets under IAS 39; and
- Cash flow hedge reserves under IAS 39.

2. Statement of P/L and OCI

- In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include some line items that present the amounts for the period
- For example, the following amounts should be presented:

1. revenue
2. finance costs
3. profit or loss
4. each item of other comprehensive income classified by nature
5. total comprehensive income

Single Statement Approach

Statement of Profit or Loss and Other Comprehensive Income

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

2. Statement of P/L and OCI

Under the Two-Statement Approach, these items are presented in the separate income statement or statement of profit or loss.

Two-Statement Approach

Statement of Profit or Loss

Statement of Profit or Loss and Other Comprehensive Income

1. revenue
2. finance costs
3. profit or loss
4. each item of other comprehensive income classified by nature
5. total comprehensive income

Under the Two-Statement Approach, these items are presented in the statement of P/L and OCI.

2. Statement of P/L and OCI

Example

Statement of P/L and OCI (under Two-Statement Approach)

	2013	2012
Profit for the year	$ 121,250	$ 65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to items of other comprehensive incom	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items of other comprehensive income	4,833	(8,334)
	(14,500)	25,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
Total comprehensive income for the year	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500

2. Statement of P/L and OCI

- Information can be presented in the notes
  - In addition to the minimum line items presented on the face of the statement of comprehensive income and separate income statement (if presented), when items of income or expense are material,
    - an entity is required to disclose their nature and amount separately.
  - An entity is required to present an analysis of expenses recognised in profit or loss using a classification based on either
    - their "nature" (i.e. "nature of expense method") or
    - their "function" (i.e. "function of expense method") within the entity,

    whichever provides information that is reliable and more relevant.
  - An entity classifying expenses by function is required to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

3. Statement of Changes in Equity

Complete Set of Financial Statements

Previous title
or changes

Statement of Changes in Equity for the period

No title change
(but restructured in
2007)

3. Statement of Changes in Equity

Two-Statement Approach

Single Statement Approach

- IAS 1
  - States the coverage and contents of the statement of changes in equity, and
  - clarified all changes in equity arising from transactions with owners in their capacity as owners to be presented in that statement and separately from non-owner changes in equity

Owner changes

Components of owner changes in equity

Statement of changes in equity

Statement of changes in equity

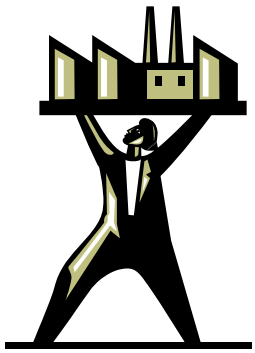
3. Statement of Changes in Equity

- IAS 1 requires an entity to present the following items in its statement of changes in equity:
  1. total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interest;
  2. for each item of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
  3. for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
     a. profit or loss;
     b. other comprehensive income; and
     c. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control. (IAS 1.106)

3. Statement of Changes in Equity

- For each component of equity an entity shall present, either
  – in the statement of changes in equity or
  – in the notes,

  an analysis of other comprehensive income by item (see IAS 1.106(d)(ii)).
- An entity is also required to present, either in the statement of changes in equity or in the notes,
  – the amount of dividends recognised as distributions to owners during the period, and
  – the related amount of dividend per share. (IAS 1.107)



3. Statement of Changes in Equity

Example

Statement of changes in equity is illustrated in IAS 1 as follows:

	Share capital	Retained earnings	Available-for-sale financial assets	Revaluation surplus	Total
Balance at 1 January 2011	$ 600,000	$118,100	$ 1,600	$ –	$ 719,700
Changes in accounting policy	–	400	–	–	400
Restated balance	600,000	118,500	1,600	–	720,100
Changes in equity for 2011					
Dividends	–	(10,000)	–	–	(10,000)
Total comprehensive income for the year	–	53,200	16,000	1,600	70,800
Balance at 31 December 2011	600,000	161,700	17,600	1,600	780,900
Changes in equity for 2012					
Issue of share capital	50,000	–	–	–	50,000
Dividends	–	(15,000)	–	–	(15,000)
Total comprehensive income for the year	–	96,600	(14,400)	800	83,000
Transfer to retained earnings	–	200	–	(200)	–
Balance at 31 December 2012	650,000	243,500	3,200	2,200	898,900

Statement of Cash Flows & Notes

Complete Set of Financial Statements

Previous title or changes

Statement of Cash Flows for the period

Previous title: "Cash Flow Statement" (before 2007)

Notes

No title change

Sourced from Intermediate Financial Reporting (2012) by Nelson Lam and Peter Lau

4. Statement of Cash Flows

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

5. Notes

- Notes of the financial statements are one of the integral parts of the financial statements.
- All IFRSs requires certain information and details to be disclosed in the notes while IAS 1 specifies the overall structure of the notes and some other minimum disclosures that are not listed in any specific IFRS, including:
  - disclosure of accounting policies,
  - management judgements (apart from those involving estimations),
  - sources of estimation uncertainty,
  - capital disclosure, and
  - other disclosures.

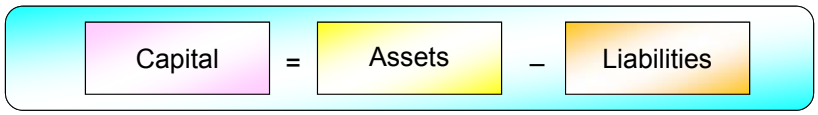
5. Notes – Capital Disclosure

Capital Disclosure

- The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events.
- The level of capital may also affect the entity's ability to pay dividends.
- In consequence, IAS 1 requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. (IAS 1.134)
- To comply with the capital disclosure requirement, an entity bases on the information provided internally to key management personnel to disclose the following:
  - qualitative information about its objectives, policies and processes for managing capital,
  - summary quantitative data about what it manages as capital, and etc.

5. Notes – Capital Disclosure

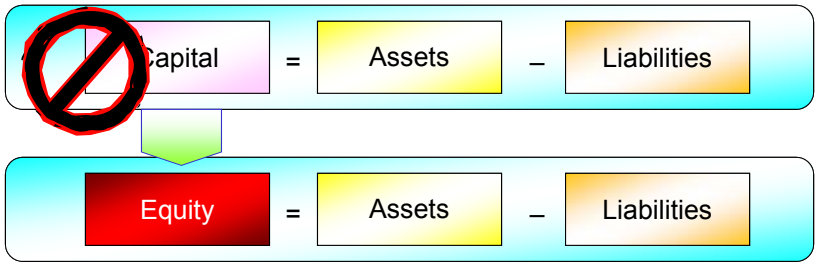
- We used to consider that capital is ……



- IAS 1 considers
  - "whether an entity can have a view of capital that differs from what IFRSs define as equity." (IAS 1.BC47)
- It further clarifies that, although for the purposes of this disclosure
  - capital would often equate with equity as defined in IFRSs,
  - it might also include or exclude some components.
- It also noted that the capital disclosure in IAS 1 is intended to give entities the opportunity to describe
  - how they view the components of capital they manage, if this is different from what IFRSs define as equity ……

5. Notes – Capital Disclosure

- Based on the Framework & IFRSs, the accounting equation should be:



- For some entities

  Capital = Equity

- For some other entities

  Capital = Equity – Some Equity + Some Liabilities

5. Notes – Capital Disclosure

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

- To comply with the capital disclosures, 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.

Capital = Equity – Some Equity + Some Liabilities

5. Notes – Capital Disclosure

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

- To comply with the capital disclosures, the entity discloses the following:
  b) summary quantitative data about what it manages as capital.

  Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital.

  Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

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

Capital = Equity – Some Equity + Some Liabilities

5. Notes – Capital Disclosure

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

- To comply with the capital disclosures, the entity discloses the following:
  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.

Capital = Equity – Some Equity + Some Liabilities

5. Notes – Capital Disclosure

Case

China Communications Construction Co. Ltd (2010)

- The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.
- In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.
- The group monitors capital on the basis of the gearing ratio.
  - This ratio is calculated as net debt divided by total capital.
  - Net debt is calculated as total borrowings as shown in the consolidated balance sheet, less cash and cash equivalents.
  - Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.
- The group aims to maintain the gearing ratio at a reasonable level.

5. Notes – Capital Disclosure

Case

China Communications Construction Co. Ltd (2010)

	2010	2009
	RMB million	RMB million
Total borrowings	81,329	70,737
Less: Cash and cash equivalents	(38,826)	(33,817)
Net debt/(cash)	42,503	(36,920)
Total equity	71,080	66,229
Total capital	113,583	103,149
Gearing ratio	37%	36%

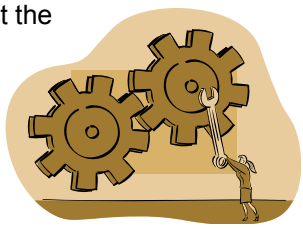
The gearing ratio as at 31 December 2010 has no significant change ascompared with that in 2009.

Events After the Reporting Period

(IAS 10)

1. Objective, Scope and Definitions

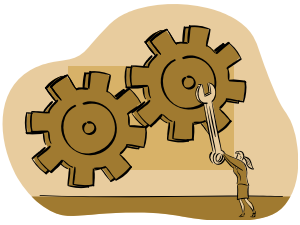
- The objective of IAS 10 is to prescribe:
  a. when an entity should adjust its financial statements for events after the reporting period; and
  b. the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.
- IAS 10 requires that an entity should not prepare its financial statements on a going concern basis
  – if events after the reporting period indicate that the going concern assumption is not appropriate. (IAS 10.2)



1. Objective, Scope and Definitions

- IAS 10 shall be applied in the accounting for, and disclosure of, events after the reporting period. (IAS 10.2)

- **Events after the reporting period** are
  - those events, favourable and unfavourable, that occur between
    - the end of the reporting period and
    - the date when the financial statements are authorised for issue. (IAS 10.3)

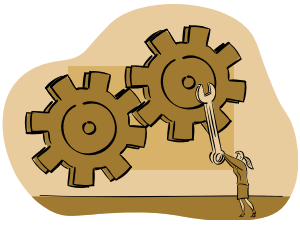


1. Objective, Scope and Definitions

- Two types of events after the reporting period can be identified:
  a. those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events* after the reporting period); and
  b. those that are indicative of conditions that arose after the reporting period (*non-adjusting events* after the reporting period). (IAS 10.3)

Adjusting Events

Non-adjusting Events



2. Recognition and Measurement

- **Adjusting events** after the reporting period
  - An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. (IAS 10.8)
- **Non-adjusting events** after the reporting period
  - An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period. (IAS 10.10)

Adjusting Events

Non-adjusting Events

2. Recognition and Measurement

Example

- Examples of adjusting events:
  a. the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period.
     - The entity
       - adjusts any previously recognised provision related to this court case in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or
       - recognises a new provision.
     - The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with IAS 37.16.

Adjusting Events

2. Recognition and Measurement

Example

- Examples of adjusting events:
  b. the receipt of information after the reporting period indicating
     - that an asset was impaired at the end of the reporting period, or
     - that the amount of a previously recognised impairment loss for that asset needs to be adjusted.
       - For example:
         i. the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and
         ii. the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

Adjusting Events

2. Recognition and Measurement

Example

- Examples of adjusting events:
  c. the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
  d. the determination after the reporting period of the amount of profit sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (see IAS 19 *Employee Benefits*).
  e. the discovery of fraud or errors that show that the financial statements are incorrect.

Adjusting Events

2. Recognition and Measurement

Example

- Examples of non-adjusting events:
  - A decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue.
    - The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently.
    - Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments.
    - Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under IAS 10.21.

Non-adjusting Events

2. Recognition and Measurement

- Dividend
  - If an entity declares dividends to holders of equity instruments (as defined in IAS 32 *Financial Instruments: Presentation*) after the reporting period,
    - the entity shall not recognise those dividends as a liability at the end of the reporting period. (IAS 10.12)
  - If dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue,
    - the dividends are not recognised as a liability at the end of the reporting period because they do not meet the criteria of a present obligation in IAS 37 no obligation exists at that time.
    - Such dividends are disclosed in the notes to the financial statements in accordance with IAS 1 *Presentation of Financial Statements*. (IAS 10.13)

3. Going Concern

- An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period
  - either
    - That it intends to liquidate the entity or to cease trading, or
    - That it has no realistic alternative but to do so. (IAS 10.14)
- IAS 1 specifies required disclosures if:
  a. the financial statements are not prepared on a going concern basis; or
  b. management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period. (IAS 10.16)

4. Disclosure

- Date of authorisation for issue
  - An entity shall disclose
    - the date when the financial statements were authorised for issue and
    - who gave that authorisation.
  - If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact. (IAS 10.17)
- Updating disclosure about conditions at the end of the reporting period
  - If an entity receives information after the reporting period about conditions that existed at the end of the reporting period,
    - it shall update disclosures that relate to those conditions, in the light of the new information. (IAS 10.19)

4. Disclosure

- If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken that users make on the basis of the financial statements.
  - Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:
    a. the nature of the event; and
    b. an estimate of its financial effect, or a statement that such an estimate cannot be made. (IAS 10.21)

4. Disclosure

Example

- Examples of non-adjusting events after the reporting period that would generally result in disclosure:
  a. a major business combination after the reporting period (IFRS *3 Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;
  b. announcing a plan to discontinue an operation,
  c. major purchases of assets, classification of assets as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government.
  d. the destruction of a major production plant by a fire after the reporting period;
  e. announcing, or commencing the implementation of, a major restructuring (see IAS 37);

4. Disclosure

Example

- Examples of non-adjusting events after the reporting period that would generally result in disclosure:
  - f. major ordinary share transactions and potential ordinary share transactions after the reporting period (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33);
  - g. abnormally large changes after the reporting period in asset prices or foreign exchange rates;
  - h. changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*);
  - i. entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
  - j. commencing major litigation arising solely out of events that occurred after the reporting period.

4. Disclosure

Case

SWIRE PACIFIC

Annual Report 2012

- Events After the Reporting Period (extract)
  - In March 2013, the Cathay Pacific group entered into agreements with The Boeing Company under which the Cathay Pacific group agreed to buy three Boeing 747-8F freighter aircraft and the agreement to purchase eight Boeing 777-200F freighters entered into in August 2011 was cancelled.
  - Pre-delivery payments already made in respect of the eight Boeing 777-200F freighters (which were scheduled to be delivered from 2014 to 2016), will be credited to the consideration for the purchase of the three Boeing 747-8F freighters (which are scheduled to be delivered in 2013).
  - Under the agreements, Cathay Pacific also acquired options to purchase five Boeing 777-200F freighters and The Boeing Company agreed to purchase four Boeing 747-400BCF converted freighters, which were taken out of service in 2012 and early 2013.
  - The transaction is part of a package of transactions between The Boeing Company (on the one hand) and the Cathay Pacific group, Air China Cargo and Air China (on the other hand).

Related Party Disclosures
(IAS 24)

Objective

- IAS 24 *Related Party Disclosure* aims to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected:
  1) by the existence of related parties and
  2) by transactions and outstanding balances, including commitments, with such parties.

Scope

- IAS 24 shall be applied in:
  a) identifying related party relationships and transactions;
  b) identifying outstanding balances, including commitments, between an entity and its related parties;
  c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
  d) determining the disclosures to be made about those items.
  (IAS 24.1)

Definition of a Related Party

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
  a) A person or a close member of that person's family is related to a reporting entity if that person:
     i. has control or joint control over the reporting entity;
     ii. has significant influence over the reporting entity; or
     iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Definition of a Related Party

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).

  b) An entity is related to a reporting entity if any of the following conditions applies:

  i. The entity and the reporting entity are members of the same group (which means that each parent, sub. and fellow sub. is related to the others).

  ii. One entity is an associate or JV of the other entity (or an associate or JV of a member of a group of which the other entity is a member).

  iii. Both entities are JV of the same third party.

  iv. One entity is a JV of a third entity and the other entity is an associate of the third entity.

  v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

  vi. The entity is controlled or jointly controlled by a person identified in (a).

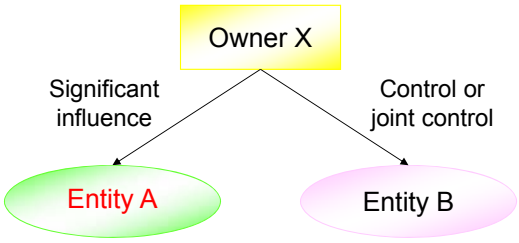
  vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Definition of a Related Party – Key Changes

- Clearly separate the related party to 2 angles: (1) person and (2) entity
- Eliminate inconsistencies in the definition and make it symmetrical:
  - When Entity A is identified as a related party in Entity B's financial statements, Entity B will also be identified as related party in Entity A's financial statements.
- Entities with only "common significant influence" (no matter from an entity or a person) are not related to each other
- However, whenever a person or entity has both joint control over Entity X and joint control or significant influence over Entity Y,
  - Entity X and Y are related to each other

Definition of a Related Party – Key Changes

Example

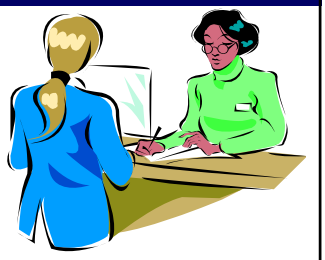


- Entity A and B are related to each other in both Entity A's and B's financial statements
- Previously, they are not regarded as related parties.

Definition of a Related Party – Key Changes

- Remove the term "significant voting power" in the definition of a related party
- Clarify that
  - An associate includes subsidiaries of the associate and
  - A joint venture includes subsidiaries of the joint venture
  - Two entities are not related parties simply because a member of key management personnel of one entity has significant influence over the other entity.
- Amended that
  - Close members of the family of an individual are (not may those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (not "they may include" as in previous IAS 24):
    a) the person's children and spouse or domestic partner;
    b) children of the person's spouse or domestic partner; and
    c) dependants of that person or that person's spouse or domestic partner.

Definition of a Related Party Transaction



- A related party transaction is
  - a transfer of resources, services or obligations between a reporting entity and a related party
    - regardless of whether a price is charged.

Definitions for Other Terms

- Close members of the family of an individual are (not may) those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (not "they may include" as in previous IAS 24):
  a) the person's children and spouse or domestic partner;
  b) children of the person's spouse or domestic partner; and
  c) dependants of that person or that person's spouse or domestic partner.

What is domestic partner?

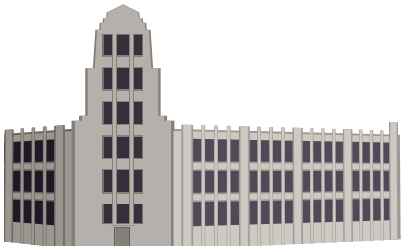
- Control, Joint Control and Significant Influence
  - Same definition as other IAS/IFRS
- Key management personnel are those persons
  - having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Definitions for Other Terms

- Compensation includes all employee benefits (as defined in IAS 19 *Employee Benefits*) including employee benefits to which IFRS 2 *Share-based Payment* applies.
  - Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.
  - It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.
  - Compensation includes:
    - Short-term employee benefits
    - Post-employment benefits
    - Other long-term employee benefits
    - Termination benefits
    - Share-based payment.

Definitions for Other Terms

- Government
  - refers to government, government agencies and similar bodies whether local, national or international.
- A government-related entity
  - is an entity that is controlled, jointly controlled or significantly influenced by a government.



Not Necessarily Related Party

- In the context of IAS 24, the following are NOT necessarily related parties:
  a) 2 entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity
  b) 2 venturers simply because they share joint control over a joint venture.
  c) (i) providers of finance,
     (ii) trade unions,
     (iii) public utilities, and
     (iv) government departments and agencies,
     simply by virtue of their normal dealings with an entity; and
  d) a customer, supplier, franchisor, distributor, or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

- Disclosures include
  – Relationships between a parent and its subsidiaries
    - irrespective of whether there have been transactions between them.
  – The name of the entity's parent and, if different, the ultimate controlling party
  – If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed. (IAS 24.13)

Disclosures

- Disclosures include
  - Key management personnel compensation in total and for each of the following categories:
    a) short-term employee benefits;
    b) post-employment benefits;
    c) other long-term benefits;
    d) termination benefits; and
    e) share-based payment. (IAS 24.17)

Disclosures

- If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose
  - the nature of the related party relationship as well as
  - information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.
- These disclosure requirements are in addition to those in IAS 24.17 (last slide).

Disclosures

- At a minimum, disclosures shall include:
  a) the amount of the transactions;
  b) the amount of outstanding balances, including commitments, and:
     i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
     ii) details of any guarantees given or received;
  c) provisions for doubtful debts related to the amount of outstanding balances; and
  d) the expense recognised during the period in respect of bad or doubtful debts due from related parties. (IAS 24.18)

Disclosures

- The disclosures required in IAS 24.18 (last slide) shall be made separately for each of the following categories:
  a) the parent;
  b) entities with joint control or significant influence over the entity;
  c) subsidiaries;
  d) associates;
  e) joint ventures in which the entity is a venturer;
  f) key management personnel of the entity or its parent; and
  g) other related parties.

Disclosures

- The following are examples of transactions that are disclosed if they are with a related party:
  a) purchases or sales of goods (finished or unfinished);
  b) purchases or sales of property and other assets;
  c) rendering or receiving of services;
  d) leases;
  e) transfers of research and development;
  f) transfers under licence agreements;
  g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
  h) provision of guarantees or collateral; and
  i) Commitments to do something if a particular event occurs or does not occurs in the future, including executory contracts (recognised and unrecognited)
  j) settlement of liabilities on behalf of the entity or by the entity on behalf of another party. (IAS 24.21)

Disclosures

- Disclosures that such transactions were made on terms equivalent to those that prevail in arm's length transactions are made
  – only if such terms can be substantiated.
- Items of a similar nature may be disclosed in aggregate except when
  – separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. (IAS 24.24)

Disclosures

Case

SWIRE PACIFIC

In addition, the following is a summary of significant transactions between the Group and related parties (including transactions under the JSSHK Tenancy Framework Agreement), which were carried out in the normal course of the Group's business, in addition to those transactions disclosed elsewhere in the accounts. Transactions under the Services Agreements and the JSSHK Tenancy Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

		Jointly controlled companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
	Notes	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M
Revenue from	(a)								
– Sales of beverage drinks		–	–	19	17	–	–	–	–
– Rendering of services		1	1	8	7	2	–	–	–
– Aircraft and engine maintenance		54	82	2,447	2,287	–	–	–	–
Purchases of beverage drinks	(a)	–	–	329	446	–	–	–	–
Purchases of other goods	(a)	4	4	17	25	–	–	–	–
Purchases of services	(a)	22	8	19	14	35	38	–	–
Rental revenue	(b)	5	4	9	10	13	16	59	65
Interest income	(c)	23	16	–	–	–	–	–	–
Interest charges	(c)	4	2	–	–	–	–	–	–

(Annual Report 2012)

Disclosures – Government

- A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:
  a) a government that has control, joint control or significant influence over the reporting entity; and
  b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. (IAS 24.25)

Disclosures – Government

- If a reporting entity applies the exemption in IAS 24.25 (slide 20), it shall disclose the following about the transactions and related outstanding balances referred to in IAS 24.25:
  a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
  b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
     i. the nature and amount of each individually significant transaction; and — **Significant**
     ii. for other transactions that are collectively, but not individually, significant, — **Not significant**
        – a qualitative or quantitative indication of their extent. Types of transactions include those listed in IAS 24.21 (IAS 24.26)

Disclosures – Government

- In using its judgement to determine the level of detail to be disclosed in accordance with the requirements in IAS 24.26(b), the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is:
  a) significant in terms of size;
  b) carried out on non-market terms;
  c) outside normal day-to-day business operations, such as the purchase and sale of businesses;
  d) disclosed to regulatory or supervisory authorities;
  e) reported to senior management;
  f) subject to shareholder approval. (IAS 24.27)

Preparation and Presentation of Financial Statements – Part 1

17 September 2013

Full set of slides in PDF can be found in
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Preparation and Presentation of Financial Statements – Part 1

17 September 2013

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