Preparation and Presentation of Financial Statements

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Today's Agenda

- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period

Today's Agenda

IAS 1 Presentation of Financial Statements

I. Introduction

II. Complete Set of Financial Statements

III. General Features of Financial Statements

IV. Structure & Contents of Financial Statements

I. Introduction

- An entity is required to apply IAS 1 *Presentation of Financial Statements* in preparing and presenting <u>general purpose financial statements</u> in accordance with IFRS. (IAS 1.2)
  - <u>General purpose financial statements</u> can also be referred to as <u>financial statements</u> 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.
- An entity may use titles for the statements other than those used in IAS 1. (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. Statements

- For annual periods beginning on or after 1 July 2012, IAS 1 is also amended and updated with the following points:
  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 (IAS 1.10 revised in 2011);
  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, i.e. comprehensive income, is formally introduced and represents the total of profit or loss and other comprehensive income (IAS 1.81A).

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		

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.

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

1. Statement of Financial Position

Complete Set of Financial Statements

Previous title
or changes

Statement of Financial Position
as at the end of the period

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 in the statement. (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

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

1. Statement of Fi

As amended by Improvements to IFRS 2009

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.

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

1. Statement of Fi... sition

As amended by Improvements to IFRS 2009

Current liabilities

- The IASB concluded that classifying the liability
  - on the basis of the requirements to transfer cash or other assets
  - rather than on settlement better reflects the liquidity and solvency position of an entity, and

  therefore it decided to amend IAS 1 accordingly.
- Example: convertible bond

> 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.
>
> *Specific requirements*

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

- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
  a. the original term was for a period longer than twelve months, and
  b. an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue. (IAS 1.72)
- If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility,
  - it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.
- However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing),
  - the entity does not consider the potential to refinance the obligation and classifies the obligation as current. (IAS 1.73)

1. Statement of Financial Position

- When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand,
  - it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach.
    - An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date. (IAS 1.74)
- However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. (IAS 1.75)

1. Statement of Financial Position

- In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:
  a. refinancing on a long-term basis;
  b. rectification of a breach of a long-term loan arrangement; and
  c. the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period. (IAS 1.76)

1. Statement of Financial Position

Case

TCL 多媒體科技控股有限公司
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Note 36 to Financial Statements of 2006

- Breach of loan covenants
  - As at 31 December 2006, in respect of the Syndication Loans with an aggregate carrying amount of HK$1,114,831,000 (2005: HK$1,538,300,000), the Group breached certain of the financial covenants of the relevant loan agreements, which are primarily related to the value of the Group's consolidated tangible net worth, interest cover ratio and current ratio.
  - On discovery of the breach, the directors of the Company informed the lenders but no renegotiation of the terms of the Syndication Loans was initiated since the Group is planning to settle the Syndication Loans in full in July 2007.
  - Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the Syndication Loans have been classified as current liabilities in these financial statements at 31 December 2006.

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 √

1. Statement of Financial Position

- Information to be presented either in the statement of financial position or in the notes
  - An entity shall disclose, either in the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. (IAS 1.77)
  - Details of each class of share capital and reserves within equity. (IAS 1.79)
  - An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by IAS 1.79(a) on share capital, showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest. (IAS 1.80)

2. Statement of P/L and OCI

Complete Set of Financial Statements

Previous title
or changes

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

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 classificaiton
- 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.

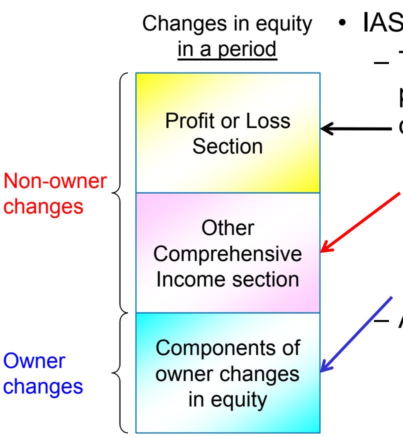
2. Statement of P/L and OCI

Non-owner changes

Owner changes

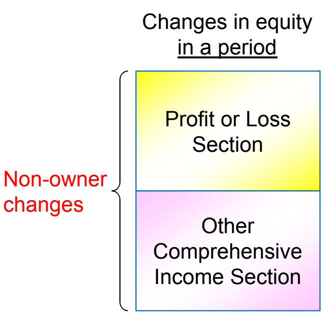
- As part of the improvement project in presenting financial performance of an entity,
  - IAS 1 revised in 2007
    - Defines clearly that owners are holders of instruments classified as equity.
    - Requires that changes in equity (same as net assets) of an entity during a period are separated into two categories:
      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
      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 components of "profit or loss"; and
    2. Other comprehensive income section, being components 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

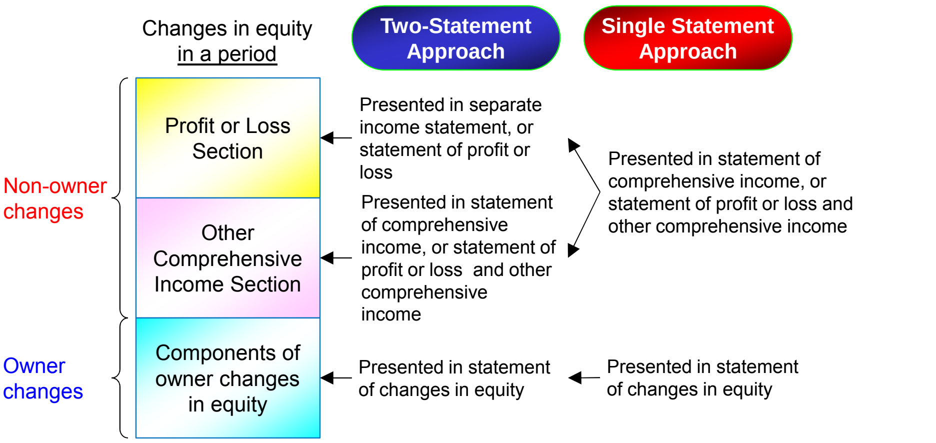


Two-Statement Approach

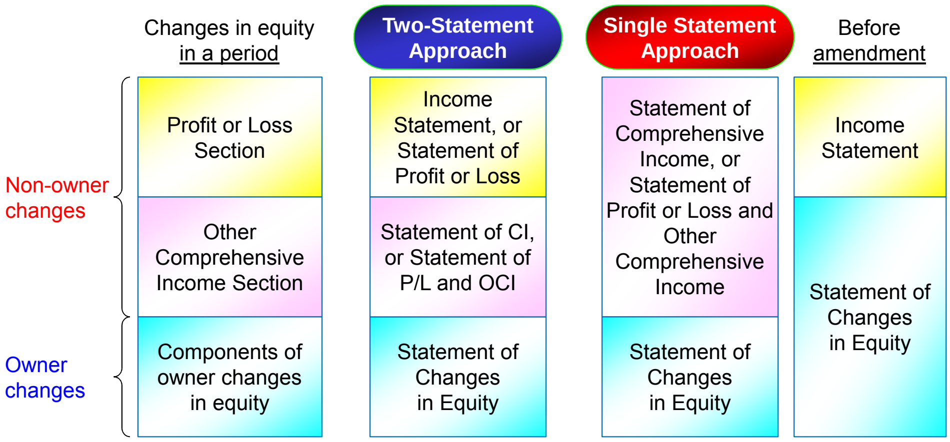
Single Statement Approach

- 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 comprehensive income” or “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 components of profit or loss (i.e. a separate “income statement” or “statement of profit or loss”) and
     b. a second statement beginning with profit or loss and displaying components of other comprehensive income (i.e. a “statement of comprehensive income” or “statement of profit or loss and other comprehensive income”).

2. Statement of P/L and OCI

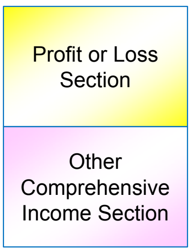


2. Statement of P/L and OCI



2. Statement of P/L and OCI

Two-Statement Approach **Single Statement Approach**



- 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

2. Statement of P/L and OCI

Profit or Loss Section

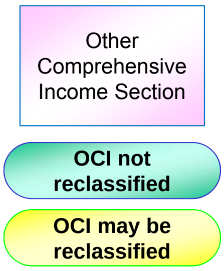
- Profit or loss
  - is the total of income less expenses, excluding the components of other comprehensive income.
  - All items of income and expense are recognised in a period in profit or loss unless an IFRS requires or permits otherwise.
- In addition to items required by other IFRSs, profit or loss 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

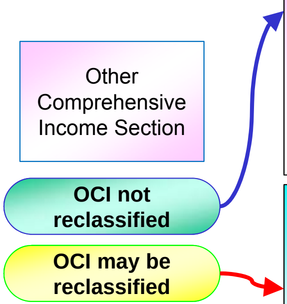
- Other comprehensive income
  - Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.
  - In accordance with IAS 1 revised in 2007, an entity is required to classify and present the items of other 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
  - 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.

2. Statement of P/L and OCI



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.

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

OCI not reclassified

OCI may be reclassified

- <u>Other comprehensive income</u>
  - 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 component, 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

- Other comprehensive income also comprises “reclassification adjustments”.
  - <u>Reclassification adjustments</u> 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 components of other comprehensive income either:
  - in the statement of comprehensive income, or
  - in the notes (then presents the components of other comprehensive income after any related reclassification adjustments in the statement of comprehensive income)

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 component of other comprehensive income classified by nature
5. total comprehensive income

Single Statement Approach

Statement of Comprehensive Income, or Statement of Profit or Loss and Other Comprehensive Income

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

Income statement

Statement of CI or Statement of P/L and OCI

1. revenue
2. finance costs
3. profit or loss
4. each component 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 comprehensive statement (under Two-Statement Approach)

	2011	2010
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
Available-for-sale financial assets	(24,000)	26,667
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to components of other comprehensive income	(166)	(1,000)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Income tax relating to components of other comprehensive income	4,833	(8,334)
	3,500	5,000
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)

3. Statement of Changes in Equity

Two-Statement Approach **Single Statement Approach**

- IAS 1 revised in 2007
  - revises 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 component 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. each item of 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

- 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 per share. (IAS 1.107)

3. Statement of Changes in Equity

Example

Statement of changes in equity is illustrated in IAS 1 (revised in 2007) as follows:

	Share capital	Retained earnings	Available-for-sale financial assets	Revaluation surplus	Total
Balance at 1 January 2006	$ 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 2006					
Dividends	–	(10,000)	–	–	(10,000)
Total comprehensive income for the year	–	53,200	16,000	1,600	70,800
Balance at 31 December 2006	600,000	161,700	17,600	1,600	780,900
Changes in equity for 2007					
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 2007	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"
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.

Today's Agenda

IAS 1 Presentation of Financial Statements

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8

Accounting policies
⇓
Select & apply
⇓
Changes

Accounting estimates

Errors

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

- Shall be applied in
  1. Selecting and applying accounting policies, and
  2. Accounting for:
     a) Changes in accounting policies,
     b) Changes in accounting estimates, and
     c) Corrections of prior period errors.

Accounting Policies

Accounting policies

Accounting policies are

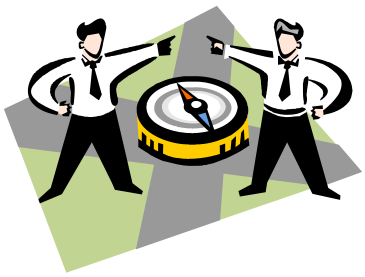
- the specific principles, bases, conventions, rules and practices applied by an entity in *preparing* and *presenting* financial statements
- Preparing ⇒ Recognition and Measurement
- Presenting ⇒ Presentation

Accounting Policies: Select & Apply

Accounting policies
⇓
Select & apply

There is IFRS

There is No IFRS

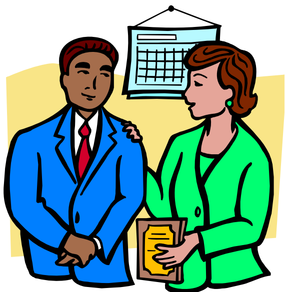


Accounting Policies: Select & Apply

For such transactions, events or conditions:

- If there is a IFRS or an Interpretation
  - the accounting policy shall be determined by applying the IFRS or Interpretation and
  - considering any relevant Implementation Guidance

There is IFRS

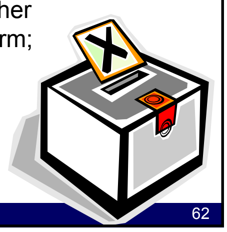


Accounting Policies: Select & Apply

For such transactions, events or conditions:

- If there is NO IFRS or Interpretation
  - management shall use its ***judgement*** in developing and applying an accounting policy that results in information that is:
    - a) relevant to the economic decision-making needs of users; and
    - b) reliable, in that the financial statements:
      - i) represent faithfully the financial position, financial performance and cash flows of the entity;
      - ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
      - iii) are neutral, ie free from bias;
      - iv) are prudent; and
      - v) are complete in all material respects.

There is No IFRS



Accounting Policies: Select & Apply

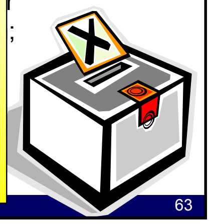
For such transactions, events or conditions:

- If there is NO IFRS or Interpretation
  - management shall use its ***judgement*** in developing and applying an accounting policy that results in information

There is No IFRS

In making the such judgement,

1) management shall consider the applicability of, the following sources in descending order:
   a) the requirements and guidance in IFRS and Interpretations dealing with similar and related issues; and
   b) the definitions, recognition criteria and measurement concepts for elements in the Framework.
2) management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in point 1 above.



Accounting Policies: Select & Apply

Any change on accounting policies?

- An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions
  - Unless a IFRS or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate.
- If a IFRS or an Interpretation requires or permits such categorisation,
  - an appropriate accounting policy shall be selected and applied consistently to each category

Accounting Policies: Changes

Accounting policies
⇓
Select & apply
⇓
Changes

A change of accounting policy occurs

- where there is a change to any one of the components of
  1) recognition criteria,
  2) measurement basis
  3) method of presentation
- any change that does not affect any of these 3 components is not a change in accounting policy (and may only be a change in accounting estimates)

Accounting Policies: Changes

Initial application of IFRS

Voluntary Changes

An entity shall change an accounting policy only if the change:

a) is required by a IFRS/IAS or an Interpretation; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Accounting Policies: Changes

The following are not changes in accounting policies:

a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial

The initial application of a policy to revalue assets in accordance with

- IAS 16 *Property, Plant and Equipment* or
- IAS 38 *Intangible Assets*

is a change in an accounting policy to be dealt with as a revaluation in accordance with IAS 16 or IAS 38, rather than in accordance with IAS 8

Accounting Policies: Changes

Example

- An entity has previously written all finance costs off to the profit and loss account as incurred.
- The entity now wishes to capitalise interest on borrowing incurred to finance the construction of property.

- This decision involves a change in:
  1. Recognition – the costs are now included as part of an asset.
  2. Presentation – the costs are now presented in the balance sheet, rather than in the profit and loss account.
- Therefore, the decision represents a change in accounting policy.

Accounting Policies: Changes

Example

- An entity has previously depreciated vehicles using the reducing balance method at 40% per year.
- It now proposes to depreciate vehicles using the straight-line method over five years.

- This decision does not involve a change in all 3 key criteria:
  1. Assets are still carried at cost less accumulated depreciation.
  2. Depreciation is still allocated to individual accounting periods so as to reflect the consumption of economic benefits.
  3. No indication that assets and depreciation are presented in a different way in the balance sheet and the income statement.
- Therefore, this is a change in accounting estimate and not a change in accounting policy.
- IAS 8 also clarifies that the above change is a change in accounting estimate, not a change in accounting policy.

Accounting Policies: Changes

Initial application of IFRS

- Account for a change in accounting policy in accordance with the specific transitional provisions (if any)
- If there is no specific transitional provisions, apply the change *retrospectively*

Voluntary Changes

- Apply the change *retrospectively*
- For the purpose of IAS 8, early application of a IFRS is not a voluntary change in accounting policy

Retrospective Application

Previously, it was termed
"Prior Year Adjustment"

Accounting Policies: Changes

Subject to Limitation on Retrospective Application

- If it is a retrospective application, the entity shall adjust
  - the opening balance of each affected component of equity for the earliest prior period presented, and
  - The comparative amounts disclosed for each prior period presented
  - as if the new accounting policy had always been applied.

Retrospective Application

↑

Previously, it was termed "Prior Year Adjustment"

Accounting Policies: Changes

Subject to Limitation on Retrospective Application

When it is impracticable to determine:

a) the *period-specific effects* (of changing an accounting policy on comparative information for one or more prior periods presented), the entity shall
   - apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, (which may be the current period), and
   - make a corresponding adjustment to the opening balance of each affected component of equity for that period

b) the cumulative effect (at the beginning of the current period, of applying a new accounting policy to all prior periods), the entity shall
   - adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

Accounting Policies: Changes

Initial application of IFRS

Disclosures (when applicable)

a) the title of the Standard or Interpretation;
b) that the change in accounting policy is made in accordance with its transitional provisions;
c) the nature of the change in accounting policy;
d) description of the transitional provisions;
e) the transitional provisions that might have an effect on future periods;
f) the amount of the adjustment:
   i) for each financial statement line item affected; and
   ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
h) if retrospective application is impracticable, the circumstances that led to its existence and a description of how and from when the change in accounting policy has been applied.

- *Financial statements of subsequent periods need not repeat these disclosures*

Accounting Policies: Changes

Voluntary Changes

Disclosures (when applicable)

a) the nature of the change in accounting policy;
b) the reasons why applying the new accounting policy provides reliable and more relevant information;
c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
   i) for each financial statement line item affected; and
   ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;
d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
e) if retrospective application is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

- *Financial statements of subsequent periods need not repeat these disclosures*

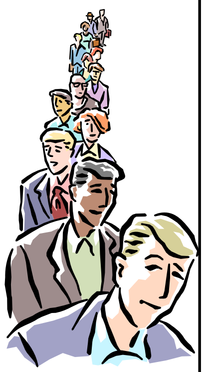
Accounting Policies: Changes

IFRS issued but not yet effective

When an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose:

a) this fact; and

b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial statements in the period of initial application.



Changes in Accounting Estimates

Accounting policies
⇓
Select & apply
⇓
Changes

Accounting estimates

Changes in Accounting Estimates

- As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated
- Estimation involves judgements based on the latest available, reliable information.
- For example, estimates may be required of:
  a) bad debt
  b) inventory obsolescence
  c) the fair value of financial assets or financial liabilities
  d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
  e) warranty obligations.

Changes in Accounting Estimates

A Change in Accounting Estimate

- is defined in IAS 8 as:
  - an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset,
  - that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.
- Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors

Changes in Accounting Estimates

- The effect of a change in an accounting estimate, other than a change to which the following point applies, shall be recognised prospectively by including it in profit or loss in:
  a) the period of the change, if the change affects that period only; or
  b) the period of the change and future periods, if the change affects both.
- To the extent that a change in an accounting estimate gives rise to changes
  – in assets and liabilities, or
  – relates to an item of equity,

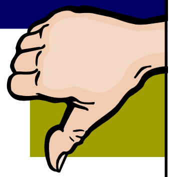
  it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Changes in Accounting Estimates

Disclosures

- An entity shall disclose
  – the nature and amount of a change in an accounting estimate
    - that has an effect in the current period or is expected to have an effect in future periods (except for the disclosure of the effect on future periods when it is impracticable to estimate that effect)
- If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact

Errors



Accounting policies

⇓

Select & apply

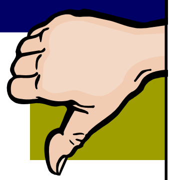
⇓

Changes

Accounting estimates

Errors

Errors



What is Error?

- The concept of fundamental error is eliminated
- Errors are refined as *Prior Period Errors*
  - That are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
    - a) was available when financial statements for those periods were authorised for issue; and
    - b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- Such errors include
  - the effects of mathematical mistakes,
  - mistakes in applying accounting policies,
  - oversights or misinterpretations of facts, and
  - fraud.

Errors

Subject to Limitation on Retrospective Restatement

Correction of material prior period errors

- An entity shall correct material prior period errors *retrospectively* in the first set of financial statements authorised for issue after their discovery by:
  a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
  b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented

Retrospective Restatement

- Termed as retrospective restatement
  – is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred

It was also termed "PYA" before

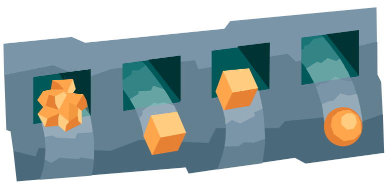
Errors

Subject to Limitation on Retrospective Restatement

When it is impracticable to determine:

a) the *period-specific effects* (of an error on comparative information for one or more prior periods presented)
   - the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

b) the *cumulative effect* (at the beginning of the current period, of an error on all prior periods)
   - the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.



Errors

Disclosures

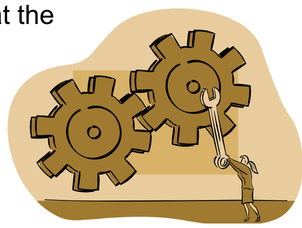
- An entity shall disclose the following:
  a) the nature of the prior period error;
  b) for each prior period presented, to the extent practicable, the amount of the correction:
     i) for each financial statement line item affected; and
     ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;
  c) the amount of the correction at the beginning of the earliest prior period presented; and
  d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.
- *Financial statements of subsequent periods need not repeat these disclosures.*

Today's Agenda

- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period

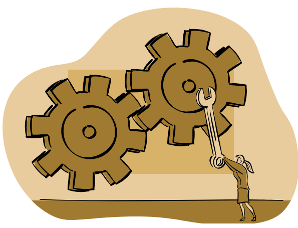
1. Objective, Scope and Definitions

- 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)

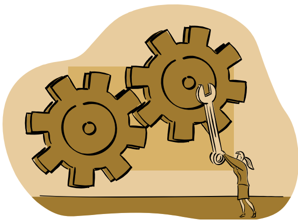


1. Objective, Scope and Definitions

- 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

Adjusting Events

- 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.

2. Recognition and Measurement

Example

Adjusting Events

- 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.

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 balance sheet date reporting period.

Preparation and Presentation of Financial Statements

19 September 2012

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Preparation and Presentation of Financial Statements

19 September 2012

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