



HKAS 1 (Revised) *Presentation of Financial Statements*

HKICPA Standard Setting Department Staff Summary (March 2008)

This HKICPA Standard Setting Department Staff Summary is intended for general guidance only. This Staff Summary has not been reviewed by the HKICPA Financial Reporting Standards Committee. The HKICPA and its staff DO NOT accept any responsibility or liability, and DISCLAIM all responsibility and liability, in respect of the summary and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Summary. Members of the HKICPA and other users of financial reporting standards should read the full Standard in the HKICPA Members' Handbook (<http://www.hkicpa.org.hk/ebook/main.php>) to fully understand the implications of the Standard.

The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1 (Revised)) replaces HKAS 1 *Presentation of Financial Statements* (issued in 2004) as amended in 2005. HKAS 1 (Revised) sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content application. It is effective for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

Reasons for revising HKAS 1

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in revising HKAS 1 is to maintain international convergence arising from the revision of IAS 1 *Presentation of Financial Statements* by the International Accounting Standards Board (IASB).

The main objective of the IASB in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With this in mind, the IASB considered it useful to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Consequently, the IASB decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity.

Main features of HKAS 1 (Revised)

3. HKAS 1 (Revised) affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.



4. HKAS 1 (Revised) requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.
5. Illustrative presentation of financial statements are provided in the Guidance on implementing HKAS 1 (Revised).
6. HKAS 1 (Revised) requires an entity to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when the entity reclassifies items in the financial statements. In these limited circumstances, an entity is required to present, as a minimum, three statements of financial position (and related notes), i.e. as at:
 - the end of the current period;
 - the end of the previous period (which is the same as the beginning of the current period); and
 - the beginning of the earliest comparative period.
7. HKAS 1 (Revised) requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income, including gains or losses on:
 - available-for-sale financial assets;
 - cash flow hedges; and
 - exchange differences on translating foreign operations.
8. HKAS 1 (Revised) requires the presentation of dividends recognised as distributions to owners and related amounts per share in the statement of changes in equity or in the notes. Dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity.

Main changes from previous requirements

A complete set of financial statements

9. The previous version of HKAS 1 used the titles 'balance sheet' and 'cash flow statement' to describe two of the statements within a complete set of financial statements. HKAS 1 (Revised) uses 'statement of financial position' and 'statement of cash flows' for those statements. The new titles reflect more closely the function of those statements, as described in the *Framework* (see paragraphs BC14–BC21 of the Basis for Conclusions). Note that these new titles need not be used in published financial statements.
10. HKAS 1 (Revised) requires an entity to disclose comparative information in respect of the previous period, ie to disclose as a minimum two of each of the statements



and related notes. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The purpose is to provide information that is useful in analysing an entity's financial statements (see paragraphs BC31 and BC32 of the Basis for Conclusions).

Reporting owner changes in equity and comprehensive income

11. The previous version of HKAS 1 required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity. It also labelled the statement of changes in equity comprising profit or loss, other items of income and expense and the effects of changes in accounting policies and correction of errors as 'statement of recognised income and expense'. HKAS 1 (Revised) now requires:
 - (a) all changes in equity arising from transactions with owners in their capacity as owners (ie owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (ie non-owner changes in equity) in the statement of changes in equity. The purpose is to provide better information by aggregating items with shared characteristics and separating items with different characteristics (see paragraphs BC37 and BC38 of the Basis for Conclusions).
 - (b) income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity (see paragraphs BC49–BC54 of the Basis for Conclusions).
 - (c) components of other comprehensive income to be displayed in the statement of comprehensive income.
 - (d) total comprehensive income to be presented in the financial statements.

Other comprehensive income—reclassification adjustments and related tax effects

12. HKAS 1 (Revised) requires an entity to disclose income tax relating to each component of other comprehensive income. The previous version of HKAS 1 did not include such a requirement. The purpose is to provide users with tax information relating to these components because the components often have tax rates different from those applied to profit or loss (see paragraphs BC65–BC68 of the Basis for Conclusions).
13. HKAS 1 (Revised) also requires an entity to disclose reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in previous periods. The purpose is to



provide users with information to assess the effect of such reclassifications on profit or loss (see paragraphs BC69–BC73 of the Basis for Conclusions).

Presentation of dividends

14. The previous version of HKAS 1 permitted disclosure of the amount of dividends recognised as distributions to equity holders (now referred to as 'owners') and the related amount per share in the income statement, in the statement of changes in equity or in the notes. HKAS 1 (Revised) requires dividends recognised as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of comprehensive income is not permitted (see paragraph BC75 of the Basis for Conclusions). The purpose is to ensure that owner changes in equity (in this case, distributions to owners in the form of dividends) are presented separately from non-owner changes in equity (presented in the statement of comprehensive income).

Other references on IAS 1 (Revised)

1. Deloitte IAS Plus on Revised Standard on presentation of financial statements
<http://www.iasplus.com/iasplus/0709ias1revised.pdf>
2. Ernst & Young IFRS Alert on IAS 1 *Presentation of Financial Statements*
[http://www.ey.com/Global/assets.nsf/South_Africa/IFRS_Alert_Issue_17/\\$file/IFRS%20Alert%2017.pdf](http://www.ey.com/Global/assets.nsf/South_Africa/IFRS_Alert_Issue_17/$file/IFRS%20Alert%2017.pdf)
3. KPMG IFRS Briefing Sheet on Revised standard IAS 1 *Presentation of Financial Statements*
http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS0774.pdf
4. PricewaterhouseCoopers HKFRS News on Amendments to IAS
http://www.pwchk.com/webmedia/doc/633348831985068598_hkfrs_news_dec2007.pdf

(March 2008)