

SSAP 1, Presentation of Financial Statements

Background

SSAP 1 came into effect for financial statements covering periods beginning on or after 1 January 1999.

Questions and answers on SSAP 1 appear below.

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Disclaimer

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Feedback welcomed

We welcome your comments and feedback. Comments and suggestions on the material in this document should be addressed to Mr. Simon Riley, Deputy Director – Accounting, Hong Kong Society of Accountants, e-mail: commentletters@hksa.org.hk.

Relevant links

SSAP 1..... http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2_101a.htm

Summary of SSAP 1..... <http://www.hksa.org.hk/professionaltechnical/accounting/standards/ssap01.pdf>

Exposure Draft of a proposed revision of SSAP 1 (included in the “Improvements ED” issued in 2002)

..... <http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/edimprovements.pdf>

..... <http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/02-imp-ed.pdf> (refer IAS 1)

HKSA Financial Reporting home page <http://www.hksa.org.hk/professionaltechnical/accounting/>

Reference materials page <http://www.hksa.org.hk/professionaltechnical/accounting/rm>

SSAP 1.94-1 Capital transactions with owners

Q: *When a company goes public, the majority shareholder (guarantor) may grant a “tax indemnity” to the newly listed company. Under the tax indemnity, the guarantor will bear liability for any additional amounts of income tax assessed in respect of any period prior to the listing not already provided for in the company’s financial statements. Assume that the prior year(s) financial statements did not contain a fundamental error as regards computation of the income tax liability. If the listed company subsequently pays any tax relating to years of assessment before the listing date and receives reimbursement from the majority shareholder through this tax indemnity, what is the appropriate financial statement presentation?*

A: The reimbursement follows from a direct obligation on the equity participant in connection with that person’s ownership interest in the entity at the time the guarantee was given. In terms of SSAP 1 paragraphs 94(d) & 98, the revenue recognition concepts in SSAP 18 and the Framework, from the reporting entity’s point of view the reimbursement would constitute a “capital transaction with an owner” and, accordingly, should be reported in the Statement of Changes in Equity (or in a note thereto).

SSAP 1.94-2 When there is no change in equity for the current and previous year, except for the appropriation of profit or loss to the retained earnings

Q: *Is a separate statement of changes in equity required when the only change to shareholders’ funds for the current and corresponding periods results from the appropriation of profit or loss to retained earnings?*

A: Being a separate component of the financial statements, the statement of changes in equity is a primary statement in its own right. Accordingly, it should not be included in the notes to the financial statements. Although not specified in SSAP 1, we believe the most appropriate place is after income statement, normally on a separate page. Such presentation is also consistent with that adopted in other jurisdictions that have a similar requirement. If, however, the only change in equity arose from the net profit or loss for the period, the statement - appropriately headed - could appear on the same page immediately below the income statement, per the following example:

PROFIT AND LOSS ACCOUNTS (extract)

FOR THE YEAR ENDED 31 DECEMBER 20X2

| Note | Group | | Company | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | 20X2 HK\$’ 000 | 20X1 HK\$’ 000 | 20X2 HK\$’ 000 | 20X1 HK\$’ 000 |
| Net profit for the period | 45,080 | 38,707 | 31,181 | 17,296 |

STATEMENT OF CHANGES IN EQUITY

| | | | | | |
|--|---|-----------|-----------|-----------|---------|
| Shareholders’ funds at the beginning of the year | 9 | 1,290,873 | 1,252,167 | 978,303 | 961,007 |
| Net profit for the period | | 45,080 | 38,707 | 31,181 | 17,296 |
| Shareholders’ funds at the end of the year | 9 | 1,335,953 | 1,290,873 | 1,009,484 | 978,303 |

Other than the net profit [loss] attributable to shareholders, the Group and Company had no changes in equity for the current or corresponding periods.

The accompanying notes form an integral part of these financial statements

The cross-reference to note 9 would permit further analysis of the total shareholders’ funds (for example, details on the issued and paid up capital, share premium account, other reserves and retained earnings) to be presented in the notes.

SSAP 1.99-1 Fund accounting

Q: A not-for-profit entity has established a special fund to finance future research activities. The fund is under the control of the entity and is reported as a reserve account in the equity section of the balance sheet.

Donations, which are received from non-government sponsors, are held in the special fund to finance the activities for which the fund was established. From its other income, the entity matches the donations received dollar for dollar.

What is the appropriate accounting treatment under SSAPs for the contributions received, the entity's contribution and the research expenditure when incurred?

A: Contributions received from non-government sponsors are recognised as “other income”, are reported on the entity's income statement and therefore included in the net profit or loss (or net surplus or deficit, for a not-for-profit entity) for the period. Grants and other assistance received from a government are accounted for under SSAP 35.

The entity's contribution is not an expense and is therefore not reported on the income statement. The entity's contribution is reported as an appropriation of the net profit or loss (or net surplus or deficit) in the statement of changes in equity.

Payments made from the fund would be recognised as an expense when incurred, and therefore reported on the entity's income statement, unless such payments are eligible for capitalisation under an appropriate SSAP, for example SSAP 29, “Intangible Assets”. When payments are made from the fund, the balance of the fund is depleted through the statement of changes in equity.