Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 46

(Issued December 2007)

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
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HONG KONG ACCOUNTING STANDARDS (HKAS)		
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HKAS 1 Revised *Presentation of Financial Statements*	Insert these pages after HKAS 1 Amendment *Capital Disclosures*	Revised Standard – Note 1

Note:

1. HKAS 1 (Revised) *Presentation of Financial Statements* is applicable for annual periods beginning on or after 1 January 2009 and supersedes HKAS 1 amended in 2005 and HKAS 1 (Amendment) *Capital Disclosure* issued in 2005.

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MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to December 2007)

HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

Hong Kong Accounting Standard 1

Presentation of Financial Statements*

* This HKAS 1 is applicable for annual periods beginning on or after 1 January 2005 but before 1 January 2009. HKAS 1 (Revised) issued in December 2007 is applicable for annual periods beginning on or after 1 January 2009 and supersedes this HKAS 1.

HKAS 1 Amendment
Issued September 2005

Effective for annual periods beginning on or after 1 January 2007

Amendment to
HKAS 1 Presentation of Financial Statements

Capital Disclosures*

* This HKAS 1 is applicable for annual periods beginning on or after 1 January 2007 but before 1 January 2009. HKAS 1 (Revised) issued in December 2007 is applicable for annual periods beginning on or after 1 January 2009 and supersedes this HKAS 1.

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HKAS 1 (Revised)
Issued December 2007

Effective for annual periods
beginning on or after 1 January 2009*

Hong Kong Accounting Standard 1 (Revised)

Presentation of Financial Statements

* HKAS 1 (Revised) is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. HKAS 1 (Revised) supersedes HKAS 1 issued in 2004, as amended in 2005.

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Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) is set out in paragraphs 1 – 140 and the Appendices A, B and C. All the paragraphs have equal authority. HKAS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements.* HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This revised Standard was issued in December 2007. It supersedes HKAS 1, issued in 2004, as amended in 2005.

Introduction

IN1 Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) replaces HKAS 1 *Presentation of Financial Statements* (issued in 2004) as amended in 2005. HKAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Reasons for revising HKAS 1

IN2 The objective of Hong Kong Institute of Certified Public Accountants (HKICPA) 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 HKICPA supported the reasons for revising IAS 1 of the 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.

IN3 In its review, the IASB also considered FASB Statement No. 130 *Reporting Comprehensive Income* (SFAS 130) issued in 1997. The requirements in IAS 1 regarding the presentation of the statement of comprehensive income are similar to those in SFAS 130; however, some differences remain and those are identified in paragraph BC106 of the Basis for Conclusions.

IN4 In addition, the IASB's intention in revising IAS 1 was to improve and reorder sections of IAS 1 to make it easier to read. The IASB's objective was not to reconsider all the requirements of IAS 1.

Main features of HKAS 1

IN5 HKAS 1 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.

IN6 HKAS 1 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.

IN7 HKAS 1 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.

IN8 HKAS 1 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.

IN9 HKAS 1 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.

Changes from previous requirements

IN10 The main changes from the previous version of HKAS 1 are described below.

A complete set of financial statements

IN11 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 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).

IN12 HKAS 1 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

IN13 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 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

IN14 HKAS 1 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).

IN15 HKAS 1 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

IN16 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 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).

Hong Kong Accounting Standard 1
Presentation of Financial Statements

Objective

1 This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

2 An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

3 Other HKFRSs set out the recognition, measurement and disclosure requirements for specific transactions and other events.

4 This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with HKAS 34 *Interim Financial Reporting*. However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in HKAS 27 *Consolidated and Separate Financial Statements*.

5 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

6 Similarly, entities that do not have equity as defined in HKAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

Definitions

7 The following terms are used in this Standard with the meanings specified:

General purpose financial statements **(referred to as 'financial statements') are 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.**[*]

Impracticable **Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.**

[*] An example of tailored reports are those accounts prepared by certain private companies taking advantage of the exemptions granted by Section 141D of the Companies Ordinance.

Hong Kong Financial Reporting Standards (HKFRSs) **are Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:**

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

Material **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Notes **contain information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.**

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 HKFRSs.**

The components of other comprehensive income include:

(a) changes in revaluation surplus (see HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*);

(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of HKAS 19 *Employee Benefits*;

(c) gains and losses arising from translating the financial statements of a foreign operation (see HKAS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) gains and losses on remeasuring available-for-sale financial assets (see HKAS 39 *Financial Instruments: Recognition and Measurement*);

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see HKAS 39).

Owners **are holders of instruments classified as equity.**

Profit or loss **is the total of income less expenses, excluding the 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 the current or previous periods.**

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.**

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

8 Although this Standard uses the terms 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.

Financial statements

Purpose of financial statements

9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10 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 this Standard.

11 An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

12 As permitted by paragraph 81, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an income statement is presented it is part of a complete set of financial statements and shall be displayed immediately before the statement of comprehensive income.

13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(b) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(c) the entity's resources not recognised in the statement of financial position in accordance with HKFRSs.

14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of HKFRSs.

General features

True and fair view and compliance with HKFRSs*

15 Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. True and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of HKFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a true and fair view.

16 An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with HKFRSs unless they comply with all the requirements of HKFRSs.

17 In virtually all circumstances, an entity achieves a true and fair view by compliance with applicable HKFRSs. A true and fair view also requires an entity:

(a) to select and apply accounting policies in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. HKAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an HKFRS that specifically applies to an item.

* Based on the communication with International Accounting Standards Board, the HKICPA believes that the term 'true and fair view' and the term 'fair presentation' used in IAS 1, *Presentation of Financial Statements* are equivalent terms. Please also refer to paragraph 46 of the Framework which contains certain references to the two terms.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18 **An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.**

19 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

20 **When an entity departs from a requirement of an HKFRS in accordance with paragraph 19, it shall disclose:**

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable HKFRSs, except that it has departed from a particular requirement to achieve a true and fair view;

(c) the title of the HKFRS from which the entity has departed, the nature of the departure, including the treatment that the HKFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21 **When an entity has departed from a requirement of an HKFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).**

22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an HKFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

23 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) the title of the HKFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a true and fair view.

24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Going concern

25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, 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 entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

28 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Materiality and aggregation

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

31 An entity need not provide a specific disclosure required by an HKFRS if the information is not material.

Offsetting

32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an HKFRS.

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of comprehensive income or financial position or in the separate income statement (if presented), except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

34 HKAS 18 *Revenue* defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

36 An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period, and

(b) the fact that amounts presented in the financial statements are not entirely comparable.

37. Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Comparative information

38 Except when HKFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. 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, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

(a) the end of the current period,

(b) the end of the previous period (which is the same as the beginning of the current period), and

(c) the beginning of the earliest comparative period.

40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

41 When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

(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.

42 When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts, and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

44 HKAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

45 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in HKAS 8; or

(b) an HKFRS requires a change in presentation.

46. For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

47 This Standard requires particular disclosures in the statement of financial position or of comprehensive income, in the separate income statement (if presented), or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. HKAS 7 *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.

48 This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other HKFRSs. Unless specified to the contrary elsewhere in this Standard or in another HKFRS, such disclosures may be made in the financial statements.

Identification of the financial statements

49 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50 HKFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using HKFRSs from other information that may be useful to users but is not the subject of those requirements.

51 An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

(a) 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;

(b) whether the financial statements are of an individual entity or a group of entities;

(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;

(d) the presentation currency, as defined in HKAS 21; and

(e) the level of rounding used in presenting amounts in the financial statements.

52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.

53 An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Statement of financial position

Information to be presented in the statement of financial position

54 As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in HKAS 12 *Income Taxes*;

(o) deferred tax liabilities and deferred tax assets, as defined in HKAS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with HKFRS 5;

(q) minority interest, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

55 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

56 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with HKAS 16.

Current/non-current distinction

60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

61 Whichever method of presentation is adopted, an entity shall 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:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/ non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

64 In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. HKFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

66 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in HKAS 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.

67 This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68 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, it is assumed to be twelve months. 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. Current assets also include assets held primarily for the purpose of trading (financial assets within this category are classified as held for trading in accordance with HKAS 39) and the current portion of non-current financial assets.

Current liabilities

69 An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are financial liabilities classified as held for trading in accordance with HKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 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.

73 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.

74 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.

75 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.

76 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 HKAS 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.

Information to be presented either in the statement of financial position or in the notes

77 An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.

78 The detail provided in subclassifications depends on the requirements of HKFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with HKAS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are disaggregated, in accordance with HKAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated into provisions for employee benefits and other items; and

(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

79 An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

80 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

Statement of comprehensive income

81 An entity shall present all items of income and expense recognised in a period:

(a) in a single statement of comprehensive income, or

(b) in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

Information to be presented in the statement of comprehensive income

82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

(a) revenue[*];

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(f) profit or loss;

(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

[*] Hong Kong incorporated companies are required to disclose turnover for the financial year and the method by which it is arrived at (HKCO Tenth Sch. Para 16.) Turnover should consist of revenue arising from the principal activities of the entity and therefore should not usually include those items of revenue and gains that arise incidentally.

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

83 An entity shall disclose the following items in the statement of comprehensive income as allocations of profit or loss for the period:

(a) profit or loss for the period attributable to:

(i) minority interest, and

(ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

(i) minority interest, and

(ii) owners of the parent.

84 An entity may present in a separate income statement (see paragraph 81) the line items in paragraph 82(a)–(f) and the disclosures in paragraph 83(a).

85 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity's financial performance.

86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of comprehensive income and in the separate income statement (if presented), and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87 An entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income or the separate income statement (if presented), or in the notes.

Profit or loss for the period

88 An entity shall recognise all items of income and expense in a period in profit or loss unless an HKFRS requires or permits otherwise.

89 Some HKFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current period. HKAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other HKFRSs require or permit components of other comprehensive income that meet the *Framework*'s definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

90 An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes.

91 An entity may present components of other comprehensive income either:

(a) net of related tax effects, or

(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93 Other HKFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94 An entity may present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see HKAS 21), on derecognition of available-for-sale financial assets (see HKAS 39) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of HKAS 39 in relation to cash flow hedges).

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with HKAS 16 or HKAS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of HKAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see HKAS 16 and HKAS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see HKAS 19).

Information to be presented in the statement of comprehensive income or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of comprehensive income or in the separate income statement (if presented).

101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.

102 The first form of analysis is the 'nature of expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103 The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit before tax	X

104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

105 The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the presentation that is reliable and more relevant. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 104, 'employee benefits' has the same meaning as in HKAS 19.

Statement of changes in equity

106 An entity shall present a statement of changes in equity showing in the statement:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to minority interest;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with HKAS 8;

(c) the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change.

107 An entity shall 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.

108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

110 HKAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another HKFRS require otherwise. HKAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an HKFRS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in

* Hong Kong incorporated companies are required to show the aggregate amount of the dividends paid and proposed in their profit and loss account (HKCO Tenth Sch., para 13(1)(j)).

accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

111 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. HKAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

112 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;

(b) disclose the information required by HKFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

113 An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes.

114 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with HKFRSs (see paragraph 16);

(b) summary of significant accounting policies applied (see paragraph 117);

(c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see HKAS 37) and unrecognised contractual commitments, and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see HKFRS 7).

115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.

116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

117 An entity shall disclose in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements, and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in HKFRSs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see HKAS 31 *Interests in Joint Ventures*). Some HKFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, HKAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by HKFRSs but the entity selects and applies in accordance with HKAS 8.

122 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) whether financial assets are held-to-maturity investments;

(b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

124 Some of the disclosures made in accordance with paragraph 122 are required by other HKFRSs. For example, HKAS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. HKAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period.

126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.

133 Other HKFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, HKAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. HKFRS 7 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. HKAS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

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

135 To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(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.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

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

(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.

The entity bases these disclosures on the information provided internally to key management personnel.

136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

137 An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period*, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its principal activities; and

(c) the name of the parent and the ultimate parent of the group.

Transition and effective date

139 An entity shall apply this Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity adopts this Standard for an earlier period, it shall disclose that fact.

Withdrawal of HKAS 1 (issued 2004)

140 This Standard supersedes HKAS 1 *Presentation of Financial Statements* issued in 2004, as amended in 2005.

* Hong Kong incorporated companies are required to show the aggregate amount which is recommended for distribution by way of dividend under a separate heading(s) in their balance sheet (HKCO Tenth Sch., para 9(1)(e)),

Appendix A
Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

A1 In the *Preface to Hong Kong Financial Reporting Standards,* paragraphs 10, 15 and 18 are amended as follows:

10 A complete set of financial statements includes a ~~balance sheet~~ statement of financial position, ~~an income statement~~ a statement of comprehensive income, a statement ~~showing either all~~ of changes in equity ~~or changes in equity other than those arising from capital transactions with owners and distributions to owners~~, a statement of cash flows ~~statement~~, and accounting policies and explanatory notes. When a separate income statement is presented in accordance with HKAS 1 *Presentation of Financial Statements* (as revised in 2007), it is part of that complete set. In the interest …

15. Entities shall apply interpretations if their financial statements are described as being prepared in accordance with HKFRSs (see paragraph ~~14~~ 16 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007)).

18 HKAS 1 (as revised in 2007) includes the following requirement:

> An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe ~~F~~financial statements ~~shall not be described~~ as complying with HKFRSs unless they comply with all the requirements of HKFRSs.

This requirement extends to HKFRSs currently in issue.

A2 In the *Framework for the Preparation and Presentation of Financial Statements* a rubric preceding the '**Introduction**' section is added as follows:

> *The Framework has not been amended to reflect the changes made by HKAS 1* Presentation of Financial Statements *(as revised in 2007)*.

A3 In Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations), and the introductions to HKFRSs, the following references are amended as described below, unless otherwise stated in this appendix.

- 'on the face of' is amended to 'in'.
- 'income statement' is amended to 'statement of comprehensive income'.
- 'balance sheet' is amended to 'statement of financial position'.
- 'cash flow statement' is amended to 'statement of cash flows'.
- 'balance sheet date' is amended to 'end of the reporting period'.
  - 'subsequent balance sheet date' is amended to 'end of the subsequent reporting period'.
  - 'each balance sheet date' is amended to 'the end of each reporting period'.

  - 'after the balance sheet date' is amended to 'after the reporting period'.
- 'reporting date' is amended to 'end of the reporting period'.
  - 'each reporting date' is amended to 'the end of each reporting period'.
  - 'last annual reporting date' is amended to 'end of the last annual reporting period'.
- 'equity holders' is amended to 'owners' (except in HKAS 33 *Earnings per Share*).
- 'removed from equity and recognised in profit or loss' and 'removed from equity and included in profit or loss' are amended to 'reclassified from equity to profit or loss as a reclassification adjustment'.
- 'Standard or Interpretation' is amended to 'HKFRS'.
  - 'a Standard or an Interpretation' is amended to 'an HKFRS'.
  - 'Standards and Interpretations' is amended to 'HKFRSs'. (except in paragraph 5 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).
- References to the current version of HKAS 7 *Cash Flow Statements* are amended to HKAS 7 *Statement of Cash Flows*.
- References to the current version of HKAS 10 *Events after the Balance Sheet Date* are amended to HKAS 10 *Events after the Reporting Period*.

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

A4 HKFRS 1 is amended as described below.

In the rubric, the first sentence is amended as follows:

> Hong Kong Financial Reporting Standard 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (HKFRS 1) is set out in paragraphs ~~1–47G~~ <u>1–47H</u> and Appendices A–C. All the paragraphs …

In paragraph IN3, 'at the reporting date for its first HKFRS financial statements' is amended to 'at the end of its first HKFRS reporting period'.

Paragraphs 6 and 7 are amended as follows:

6 An entity shall prepare <u>and present</u> an *opening HKFRS* ~~*balance sheet*~~ <u>*statement of financial position*</u> at the *date of transition to HKFRSs*. This is the starting point for its accounting under HKFRSs. ~~An entity need not present its opening HKFRS balance sheet in its first HKFRS financial statements.~~

7 An entity … Those accounting policies shall comply with each HKFRS effective at the ~~reporting date for~~ <u>end of</u> its first HKFRS ~~financial statements~~ <u>reporting period,</u> except as specified in paragraphs 13–34B~~, 36A–36C~~ and 37.

The Example after paragraph 8 is amended as described below.

References to the years '2003' to '2005' are amended to '20X3' to '20X5' respectively.

The paragraphs **Background** and **Application of requirements** are amended as follows:

Background

The ~~reporting date for~~ end of entity A's first HKFRS ~~financial statements~~ reporting period is 31 December 20X5 ~~2005~~. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 36) …

Application of requirements

Entity A … in:

(a) preparing and presenting its opening HKFRS ~~balance sheet~~ statement of financial position at 1 January 20X4 ~~2004~~; and …

Paragraphs 10, 12(a) and 21 are amended as follows:

10 Except as described in paragraphs 13–34B ~~and 36A–36C~~, an entity shall, in its opening HKFRS ~~balance sheet~~ statement of financial position: …

12 This HKFRS establishes two categories of exceptions to the principle that an entity's opening HKFRS ~~balance sheet~~ statement of financial position shall comply with each HKFRS:

(a) paragraphs 13–25I ~~and 36A–36C~~ grant exemptions from some requirements of other HKFRSs.

21 HKAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity:

(a) to ~~classify~~ recognise some translation differences in other comprehensive income and accumulate these ~~as~~ in a separate component of equity; and

(b) on disposal of a foreign operation, to ~~transfer~~ reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to ~~the income statement~~ profit or loss as part of the gain or loss on disposal.

In paragraph 32, references to the years '2003' and '2004' are amended to '20X4' and '20X5' respectively.

Paragraphs 32, 35 and 36 are amended as follows:

32 An entity … Instead, the entity shall reflect that new information in ~~its income statement~~ profit or loss (or, if appropriate, other comprehensive income ~~other changes in equity~~) for the year ended 31 December 20X4 ~~2004~~.

35 Except as described in paragraphs ~~36A–~~37, this HKFRS does not provide exemptions from the presentation and disclosure requirements in other HKFRSs.

36 To comply with HKAS 1, an entity's first HKFRS financial statements shall include at least ~~one year of comparative information under HKFRSs~~. three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

Paragraphs 36A–36C and the headings above them are deleted.

Paragraphs 39 and 45(a) are amended as follows:

39 To comply with paragraph 38, an entity's first HKFRS financial statements shall include: …

(a) (ii) the end … under previous GAAP~~;~~.

(b) a reconciliation to its total comprehensive income under HKFRSs ~~of the profit or loss reported under previous GAAP~~ for the latest period in the entity's most recent annual financial statements ~~to its profit or loss under HKFRSs for the same period;~~. The starting point for that reconciliation shall be total comprehensive income under previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP. ~~and~~

(c) …

45 To comply with …

(a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include~~ reconciliations of~~:

(i) a reconciliation of its equity under previous GAAP at the end of that comparable interim period to its equity under HKFRSs at that date; and

(ii) a reconciliation to its ~~profit or loss~~ total comprehensive income under HKFRSs ~~previous GAAP~~ for that comparable interim period (current and year-to-date). The starting point for that reconciliation shall be total comprehensive income under previous GAAP for that period or, if an entity did not report such a total, profit or loss under previous GAAP.~~ to its profit or loss under HKFRSs for that period.~~

Paragraph 47C is deleted.

Paragraph 47H is added as follows:

47H HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 6, 7, 8 (Example), 10, 12(a), 21, 32, 35, 36, 39(b) and 45(a), Appendix A and paragraph B2(i) in Appendix B, and deleted paragraphs 36A–36C and 47C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

In Appendix A, the defined terms are amended as follows:

first HKFRS reporting period	The latest reporting period ~~ending on the **reporting date** of~~ covered by an entity's **first HKFRS financial statements**.
opening HKFRS ~~balance sheet~~ statement of financial position	An entity's ~~balance sheet~~ statement of financial position ~~(published or unpublished)~~ at the **date of transition to HKFRSs**.
~~**reporting date**~~	~~The end of the latest period covered by financial statements or by an interim financial report.~~

In Appendix B, paragraph B2(i) is amended as follows:

B2 If a first-time adopter ...

(i) If the first-time adopter recognised goodwill under previous GAAP as a deduction from equity:

(i) it shall not recognise that goodwill in its opening HKFRS ~~balance sheet~~ statement of financial position. Furthermore, it shall not ~~transfer~~ reclassify that goodwill to ~~the income statement~~ profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.

HKFRS 4 *Insurance Contracts*

A5 In HKFRS 4, paragraphs 30 and 39A(a) are amended as follows:

30 In some accounting models … The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) shall be recognised in ~~equity~~ other comprehensive income if, and only if, the unrealised gains or losses are recognised ~~directly in equity~~ in other comprehensive income. This practice ...

39A To comply with …

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected ~~had~~ if changes in the relevant risk variable that were reasonably possible at the ~~balance sheet date~~ end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However …

Paragraph 41B is added as follows:

41B HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 30. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

A6 HKFRS 5 is amended as described below.

In paragraph 28, ‘in the same income statement caption’ is amended to ‘in the same caption in the statement of comprehensive income’.

Paragraph 33A is added as follows:

33A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), a section identified as relating to discontinued operations is presented in that separate statement.

In paragraph 38, ‘recognised directly in equity’ is amended to ‘recognised in other comprehensive income’.

Paragraph 44A is added as follows:

44A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 3 and 38, and added paragraph 33A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

In Appendix A, the definition of **current asset** is amended as follows:

An entity shall classify an asset as current when: ~~that satisfies any of the following criteria:~~

(a) it ~~is~~ expects~~ed~~ to ~~be~~ realise~~d in~~ the asset, or ~~is~~ intends~~ed for~~ to ~~sale~~ sell or consume~~ption~~ it, in~~, the entity's~~ its normal operating cycle;

(b) it ~~is held~~ holds the asset primarily for the purpose of ~~being~~ trading~~ed~~;

(c) it ~~is~~ expects~~ed~~ to ~~be~~ realise~~d~~ the asset within twelve months after the ~~balance sheet date~~ reporting period; or

(d) ~~it~~ the asset is cash or a cash equivalent (as defined in HKAS 7) unless the asset ~~it~~ is restricted from being exchanged or used to settle a liability for at least twelve months after the ~~balance sheet date~~ reporting period.

HKFRS 7 *Financial Instruments: Disclosures*

A7 HKFRS 7 is amended as described below.

The heading above paragraph 20 is amended as follows:

~~Income statement and equity~~ Statement of comprehensive income

Paragraph 20 is amended as follows:

20 An entity shall disclose the following items of income, expense, gains or losses either ~~on the face of~~ in the ~~financial statements~~ statement of comprehensive income or in the notes:

(a) net gains or net losses on:

(i) ...

(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised ~~directly in equity~~ in other comprehensive income during the period and the amount ~~removed~~ reclassified from equity ~~and recognised in~~ to profit or loss for the period;

(iii) ...

Paragraph 21 is amended as follows:

21 In accordance with paragraph ~~108~~ 117 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Paragraph 23(c) and (d) is amended as follows:

23 For cash flow hedges, an entity shall disclose: …

(c) the amount that was recognised in ~~equity~~ other comprehensive income during the period;

(d) the amount that was ~~removed~~ reclassified from equity ~~and included in~~ to profit or loss for the period, showing the amount included in each line item in the ~~income~~ statement of comprehensive income; and …

In paragraph 27(c), ‘in equity’ is amended to ‘in other comprehensive income’.

Paragraph 44A is added as follows:

44A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 20, 21, 23(c) and (d), 27(c) and B5 of Appendix B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Paragraph B5 is amended as follows:

B5 … Paragraph ~~113~~ 122 of HKAS 1 (as revised in 2007) also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

In paragraph B14 of Appendix B, ‘balance sheet amount’ is amended to ‘amount in the statement of financial position’.

HKFRS 8 *Operating Segments*

A8 In HKFRS 8, paragraphs 21 and 23(f) are amended as follows:

21 To give … Reconciliations of the amounts in the statement of financial position ~~balance sheet amounts~~ for reportable segments to the amounts in the entity’s statement of financial position ~~balance sheet amounts~~ are required for each date at which a ~~balance sheet~~ statement of financial position is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

23 An entity shall...

(f) material items of income and expense disclosed in accordance with paragraph ~~86~~ 97 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007);

Paragraph 36A is added as follows:

36A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 23(f). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 7 *Statement of Cash Flows*

A9 HKAS 7 is amended as described below.

The title is amended to '*Statement of Cash Flows*'.

The title (as amended) above the Objective is footnoted as follows: 'In December 2007 the Institute amended the title of HKAS 7 from *Cash Flow Statements* to *Statement of Cash Flows* as a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in 2007.'

In paragraph 32, 'the income statement' is amended to 'profit or loss'.

.

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

A10 HKAS 8 is amended as described below.

Paragraph 5 is amended as follows:

- in the definition of ***Material***, '**of users taken**' is amended to '**that users make**'.

HKAS 10 *Events after the Reporting Period*

A11 HKAS 10 is amended as described below.

The title is amended to '*Events after the Reporting Period*'.

The title (as amended) above the Objective is footnoted as follows:

> 'In December 2007 the Institute amended the title of HKAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in 2007.'

In paragraph 21, 'of users taken' is amended to 'that users make'.

HKAS 11 *Construction Contracts*

A12 In HKAS 11, in paragraphs 26, 28 and 38, 'the income statement' is amended to 'profit or loss'.

HKAS 12 *Income Taxes*

A13 HKAS 12 is amended as described below.

In the rubric, the first sentence is amended as follows:

> Hong Kong Accounting Standard 12 *Income Taxes* (HKAS 12) is set out in paragraphs ~~1–91~~ 1–92. All the paragraphs …

The third paragraph of the '**Objective**' in HKAS 12 is amended as follows:

> '… For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively).

In paragraphs 22(b), 59, 60 and 65, 'the income statement' is amended to 'profit or loss', and in paragraph 81(g)(ii) '**the income statement**' is amended to '**profit or loss**'.

Paragraph 23 is amended as follows:

23 … In accordance with paragraph 61<u>A</u>, the deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in <u>profit or loss</u> ~~the income statement~~ as deferred tax expense (income).

In paragraph 52, in the notes at the end of Example B and Example C, '*paragraph 61'* is amended to '*paragraph 61A*' and '*charged directly to equity*' is amended to '*recognised in other comprehensive income*'.

The heading above paragraph 58 and paragraph 58 are amended as follows:

~~Income statement~~ <u>Items recognised in profit or loss</u>

58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

(a) a transaction or event which is recognised, in the same or a different period, <u>outside profit or loss, either in other comprehensive income or</u> directly in equity (see paragraphs 61<u>A</u> to 65); …

In paragraph 60, 'charged or credited to equity' is amended to 'recognised outside profit or loss'.

In the heading above paragraph 61, '**credited or charged directly to equity**' is amended to '**recognised outside profit or loss**'.

Paragraph 61 is deleted and paragraph 61A is added as follows:

61A Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

(a) in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).

(b) directly in equity, shall be recognised directly in equity (see paragraph 62A).

Paragraphs 62 and 63 are amended and paragraph 62A is added as follows:

62 Hong Kong Financial Reporting Standards require or permit ~~certain~~ <u>particular</u> items to be ~~credited or charged directly to equity~~ <u>recognised in other comprehensive income</u>. Examples of such items are:

(a) a change in carrying amount arising from the revaluation of property, plant and equipment (see HKAS 16); <u>and</u>

(b) <u>[deleted]</u> ~~an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);~~

(c) exchange differences arising on the translation of the financial statements of a foreign operation (see HKAS 21)~~; and~~.

(d) [deleted] ~~amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).~~

62A Hong Kong Financial Reporting Standards require or permit particular items to be credited or charged directly to equity. Examples of such items are:

(a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*); and

(b) amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).

63 In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items ~~credited or charged to equity~~ recognised outside profit or loss (either in other comprehensive income or directly in equity). This may be the case, for example, when:

(a) …

(b) a change in the tax rate … to an item that was previously recognised outside profit or loss ~~charged or credited to equity~~; or

(c) an entity … and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside profit or loss ~~charged or credited to equity~~.

In such cases, the current and deferred tax related to items that are recognised outside profit or loss are ~~credited or charged to equity is~~ based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

In paragraph 65, 'credited or charged to equity' is amended to 'recognised in other comprehensive income'.

Paragraph 68C is amended as follows:

68C As noted … (a) a transaction or event ~~which~~ that is recognised, in the same or a different period, ~~directly in equity~~ outside profit or loss, or (b) a business combination. …

Paragraph 77 is amended and paragraph 77A is added as follows:

77 The tax expense (income) related to profit or loss from ordinary activities shall be presented in ~~on the face of~~ the ~~income~~ statement of comprehensive income.

77A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007), it presents the tax expense (income) related to profit or loss from ordinary activities in that separate statement.

Paragraph 81 is amended as follows:

81 The following shall also be disclosed separately:

(a) the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A);

(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and HKAS 1 (as revised in 2007));

(b) [deleted]; ...

Paragraph 92 is added as follows:

92 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 23, 52, 58, 60, 62, 63, 65, 68C, 77 and 81, deleted paragraph 61 and added paragraphs 61A, 62A and 77A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 14 *Segment Reporting*

A14 HKAS 14 is amended as described below.

In the rubric, the first sentence is amended as described below.

Hong Kong Accounting Standard 14 *Segment Reporting* (HKAS 14) is set out in paragraphs ~~1–84~~ 1–85. All the paragraphs …

Paragraphs 2, 52A and 54 are amended as follows:

2 A complete set of financial statements includes a ~~balance sheet~~ statement of financial position, ~~income~~ a statement of comprehensive income, ~~cash flow~~ a statement of cash flows, a statement ~~showing~~ of changes in equity, and notes, as provided in HKAS 1 *Presentation of Financial Statements* (as revised in 2007). When a separate income statement is presented in accordance with HKAS 1, it is part of that complete set.

52A An entity ...all operations that had been classified as discontinued at the ~~balance sheet date~~ end of the latest reporting period presented.

54 An example of a measure of segment performance above segment result ~~on~~ in the ~~income~~ statement of comprehensive income is gross margin on sales. Examples of measures of segment performance below segment result ~~on~~ in the ~~income~~ statement of comprehensive income are profit or loss from ordinary activities (either before or after income taxes) and profit or loss.

Paragraph 85 is added as follows:

85 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 2. An entity shall apply HKAS 1 (revised 2007) for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 16 *Property, Plant and Equipment*

A15 HKAS 16 is amended as described below.

Paragraphs 39 and 40 are amended as follows:

39 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be ~~credited directly to equity~~ recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However …

40 If an asset's … However, the decrease shall be ~~debited directly to equity under the heading of revaluation surplus~~ recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

In paragraph 73(e)(iv), **'recognised or reversed directly in equity'** is amended to **'recognised or reversed in other comprehensive income'**.

Paragraph 81B is added as follows:

81B HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 39, 40 and 73(e)(iv). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 19 *Employee Benefits*

A16 HKAS 19 is amended as described below.

In the rubric, the first sentence is amended as described below.

Hong Kong Accounting Standard 19 *Employee Benefits* (HKAS 19) is set out in paragraphs ~~1–160~~ 1–161. All the paragraphs …

In paragraph 69, 'at each successive balance sheet date' is amended to 'at the end of each successive reporting period'.

Paragraphs 93A–93D are amended as follows:

93A If, as permitted by paragraph 93, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them ~~outside profit or loss~~ in other comprehensive income, in accordance with paragraphs 93B–93D, providing …

93B Actuarial gains and losses recognised ~~outside profit or loss~~ in other comprehensive income as permitted by paragraph 93A shall be presented in the ~~a~~ statement of comprehensive income. ~~changes in equity titled 'statement of recognised income and expense' that comprises only the items specified in paragraph 96 of HKAS 1. The entity shall not present the actuarial gains and losses in a statement of changes in equity in the columnar format referred to in paragraph 101 of HKAS 1 or any other format that includes the items specified in paragraph 97 of HKAS 1.~~

93C An entity that recognises actuarial gains and losses in accordance with paragraph 93A shall also recognise any adjustments arising from the limit in paragraph 58(b) in other comprehensive income ~~outside profit or loss in the statement of recognised income and expense~~.

93D Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised ~~directly in the statement of recognised income and expense~~ in other comprehensive income shall be recognised immediately in retained earnings. They shall not be ~~recognised in~~ reclassified to profit or loss in a subsequent period.

In paragraph 105 and in the third paragraph of the Example illustrating paragraph 106, 'the income statement' is amended to 'profit or loss'.

Paragraph 120A is amended as follows:

120A An entity shall disclose the following information about defined benefit plans: …

(h) the total amount recognised in other comprehensive income ~~the statement of recognised income and expense~~ for each of the following: …

(i) for entities that recognise actuarial gains and losses in ~~the statement of recognised income and expense~~ other comprehensive income in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in ~~the statement of recognised income and expense~~ other comprehensive income.

Paragraph 161 is added as follows:

161 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 93A–93D, 106 (Example) and 120A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

A17 HKAS 20 is amended as described below.

In the rubric, the first sentence is amended as described below.

Hong Kong Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* (HKAS 20) is set out in paragraphs ~~1–41~~ 1–42. All the paragraphs …

In paragraphs 14 and 15, 'the income statement' is amended to 'profit or loss'.

In paragraph 28, 'for the purpose of balance sheet presentation' is amended to 'for presentation purposes in the statement of financial position'.

Paragraph 29A is added as follows:

29A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), it presents grants related to income as required in paragraph 29 in that separate statement.

Paragraph 42 is added as follows:

42 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it added paragraph 29A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

A18 HKAS 21 is amended as described below.

In paragraph 7, '... a cash flow statement of cash flows arising …' is amended to '... a statement of cash flows of the cash flows arising…'.

In the heading above paragraph 23, '**Reporting at subsequent balance sheet dates**' is amended to '**Reporting at the ends of subsequent reporting periods**'.

In paragraph 27, 'reported initially in equity' is amended to 'recognised initially in other comprehensive income'.

In paragraphs 30 and 31, 'recognised directly in equity' and 'recognised in equity' are amended to 'recognised in other comprehensive income'.

In paragraph 32, '**recognised initially in a separate component of equity and recognised in profit or loss**' is amended to '**recognised initially in other comprehensive income and reclassified from equity to profit or loss**'**.**

In paragraph 33, 'reclassified to the separate component of equity' is amended to 'recognised in other comprehensive income'.

Paragraph 37 is amended as follows:

37 The effect … Exchange differences arising from the translation of a foreign operation previously ~~classified in equity~~ recognised in other comprehensive income in accordance with paragraphs 32 and 39(c) are not ~~recognised in~~ reclassified from equity to profit or loss until the disposal of the operation.

In paragraph 39(a), '**at the closing rate at the date of that balance sheet**' is amended to '**at the closing rate at the date of that statement of financial position**'.

In paragraph 39(b), '**each income statement**' is amended to '**each statement of comprehensive income or separate income statement presented**'.

In paragraph 39(c), '**as a separate component of equity**' is amended to '**in other comprehensive income**'.

Paragraphs 41, 45, 46, 48 and 52 are amended as follows:

41 The exchange differences referred to in paragraph 39(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. ~~Such exchange differences arise both on income and expense items recognised in profit or loss and on those recognised directly in equity.~~

...

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, …

45 The incorporation … Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference ~~continues to be~~ is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is ~~classified as equity~~ recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

46 When … HKAS 27 allows the use of a different ~~reporting~~ date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. …

48 On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, ~~deferred~~ recognised in other comprehensive income and accumulated in a separate component of equity, ~~relating to that foreign operation~~ shall be ~~recognised in~~ reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see HKAS 1 *Presentation of Financial Statements* (as revised in 2007)).

52 An entity shall disclose: …

(b) net exchange differences ~~classified~~ recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

Paragraph 60A is added as follows:

60A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 27, 30–33, 37, 39, 41, 45, 48 and 52. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 24 *Related Party Disclosures*

A19 In HKAS 24, in paragraph 19, 'on the balance sheet' is amended to 'in the statement of financial position'.

HKAS 27 *Consolidated and Separate Financial Statements*

A20 HKAS 27 is amended as described below.

In paragraph 4, in the definition of the ***cost method***, '**accumulated profits**' is amended to '**retained earnings**'.

Paragraphs 26, 27, 30 and 40(e) are amended as follows:

26 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same ~~reporting~~ date. When the ~~reporting dates~~ end of the reporting

period of the parent is different from that of ~~and~~ a subsidiary ~~are different~~, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

27 When … the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a ~~reporting~~ date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the ~~reporting date~~ end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between ~~in~~ the ~~reporting dates~~ ends of the reporting periods shall be the same from period to period.

30 The income … recognised in ~~equity~~ other comprehensive income in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, is ~~recognised in the~~ reclassified to consolidated ~~income statement~~ profit or loss as a reclassification adjustment as the gain or loss on the disposal of the subsidiary.

40 The following disclosures …

(e) the ~~reporting date~~ end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a ~~reporting~~ date or for a period that is different from that of the parent, and the reason for using a different ~~reporting~~ date or period; ...

Paragraph 43C is added as follows:

43C HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 30. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 28 *Investments in Associates*

A21 HKAS 28 is amended as described below.

Paragraphs 11, 24, 25, 37(e) and 39 are amended as follows:

11 Under the equity method … Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income ~~equity that have not been recognised in the investee's profit or loss~~. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised ~~directly in equity~~ in other comprehensive income of the investor (see HKAS 1 *Presentation of Financial Statements* (as revised in 2007)).

24 The most recent … When the ~~reporting dates~~ end of the reporting period of the investor ~~and~~ is different from that of the associate ~~are different~~, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

25 When … the financial statements of an associate used in applying the equity method are prepared as of a different ~~reporting~~ date from that of the investor … In any case, the difference between the ~~reporting date~~ end of the

reporting period of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference between ~~in~~ the ~~reporting dates~~ ends of the reporting periods shall be the same from period to period.

37 The following disclosures ...

(e) the end of the reporting period ~~reporting date~~ of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a ~~reporting~~ date or for a period that is different from that of the investor, and the reason for using a different ~~reporting~~ date or different period;

39 The investor's share of changes recognised ~~directly in the associate's equity~~ in other comprehensive income by the associate shall be recognised by the investor in other comprehensive income ~~directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by HKAS 1~~ ~~*Presentation of Financial Statements*~~.

Paragraph 41A is added as follows:

41A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 11 and 39. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 29 *Financial Reporting in Hyperinflationary Economies*

A22 HKAS 29 is amended as described below.

In paragraph 27, 'income statement items' is amended to 'items in the statement of comprehensive income'.

In paragraph 28, 'income statement items' is amended to 'income and expense items'.

In paragraph 36, 'reporting dates' is amended to 'ends of the reporting periods'.

HKAS 32 *Financial Instruments: Presentation*

A23 HKAS 32 is amended as described below.

In paragraph 18, 'on the entity's balance sheet' is amended to 'in the entity's statement of financial position'.

In paragraph 29, last sentence, 'on its balance sheet' is amended to 'in its statement of financial position'.

In paragraph 40, 'income statement' is amended to 'statement of comprehensive income or separate income statement (if presented)' (twice).

Paragraph 97A is added as follows:

97A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 40. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

The Application Guidance is amended as described below.

In paragraph AG31, 'on the balance sheet' is amended to 'in the statement of financial position'.

In paragraph AG39, 'on an entity's balance sheet' is amended to 'in an entity's statement of financial position'.

HKAS 33 *Earnings per Share*

A24 HKAS 33 is amended as described below.

In paragraph 4, '**on the face of its separate income statement**' is amended to '**in its statement of comprehensive income**'.

Paragraph 4A is added as follows:

4A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007), it presents earnings per share only in that separate statement.

In paragraph 13, '*Presentation of Financial Statements*' is deleted.

Paragraph 67 is amended as follows: '… dual presentation can be accomplished in one line in ~~on~~ the ~~income~~ statement of comprehensive income.'

Paragraphs 67A, 68A, 73A and 74A are added as follows:

67A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), it presents basic and diluted earnings per share, as required in paragraphs 66 and 67, in that separate statement.

68A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), it presents basic and diluted earnings per share for the discontinued operation, as required in paragraph 68, in that separate statement or in the notes.

73A Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the separate income statement (as described in paragraph 81 of HKAS 1 (as revised in 2007)), other than one required by this Standard.

74A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it added paragraphs 4A, 67A, 68A and 73A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 34 *Interim Financial Reporting*

A25 HKAS 34 is amended as described below.

In the rubric, the first sentence is amended as described below.

> Hong Kong Accounting Standard 34 *Interim Financial Reporting* (HKAS 34) is set out in paragraphs ~~1–46~~ 1–47. All the paragraphs …

Paragraphs 4, 5 and 8 are amended as follows:

4 ...

Interim financial report **means a financial report containing either a complete set of financial statements (as described in HKAS 1 *Presentation of Financial Statements* (as revised in 2007)) or a set of condensed financial statements (as described in this Standard) for an interim period.**

5 HKAS 1 (as revised in 2007) defines a complete set of financial statements as including the following components:

(a) ~~a balance sheet~~ a statement of financial position as at the end of the period;

(b) ~~an income statement~~ a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period; ~~showing either:~~

~~(i) all changes in equity; or~~

~~(ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;~~

(d) a ~~cash flow~~ statement of cash flows for the period; ~~and~~

(e) notes, comprising a summary of significant accounting policies and other explanatory ~~notes.~~ 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.

8 An interim financial report shall include …

(a) a condensed ~~balance sheet~~ statement of financial position;

(b) a condensed ~~income~~ statement of comprehensive income, presented as either:

(i) a condensed single statement; or

(ii) a condensed separate income statement and a condensed statement of comprehensive income;

(c) a condensed statement of changes in equity ~~showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;~~

(d) a condensed ~~cash flow~~ statement of cash flows; and

(e) selected explanatory notes.

Paragraph 8A is added as follows:

8A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), it presents interim condensed information from that separate statement.

Paragraph 11 is amended as follows:

11 In the statement that presents the components of profit or loss for an interim period, an entity shall present ~~B~~basic and diluted earnings per share ~~shall be presented on the face of an income statement, complete or condensed,~~ for ~~an interim~~ that period.

Paragraph 11A is added as follows:

11A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of HKAS 1 (as revised in 2007), it presents basic and diluted earnings per share in that separate statement.

Paragraph 12 is amended as follows:

12 HKAS 1 (as revised in 2007) provides guidance on the structure of financial statements. …

Paragraph 13 is deleted.

In paragraph 16(j), '**last annual balance sheet date**' is amended to '**end of the last annual reporting period**'.

Paragraph 20 is amended as follows:

20 Interim reports shall ...

(a) … financial year~~;~~.

(b) ~~income~~ statements of comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative ~~income~~ statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year~~;~~. As permitted by HKAS 1 (as revised in 2007), an interim report may present for each period either a single statement of comprehensive income, or a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

(c) statement ~~showing~~ of changes in equity … preceding financial year~~;~~ ~~and~~.

(d) …

In paragraph 21, 'ending on the interim reporting date' is amended to 'up to the end of the interim period'.

In paragraph 30(b), 'on the balance sheet' is amended to 'in the statement of financial position'.

In paragraph 31, 'both at annual and interim financial reporting dates' is amended to 'at the end of both annual and interim financial reporting periods'.

In paragraph 32, ‘at an interim reporting date’ is amended to ‘at the end of an interim reporting period’ and ‘at an annual reporting date’ is amended to ‘at the end of an annual reporting period’.

Paragraph 47 is added as follows:

47 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 4, 5, 8, 11, 12 and 20, deleted paragraph 13 and added paragraphs 8A and 11A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 36 *Impairment of Assets*

A26 HKAS 36 is amended as described below.

Paragraphs 61 and 120 are amended as follows:

61 An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised ~~directly against any revaluation surplus for the asset~~ in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.

120 A reversal of an impairment loss on a revalued asset is ~~credited directly to equity under the heading~~ recognised in other comprehensive income and increases the revaluation surplus for that asset. However, …

In paragraphs 126 and 129, ‘**directly in equity**’ is amended to ‘**in other comprehensive income**’.

Paragraph 140A is added as follows:

140A HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 61, 120, 126 and 129. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A27 HKAS 37 is amended as described below.

In paragraph 25, ‘balance sheet items’ is amended to ‘items in the statement of financial position’.

In paragraph 75, 'of users taken' is amended to 'that users make'.

HKAS 38 *Intangible Assets*

A28 HKAS 38 is amended as described below.

Paragraphs 85 and 86 are amended as follows:

85 If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be ~~credited directly to~~ <u>recognised in other comprehensive income and accumulated in</u> equity under the heading of revaluation surplus. However, ...

86 If an intangible … However, the decrease shall be ~~debited directly to equity under the heading of revaluation surplus~~ <u>recognised in other comprehensive income</u> to the extent of any credit balance in the revaluation surplus in respect of that asset. <u>The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.</u>

In paragraph 87, 'through the income statement' is amended to 'through profit or loss'.

In paragraph 118(e)(iii), '**directly in equity**' is amended to '**in other comprehensive income**'.

Paragraph 130B is added as follows:

130B HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 85, 86 and 118(e)(iii). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 39 *Financial Instruments: Recognition and Measurement*

A29 HKAS 39 is amended as described below.

References to:

- 'recognised in equity' and 'recognised directly in equity' are amended to 'recognised in other comprehensive income'.
- 'separate balance sheet line item' are amended to 'separate line item in the statement of financial position'.

In the last sentence of paragraph 11, '**on the face of the financial statements**' is amended to '**in the statement of financial position**'.

In paragraph 12, '**at a subsequent financial reporting date**' is amended to '**at the end of a subsequent financial reporting period**'.

In paragraph 14, '**on its balance sheet**' is amended to '**in its statement of financial position**'.

Paragraphs 54 and 55 are amended as follows:

54 **If, as a result … Any previous gain or loss on that asset that has been recognised ~~directly~~ in ~~equity~~ other comprehensive income in accordance with paragraph 55(b) shall be accounted for as follows:**

(a) In the case … If the financial asset is subsequently impaired, any gain or loss that has been recognised ~~directly in equity~~ in other comprehensive income is ~~recognised in~~ reclassified from equity to profit or loss in accordance with paragraph 67.

(b) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall ~~remain in equity until the financial asset is sold or otherwise disposed of, when it shall~~ be recognised in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognised ~~directly in equity is recognised~~ in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67.

55 **A gain or loss … shall be recognised, as follows.**

…

(b) A gain or loss on an available-for-sale financial asset shall be recognised ~~directly in equity, through the statement of changes in equity (see HKAS 1 *Presentation of Financial Statements*),~~ in other comprehensive income, except for impairment losses (see paragraphs 67–70) and foreign exchange gains and losses (see Appendix A paragraph AG83), until the financial asset is derecognised.~~, a~~ At ~~which~~ that time, the cumulative gain or loss previously recognised in ~~equity~~ other comprehensive income shall be ~~recognised in~~ reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 *Presentation of Financial Statements* (as revised in 2007)). However, …

In paragraph 68, '**removed from equity and recognised in profit or loss**' is amended to '**reclassified from equity to profit or loss**'.

In paragraph 95(a), '**recognised directly in equity through the statement of changes in equity (see HKAS 1)**' is amended to '**recognised in other comprehensive income**'.

In paragraph 97, '**reclassified into profit or loss**' is amended to **'reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (as revised in 2007))'**.

Paragraphs 98 and 100 are amended as follows:

98 **If a hedge …**

(a) It reclassifies the associated gains and losses that were recognised ~~directly in equity~~ in other comprehensive income in accordance with paragraph 95 ~~in~~to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognised). However, if an entity expects that all or a portion of a loss recognised ~~directly in equity~~ in other comprehensive income will not be recovered in one or more future periods, it shall reclassify

from equity ~~in~~to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

(b) It removes the associated gains and losses that were recognised ~~directly~~ in ~~equity~~ other comprehensive income in accordance with paragraph 95 …

100 For cash flow hedges other than those covered by paragraphs 97 and 98, amounts that had been recognised in other comprehensive income ~~directly in equity~~ shall be ~~recognised in~~ reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) in the same period or periods during which the hedged forecast transaction affects profit or loss (for example, when a forecast sale occurs).

In paragraph 101, '**remains recognised directly in equity**' is amended to '**has been recognised in other comprehensive income**', '**shall remain separately recognised in equity**' is amended to '**shall remain separately in equity**' and '**shall be recognised in profit or loss**' is amended to '**shall be reclassified from equity to profit or loss as a reclassification adjustment**'.

Paragraph 102 is amended as follows:

102 Hedges of a net investment …

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 88) shall be recognised in other comprehensive income ~~directly in equity through the statement of changes in equity (see HKAS 1)~~; and

(b) the ineffective portion shall be recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income ~~directly in equity~~ shall be ~~recognised in~~ reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) on disposal of the foreign operation.

Paragraph 103C is added as follows:

103C HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 26, 27, 34, 54, 55, 57, 67, 68, 95(a), 97, 98, 100, 102, 105, 108, AG4D, AG4E(d)(i), AG56, AG67, AG83 and AG99B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Paragraphs 105 and 108 are amended as follows:

105 When … For any such financial asset, the entity shall recognise all cumulative changes in fair value in a separate component of equity until subsequent derecognition or impairment, when the entity shall ~~transfer~~ reclassify that cumulative gain or loss from equity to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)). The entity ...

108 An entity shall not adjust the carrying amount of non-financial assets and non-financial liabilities to exclude gains and losses related to cash flow hedges that were included in the carrying amount before the beginning of the financial year in which this Standard is first applied. At the beginning of the financial period in which this Standard is first applied, any amount

recognised outside profit or loss (in other comprehensive income or directly in equity~~)~~ for a hedge of a firm commitment that under this Standard is accounted for as a fair value hedge shall be reclassified as an asset or liability, except for a hedge of foreign currency risk that continues to be treated as a cash flow hedge.

Appendix A *Application guidance* is amended as described below.

In paragraph AG4E(d)(i), 'changes reported in equity' is amended to 'changes recognised in other comprehensive income'.

In paragraph AG25, 'each subsequent balance sheet date' is amended to 'the end of each subsequent reporting period'.

In paragraph AG51(a), 'on its balance sheet' is amended to 'in its statement of financial position'.

In paragraph AG67, 'The next financial reporting date' is amended to 'The end of the reporting period'.

Paragraph AG99B is amended as follows:

AG99B If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised in other comprehensive income ~~directly in equity~~ in accordance with paragraph 95(a) shall be reclassified ~~into~~ from equity to profit or loss as a reclassification adjustment in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

In paragraph AG129, 'on the balance sheet' is amended to 'in the statement of financial position'.

HKAS 40 *Investment Property*

A30 In HKAS 40, paragraph 62 is amended as follows:

62 Up to the date … In other words:

(a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is ~~charged against that~~ recognised in other comprehensive income and reduces the revaluation surplus within equity.

(b) any resulting increase in the carrying amount is treated as follows:

(i) …

(ii) any remaining part of the increase is ~~credited directly in equity in~~ recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent …

Paragraph 85A is added as follows:

85A HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 62. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HKAS 41 *Agriculture*

A31 In paragraph 24(a) of HKAS 41, 'a balance sheet date' is amended to 'the end of a reporting period'.

HK(IFRIC)-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

A32 HK(IFRIC)-Int 1 is amended as described below.

In the '**References**' section, 'HKAS 1 *Presentation of Financial Statements* is amended to 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)'.

Paragraph 6 is amended as follows:

6 If the related asset is measured using the revaluation model:

(a) changes in the liability … so that:

(i) a decrease in the liability shall (subject to (b)) be ~~credited directly to~~ recognised in other comprehensive income and increase the revaluation surplus within equity, … ;

(ii) an increase in the liability shall be recognised in profit or loss, except that it shall be ~~debited directly to~~ recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent ...

(b) ...

(c) a change ... Any such revaluation shall be taken into account in determining the amounts to be ~~taken to profit or loss and equity~~ recognised in profit or loss or in other comprehensive income under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) HKAS 1 requires disclosure ~~on the face of~~ in the statement of ~~changes in equity~~ comprehensive income of each ~~item~~ component of other comprehensive income or expense ~~that is recognised directly in equity~~. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

Paragraph 9A is added as follows:

9A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 6. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HK(IFRIC)-Int 7 *Applying the Restatement Approach under HKAS 29* Financial Reporting in Hyperinflationary Economies

A33 HK(IFRIC)-Int 7 is amended as described below.

In paragraph 3, 'closing balance sheet date of the reporting period' is amended to 'end of the reporting period'.

In paragraph 4, 'closing balance sheet date' is amended to 'end of the reporting period' and 'closing balance sheet date of that period' is amended to 'end of that reporting period'.

HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

A34 HK(IFRIC)-Int 10 is amended as described below.

In paragraph 1, 'every reporting date' is amended to 'the end of each reporting period', 'every balance sheet date' is amended to 'the end of each reporting period' and 'a subsequent reporting or balance sheet date' is amended to 'the end of a subsequent reporting period'.

In paragraph 7, 'a subsequent balance sheet date' is amended to 'at the end of a subsequent reporting period'.

HK(IFRIC)-Int 14 *HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

A34A HK(IFRIC)-Int 14 is amended as described below.

In paragraph 10, 'net balance sheet asset or liability' is amended to 'net asset or liability recognised in the statement of financial position'.

In paragraph 26(b), 'the statement of recognised income and expense' is amended to 'other comprehensive income'.

Paragraph 27A is added as follows.

27A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 26. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

A35 [Not used].

HK(SIC)-Int 10 *Government Assistance—No Specific Relation to Operating Activities*

A36 In HK(SIC)-Int 10, in paragraph 3, 'equity' is amended to 'shareholders' interests'.

HK(SIC)-Int 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*

A37 In HK(SIC)-Int 13, in paragraph 3(a), 'the income statement' is amended to 'profit or loss'.

HK(SIC)-Int 15 *Operating Leases—Incentives*

A38 In HK(SIC)-Int 15, in the '**References**' section, 'HKAS 1 *Presentation of Financial Statements* ' is amended to 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)'.

HK(SIC)-Int 25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*

A39 HK(SIC)-Int 25 is amended as described below.

In the '**References**' section, 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)' is added.

Paragraph 4 is amended as follows:

4 A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised ~~directly in equity~~ outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income. Those tax consequences that relate to changes in the recognized amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.

Under the heading '**Effective date**' a new paragraph is added after 'HKAS 8' as follows:

HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 4. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

HK(SIC)-Int 29 *Service Concession Arrangements: Disclosures*

A40 In HK(SIC)-Int 29, in the '**References**' section, 'HKAS 1 *Presentation of Financial Statements*' is amended to 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)'.

HK(SIC)-Int 32 *Intangible Assets—Web Site Costs*

A41 HK(SIC)-Int 32 is amended as described below.

In the '**References**' section, 'HKAS 1 *Presentation of Financial Statements* (as revised in 2003)' is amended to 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)'.

Paragraph 5 is amended as follows:

5 This Interpretation … Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under HKAS 1.~~78~~ 88 and the *Framework* when the services are received.

Under the heading '**Effective date**' a second paragraph is added as follows:

HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Appendix B
Comparison with International Accounting Standards

This comparison appendix, which was prepared as at December 2007 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 1.

The International Accounting Standard comparable with HKAS 1 is IAS 1 *Presentation of Financial Statements*.

The following sets out the major textual difference between HKAS 1 and IAS 1 and the reason for the difference.

Difference	Reason for the differences
(i) IAS 1 paras 15-24 vs HKAS 1 paras 15-24 The terms 'fair presentation' and 'present fairly' used in IAS 1 are replaced by the terms 'true and fair view' and 'achieve a true and fair view' in HKAS 1	To match with the terms used in the Hong Kong Companies Ordinance

Appendix C
Notes on Legal Requirements in Hong Kong

This appendix accompanies, but is not part of, HKAS 1.

The following sets out the legal requirements in Hong Kong that are pertinent to each Hong Kong Accounting Standards or Hong Kong Financial Reporting Standards. The references to "the Schedule" below are to the Tenth Schedule to the Companies Ordinance ("CO").

1.	**HKAS 1** ***Presentation of Financial Statements***
	Sections 122 and 123 of the CO requires the directors of a company to prepare a profit and loss account for each financial year, and a balance sheet as at the last day of that year. The accounts must give a true and fair view of the profit or loss and of the state of affairs of the company, and comply with the requirements of the Schedule. Sections 124 to 126 of the CO requires, where a company has a subsidiary at the end of its financial year, the directors of a company to prepare group accounts unless the company is, at the end of its financial year, a wholly owned subsidiary of another body corporate. Group accounts, which normally comprise a consolidated balance sheet and a consolidated profit and loss account, must give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries. Section 129D of the CO requires a directors' report to be attached to every balance sheet laid before a company in general meeting. The legal requirements with regard to the content of a directors' report are dealt with in Sections 129D, 129E and 141C of the CO. Section 122 of the CO requires a company's accounts, together with the directors' report and auditors' reports to be laid before the company at its annual general meeting and the accounts of private companies (other than a private company which is a member of a group of companies which includes a non-private company) and companies limited by guarantee, and all other companies to be made up to not more than 9 and 6 months, respectively, prior to the meeting. Section 111 of the CO requires that, unless approved by the Registrar of Companies, no more than 15 months should elapse between the date of one annual general meeting and the next, and that the first annual general meeting of the company must be held within 18 months of its incorporation. In general terms the legal requirements with regard to the form and content of the accounts are dealt with, inter alia, in Section 122 to 129A and Sections 161 to 161C of the CO and the Schedule.
2	**HKAS 2** ***Inventories***
	Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.

3	**HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***
	Paragraph 17(6)* of the Schedule requires disclosure of the following: "Any material respects in which any items shown in the profit and loss account are affected – ***a. by transactions of a sort not usually undertaken by the company or otherwise by circumstances of an exceptional or non-recurrent nature; or*** b. by any change in the basis of accounting."
4	**HKAS 10 *Events After the Reporting Period***
	Paragraph 9(1)(e) of the Schedule requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend in the balance sheet. Paragraph 13(1)(j) of the Schedule requires the disclosure of the aggregate amount of the dividend paid and proposed in the profit and loss account.
5	**HKAS 11 *Construction Contracts***
	Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.
6	***HKAS 12* Incomes Taxes**
	Paragraph 8* of the Schedule requires that if an amount is set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation, it shall be stated. Paragraph 12(12)* the Schedule requires that, if such amount has been used during the financial year for another purpose, the amount thereof and the fact that it has been so used shall be stated. Paragraph 12(15) of the Schedule requires disclosure of the basis on which the amount, if any, set aside for Hong Kong profits tax is computed. Paragraph 13(1)(c)* of the Schedule requires disclosure of the amount of the charge to revenue for taxes imposed by the Inland Revenue Ordinance and, if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief, and the amount of the charge for taxation imposed outside Hong Kong of profits, income and (so far as charged to revenue) capital gains. Paragraph 17(3)* of the Schedule requires that the basis on which the charge for Hong Kong profit tax is computed shall be stated. Particulars are required of any special circumstances affecting the tax liability for the financial year or succeeding financial years (paragraph 17(4) of the Schedule).

7	HKAS 16 ***Property, Plant and Equipment***
	Paragraph 4† of the Schedule requires that fixed assets, current assets and assets that are neither fixed nor current shall be separately identified, and that the method used to arrive at the amount of fixed assets under each heading should be stated. Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured. Paragraph 12(4)† of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Paragraph 12(8)* of the Schedule requires disclosure of the amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to: a. land in Hong Kong held on long lease (not less than 50 years), medium-term lease (10 to 50 years) and short lease (under 10 years) respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.

8	**HKAS 17 *Leases***
	Paragraph 13(1)(i)*† of the Schedule requires disclosure of the amount, if material, charged to revenue in respect of sums payable in respect of the hire of plant and machinery.
9	**HKAS 18 *Revenue***
	Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments. Paragraph 13(1)(h)† requires disclosure of rents from land and buildings (after deduction of ground rents, rates and other out-going) if a substantive part of the company's revenue for the financial year consists of such rents. Paragraph 16 of the Schedule requires disclosure of turnover and the method by which it is arrived at.
10	**HKAS 19 *Employee Benefits***
	The legal requirements as regards the disclosure of directors' emoluments, rights to acquire shares or debentures and other benefits are dealt with in the section below concerning HKAS 24 *Related Party Disclosures*. Under the Employment Ordinance, an enterprise is required to make long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain conditions and the termination meets the required circumstances. However, where an employee is simultaneously entitled to a long service payment and to a retirement scheme payment, the amount of the long service payment may be reduced by certain benefits arising from the retirement scheme. Based on the enterprise's past experience and the directors' knowledge of the business and work force, it is probable that the enterprise will have to make long service payments to some employees on termination of their employment or retirement. Such long service payments are accounted for as "post-employment benefits: defined benefit plans". Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. The amount provided for certain employee benefits (e.g. pensions) falls within this definition. Paragraph 4(1)† of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 6*† of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings. Paragraph 7*† of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.

	Paragraph 13(1)(f)*† of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if its is material. Paragraph 12(5)*† of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.
11	**HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance***
	Paragraph 4† of the Schedule requires that the method used to arrive at the amount of fixed assets under each heading should be stated. Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 12(5)*† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.
12	**HKAS 21 *The Effects of Changes in Foreign Exchange Rates***
	Paragraph 12(14)* of the schedule requires disclosure of the basis on which other currencies have been converted into currency in which the balance sheet is expressed, where the amount of the assets or liabilities affected is material.
13	**HKAS 22 *Business Combinations***
	The legal requirements in Hong Kong with regard to the form and content of group accounts and other matters relating to subsidiaries of a company are dealt with in the section below concerning HKAS 27 *Consolidated and Separate Financial Statements*. The Schedule contains the following disclosure requirements for goodwill: a. Balance sheet Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balance of goodwill either as a separate item or aggregated with any unamortised balances on patents and trademarks. This requirement applies whether the goodwill is carried as a separate balance in the books or can only be ascertained from contracts or documents. b. Profit and loss account The amortisation treatment involves the allocation of cost of purchased goodwill over its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore the disclosure requirements of paragraph 13(1)(a)*† of that Schedule apply and the amount charged to revenue for amortisation of goodwill should be disclosed.

14	**HKAS 23 *Borrowing Costs***
	Paragraph 13(1)(b)* of the Schedule requires disclosure of the following: "the amount of the interest on loans of the following kinds made to the company (whether on the security of debentures or not), namely, bank loans, overdrafts and loans which, not being bank loans or overdrafts, i. are repayable otherwise than by instalments and fall due for repayment before the expiration of the period of 5 years beginning with the day next following the expiration of the financial year; or ii. are repayable by instalments the last of which falls due for payment before the expiration of that period; and the amount of the interest on loans of other kinds so made (whether on the security of debentures or not)".
15	**HKAS 24 *Related Party Disclosures***
	Section 128 of the CO requires that if at the end of its financial year, a company has subsidiaries, the following should be disclosed in the accounts: a. the subsidiary's name; b. its country of incorporation; and c. in relation to shares of each class of the subsidiary held by the company, the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Section 129 of the CO requires, subject to certain exemption set out in sections 129(3) to 129(5) that if at the end of its financial year, a company holds more than 20% of any class of issued shares of another body corporate (not being a subsidiary), or the shareholding in another body corporate (not being a subsidiary) exceeds 10% of the total assets of the company, the following should be disclosed: a. the name of that other body corporate; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Section 129A of the CO requires disclosure of the name and country of incorporation of the body corporate regarded by the directors as being the company's ultimate holding company. Section 129D(3)(i) of the CO requires disclosure in the directors' report of the names of the persons who, at any time during the financial year, were directors of the company. Section 129D(3)(ia) of the CO requires disclosure in the directors' report of a statement of the existence and duration of any contract in force during the year for the management and administration of the whole or any substantial part of the company's business, together with the name of any director interested therein. Section 129D(3)(j) of the CO requires disclosure in the directors' report of any interest of a director in a contract with the company or its subsidiary, holding company or fellow subsidiary, if, in the opinion of the directors, the contract is significant in relation to the company's business and the director's interest is material, whether directly or indirectly, at any time in the year, stating:

a. the fact that the contract subsists or subsisted;
b. the names of the parties involved (other than the company);
c. the name of the director (if not a party);
d. the nature of the contract; and
e. the nature of the director's interest.

This does not apply to directors' service contracts nor to contracts between the company and another body corporate where a director's only interest is by virtue of his being a director of that other body.

Section 129D(3)(k) of the CO requires disclosure in the directors' report of any directors' rights to acquire shares or debentures, in the company or any other body corporate, under any arrangement to which the company or its subsidiary, holding company or fellow subsidiary is a party, explaining the effects of the arrangement and giving the names of all directors during the year who held shares or debentures acquired pursuant to the arrangement.

Section 161 of the CO requires disclosure of the following, distinguishing between emoluments in respect of services as director (of the company or its subsidiary) and other emoluments:

a. the aggregate amount of directors' emoluments;
b. the aggregate amount of directors' or past directors' pensions; and
c. the aggregate amount of any compensation to directors or past directors in respect of loss of office, distinguishing between sums paid by or receivable from the company, its subsidiaries and any other persons.

Section 161B [Φ] of the CO requires the accounts to contain certain particulars of every relevant transaction, being a loan, quasi-loan or credit transaction, entered into by the company during that financial year or, if made or entered into before it, is outstanding at any time during that financial year to the following parties:

a. a director or an officer of the company;
b. a director of its holding company;
c. a body corporate controlled by a director of the company; or
d. persons etc. connected with a director of the company or of its holding company;

Paragraph 9(1)(c) of the Schedule requires disclosure of loans to employees, or to trustees for employees (including salaried directors), to purchase fully paid shares in the company or in its holding company.

Paragraph 18(2)* of the CO of the Schedule requires the aggregate amounts of shares in, and the amounts owing from (and indebtedness to) the company's subsidiaries to be set out separately from all other assets (and liabilities) of the company.

	Paragraph 18(3)* of the CO requires disclosure of the number, description and amount of the shares in and debentures of the company held by its subsidiaries or their nominees except where the subsidiaries or their nominees hold the shares as trustees and neither the company nor the subsidiaries have any beneficial interest in those shares. Paragraph 19(1)* of the CO of the Schedule requires disclosure of the aggregate amounts owing from and indebtedness to the company's holding companies and fellow subsidiaries, and the aggregate amount of assets consisting of shares in fellow subsidiaries.
16	**HKAS 27 *Consolidated and Separate Financial Statements***
	Under section 2(4) of the CO, a company shall be deemed to be a subsidiary of another company, if: a. that other company: i. controls the composition of the board of directors of the first mentioned company; or ii. controls more than half of the voting power of the first mentioned company; or iii. holds more than half of the issued share capital of the first mentioned company (excluding any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital); or b. the first mentioned company is a subsidiary of any company which is that other company's subsidiary. For the purposes of defining a subsidiary under section 2(4) of the CO, section 2(5) of the CO states that the composition of a company's board of directors shall be deemed to be controlled by another company if that other company by the exercise of some power exercisable by it, without the consent of any other person, can appoint or remove all or a majority of the directors, and, for the purposes of this provision, that other company shall be deemed to have power to make such an appointment if: a. a person cannot be appointed as a director without the exercise in his favour by that other company of such a power; or b. a person's appointment as a director follows necessarily from his being a director or other officer of that other company.

The Companies (Amendment) Ordinance 2005 introduced a definition of "parent undertaking" and "subsidiary undertaking". A provision to deem a holding company to include a parent company and a subsidiary to include a subsidiary undertaking was added in Section 2B. In essence, this enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts. Parent undertaking and subsidiary undertaking are defined in Schedule 23 as follows:

(1) An undertaking is a parent undertaking ("parent undertaking") in relation to another undertaking ("subsidiary undertaking") if—

(a) (i) in the case where both the parent undertaking and the subsidiary undertaking are bodies corporate, the subsidiary undertaking is a subsidiary of the parent undertaking by virtue of section 2(4), (5), (6) and (7) of the CO; or

(ii) in any other case, the parent undertaking—
(A) holds a majority of the voting rights in the subsidiary undertaking;
(B) is a member of the subsidiary undertaking and has the right to appoint or remove a majority of its board of directors; or
(C) is a member of the subsidiary undertaking and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in the subsidiary undertaking; or

(b) the parent undertaking has the right to exercise a dominant influence over the subsidiary undertaking by virtue of—
(i) the provisions contained in the subsidiary undertaking's memorandum or articles or equivalent constitutional documents; or
(ii) a control contract.

(2) For the purposes of subsection (1)(a)(ii), an undertaking shall be treated as a member of another undertaking ("the relevant undertaking"), if—

(a) any of its subsidiary undertakings is a member of the relevant undertaking; or

(b) any shares in the relevant undertaking are held by a person acting on behalf of the first-mentioned undertaking or any of its subsidiary undertakings.

(3) An undertaking shall be treated as the parent undertaking of another undertaking if a subsidiary undertaking of the first-mentioned undertaking is, or is to be treated as, the parent undertaking of that other undertaking; and references to a subsidiary undertaking of the first-mentioned undertaking shall be construed accordingly.

The obligation to lay group accounts before the members of a holding company in general meeting is set out in section 124(1) of the CO. In general terms the form and content of group accounts are dealt with inter alia in sections 125 and 126 of the CO and in the Schedule.

Under section 124(2)(a) of the CO group accounts shall not be required where the holding company is at the end of its financial year the wholly-owned subsidiary of another body corporate.

Section 124(2)(b) of the Companies Ordinance also allows group accounts (subject to approval of the Financial Secretary in certain instances) not to deal with a subsidiary if the company's directors are of the opinion that:

a. it is impracticable, or would be of no real value to members of the company, in view of the insignificant amount involved, or would involve expense or delay out of proportion to the value to members of the company; or

b. the result would be misleading, or harmful to the business of the company or any of its subsidiaries; or

c. the business of the holding company and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking.

It should be noted that HKAS 27 takes the view that all subsidiaries should be included in the consolidated financial statements.~~ except for a subsidiary where there is evidence that (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer.~~

In general, section 125 of the CO requires group accounts to be presented in the form of consolidated accounts and should comprise a consolidated balance sheet and a consolidated profit and loss account dealing with the state of affairs and profit or loss of the company and its subsidiaries. However, section 125 of the CO also accepts that group accounts may be presented in a form other than a single set of consolidated accounts under certain conditions. It is generally accepted that consolidated financial statements are usually the best means of achieving the objective of giving a true and fair view of the profit or loss and of the state of affairs of the group. It should be noted that, where subsidiaries are not dealt with in group accounts or are being dealt with in a form of group accounts other than consolidated financial statements, information may still be required by law about the results of these subsidiaries and the extent to which they have been dealt with in the accounts of the holding company (paragraphs 18(4) and 24 of the Schedule).

Section 127(1) of the of the CO states that a holding company's directors shall secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiaries shall coincide with the company's own financial year.

Section 126(2) of the CO requires that, if the financial year of a subsidiary is not co-terminous with that of the holding company, the group accounts shall deal with the subsidiary's results and state of affairs as of the last financial year ending on or before the date of the holding company's balance sheet. It also requires the disclosure of the reasons why the financial year of a subsidiary does not coincide with that of the holding company.

Paragraph 18(2) and 19(1) of the Schedule require disclosure of the aggregate amounts of shares in, and the amounts owing from and indebtedness to, the subsidiaries and fellow subsidiaries.

	Paragraphs 18(4), 18(5) and 24(b) of the Schedule require disclosure of the following information where group accounts are not submitted: a. the reasons why subsidiaries are not dealt with in group accounts; b. the net aggregate amount attributable to the holding company of the profits less losses of such subsidiaries, dealt with this year and not dealt with, in the company's accounts, both for: – the financial years of subsidiaries ending with or during the financial year of the company; and – their previous financial years since acquisition; and c. any material qualifications in the auditors' report and any note to the accounts disclosing a matter which, in the absence of such disclosure, would have been referred to in an audit report qualification, to the extent that the matter is not referred to in the holding company's audit report and is material from the point of view of its members. Paragraphs 18(6) and 25 of the Schedule requires disclosure of the following information where group accounts are not submitted and the subsidiaries' financial year did not end with that of the company: a. the reasons why the company's directors consider that the subsidiaries' financial years should not end with that of the company; and b. the dates on which the subsidiaries' financial years ending last before that of the company respectively ended or the earliest and latest of those dates. The Companies (Amendment) Ordinance 2005, in general, redefines the definition of "subsidiary" for the purpose of preparing group accounts to include a subsidiary undertaking as defined in the new Schedule 23 and includes a true and fair overriding provision. In essence, this would enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts.
17	**HKAS 28 *Investment in Associates***
	Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed subject to sections 129(3) to 129(5) of the CO: a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued share of that class represented by the shares held. In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of the company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful.

	Paragraph 9(1)(a)† of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(3)† of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.
18	**HKAS 31 *Interests in Joint Ventures***
	Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed: a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of a company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful. Paragraph 9(1)(a)† of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(3)† of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.

19	**HKAS 36 *Impairment of Assets***
	Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This covers the definition of "impairment loss" in paragraph 5 of HKAS 36. Paragraph 4(1)[†] of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 7[*†] of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.
20	**HKAS 37 *Provisions, Contingent Liabilities And Contingent Assets***
	Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This definition is wider in scope than the definition in HKAS 37. Paragraph 4(1)[†] of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 6[*†] of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings. Paragraph 7[*†] of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions. Paragraph 13(1)(f)[*†] of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if it is material. Paragraph 12(4)[†] of the Schedule requires the disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(5)[†] of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.

21	**HKAS 38 *Intangible Assets***
	Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balances on patents and trademarks either as separate items or aggregated with any unamortised balance of goodwill. This requirement applies whether the patents and trademarks are carried as balances in the books or can only be ascertained from contracts or documents. The amortisation treatment involves the allocation of the depreciable amount of an intangible asset over the best estimate of its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore, the disclosure requirements of paragraph 13(1)(a)*† of the Schedule apply and the amount charged to revenue for amortisation of an intangible asset should be disclosed.
22	**HKAS 40 *Investment Property***
	Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured. Paragraph 12(4)† of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the name of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Paragraph 12(8)*† of the Schedule requires disclosure of the aggregate amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to: a. land in Hong Kong held on long lease, medium-term lease and short lease respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets. Paragraph 13(1)(h)† of the Schedule requires disclosure of rental income from land and buildings (after deduction of ground rents, rates and other out-goings) if a substantive part of the company's revenue for the financial year consists of such rents.

23	**HKAS 41 *Agriculture***
	Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.
24	**HKFRS 7 *Financial Instruments: Disclosures***
	Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed: a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Paragraph 4(2)† of the Schedule requires fixed assets, current assets and assets that are neither fixed nor current to be separately identified. Paragraph 5*† of the Schedule requires that where the directors' valuation of unlisted investments is not given and such investments are classified as fixed assets, the following should be stated: a. cost or valuation as shown in the company's books; and b. any amount provided or written off for diminution in value. Paragraph 9(1)(a) of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(1)(d) requires disclosure of the aggregate amount of banks loans and overdrafts and the aggregate amount of loans (other than bank loans and overdrafts) repayable wholly in part more than five years from the balance sheet date. Paragraph 9(3)† of the Schedule requires that the carrying amounts of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 9(4) of the Schedule requires disclosure of the terms of repayments and the rate of interests for each loan, other than a bank loan or an overdraft, specified in paragraph 9(1)(d) of the Schedule

	Paragraph 12(10) of the Schedule requires that, if in the opinion of the directors, the realisable value of any current assets is less than the balance sheet value, a statement of that fact should be included in the accounts. Paragraph 12(11)*† of the Schedule requires disclosure of the aggregate market value of listed investments where it differs from the carrying amounts in the balance sheet. If the aggregate market value is higher than the Stock Exchange value, the Stock Exchange value should also be disclosed. Paragraph 13(1)(a)*† of the Schedule requires disclosure of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.

Notes: * These requirements do not apply to banking companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

† These requirements do not apply to insurance companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

Φ This revised S161B of the CO came into operation for relevant transactions entered into by the company after 13 February 2004.

Basis for Conclusions on HKAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, HKAS 1.

HKAS 1 is based on IAS 1 *Presentation of Financial statements*. In approving HKAS 1, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 1. Accordingly, there are no significant differences between HKAS 1 and IAS 1. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 1 referred to below generally correspond with those in HKAS 1.

CONTENTS

Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

The International Accounting Standards Board revised IAS 1 Presentation of Financial Statements *in 2007 as part of its project on financial statement presentation. It was not the Board's intention to reconsider as part of that project all the requirements in IAS 1.*

For convenience, the Board has incorporated into this Basis for Conclusions relevant material from the Basis for Conclusions on the revision of IAS 1 in 2003 and its amendment in 2005. Paragraphs have been renumbered and reorganised as necessary to reflect the new structure of the Standard.

Introduction

BC1 The International Accounting Standards Committee (IASC) issued the first version of IAS 1 *Disclosure of Accounting Policies* in 1975. It was reformatted in 1994 and superseded in 1997 by IAS 1 *Presentation of Financial Statements*.* In 2003 the International Accounting Standards Board revised IAS 1 as part of the Improvements project and in 2005 the Board amended it as a consequence of issuing IFRS 7 *Financial Instruments: Disclosures*. In 2007 the Board revised IAS 1 again as part of its project on financial statement presentation. This Basis for Conclusions summarises the Board's considerations in reaching its conclusions on revising IAS 1 in 2003, on amending it in 2005 and revising it in 2007. It includes reasons for accepting some approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

The Improvements project—revision of IAS 1 (2003)

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of standards, including IAS 1. The project was undertaken in the light of queries and criticisms raised in relation to the standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within standards, to deal with some convergence issues and to make other improvements. The Board's intention was not to reconsider the fundamental approach to the presentation of financial statements established by IAS 1 in 1997.

BC3 In May 2002 the Board published an exposure draft of proposed *Improvements to International Accounting Standards*, which contained proposals to revise IAS 1. The Board received more than 160 comment letters. After considering the responses the Board issued in 2003 a revised version of IAS 1. In its revision the Board's main objectives were:

(a) to provide a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation;

(b) to base the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date;

(c) to prohibit the presentation of items of income and expense as 'extraordinary items';

(d) to specify disclosures about the judgements that management has made in the process of applying the entity's accounting policies, apart from those involving estimations, and that have the most significant effect on the amounts recognised in the financial statements; and

* IASC did not publish a Basis for Conclusions.

(e) to specify disclosures about sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

BC4 The following sections summarise the Board's considerations in reaching its conclusions as part of its Improvements project in 2003:

(a) departures from IFRSs (paragraphs BC23–BC30)

(b) criterion for exemption from requirements (paragraphs BC34–BC36)

(c) effect of events after the reporting period on the classification of liabilities (paragraphs BC39–BC48)

(d) results of operating activities (paragraphs BC55 and BC56)

(e) minority interest (paragraph BC59)

(f) extraordinary items (paragraphs BC60–BC64)

(g) disclosure of the judgements management has made in the process of applying the entity's accounting policies (paragraphs BC77 and BC78)

(h) disclosure of major sources of estimation uncertainty (paragraphs BC79–BC84).

Amendment to IAS 1—*Capital Disclosures* (2005)

BC5 In August 2005 the Board issued an Amendment to IAS 1—*Capital Disclosures*. The amendment added to IAS 1 requirements for disclosure of:

(a) the entity's objectives, policies and processes for managing capital.

(b) quantitative data about what the entity regards as capital.

(c) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

BC6 The following sections summarise the Board's considerations in reaching its conclusions as part of its amendment to IAS 1 in 2005:

(a) disclosures about capital (paragraphs BC85–BC89)

(b) objectives, policies and processes for managing capital (paragraphs BC90 and BC91)

(c) externally imposed capital requirements (paragraphs BC92–BC97)

(d) internal capital targets (paragraphs BC98–BC100).

Financial statement presentation—Joint project

BC7 In September 2001 the Board added to its agenda the performance reporting project (in March 2006 renamed the 'financial statement presentation project'). The objective of the project was to enhance the usefulness of information presented in the income statement. The Board developed a possible new model for reporting income and expenses and conducted preliminary testing. Similarly, in the United States, the Financial Accounting Standards Board (FASB) added a project on performance reporting to its agenda in October 2001, developed its model and conducted preliminary testing. Constituents raised concerns about both models and about the fact that they were different.

BC8 In April 2004 the Board and the FASB decided to work on financial statement presentation as a joint project. They agreed that the project should address presentation and display not only in the income statement, but also in the other statements that, together with the income statement, would constitute a complete set of financial statements—the balance sheet, the statement of changes in equity, and the cash flow statement. The Board decided to approach the project in two phases. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. Phase B would be undertaken jointly with the FASB and would address more fundamental issues relating to presentation and display of information in the financial statements, including:

(a) consistent principles for aggregating information in each financial statement.

(b) the totals and subtotals that should be reported in each financial statement.

(c) whether components of other comprehensive income should be reclassified to profit or loss and, if so, the characteristics of the transactions and events that should be reclassified and when reclassification should be made.

(d) whether the direct or the indirect method of presenting operating cash flows provides more useful information.

BC9 In March 2006, as a result of its work in phase A, the Board published an exposure draft of proposed amendments to IAS 1—*A Revised Presentation*. The Board received more than 130 comment letters. The exposure draft proposed amendments that affected the presentation of owner changes in equity and the presentation of comprehensive income, but did not propose to change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. It also proposed to bring IAS 1 largely into line with the US standard—SFAS 130 *Reporting Comprehensive Income*. After considering the responses to the exposure draft the Board issued a revised version of IAS 1. The FASB decided to consider phases A and B issues together, and therefore did not publish an exposure draft on phase A.

BC10 The following sections summarise the Board's considerations in reaching its conclusions as part of its revision in 2007:

(a) general purpose financial statements (paragraphs BC11–BC13)

(b) titles of financial statements (paragraphs BC14–BC21)

(c) equal prominence (paragraph BC22)

(d) a statement of financial position as at the beginning of the earliest comparative period (paragraphs BC31 and BC32)

(e) IAS 34 *Interim Financial Reporting* (paragraph BC33)

(f) reporting owner and non-owner changes in equity (paragraphs BC37 and BC38)

(g) reporting comprehensive income (paragraphs BC49–BC54)

(h) subtotal for profit or loss (paragraphs BC57 and BC58)

(i) other comprehensive income-related tax effects (paragraphs BC65– BC68)

(j) reclassification adjustments (paragraphs BC69–BC73)

(k) effects of retrospective application or retrospective restatement (paragraph BC74)

(l) presentation of dividends (paragraph BC75)

(m) IAS 7 *Cash Flow Statements* (paragraph BC76)

(n) presentation of measures per share (paragraphs BC101–BC104)

(o) effective date and transition (paragraph BC105)

(p) differences from SFAS 130 (paragraph BC106).

Definitions

General purpose financial statements (paragraph 7)

BC11 The exposure draft of 2006 proposed a change to the explanatory paragraph of what 'general purpose financial statements' include, in order to produce a more generic definition of a set of financial statements. Paragraph 7 of the exposure draft stated:

> General purpose financial statements include those that are presented separately or within other *public* documents such as a *regulatory filing* or report to shareholders. [emphasis added]

BC12 Respondents expressed concern about the proposed change. They argued that it could be understood as defining as general purpose financial statements any financial statement or set of financial statements filed with a regulator and could capture documents other than annual reports and prospectuses. They saw this change as expanding the scope of IAS 1 to documents that previously would not have contained all of the disclosures required by IAS 1. Respondents pointed out that the change would particularly affect some entities (such as small private companies and subsidiaries of public companies with no external users of financial reports) that are required by law to place their financial statements on a public file.

BC13 The Board acknowledged that in some countries the law requires entities, whether public or private, to report to regulatory authorities and include information in those reports that could be beyond the scope of IAS 1. Because the Board did not intend to extend the definition of general purpose financial statements, it decided to eliminate the explanatory paragraph of what 'general purpose financial statements' include, while retaining the definition of 'general purpose financial statements'.

Financial statements

Complete set of financial statements

Titles of financial statements (paragraph 10)

BC14 The exposure draft of 2006 proposed changes to the titles of some of the financial statements—from 'balance sheet' to 'statement of financial position', from 'income statement' to 'statement of profit or loss' and from 'cash flow statement' to 'statement of cash flows'. In addition, the exposure draft proposed a 'statement of recognised income and expense' and that all owner changes in equity should be included in a 'statement of changes in equity'. The Board did not propose to make any of these changes of nomenclature mandatory.

BC15 Many respondents opposed the proposed changes, pointing out that the existing titles had a long tradition and were well understood. However, the Board reaffirmed its view that the proposed new titles better reflect the function of each financial statement, and pointed out that an entity could choose to use other titles in its financial report.

BC16 The Board reaffirmed its conclusion that the title 'statement of financial position' not only better reflects the function of the statement but is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which contains several references to 'financial position'. Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity; paragraph 19 of the *Framework* states that information about financial position is primarily provided in a balance sheet. In the Board's view, the title 'balance sheet' simply reflects that double entry bookkeeping requires debits to equal credits. It does not identify the content or purpose of the statement. The Board also noted that 'financial position' is a well-known and accepted term, as it has been used in auditors' opinions internationally for more than 20 years to describe what the 'balance sheet' presents. The Board decided that aligning the statement's title with its content and the opinion rendered by the auditor would help the users of financial statements.

BC17 As to the other statements, respondents suggested that renaming the balance sheet the 'statement of financial position' implied that the 'cash flow statement' and the 'statement of recognised income and expense' do not also reflect an entity's financial position. The Board observed that although the latter statements reflect changes in an entity's financial position, neither can be called a 'statement of changes in financial position', as this would not depict their true function and objective (ie to present cash flows and performance, respectively). The Board acknowledged that the titles 'income statement' and 'statement of profit or loss' are similar in meaning and could be used interchangeably, and decided to retain the title 'income statement' as this is more commonly used.

BC18 The title of the proposed new statement, the 'statement of recognised income and expense', reflects a broader content than the former 'income statement'. The statement encompasses both income and expenses recognised in profit or loss and income and expenses recognised outside profit or loss.

BC19 Many respondents opposed the title 'statement of recognised income and expense', objecting particularly to the use of the term 'recognised'. The Board acknowledged that the term 'recognised' could also be used to describe the content of other primary statements as 'recognition', explained in paragraph 82 of the *Framework*, is 'the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 83.' Many respondents suggested the term 'statement of comprehensive income' instead.

BC20 In response to respondents' concerns and to converge with SFAS 130, the Board decided to rename the new statement a 'statement of comprehensive income'. The term 'comprehensive income' is not defined in the *Framework* but is used in IAS 1 to describe the change in equity of an entity during a period from transactions, events and circumstances other than those resulting from transactions with owners in their capacity as owners. Although the term 'comprehensive income' is used to describe the aggregate of all components of comprehensive income, including profit or loss, the term 'other comprehensive income' refers to income and expenses that under IFRSs are included in comprehensive income but excluded from profit or loss.

BC21 In finalising its revision, the Board confirmed that the titles of financial statements used in this Standard would not be mandatory. The titles will be used in future IFRSs but are not required to be used by entities in their financial statements. Some respondents to the exposure draft expressed concern that non-mandatory titles will result in confusion. However, the Board believes that making use of the titles non-mandatory will allow time for entities to implement changes gradually as the new titles become more familiar.

Equal prominence (paragraphs 11 and 12)

BC22 The Board noted that the financial performance of an entity is not assessed by reference to a single financial statement or a single measure within a financial statement. The Board believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are taken into account and understood in their entirety. Accordingly, the Board decided that in order to help users of the financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.

Departures from IFRSs (paragraphs 19–24)

BC23 IAS 1 (as issued in 1997) permitted an entity to depart from a requirement in a Standard 'in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation' (paragraph 17, now paragraph 19). When such a departure occurred, paragraph 18 (now paragraph 20) required extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

BC24 The Board decided to clarify in paragraph 15 of the Standard that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.

BC25 The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

BC26 These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.

BC27 The Board considered whether IAS 1 should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.

BC28 Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. The revised IAS 1 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BC25 for departure from a requirement in an IFRS, the entity should proceed as follows:

(a) When the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 20.

(b) When the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 23.

This amendment enables entities to comply with the requirements of IAS 1 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.

BC29 After considering the comments received on the exposure draft of 2002, the Board added to IAS 1 a requirement in paragraph 21 to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.

BC30 In view of the strict criteria for departure from a requirement in an IFRS, IAS 1 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Comparative information

A statement of financial position as at the beginning of the earliest comparative period (paragraph 39)

BC31 The exposure draft of 2006 proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.

BC32 By adding a statement of financial position as at the beginning of the earliest comparative period, the exposure draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the Board decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when a reclassification has been made. In those circumstances three statements of financial position are required.

IAS 34 *Interim Financial Reporting*

BC33 The Board decided not to reflect in paragraph 8 of IAS 34 (ie the minimum components of an interim financial report) its decision to require the inclusion of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements. IAS 34 has a year-to-date approach to interim reporting and does not replicate the requirements of IAS 1 in terms of comparative information.

Criterion for exemption from requirements (paragraphs 41–44)

BC34 IAS 1 as issued in 1997 specified that when the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless it is impracticable to do so. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

BC35 The exposure draft of 2002 proposed a different criterion for exemption from particular requirements. For the reclassification of comparative amounts, and its proposed new requirement to disclose key assumptions and other sources of estimation uncertainty at the end of the reporting period (discussed in paragraphs BC79–BC84), the exposure draft proposed that the criterion for exemption should be that applying the requirements would require undue cost or effort.

BC36 In the light of respondents' comments on the exposure draft, the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. This affects the exemptions now set out in paragraphs 41–43 and 131 of IAS 1. Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material[*].

Reporting owner and non-owner changes in equity

BC37 The exposure draft of 2006 proposed to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners (ie all owner changes in equity) from other changes in equity (ie non-owner changes in equity). All owner changes in equity would be presented in the statement of changes in equity, separately from non-owner changes in equity.

BC38 Most respondents welcomed this proposal and saw this change as an improvement of financial reporting, by increasing the transparency of those items recognised in equity that are not reported as part of profit or loss. However, some respondents pointed out that the terms 'owner' and 'non-owner' were not defined in the exposure draft, the *Framework* or elsewhere in IFRSs, although they are extensively used in national accounting standards. They also noted that the terms 'owner' and 'equity holder' were used interchangeably in the exposure draft. The Board decided to adopt the term 'owner' and use it throughout IAS 1 to converge with SFAS 130, which uses the term in the definition of 'comprehensive income'.

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[*] In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

Statement of financial position

Effect of events after the reporting period on the classification of liabilities (paragraphs 69–76)

BC39 Paragraph 63 of IAS 1 (as issued in 1997) included the following:

> An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:
>
> (a) the original term was for a period of more than twelve months;
>
> (b) the enterprise intends to refinance the obligation on a long-term basis; and
>
> (c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.

BC40 Paragraph 65 stated:

> Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non-current only when:
>
> (a) the lender has agreed, prior to the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach; and
>
> (b) it is not probable that further breaches will occur within twelve months of the balance sheet date.

BC41 The Board considered these requirements and concluded that refinancing, or the receipt of a waiver of the lender's right to demand payment, that occurs after the reporting period should not be taken into account in the classification of a liability.

BC42 Therefore, the exposure draft of 2002 proposed:

(a) to amend paragraph 63 to specify that a long-term financial liability due to be settled within twelve months of the balance sheet date should not be classified as a non-current liability because an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. This amendment would not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.

(b) to amend paragraph 65 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. However, if the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during which the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

  (i) the entity rectifies the breach within the period of grace; or

  (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BC43 Some respondents disagreed with these proposals. They advocated classifying a liability as current or non-current according to whether it is expected to use current assets of the entity, rather than strictly on the basis of its date of maturity and whether it is callable at the end of the reporting period. In their view, this would provide more relevant information about the liability's future effect on the timing of the entity's resource flows.

BC44 However, the Board decided that the following arguments for changing paragraphs 63 and 65 were more persuasive:

(a) refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency *at the balance sheet date*, the reporting of which should reflect contractual arrangements in force on that date. Therefore, it is a non-adjusting event in accordance with IAS 10 *Events after the Balance Sheet Date* and should not affect the presentation of the entity's balance sheet.

(b) it is illogical to adopt a criterion that 'non-current' classification of short-term obligations expected to be rolled over for at least twelve months after the balance sheet date depends on whether the rollover is at the discretion of the entity, and then to provide an exception based on refinancing occurring after the balance sheet date.

(c) in the circumstances set out in paragraph 65, unless the lender has waived its right to demand immediate repayment or granted a period of grace within which the entity may rectify the breach of the loan agreement, the financial condition of the entity at the balance sheet date was that the entity did not hold an absolute right to defer repayment, based on the terms of the loan agreement. The granting of a waiver or a period of grace changes the terms of the loan agreement. Therefore, an entity's receipt from the lender, after the balance sheet date, of a waiver or a period of grace of at least twelve months does not change the nature of the liability to non-current until it occurs.

BC45 IAS 1 now includes the amendments proposed in 2002, with one change. The change relates to the classification of a long-term loan when, at the end of the reporting period, the lender has provided a period of grace within which a breach of the loan agreement can be rectified, and during which period the lender cannot demand immediate repayment of the loan.

BC46 The exposure draft proposed that such a loan should be classified as non-current if it is due for settlement, without the breach, at least twelve months after the balance sheet date and:

(a) the entity rectifies the breach within the period of grace; or

(b) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BC47 After considering respondents' comments, the Board decided that the occurrence or probability of a rectification of a breach after the reporting period is irrelevant to the conditions existing at the end of the reporting period. The revised IAS 1 requires that, for the loan to be classified as non-current, the period of grace must end at least twelve months after the reporting period (see paragraph 75). Therefore, the conditions (a) and (b) in paragraph BC46 are redundant.

BC48 The Board considered arguments that if a period of grace to remedy a breach of a long-term loan agreement is provided before the end of the reporting period, the loan should be classified as non-current regardless of the length of the period of grace. These arguments are based on the view that, at the end of the reporting period, the lender does not have an unconditional legal right to demand repayment before the original maturity date (ie if the entity remedies the breach during the period of grace, it is entitled to repay the loan on the original maturity date). However, the Board concluded that an entity should classify a loan as non-current only if it has an unconditional right to defer settlement of the loan for at least twelve months after the reporting period. This criterion focuses on the legal rights of the entity, rather than those of the lender.

Statement of comprehensive income

Reporting comprehensive income (paragraph 81)

BC49 The exposure draft of 2006 proposed that all non-owner changes in equity should be presented in a single statement or in two statements. In a single-statement presentation, all items of income and expense are presented together. In a two-statement presentation, the first statement ('income statement') presents income and expenses recognised in profit or loss and the second statement ('statement of comprehensive income') begins with profit or loss and presents, in addition, items of income and expense that IFRSs require or permit to be recognised outside profit or loss. Such items include, for example, translation differences related to foreign operations and gains or losses on available-for-sale financial assets. The statement of comprehensive income does not include transactions with owners in their capacity as owners. Such transactions are presented in the statement of changes in equity.

BC50 Respondents to the exposure draft had mixed views about whether the Board should permit a choice of displaying non-owner changes in equity in one statement or two statements. Many respondents agreed with the Board's proposal to maintain the two-statement approach and the single-statement approach as alternatives and a few urged the Board to mandate one of them. However, most respondents preferred the two-statement approach because it distinguishes profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income.

BC51 The exposure draft of 2006 expressed the Board's preference for a single statement of all non-owner changes in equity. The Board provided several reasons for this preference. All items of non-owner changes in equity meet the definitions of income and expenses in the *Framework*. The *Framework* does not define profit or loss, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss. Therefore, the Board decided that it was conceptually correct for an entity to present all non-owner changes in equity (ie all income and expenses recognised in a period) in a single statement because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.

BC52 However, in the Board's discussions with interested parties, it was clear that many were strongly opposed to the concept of a single statement. They argued that there would be undue focus on the bottom line of the single statement. In addition, many argued that it was premature for the Board to conclude that presentation of income and expense in a single statement was an improvement in financial reporting without also addressing the other aspects of presentation and display, namely deciding what categories and line items should be presented in a statement of recognised income and expense.

BC53 In the light of these views, although it preferred a single statement, the Board decided that an entity should have the choice of presenting all income and expenses recognised in a period in one statement or in two statements. An entity is prohibited from presenting components of income and expense (ie non-owner changes in equity) in the statement of changes in equity.

BC54 Many respondents disagreed with the Board's preference and thought that a decision at this stage would be premature. In their view the decision about a single-statement or two-statement approach should be subject to further consideration. They urged the Board to address other aspects of presentation and display, namely deciding which categories and line items should be presented in a 'statement of comprehensive income'. The Board reaffirmed its reasons for preferring a single-statement approach and agreed to address other aspects of display and presentation in the next stage of the project.

Results of operating activities

BC55 IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line item in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item.

BC56 The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

Subtotal for profit or loss (paragraph 82)

BC57 As revised, IAS 1 requires a subtotal for profit or loss in the statement of comprehensive income. If an entity chooses to present comprehensive income by using two statements, it should begin the second statement with profit or loss—the bottom line of the first statement (the 'income statement')—and display the components of other comprehensive income immediately after that. The Board concluded that this is the best way to achieve the objective of equal prominence (see paragraph BC22) for the presentation of income and expenses. An entity that chooses to display comprehensive income in one statement should include profit or loss as a subtotal within that statement.

BC58 The Board acknowledged that the items included in profit or loss do not possess any unique characteristics that allow them to be distinguished from items that are included in other comprehensive income. However, the Board and its predecessor have required some items to be recognized outside profit or loss. The Board will deliberate in the next stage of the project how items of income and expense should be presented in the statement of comprehensive income.

Minority interest (paragraph 83)

BC59 IAS 1 requires the 'profit or loss attributable to minority interest' and 'profit or loss attributable to owners of the parent' each to be presented in the income statement in accordance with paragraph 83. These amounts are to be presented as allocations of profit or loss, not as items of income or expense. A similar requirement has been added for the statement of changes in equity, in paragraph 106(a). These changes are consistent with IAS 27 *Consolidated and Separate Financial Statements*, which requires that in a consolidated balance sheet (now called 'statement of financial position'), minority interest is presented within equity because it does not meet the definition of a liability in the *Framework*.

Extraordinary items (paragraph 87)

BC60 IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (issued in 1993) required extraordinary items to be disclosed in the income statement separately from the profit or loss from ordinary activities. That standard defined ‘extraordinary items’ as ‘income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly’.

BC61 In 2002, the Board decided to eliminate the concept of extraordinary items from IAS 8 and to prohibit the presentation of items of income and expense as ‘extraordinary items’ in the income statement and the notes. Therefore, in accordance with IAS 1, no items of income and expense are to be presented as arising from outside the entity’s ordinary activities.

BC62 Some respondents to the exposure draft of 2002 argued that extraordinary items should be presented in a separate component of the income statement because they are clearly distinct from all of the other items of income and expense, and because such presentation highlights to users of financial statements the items of income and expense to which the least attention should be given when predicting an entity’s future performance.

BC63 The Board decided that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement. Items currently classified as ‘extraordinary’ are only a subset of the items of income and expense that may warrant disclosure to assist users in predicting an entity’s future performance.

BC64 Eliminating the category of extraordinary items eliminates the need for arbitrary segregation of the effects of related external events—some recurring and others not—on the profit or loss of an entity for a period. For example, arbitrary allocations would have been necessary to estimate the financial effect of an earthquake on an entity’s profit or loss if it occurs during a major cyclical downturn in economic activity. In addition, paragraph 97 of IAS 1 requires disclosure of the nature and amount of material items of income and expense.

Other comprehensive income—related tax effects (paragraphs 90 and 91)

BC65 The exposure draft of 2006 proposed to allow components of ‘other recognised income and expense’ (now ‘other comprehensive income’) to be presented before tax effects (‘gross presentation’) or after their related tax effects (‘net presentation’). The ‘gross presentation’ facilitated the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax. The ‘net presentation’ facilitated the identification of other comprehensive income Items in the equity section of the statement of financial position. A majority of respondents supported allowing both approaches. The Board reaffirmed its conclusion that components of other comprehensive income could be displayed either (a) net of related tax effects or (b) before related tax effects.

BC66 Regardless of whether a pre-tax or post-tax display was used, the exposure draft proposed to require disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income, in line with SFAS 130. Many respondents agreed in principle with this disclosure, because they agreed that it helped to improve the clarity and transparency of such information, particularly when components of other comprehensive income are taxed at rates different from those applied to profit or loss.

BC67 However, most respondents expressed concern about having to trace the tax effect for each one of the components of other comprehensive income. Several observed that the tax allocation process is arbitrary (eg it may involve the application of subjectively determined tax rates) and some pointed out that this information is not readily available for some industries (eg the insurance sector), where components of other comprehensive income are multiple and tax allocation involves a high degree of subjectivity. Others commented that they did not understand why tax should be attributed to components of comprehensive income line by line, when this is not a requirement for items in profit or loss.

BC68 The Board decided to maintain the disclosure of income tax expense or benefit allocated to each component of other comprehensive income. Users of financial statements often requested further information on tax amounts relating to components of other comprehensive income, because tax rates often differed from those applied to profit or loss. The Board also observed that an entity should have such tax information available and that a disclosure requirement would therefore not involve additional cost for preparers of financial statements.

Reclassification adjustments (paragraphs 92–96)

BC69 In the exposure draft of 2006, the Board proposed that an entity should separately present reclassification adjustments. These adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. The Board decided that adjustments necessary to avoid double-counting items in total comprehensive income when those items are reclassified to profit or loss in accordance with IFRSs. The Board's view was that separate presentation of reclassification adjustments is essential to inform users of those amounts that are included as income and expenses in different periods—as income or expenses in other comprehensive income in previous periods and as income or expenses in profit or loss in the current period. Without such information, users may find it difficult to assess the effect of reclassifications on profit or loss and to calculate the overall gain or loss associated with available-for-sale financial assets, cash flow hedges and on translation or disposal of foreign operations.

BC70 Most respondents agreed with the Board's decision and believe that the disclosure of reclassification adjustments is important to understanding how components recognised in profit or loss are related to other items recognised in equity in two different periods. However, some respondents suggested that the Board should use the term 'recycling', rather than 'reclassification' as the former term is more common. The Board concluded that both terms are similar in meaning, but decided to use the term 'reclassification adjustment' to converge with the terminology used in SFAS 130.

BC71 The exposure draft proposed to allow the presentation of reclassification adjustments in the statement of recognised income and expense (now 'statement of comprehensive income') or in the notes. Most respondents supported this approach.

BC72 Some respondents noted some inconsistencies in the definition of 'reclassification adjustments' in the exposure draft (now paragraphs 7 and 93 of IAS 1). Respondents suggested that the Board should expand the definition in paragraph 7 to include gains and losses recognised in current periods in addition to those recognised in earlier periods, to make the definition consistent with paragraph 93. They commented that, without clarification, there could be differences between interim and annual reporting, for reclassifications of items that arise in one interim period and reverse out in a different interim period within the same annual period.

BC73 The Board decided to align the definition of reclassification adjustments with SFAS 130 and include an additional reference to 'current periods' in paragraph 7.

Statement of changes in equity

Effects of retrospective application or retrospective restatement (paragraph 106(b))

BC74 Some respondents to the exposure draft of 2006 asked the Board to clarify whether the effects of retrospective application or retrospective restatement, as defined in IAS 8, should be regarded as non-owner changes in equity. The Board noted that IAS 1 specifies that these effects are included in the statement of changes in equity. However, the Board decided to clarify that the effects of retrospective application or retrospective restatement are not changes in equity in the period, but provide a reconciliation between the previous period's closing balance and the opening balance in the statement of changes in equity.

Presentation of dividends (paragraph 107)

BC75 The Board reaffirmed its conclusion to require the presentation of dividends in the statement of changes in equity or in the notes, because dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity. The Board concluded that an entity should not present dividends in the statement of comprehensive income because that statement presents non-owner changes in equity.

Statement of cash flows

IAS 7 *Cash Flow Statements* (paragraph 111)

BC76 The Board considered whether the operating section of an indirect method statement of cash flows should begin with total comprehensive income instead of profit or loss as is required by IAS 7 *Cash Flow Statements*. When components of other comprehensive income are non-cash items, they would become reconciling items in arriving at cash flows from operating activities and would add items to the statement of cash flows without adding information content. The Board concluded that an amendment to IAS 7 is not required; however, as mentioned in paragraph BC14 the Board decided to relabel this financial statement as 'statement of cash flows'.

Notes

Disclosure of the judgements that management has made in the process of applying the entity's accounting policies (paragraphs 122–124)

BC77 The revised IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 122). An example of these judgements is how management determines whether financial assets are held-to-maturity investments. The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

BC78 Comments received on the exposure draft of 2002 indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 125) and added another four examples of the types of judgements disclosed (see paragraphs 123 and 124).

Disclosure of major sources of estimation uncertainty (paragraphs 125–133)

BC79 IAS 1 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period (see paragraph 125).

BC80 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.

BC81 The *Framework* states that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 125 of the revised IAS 1 would be made in respect of relatively few assets or liabilities (or classes of them).

BC82 The exposure draft of 2002 proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:

(a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period', and

(b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 128 of IAS 1).

BC83 When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value.

BC84 IAS 1 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 1 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

Disclosures about capital (paragraphs 134 and 135)

BC85 In July 2004 the Board published an exposure draft—ED 7 *Financial Instruments: Disclosures*. As part of that project, the Board considered whether it should require disclosures about capital.

BC86 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 might also affect the entity's ability to pay dividends. Consequently, ED 7 proposed disclosures about capital.

BC87 In ED 7 the Board decided that it should not limit the requirements for disclosures about capital to entities that are subject to external capital requirements (eg regulatory capital requirements established by legislation or other regulation). The Board believes that information about capital is useful for all entities, as is evidenced by the fact that some entities set internal capital requirements and norms have been established for some industries. The Board noted that the capital disclosures are not intended to replace disclosures required by regulators. The Board also noted that the financial statements should not be regarded as a substitute for disclosures to regulators (which may not be available to all users) because the function of disclosures made to regulators may differ from the function of those to other users. Therefore, the Board decided that information about capital should be required of all entities because it is useful to users of general purpose financial statements. Accordingly, the Board did not distinguish between the requirements for regulated and non-regulated entities.

BC88 Some respondents to ED 7 questioned the relevance of the capital disclosures in an IFRS dealing with disclosures relating to financial instruments. The Board noted that an entity's capital does not relate solely to financial instruments and, thus, capital disclosures have more general relevance. Accordingly, the Board included these disclosures in IAS 1, rather than IFRS 7 *Financial Instruments: Disclosures*, the IFRS resulting from ED 7.

BC89 The Board also decided that an entity's decision to adopt the amendments to IAS 1 should be independent of the entity's decision to adopt IFRS 7. The Board noted that issuing a separate amendment facilitates separate adoption decisions.

Objectives, policies and processes for managing capital (paragraph 136)

BC90 The Board decided that disclosure about capital should be placed in the context of a discussion of the entity's objectives, policies and processes for managing capital. This is because the Board believes that such a discussion both communicates important information about the entity's capital strategy and provides the context for other disclosures.

BC91 The Board considered whether an entity can have a view of capital that differs from what IFRSs define as equity. The Board noted 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. The Board also noted that this disclosure 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.

Externally imposed capital requirements (paragraph 136)

BC92 The Board considered whether it should require disclosure of any externally imposed capital requirements. Such a capital requirement could be:

(a) an industry-wide requirement with which all entities in the industry must comply; or

(b) an entity-specific requirement imposed on a particular entity by its prudential supervisor or other regulator.

BC93 The Board noted that some industries and countries have industry-wide capital requirements, and others do not. Thus, the Board concluded that it should not require disclosure of industry-wide requirements, or compliance with such requirements, because such disclosure would not lead to comparability between different entities or between similar entities in different countries.

BC94 The Board concluded that disclosure of the existence and level of entity-specific capital requirements is important information for users, because it informs them about the risk assessment of the regulator. Such disclosure improves transparency and market discipline.

BC95 However, the Board noted the following arguments against requiring disclosure of externally imposed entity-specific capital requirements.

(a) Users of financial statements might rely primarily on the regulator's assessment of solvency risk without making their own risk assessment.

(b) The focus of a regulator's risk assessment is for those whose interests the regulations are intended to protect (eg depositors or policyholders). This emphasis is different from that of a shareholder. Thus, it could be misleading to suggest that the regulator's risk assessment could, or should, be a substitute for independent analysis by investors.

(c) The disclosure of entity-specific capital requirements imposed by a regulator might undermine that regulator's ability to impose such requirements. For example, the information could cause depositors to withdraw funds, a prospect that might discourage regulators from imposing requirements. Furthermore, an entity's regulatory dialogue would become public, which might not be appropriate in all circumstances.

(d) Because different regulators have different tools available, for example formal requirements and moral suasion, a requirement to disclose entity-specific capital requirements could not be framed in a way that would lead to the provision of information that is comparable across entities.

(e) Disclosure of capital requirements (and hence, regulatory judgements) could hamper clear communication to the entity of the regulator's assessment by creating incentives to use moral suasion and other informal mechanisms.

(f) Disclosure requirements should not focus on entity-specific capital requirements in isolation, but should focus on how entity-specific capital requirements affect how an entity manages and determines the adequacy of its capital resources.

(g) A requirement to disclose entity-specific capital requirements imposed by a regulator is not part of Pillar 3 of the Basel II Framework developed by the Basel Committee on Banking Supervision.

BC96 Taking into account all of the above arguments, the Board decided not to require quantitative disclosure of externally imposed capital requirements. Rather, it decided to require disclosures about whether the entity complied with any externally imposed capital requirements during the period and, if not, the consequences of non-compliance. This retains confidentiality between regulators and the entity, but alerts users to breaches of capital requirements and their consequences.

BC97 Some respondents to ED 7 did not agree that breaches of externally imposed capital requirements should be disclosed. They argued that disclosure about breaches of externally imposed capital requirements and the associated regulatory measures subsequently imposed could be disproportionately damaging to entities. The Board was not persuaded by these arguments because it believes that such concerns indicate that information about breaches of externally imposed capital requirements may often be material by its nature. The *Framework* states that 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.' Similarly, the Board decided not to provide an exemption for temporary non-compliance with regulatory requirements during the year. Information that an entity is sufficiently close to its limits to breach them, even on a temporary basis, is useful for users.

Internal capital targets

BC98 The Board proposed in ED 7 that the requirement to disclose information about breaches of capital requirements should apply equally to breaches of internally imposed requirements, because it believed the information is also useful to a user of the financial statements.

BC99 However, this proposal was criticised by respondents to ED 7 for the following reasons:

(a) The information is subjective and, thus, not comparable between entities. In particular, different entities will set internal targets for different reasons, so a breach of a requirement might signify different things for different entities. In contrast, a breach of an external requirement has similar implications for all entities required to comply with similar requirements.

(b) Capital targets are not more important than other internally set financial targets, and to require disclosure only of capital targets would provide users with incomplete, and perhaps misleading, information.

(c) Internal targets are estimates that are subject to change by the entity. It is not appropriate to require the entity's performance against this benchmark to be disclosed.

(d) An internally set capital target can be manipulated by management. The disclosure requirement could cause management to set the target so that it would always be achieved, providing little useful information to users and potentially reducing the effectiveness of the entity's capital management.

BC100 As a result, the Board decided not to require disclosure of the capital targets set by management, whether the entity has complied with those targets, or the consequences of any non-compliance. However, the Board confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful. The Board also concluded that these disclosures, together with disclosure of the components of equity and their changes during the year (required by paragraphs 106–110), would give sufficient information about entities that are not regulated or subject to externally imposed capital requirements.

Presentation of measures per share

BC101 The exposure draft of 2006 did not propose to change the requirements of IAS 33 *Earnings per Share* on the presentation of basic and diluted earnings per share. A majority of respondents agreed with this decision. In their opinion, earnings per share should be the only measure per share permitted or required in the statement of comprehensive income and changing those requirements was beyond the scope of this stage of the financial statement presentation project.

BC102 However, some respondents would like to see alternative measures per share whenever earnings per share is not viewed as the most relevant measure for financial analysts (ie credit rating agencies that focus on other measures). A few respondents proposed that an entity should also display an amount per share for total comprehensive income, because this was considered a useful measure. The Board did not support including alternative measures per share in the financial statements, until totals and subtotals, and principles for aggregating and disaggregating items, are addressed and discussed as part of the next stage of the financial statement presentation project.

BC103 Some respondents also interpreted the current provisions in IAS 33 as allowing de facto a display of alternative measures in the income statement. In its deliberations, the Board was clear that paragraph 73 of IAS 33 did not leave room for confusion. However, it decided that the wording in paragraph 73 could be improved to clarify that alternative measures should be shown 'only in the notes'. This will be done when IAS 33 is revisited or as part of the annual improvements process.

BC104 One respondent commented that the use of the word 'earnings' was inappropriate in the light of changes proposed in the exposure draft and that the measure should be denominated 'profit or loss per share', instead. The Board considered that this particular change in terminology was beyond the scope of IAS 1.

Transition and effective date

BC105 The Board is committed to maintaining a 'stable platform' of substantially unchanged standards for annual periods beginning between 1 January 2006 and 31 December 2008. In addition, some preparers will need time to make the system changes necessary to comply with the revisions to IAS 1. Therefore, the Board decided that the effective date of IAS 1 should be annual periods beginning on or after 1 January 2009, with earlier application permitted.

Differences from SFAS 130

BC106 In developing IAS 1, the Board identified the following differences from SFAS 130:

(a) **Reporting and display of comprehensive income** Paragraph 22 of SFAS 130 permits a choice of displaying comprehensive income and its components, in one or two statements of financial performance or in a statement of changes in equity. IAS 1 (as revised in 2007) does not permit display in a statement of changes in equity.

(b) **Reporting other comprehensive income in the equity section of a statement of financial position** Paragraph 26 of SFAS 130 specifically states that the *total of other comprehensive income* is reported separately from retained earnings and additional paid-in capital in a statement of financial position at the end of the period. A descriptive title such as *accumulated other comprehensive income* is used for that component of equity. An entity discloses accumulated balances for each classification in that separate component of equity in a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. IAS 1 (as revised in 2007) does not specifically require the display of a total of accumulated other comprehensive income in the statement of financial position.

(c) **Display of the share of other comprehensive income items of associates and joint ventures accounted for using the equity method** Paragraph 82 of IAS 1 (as revised in 2007) requires the display in the statement of comprehensive income of the investor's share of the investee's other comprehensive income. Paragraph 122 of SFAS 130 does not specify how that information should be displayed. An investor is permitted to combine its proportionate share of other comprehensive income amounts with its own other comprehensive income items and display the aggregate of those amounts in an income statement type format or in a statement of changes in equity.

Appendix
Amendments to the Basis for Conclusions on other HKFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs accompanying the equivalent converged HKFRSs that are necessary in order to ensure consistency with the revised IAS 1. Amended paragraphs are shown with the new text underlined and deleted text struck through.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

BCA1 The Basis for Conclusions on IFRS 1 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRS 1.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

Paragraphs BC84 and BC89A are footnoted as follows:

BC84 An entity ... Some of those events might qualify as adjusting events under IAS 10 *Events after the Balance Sheet Date*.* However, if the entity made those estimates on a basis consistent with IFRSs
...

* In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007.

BC89A Nevertheless …. The disclosures in paragraph 36A* inform users of the lack of comparability.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007, paragraph 36A has been deleted.

Paragraph BC92 is amended and paragraphs BC92A–BC92C are added as follows:

BC92 Paragraph 39(a) and (b) of the IFRS requires reconciliations of equity and ~~profit or loss~~ total comprehensive income. The Board concluded that users would also find it helpful to have information about the other adjustments that affect the opening IFRS balance sheet but do not appear in these reconciliations. Because a reconciliation could be voluminous, the IFRS requires disclosure of narrative information about these adjustments, as well as about adjustments to the cash flow statement (paragraph 40 of the IFRS).

BC92A The Board decided to require a first-time adopter to include in its first IFRS financial statements a reconciliation of total comprehensive income (or, if an entity did not report such a total, profit or loss) in accordance with previous GAAP to total comprehensive income in accordance with IFRSs for the latest period reported in accordance with previous GAAP.

BC92B The Board observed that the amendments to IAS 1 in 2007 regarding the presentation of income and expense might result in users having to change their analytical models to include both income and expense that are recognised in profit or loss and those recognised outside profit or loss. Accordingly, the Board concluded that it would be helpful to those users to provide information on the effect and implication of the transition to IFRSs on all items of income and expense, not only those recognised in profit or loss.

BC92C The Board acknowledged that GAAP in other jurisdictions might not have a notion of total comprehensive income. Accordingly, it decided that an entity should reconcile to total comprehensive income in accordance with IFRSs from the previous GAAP equivalent of total comprehensive income. The previous GAAP equivalent might be profit or loss.

IFRS 4 *Insurance Contracts*

BCA2 The Basis for Conclusions on IFRS 4 is amended as described below.

The first footnote to paragraph BC138 is amended as follows:

> If embedded values are recognised in the statement of financial position ~~balance sheet~~, they are typically presented as two components: an insurance liability and a separate intangible asset. This is similar to the expanded presentation that the IFRS permits in a business combination or portfolio transfer.

In paragraph BC160, 'accumulated profits' is amended to 'retained earnings'.

Paragraph BC211 is footnoted as follows:

BC211 The first disclosure principle in the IFRS requires disclosure of amounts in an insurer's balance sheet* and income statement† that arise from insurance contracts (paragraph 36 of the IFRS). ...

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) replaced the term 'balance sheet' with 'statement of financial position'.

† IAS 1 (revised 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

BCA3 The Basis for Conclusions on IFRS 5 is amended as described below.

Paragraph BC37 is footnoted as follows:

BC37 When an asset or a disposal group held for sale is part of a foreign operation with a functional currency that is different from the presentation currency of the group, an exchange difference will have been recognised in equity* arising from the translation of the asset or disposal group into the presentation currency of the group. IAS 21 …

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* (as revised in 2007) such a difference is recognised in other comprehensive income.

The footnote to paragraph BC54 is amended as follows:

> Greater disaggregation of the disposal group ~~on the face of~~ in the statement of financial position ~~balance sheet~~ is permitted but not required.

Paragraph BC76 is footnoted as follows:

BC76 The Board believes … The IFRS therefore permits an analysis of the single net amount to be presented either in the notes or ~~on the face of~~ in the income statement.*

> * IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

In paragraph BC85, a footnote is added as follows:

Measurement on initial classification	Converged, other than cumulative exchange differences recognised directly in equity* that are included in the carrying amount of the asset (or disposal group) under US GAAP but are not under IFRS 5.

> * As a consequence of the revision of IAS 1 *Presentation of Financial Statements* (as revised in 2007) such differences are recognised in other comprehensive income.

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

BCA4 In the Basis for Conclusions on IFRS 6, paragraphs BC57 and BC65A are amended and a footnote added as follows:

BC57 The Board … It noted that if the project is significant, paragraph ~~103~~ 112(c) of IAS 1 already requires its disclosure, ie as additional information that is necessary for an understanding of the financial statements.

BC65A In June 2005 the Board made a minor amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* paragraph 36B* to clarify its intention that the exemption provided in this paragraph applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

> * As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007, paragraph 36B of IFRS 1 was deleted.

IFRS 7 *Financial Instruments: Disclosures*

BCA5 The rubric preceding the Basis for Conclusions on IFRS 7 is amended as follows:

> *This Basis for Conclusions accompanies, but is not part of, IFRS 7.*
>
> *In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*

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

BCA6 The Basis for Conclusions on IAS 8 is amended as described below.

In paragraph BC29, 'a Standard or an Interpretation' is amended to 'an IFRS'.

In paragraphs BC29 and BC30, 'Standard or Interpretation' is amended to 'IFRS'.

In paragraphs BC14, BC17, BC24 and the heading above paragraph BC30, 'Standards and Interpretations' is amended to 'IFRSs'.

Paragraphs BC20 and BC22 are amended as follows:

BC20 The Standard … includes a definition of material omissions or misstatements, which is based on the description of materiality in ~~the previous version of~~ IAS 1 *Presentation of Financial Statements* (as issued in 1997) and in the *Framework*.

BC22 The application of the concept of materiality is set out in two Standards. ~~The revised~~ IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) continues to specify its application to disclosures. IAS 8 …

In paragraph BC24, the last sentence is footnoted as follows:

In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

IAS 10 *Events after the Reporting Period*

BCA7 The Basis for Conclusions on IAS 10 is amended as described below.

The title is amended to **'Basis for Conclusions on IAS 10 *Events after the Reporting Period*'** and footnoted as follows:

In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007).

Paragraph BC4 is footnoted as follows:

BC4 For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date,* an entity shall not recognise those dividends as a liability at the balance sheet date. …

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) replaced the term 'balance sheet date' with 'end of the reporting period'.

IAS 19 *Employee Benefits*

BCA8 The Basis for Conclusions on IAS 19 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

> *[The original text has been marked up to reflect the revision of IAS 39* Financial Instruments: Recognition and Measurement *~~(as revised~~ in 2003~~)~~ and subsequently the issue of IFRS 2* Share-based Payment *in 2004; new text is underlined and deleted text is struck through. The terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).]*
> ...

Paragraph 38 is footnoted as follows:

38 The Board considered five methods of accounting for actuarial gains and losses:

(a) …

(b) immediate recognition both in the balance sheet and outside the income statement in equity (IAS 1 *Presentation of Financial Statements* sets out requirements for the presentation or disclosure of such movements in equity)* (see paragraphs 40 and 41 below); …

* IAS 1 (as revised in 2007) requires non-owner transactions to be presented separately from owner transactions in a statement of comprehensive income.

Paragraph 48H is amended and footnoted as follows:

48H IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2003) requires income and expense recognised outside profit or loss to be presented in a statement of changes in equity.* The statement of changes in equity must present the total income and expense for the period, being the profit or loss for the period and each item of income and expense for the period that, as required or permitted by other ~~Standards or Interpretations~~ IFRSs, is recognised directly in equity ~~(IAS 1 paragraph 96(a)-(c))~~. IAS 1 also permits these items, together with the effect of changes in accounting policies and the correction of errors, to be the only items shown in the statement of changes in equity.

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires non-owner transactions to be presented separately from owner transactions in a statement of comprehensive income.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

BCA9 The Basis for Conclusions on IAS 21 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

> *This Basis for Conclusions accompanies, but is not part of, IAS 21.*
>
> *Paragraph BC1 was amended and paragraphs BC25A–BC25F were added in relation to the amendment to IAS 21 issued in December 2005.*
>
> *In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*

Paragraphs BC25A, BC25B, BC25D and BC25E are footnoted as follows:

BC25A The principle in paragraph 32 is that exchange differences arising on a monetary item that is, in substance, part of the reporting entity's net investment in a foreign operation are initially recognised in a separate component of equity* in the consolidated financial statements of the reporting entity. Among…

BC25B The requirements … IAS 21 (as revised in 2003) requires the exchange differences arising on the loan to be recognised in profit or loss in the consolidated financial statements of Parent P, whereas those differences would be recognised initially in equity* in the consolidated financial statements of Parent P, if the loan were to be denominated in sterling or Mexican pesos.

BC25D The Board noted … Therefore, the principle in paragraph 32 to recognise exchange differences arising on a monetary item initially in a separate component of equity* effectively results in the monetary item being accounted for in the same way as an equity investment in the foreign operation when consolidated financial statements are prepared. The Board …

BC25E Accordingly … The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity* in the consolidated financial statements. This …

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such differences are recognised in other comprehensive income.

IAS 32 *Financial Instruments: Presentation*

BCA10 In the Basis for Conclusions on IAS 32, paragraphs BC8 and BC22 are footnoted as follows:

BC8 The Board … also agreed that it should provide examples of how such entities might present their income statement* and balance sheet† (see Illustrative Examples 7 and 8).

* IAS 1 P*resentation of Financial Statements* (as revised in 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

† IAS 1 (revised 2007) replaced the term 'balance sheet' with 'statement of financial position'.

BC22 The Standard requires the separate presentation ~~on~~ in an entity's balance sheet* of liability and equity components of a single financial instrument. …

* IAS 1 (as revised in 2007) replaced the term 'balance sheet' with 'statement of financial position'.

IAS 36 *Impairment of Assets*

BCA11 The Basis for Conclusions on IAS 36 is amended as described below.

At the end of the rubric preceding the Introduction a paragraph is added as follows:

> *In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*

Paragraph BCZ108 is footnoted as follows:

BCZ108 IAS 36 requires that an impairment loss on a revalued asset should be recognised as an expense in the income statement* immediately, except that it should be recognised directly in equity† to the extent that it reverses a previous revaluation on the same asset.

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

† As a consequence of the revision of IAS 1 (revised 2007) an impairment loss is recognised in other comprehensive income.

IAS 39 *Financial Instruments: Recognition and Measurement*

BCA12 The Basis for Conclusions on IAS 39 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

> *This Basis for Conclusions accompanies, but is not part of, IAS 39.*
>
> *In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*

Paragraphs BC75, BC125, BC155, BC167, BC221(c) and BC222(p) and (s)(iii) are footnoted as follows:

BC75 IAS 39 … It requires some gains and losses to be recognised in profit or loss, and others to be recognised initially as a component of equity.* This combination of measurement and recognition requirements can result in inconsistencies, which some refer to as 'accounting mismatches', between the accounting for an asset (or group of assets) and a liability (or group of liabilities). The notion …

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 these other gains and losses are recognized in other comprehensive income.

BC125 In the Exposure Draft … The Board noted that this was consistent with the recognition of changes in the fair value of available-for-sale financial assets directly in equity* (see paragraph 55(b)).

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such changes are recognised in other comprehensive income.

BC155 The question … The entity enters into a derivative to hedge against possible future changes in the US dollar/euro exchange rate. Such a hedge is classified as a cash flow hedge under IAS 39, with the effect that gains and losses on the hedging instrument (to the extent that the hedge is effective) are initially recognised in equity.* The question …

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC167 If the internal swap … This is because the gains and losses on the internal swap in the banking book would be recognised in equity* to the extent the hedge is effective and the gains and losses on the internal swap in the trading book would be recognised in profit or loss.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC221(c) The Board decided to eliminate the option to recognise in profit or loss gains and losses on available-for-sale financial assets (IAS 39, paragraph 55(b)), and thus require such gains and losses to be recognised in equity.* The change …

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC222 The main changes from the Exposure Draft's proposals are as follows:

...

(p) The Exposure Draft … Impairment losses recognised on available-for-sale equity instruments cannot be reversed through profit or loss, ie any subsequent increase in fair value is recognised in equity.*

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such an increase is recognised in other comprehensive income.

(s) The Exposure Draft ...

(iii) it is consistent with paragraphs 97 and 98 that any gain or loss that is recognised directly in equity* in a cash flow hedge of a forecast intragroup transaction should be reclassified into consolidated profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such a gain or loss is recognised in other comprehensive income.

IAS 40 *Investment Property*

BCA13 In the IASC Basis for Conclusions on IAS 40 (2000), the following footnote to paragraph B63 is deleted:

'Under IAS 1 *Presentation of Financial Statements*, all such changes reported in equity are presented in a statement showing changes in equity.'

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

BCA14 In the Basis for Conclusions on IFRIC 1, the rubric preceding the Introduction and paragraphs BC3, BC25 and BC29 are amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRIC 1.

The original text has been marked up to reflect the revision of IAS 1 Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.*

BC3 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires that the measurement of the liability, both initially and subsequently, should be the estimated expenditure required to settle the present obligation at the ~~balance sheet date~~ end of the reporting period and should reflect a current market-based discount rate. It requires provisions to be reviewed at ~~each balance sheet date~~ the end of each reporting period and adjusted to reflect the current best estimate. Hence, ...

BC25 Several responses to the draft Interpretation sought clarification of how it should be applied to revalued assets. The IFRIC noted that:

(a) if the entity chooses the revaluation model, IAS 16 requires the valuation to be kept sufficiently up to date that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.* This …

(b) … Under the revaluation model set out in IAS 16, cumulative revaluation surpluses for an asset are accounted for in equity,† and cumulative revaluation deficits are accounted for in profit or loss. The IFRIC …

* IAS 1 *Presentation of Financial Statements* (revised 2007) replaced the term 'balance sheet date' with 'end of the reporting period'.

† As a consequence of the revision of IAS 1 in 2007 the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

BC29 However, … These changes reflect an event of significance to users, and the IFRIC agreed that they should be given prominence by being separately disclosed and described as such in the statement of changes in equity.*

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such changes are presented in the statement of comprehensive income.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

BCA15 In the Basis for Conclusions on IFRIC 5, the rubric preceding the Introduction and paragraph BC16 are amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRIC 5.

The original text has been marked up to reflect the revision of IAS 1 Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.*

BC16 The IFRIC noted that the right to reimbursement relates to a decommissioning obligation for which a provision would be recognised and measured in accordance with IAS 37. Paragraph 36 of IAS 37 requires such provisions to be measured at 'the best estimate of the expenditure required to settle the present obligation at the ~~balance sheet date~~ end of the reporting period'. The IFRIC …

IFRIC 7 *Applying the Restatement Approach under IAS 29* Financial Reporting in Hyperinflationary Economies

BCA16 The Basis for Conclusions on IFRIC 7 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRIC 7.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

Paragraph BC24 is footnoted as follows:

BC24 The IFRIC observed that paragraph 18 of Appendix A to IAS 12 explains:*

Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date (see IAS 29 *Financial Reporting in Hyperinflationary Economies*) and no equivalent adjustment is made for tax purposes. *(notes: (1) the deferred tax is charged in the income statement;*† *and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is charged to equity*§ *and the deferred tax relating to the restatement is charged in the income statement.)*

* Paragraph 18 has been amended as a consequence of the changes made by IAS 1 *Presentation of Financial Statements* (as revised in 2007).

† IAS 1 (revised 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

§ Under IAS 1 (revised 2007), such effect is recognised in other comprehensive income.

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

BCA16A The Basis for Conclusions on IFRIC 14 is amended as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRIC 14.

The original text has been marked up to reflect the revision of IAS 1 Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.*

References to 'balance sheet date' are amended to 'end of the reporting period'.

In paragraph BC33, 'the balance sheet asset or increase the liability' is amended to 'the asset or increase the liability recognised in the statement of financial position'.

In paragraph BC36, 'the balance sheet' is amended to 'the asset recognised in the statement of financial position'.

In paragraph BC37, 'balance sheet asset or liability' is amended to 'asset or liability recognised in the statement of financial position'.

BCA17 [not used].

SIC-15 *Operating Leases—Incentives*

BCA18 In the Basis for Conclusions on SIC-15, the rubric preceding paragraph 7 and paragraphs 8 and 11 are amended as follows:

The original text has been marked up to reflect the revision of IASs ~~1,~~ 8 and 17 in 2003 and of IAS 1 in 2007: new text is underlined and deleted text is struck through.

8 Paragraph 22 of the *Framework* and IAS 1.~~25~~27 require the preparation of financial statements under the accrual basis of accounting. IAS 17.33~~25~~ and IAS 17.50~~42~~ specify the basis on which lessees and lessors respectively should recognise amounts payable or receivable under operating leases.

11 Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognised as an expense in profit or loss ~~the income statement~~ in the period in which they are incurred. The accounting …

SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*

BCA19 In the Basis for Conclusions on SIC-25, the rubric preceding paragraph 5 and paragraphs 5 – 8 are amended, and paragraph 5A is added, as follows:

The original text has been marked up to reflect the amendment to IAS 12 in 2003, ~~and~~ the revision of IAS 38 Intangible Assets *in 2004 and IAS 1* Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.*

5 IAS 12.58 requires current and deferred tax to be included in ~~the net~~ profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised outside profit or loss either in other comprehensive income or directly in equity, in the same or a different period, (or arises from a business combination ~~that is an acquisition~~). IAS 12.61A requires ~~that~~ current and deferred tax to be recognised outside profit or loss ~~charged or credited directly to equity~~ if the tax relates to items that are recognised ~~credited or charged~~, in the same or a different period, outside profit or loss ~~directly to equity~~.

5A IAS 12.62 identifies examples of circumstances in which a transaction or event is recognised in other comprehensive income as permitted or required by another IFRS. All of these circumstances result in changes in the recognised amount of equity through recognition in other comprehensive income.

6 IAS 12.62A identifies examples of circumstances in which a transaction or event is recognised directly in equity as ~~is~~ permitted or required by another IFRS ~~International Financial Reporting Standard~~. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.

7 IAS 12.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised in other comprehensive income ~~directly in equity~~ only

to the extent that a related accounting revaluation was or is expected to be recognised in other comprehensive income ~~directly in equity~~ (revaluation surplus).

8 Because tax consequences recognised outside profit or loss, whether in other comprehensive income or directly in equity, must relate to a transaction or event recognised outside profit or loss ~~directly in equity~~ in the same or a different period, the cumulative amount of tax ~~charged or credited directly to equity~~ recognised outside profit or loss can be expected to be the same amount that would have been recognised outside profit or loss ~~charged or credited directly to equity~~ if the new tax status had applied previously. IAS 12.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously recognised outside profit or loss ~~charged or credited to equity~~ may prove to be difficult. Because of this, IAS 12.63 suggests that an allocation may be necessary.

SIC-29 *Service Concession Arrangements: Disclosures*

BCA20 In the Basis for Conclusions on SIC-29, the rubric preceding paragraph 8 and paragraphs 8 and 10 are amended, and a new rubric added before paragraph 10, as follows:

The original text of paragraphs 8 and 9 has been marked up to reflect the revision of IAS 1 in 2003 and 2007 and the issue of IFRIC 12 in 2006: new text is underlined and deleted text is struck through.

8 Paragraph 15 of the *Framework* states that the economic decisions taken by users of financial statements require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 21 of the *Framework* states that financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the statement of financial position ~~balance sheet~~ and statement of comprehensive income ~~statement~~. They may also include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the statement of financial position ~~balance sheet~~.

The text of paragraph 10 has been marked up to reflect the revision of IAS 1 in 2007. Previous amendments to the paragraph, reflecting the revision of IAS 1 in 2003, have been incorporated into the text to avoid confusion with the new amendments in 2007.

10 IAS 1.112(c)~~103(c)~~ requires an entity's notes to provide additional information that is not presented elsewhere in the financial statements ~~on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement~~, but is relevant to an understanding of any of them. The definition of notes in IAS 1.7~~11~~ indicates that notes provide narrative descriptions or disaggregations of items disclosed in the statement of financial position ~~balance sheet~~, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows ~~statement~~, as well as information about items that do not qualify for recognition in those statements.

Dissenting opinions

Dissent of Mary E Barth, Anthony T Cope, Robert P Garnett and James J Leisenring

DO1 Professor Barth and Messrs Cope, Garnett and Leisenring voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. The reasons for their dissent are set out below.

DO2 Those Board members agree with the requirement to report all items of income and expense separately from changes in net assets that arise from transactions with owners in their capacity as owners. Making that distinction clearly is a significant improvement in financial reporting.

DO3 However, they believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise.

DO4 As noted in paragraph BC51, the *Framework* does not define profit or loss, or net income. It also does not indicate what criteria should be used to distinguish between those items of recognised income and expense that should be included in profit or loss and those items that should not. In some cases, it is even possible for identical transactions to be reported inside or outside profit or loss. Indeed, in that same paragraph, the Board acknowledges these facts, and indicates that it had a preference for reporting all items of income and expense in a single statement, believing that a single statement is the conceptually correct approach. Those Board members believe that some items of income and expense that will potentially bypass the statement of profit and loss can be as significant to the assessment of an entity's performance as items that will be included. Until a conceptual distinction can be developed to determine whether any items should be reported in profit or loss or elsewhere, financial statements will lack neutrality and comparability unless all items are reported in a single statement. In such a statement, profit or loss can be shown as a subtotal, reflecting current conventions.

DO5 In the light of those considerations, it is puzzling that most respondents to the exposure draft that proposed these amendments favoured permitting a two-statement approach, reasoning that it 'distinguishes between profit and loss and total comprehensive income' (paragraph BC50). Distinguishing between those items reported in profit or loss and those reported elsewhere is accomplished by the requirement for relevant subtotals to be included in a statement of comprehensive income. Respondents also stated that a two-statement approach gives primacy to the 'income statement'; that conflicts with the Board's requirement in paragraph 11 of IAS 1 to give equal prominence to all financial statements within a set of financial statements.

DO6 Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRSs. The *Preface to International Financial Reporting Standards*, in paragraph 13, states: 'the IASB intends not to permit choices in accounting treatment … and will continue to reconsider … those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.' The *Preface* extends this objective to both accounting and reporting. The same paragraph states: 'The IASB's objective is to require like transactions and events to be accounted for *and reported* in a like way and unlike transactions and events to be accounted for *and reported* differently' (emphasis added). By permitting a choice in this instance, the IASB has abandoned that principle.

DO7 Finally, the four Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds.

Guidance on implementing HKAS 1 *Presentation of Financial Statements*

This guidance accompanies, but is not part of, HKAS 1.

Illustrative financial statement structure

IG1 HKAS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of HKAS 1 for the presentation of the statements of financial position, comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.

IG2 The guidance is in three sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. Paragraphs IG10 and IG11 provide examples of capital disclosures.

IG3 The illustrative statement of financial position shows one way in which an entity may present a statement of financial position distinguishing between current and non-current items. Other formats may be equally appropriate, provided the distinction is clear.

IG4 The illustrations use the term ‘comprehensive income’ to label the total of all components of comprehensive income, including profit or loss. The illustrations use the term ‘other comprehensive income’ to label income and expenses that are included in comprehensive income but excluded from profit or loss. HKAS 1 does not require an entity to use those terms in its financial statements.

IG5 Two statements of comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The single statement of comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the income statement’) illustrates the classification of income and expenses within profit by nature.

IG6 The examples are not intended to illustrate all aspects of HKFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, a summary of significant accounting policies and other explanatory information.

Part I: Illustrative presentation of financial statements

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Available-for-sale financial assets	142,500	156,000
	901,620	945,460
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	564,880	578,740
Total assets	1,466,500	1,524,200

continued...

...continued

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	**31 Dec 20X6**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	903,700	782,900
Minority interest	70,050	48,600
Total equity	973,750	831,500
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	177,650	238,280
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	315,100	454,420
Total liabilities	492,750	692,700
Total equity and liabilities	1,466,500	1,524,200

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates[a]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations[b]	5,334	10,667
Available-for-sale financial assets[b]	(24,000)	26,667
Cash flow hedges[b]	(667)	(4,000)
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[c]	400	(700)
Income tax relating to components of other comprehensive income[d]	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500

continued..

...continued

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	**20X6**
Profit attributable to:		
Owners of the parent	97,000	52,400
Minority interest	24,250	13,100
	121,250	65,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Minority interest	21,450	18,700
	107,250	93,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

continued..

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XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

Alternatively, components of other comprehensive income could be presented in the statement of comprehensive income net of tax:

Other comprehensive income for the year, after tax:	**20X7**	**20X6**
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)
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
Other comprehensive income for the year, net of tax[(d)]	(14,000)	28,000

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and minority interests in the associates.

(b) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

(c) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and minority interests in the associates.

(d) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group – Income statement for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in two statements and classification of expenses within profit by nature)

(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[(e)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operation	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Minority interest	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(e) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and minority interests in the associates.

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in two statements)

(in thousands of currency units)

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
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)
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[(f)]	400	(700)
Income tax relating to components of other comprehensive income[(g)]	4,667	(9,334)
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
Minority interest	21,450	18,700
	107,250	93,500

Alternatively, components of other comprehensive income could be presented, net of tax. Refer to the statement of comprehensive income illustrating the presentation of income and expenses in one statement.

(f) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and minority interests in the associates.

(g) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group

Disclosure of components of other comprehensive income[(h)]

Notes

Year ended 31 December 20X7

(in thousands of currency units)

		20X7		**20X6**
Other comprehensive income:				
Exchange differences on translating foreign operations[(i)]		5,334		10,667
Available-for-sale financial assets:				
Gains arising during the year	1,333		30,667	
Less: Reclassification adjustments for gains included in profit or loss	(25,333)	(24,000)	(4,000)	26,667
Cash flow hedges:				
Gains (losses) arising during the year	(4,667)		(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333		–	
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(667)	–	(4,000)

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XYZ Group

Disclosure of components of other comprehensive income

Notes

Year ended 31 December 20X7

(in thousands of currency units)

	20X7	**20X6**
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)
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income[j]	4,667	(9,334)
Other comprehensive income for the year	(14,000)	28,000

(h) When an entity chooses an aggregated presentation in the statement of comprehensive income, the amounts for reclassification adjustments and current year gain or loss are presented in the notes.

(i) There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.

(j) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group

Disclosure of tax effects relating to each component of other comprehensive income

Notes

Year ended 31 December 20X7

(in thousands of currency units)

		20X7			**20X6**	
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	5,334	(1,334)	4,000	10,667	(2,667)	8,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)	26,667	(6,667)	20,000
Cash flow hedges	(667)	167	(500)	(4,000)	1,000	(3,000)
Gains on property revaluation	933	(333)	600	3,367	(667)	2,700
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)	1,333	(333)	1,000
Share of other comprehensive income of associates	400	–	400	(700)	–	(700)
Other comprehensive income	(18,667)	4,667	(14,000)	37,334	(9,334)	28,000

XYZ Group – Statement of changes in equity for the year ended 31 December 20X7

(in thousands of currency units)

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	Minority interest	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year[(k)]	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
Balance at 31 December 20X6	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
Changes in equity for 20X7									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year[(l)]	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	200	–	–	–
Balance at 31 December 20X7	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

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(k) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus actuarial gains on defined benefit pension plans of 800 (1,333, less tax 333, less minority interest 200).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and minority interest, eg other comprehensive income related to available-for-sale financial assets for 20X6 of 16,000 is 26,667, less tax 6,667, less minority interest 4,000.

The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less minority interest 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

(l) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus actuarial losses on defined benefit pension plans of 400 (667, less tax 167, less minority interest 100).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and minority interest, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less minority interest 800.

The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less minority interest 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

Part II: Illustrative example of the determination of reclassification adjustments

IG7 The Standard requires an entity to disclose reclassification adjustments relating to each component of other comprehensive income.

IG8 This guidance provides an illustration of the calculation of reclassification adjustments for available-for-sale financial assets recognised in accordance with HKAS 39.

IG9 On 31 December 20X5, XYZ Group purchased 1,000 shares (equity instruments) at 10 currency units (CU) per share, classified as available for sale. The fair value of the instruments at 31 December 20X6 was CU12; at 31 December 20X7 the fair value had increased to CU15. All of the instruments were sold on 31 December 20X7; no dividends were declared on those instruments during the time that they were held by XYZ Group. The applicable tax rate in accordance with HKAS 12 *Income Taxes* is 30 per cent.

Calculation of gains

(in currency units)

	Before tax	**Income tax**	**Net of tax**
Gains recognised in other comprehensive income:			
Year ended 31 December 20X6	2,000	(600)	1,400
Year ended 31 December 20X7	3,000	(900)	2,100
Total gain	5,000	(1,500)	3,500

Amounts reported in profit or loss and other comprehensive income for the years ended 31 December 20X6 and 31 December 20X7

	20X7	**20X6**
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	3,500	
Other comprehensive income:		
Gain arising during the year, net of tax	2,100	1,400
Reclassification adjustment, net of tax	(3,500)	–
Net gain (loss) recognised in other comprehensive income	(1,400)	1,400
	2,100	1,400

Alternatively, components of other comprehensive income may be shown gross of tax with a separate line item for tax effects:

	20X7	**20X6**
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	3,500	
Other comprehensive income:		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	–
Income tax relating to other comprehensive income	600	(600)
Net gain (loss) recognised in other comprehensive income	(1,400)	1,400
	2,100	1,400

Part III: Illustrative examples of capital disclosures (paragraphs 134–136)

An entity that is not a regulated financial institution

IG10 The following example illustrates the application of paragraphs 134 and 135 for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 134 and 135.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. 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.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, minority interest, retained earnings, and revaluation reserve) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

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During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31 Dec 20X4	**31 Dec 20X3**
	CU million	**CU million**
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X4 resulted primarily from the reduction in net debt that occurred on the sale of subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X4 (from CU2.5 million for 20X3).

An entity that has not complied with externally imposed capital requirements

IG11 The following example illustrates the application of paragraph 135(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 134 and 135.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

Appendix
Amendments to guidance on other HKFRSs

The following amendments to guidance on other HKFRSs are necessary in order to ensure consistency with the revised HKAS 1. In the amended paragraphs, new text is underlined and deleted text is struck through.

IGA1 In the guidance on Hong Kong Financial Reporting Standards, the following references are amended as described below, unless otherwise stated in this appendix.

- ‘on the face of’ is amended to ‘in’.
- ‘income statement’ is amended to ‘statement of comprehensive income’.
- ‘balance sheet’ is amended to ‘statement of financial position’.
- ‘cash flow statement’ is amended to ‘statement of cash flows’.
- ‘balance sheet date’ is amended to ‘end of the reporting period’.
    - ‘subsequent balance sheet date’ is amended to ‘end of the subsequent reporting period’.
    - ‘each balance sheet date’ is amended to ‘the end of each reporting period’.
    - ‘after the balance sheet date’ is amended to ‘after the reporting period’.
- ‘reporting date’ is amended to ‘end of the reporting period’.
    - ‘each reporting date’ is amended to ‘the end of each reporting period’.
    - ‘at annual reporting dates’ is amended to ‘at the end of annual reporting periods’.
    - ‘at interim reporting dates’ is amended to ‘at the end of interim reporting periods’.
- ‘equity holders’ is amended to ‘owners’ (except in HKAS 33 *Earnings per Share*).
- ‘removed from equity and recognised in profit or loss’ and ‘removed from equity and included in profit or loss’ are amended to ‘reclassified from equity to profit or loss as a reclassification adjustment’.
- ‘Standard or Interpretation’ is amended to ‘HKFRS’.
    - ‘a Standard or an Interpretation’ is amended to ‘a HKFRS’.
    - ‘Standards and Interpretations’ is amended to ‘HKFRSs’.

HKFRS 1 *First-time Adoption of International Financial Reporting Standards*

IGA2 The Guidance on Implementing HKFRS 1 is amended as described below.

In IG Examples 1–4, 201 and 202, 'Entity [X]'s [An entity's] first HKFRS financial statements have a reporting date of' is amended to 'Entity [X]'s [An entity's] first HKFRS financial statements are for a period that ends on'.

In IG Examples 1–4, 6–11 and 201, references to the years '2001' to '2007' are amended to '20X1' to '20X7' respectively.

In the heading above paragraph IG2 and in IG Example 1 (Assumption 2), 'HKAS 10 *Events after the Balance Sheet Date*' is amended to 'HKAS 10 *Events after the Reporting Period*'.

In paragraph IG2(b), 'balance sheet' is deleted.

In paragraph IG21, 'the reporting date' is amended to 'the end of the first HKFRS reporting period'.

In paragraph IG31, 'post-balance sheet events review' is amended to 'review of events after the reporting period'.

In paragraph IG36, 'reporting date for its first HKFRS financial statements' is amended to 'end of its first HKFRS reporting period'.

IG Example 10 is amended as follows:

IG Example 10 Interim financial reporting

Background

Entity R's first HKFRS financial statements ~~have~~ are for a ~~reporting date of~~ period that ends on 31 December 20X5 ~~2005~~, and its first interim financial report under HKAS 34 is for the quarter ended 31 March 20X5 ~~2005~~. Entity R prepared previous GAAP annual financial statements for the year ended 31 December 20X4 ~~2004~~, and prepared quarterly reports throughout 20X4 ~~2004~~.

Application of requirements

In each quarterly interim financial report for 20X5 ~~2005~~, entity R includes reconciliations of:

(a) its equity under previous GAAP at the end of the comparable quarter of 20X4 ~~2004~~ to its equity under HKFRSs at that date; and

(b) its total comprehensive income (or, if it did not report such a total, profit or loss) under previous GAAP for the comparable quarter of 20X4 ~~2004~~ (current and year-to-date) to its total comprehensive income ~~profit or loss~~ under HKFRSs.

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In addition to the reconciliations required by (a) and (b) and the disclosures required by HKAS 34, entity R's interim financial report for the first quarter of 20X5 ~~2005~~ includes reconciliations of (or a cross reference to another published document that includes these reconciliations):

(a) its equity under previous GAAP at 1 January 20X4 ~~2004~~ and 31 December 20X4 ~~2004~~ to its equity under HKFRSs at those dates; and

(b) its total comprehensive income (or, if it did not report such a total, profit or loss) for 20X4 ~~2004~~ under previous GAAP to its ~~profit or loss~~ total comprehensive income for 20X4 ~~2004~~ under HKFRSs. …

In paragraph IG43, 'the income statement' is amended to 'profit or loss'.

Paragraphs IG52, IG59 and IG60B are amended as follows:

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening HKFRS ~~balance sheet~~ statement of financial position in accordance with HKAS 39, except as specified in paragraphs 27 – 30 of the HKFRS, which address derecognition and hedge accounting~~, and paragraph 36A, which permits an exemption from restating comparative information~~.

IG59 An entity may, under its previous GAAP, have measured investments at fair value and recognised the revaluation gain ~~directly in equity~~ outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre-HKAS 39 revaluation gain that had been recognised ~~in equity~~ outside profit or loss is reclassified into retained earnings on initial application of HKAS 39. If, on initial application of HKAS 39, an investment is classified as available for sale, then the pre-HKAS 39 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the available-for-sale financial asset in other comprehensive income and accumulates the cumulative gains and losses in that separate component of equity until the investment is impaired, sold, collected or otherwise disposed of. On subsequent derecognition or impairment of the available-for-sale financial asset, the entity ~~transfers~~ reclassifies to profit or loss the cumulative gain or loss remaining in equity (HKAS 39, paragraph 55(b)).

IG60B An entity … Any net cumulative gain or loss that has been reclassified to equity on initial application of HKAS 39 remains in equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss ~~that had been recognised directly in equity is recognised in~~ is reclassified from equity to profit or loss. If …

Paragraph IG63 and IG Example 11 are amended as follows:

IG63 Paragraphs 39(a) and (b), 40 and 41 of the HKFRS require a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the ~~balance sheet, income~~ statement of financial position, statement of comprehensive income and, if applicable, ~~cash flow~~ statement of cash flows. Paragraph 39(a) and (b) requires specific reconciliations of equity and ~~profit or loss~~ total comprehensive income. IG Example 11 shows one way of satisfying these requirements.

IG Example 11 Reconciliation of equity and ~~profit or loss~~ total comprehensive income

...

Reconciliation of ~~profit or loss~~ total comprehensive income for ~~2004~~20X4

Note		*Previous GAAP*	*Effect of transition to HKFRSs*	*HKFRSs*
	Revenue	20,910	0	20,910
1,2,3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
1	Distribution costs	(1,907)	(30)	(1,937)
1,4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(427)	(5)
5	Tax expense	(158)	128	(30)
	Profit (loss) for the year	264	(299)	(35)
6	Available-for-sale financial assets	0	150	150
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	Other comprehensive income	0	81	81
	Total comprehensive income	264	(218)	46

continued...

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Notes to the reconciliation of ~~profit or loss~~ total comprehensive income for ~~2004~~ 20X4:

…

6 Available-for-sale financial assets carried at fair value under HKFRSs increased in value by 180 during 20X4. They were carried at cost under previous GAAP. The entity sold available-for-sale financial assets during the year, recognising a gain of 40 in profit or loss. Of that realised gain 30 had been included in the revaluation reserve as at 1 January 20X4 and is reclassified from revaluation reserve to profit or loss (as a reclassification adjustment).

7 The fair value of forward foreign exchange contracts that are effective hedges of forecast transactions decreased by 40 during 20X4.

8 Adjustments 6 and 7 above lead to an increase of 29 in deferred tax expense.

...

In IG Example 202, references to '1995' are amended to '20X5' and references to the years '2000' to '2007' are amended to '20Y0' to '20Y7' respectively.

HKFRS 2 *Share-based Payment*

IGA3 In the Guidance on Implementing HKFRS 2, in the last paragraph of IG Example 11, 'of users taken' is amended to 'that users make'.

HKFRS 4 *Insurance Contracts*

IGA4 The Guidance on Implementing HKFRS 4 is amended as described below.

IG Example 4 is amended as follows:

IG Example 4: Shadow accounting

Background

[Third paragraph] … Before adopting HKFRSs for the first time in 20X5 ~~2005~~, insurer A measured financial assets on a cost basis. … Thus, insurer A measures the assets at fair value and recognises changes in their fair value ~~directly in equity, through the statement of changes in equity~~ in other comprehensive income. In 20X5 ~~2005~~, insurer A recognises unrealised gains …

In 20X6 ~~2006~~, insurer A sells the assets for an amount equal to their fair value at the end of 20X5 ~~2005~~ and, to comply with HKAS 39, ~~transfers~~ reclassifies the now-realised gain of CU10 from equity to profit or loss as a reclassification adjustment.

continued...

...continued

Application of paragraph 30 of the HKFRS

[First paragraph] … If insurer A adopts shadow accounting, it amortises DAC in 20X5 ~~2005~~ by an additional CU2 … Because insurer A recognised the change in their fair value ~~in equity~~ in other comprehensive income, it recognises the additional amortisation of CU2 ~~directly in equity, through the statement of changes in equity~~ in other comprehensive income.

When insurer A sells the assets in 20X6 ~~2006~~, it makes no further adjustment to DAC, but ~~transfers~~ reclassifies DAC amortisation of CU2, relating to the now-realised gain, from equity to profit or loss as a reclassification adjustment.

In summary, shadow accounting treats an unrealised gain in the same way as a realised gain, except that the unrealised gain and resulting DAC amortisation are (a) recognised ~~in equity~~ in other comprehensive income rather than in profit or loss and (b) ~~transferred~~ reclassified from equity to profit or loss when the gain on the asset becomes realised. …

In paragraph IG15, in the quotation from HKAS 1, 'of users taken' is amended to 'that users make'.

In paragraph IG24, 'disclose' is amended to 'present'.

Paragraph IG27 is amended as follows:

IG27 Some insurers present a detailed analysis of the sources of their earnings from insurance activities either in the ~~income~~ statement of comprehensive income or in the notes ~~as a complement to an income statement presented in a more traditional format~~. Such …

Paragraph IG32(h) is amended as follows:

IG32 (h) the nature and extent of uncertainties affecting specific assumptions. In addition, to comply with paragraphs ~~116–122~~ 125–131 of HKAS 1, ... Paragraph ~~120~~ 129 of HKAS 1 gives further guidance on this disclosure.

In paragraph IG46, 'on the balance sheet' is amended to 'in the statement of financial position'.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IGA5 The Guidance on Implementing HKFRS 5 is amended as described below.

In Example 11, the title is amended as follows:

'XYZ GROUP – ~~INCOME~~ STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)'

Example 11 is footnoted as follows:

'(b) The entity did not recognise any components of other comprehensive income in the periods presented.'

In Example 12, in footnote (a) and in the statement of financial position, 'directly in equity' is amended to 'in other comprehensive income and accumulated in equity'.

HKFRS 7 *Financial Instruments: Disclosures*

IGA6 The Guidance on Implementing HKFRS 7 is amended as described below.

In paragraph IG3, in the quotation from HKAS 1, 'of users taken' is amended to 'that users make'.

Paragraphs IG6 and IG13 are amended as follows:

IG6 Paragraph ~~15~~ 17(c) of HKAS 1 requires an entity …

IG13 The total interest income and total interest expense disclosed in accordance with paragraph 20(b) is a component of the finance costs, which paragraph ~~81~~ 82(b) of HKAS 1 requires to be presented separately ~~on the face of~~ in the ~~income~~ statement of comprehensive income. The line item …

In the example in paragraph IG36, 'other components of equity' is amended to 'other comprehensive income' (four times).

In the table after paragraph IG41, footnote (a) is deleted and footnote (b) is amended as follows:

'~~(b)~~(a) See paragraph 44 of HKFRS 7'

HKAS 7 *Statement of Cash Flows*

IGA7 Appendix A accompanying HKAS 7 is amended as described below.

The table heading '**Consolidated income statement for the period ended 20X2**' is amended to '**Consolidated statement of comprehensive income for the period ended 20X2**' and footnoted as follows: 'The entity did not recognise any components of other comprehensive income in the period ended 20X2'.

In note C (**Cash and cash equivalents**), 'balance sheet amounts' is amended to 'amounts in the statement of financial position'.

HKAS 12 *Income Taxes*

IGA8 Appendix A accompanying HKAS 12 is amended as described below.

In the headings above paragraph 1 of Section A and above paragraph 1 of Section B, '**the income statement**' is amended to '**profit or loss**'.

In paragraph 11 of Section A, '*paragraph 61*' is amended to '*paragraph 61*A' and '*charged directly to equity*' is amended to '*recognised in other comprehensive income*'.

Paragraph 18 of Section A is amended as follows:

18 Non-monetary assets … (*notes: (1) the deferred tax is ~~charged in the income statement~~ <u>recognised in profit or loss;</u> and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is ~~charged to equity~~ <u>recognised in other comprehensive income</u> and the deferred tax relating to the restatement is ~~charged~~ <u>recognised</u> in ~~the income statement~~ <u>profit or loss</u>*).

Appendix B accompanying HKAS 12 is amended as described below.

In the rubric below the heading, '*income statements and balance sheets*' is replaced by '*statements of financial position and statements of comprehensive income*'.

In the last paragraph and table in Example 1, 'income statement is as follows' is amended to 'statement of comprehensive income includes the following' and 'Net profit for the period' is amended to 'Profit for the period'.

In the section of Example 2 headed **Illustrative disclosure**, the heading '**Aggregate current and deferred tax relating to items charged or credited to equity (paragraph 81(a))**' is amended to '**Income tax relating to the components of other comprehensive income (paragraph 81(ab))**'.

At the end of Example 2, 'the income statement' is amended to 'profit or loss' (twice).

The last paragraph of Example 3 is amended as follows:

> If A expects … A ~~credits or charges~~ <u>recognises</u> the deferred tax <u>in other comprehensive income</u> ~~to equity~~ to the extent that the deferred tax results from foreign exchange translation differences <u>that</u> ~~which~~ have been <u>recognised in other comprehensive income</u> ~~charged or credited directly to equity~~ (paragraph 61<u>A</u> of the Standard). A discloses separately:
>
> (a) the amount of deferred tax <u>that</u> ~~which~~ has been <u>recognised in other comprehensive income</u> ~~charged or credited directly to equity~~ (paragraph 81(a<u>b</u>) of the Standard); and …

The last paragraph of Example 4 is amended as follows:

> Subsequent changes in the deferred tax liability are recognised in ~~the income statement~~ <u>profit or loss</u> as tax income (see paragraph 23 of the Standard). Therefore, the entity's ~~income statement is as follows~~ <u>profit or loss includes the following</u>:

HKAS 19 *Employee Benefits*

IGA9 Appendices B and C accompanying HKAS 19 are amended as described below.

In the last paragraph of Appendix B and in the second paragraph of Appendix C, 'the income statement' is amended to 'profit or loss'.

HKAS 32 *Financial Instruments: Presentation*

IGA10 The Illustrative Examples accompanying HKAS 32 are amended as described below.

In paragraphs IE32 and IE33, 'an income statement and balance sheet format' is amended to 'a format of a statement of comprehensive income and statement of financial position'.

In the statement of financial position following paragraph IE33, '**RESERVES**' is amended to '**OTHER COMPONENTS OF EQUITY**'.

In paragraph IE45, 'income statement' is amended to 'profit or loss'.

HKAS 33 *Earnings per Share*

IGA11 In the Illustrative Examples accompanying HKAS 33, Example 12 is amended as follows:

The heading '**Example 12 Calculation of basic and diluted earnings per share and income statement presentation (comprehensive example)**' is amended to '**Example 12 Calculation and presentation of basic and diluted earnings per share (comprehensive example)**'.

In the paragraph following the first table under **Full Year 20X1**, 'on its income statement' is amended to 'in its statement of comprehensive income'.

HKAS 34 *Interim Financial Reporting*

IGA12 Appendix B accompanying HKAS 34 is amended as described below.

In paragraph B3, 'the income statement' is amended to 'profit or loss'.

In paragraph B10, 'at interim financial reporting dates' is amended to 'at the end of interim financial reporting periods', 'at an interim reporting date' is amended to 'at the end of an interim reporting period' and 'at an annual reporting date' is amended to 'at the end of an annual reporting period'.

In paragraph B11, 'at an interim financial reporting date' is amended to 'at the end of an interim financial reporting period'.

In paragraph B25, 'any financial reporting date' is amended to 'the end of any financial reporting period'.

In paragraph B30, 'in profit or loss or in equity' is amended to 'in profit or loss or in other comprehensive income'.

HKAS *37 Provisions, Contingent Liabilities and Contingent Assets*

IGA12A In Appendix C, Example 6:

'At the balance sheet date of 31 December 1999' is replaced by 'At 31 December 1999, the end of the reporting period'.

'At the balance sheet date of 31 December 2000' is replaced by 'At 31 December 2000, the end of the reporting period'.

HKAS 39 *Financial Instruments: Recognition and Measurement*

IGA13 The Illustrative Example accompanying HKAS 39 is amended as described below.

In paragraphs IE14, IE18, IE24, IE26, IE28 and IE30, 'income statement' is amended to 'profit or loss'.

References to 'balance sheet line item' are amended to 'line item in the statement of financial position'.

The Guidance on Implementing HKAS 39 is amended as described below.

References to 'deferred in equity', 'reported in equity', 'recognised in equity' and 'recognised directly in equity' are amended to 'recognised in other comprehensive income'.

In the tables in Questions D.2.1 and D.2.2, 'changes in equity' is amended to 'changes in other comprehensive income'.

In Question E.2.1, 'on its balance sheet' is amended to 'in its statement of financial position'.

Question E.3.1 is amended as follows:

> **Entity A holds … On 20 December ~~2000~~ 20X0, the fair value of the shares is CU120 and the cumulative gain recognised in other comprehensive income ~~equity~~ is CU20. … Under HKAS 39.55(b), should Entity A ~~recognise~~ reclassify the cumulative gain of CU20 recognised ~~in equity~~ in other comprehensive income from equity to ~~in~~ profit or loss as a reclassification adjustment?**
>
> Yes. The transaction qualifies for derecognition under HKAS 39. HKAS 39.55(b) requires ~~that~~ the cumulative gain or loss ~~that has been recognised in equity~~ on an available-for-sale financial asset that has been recognised in other comprehensive income to be ~~recognised in~~ reclassified from equity to profit or loss when the asset is derecognised. In the …

Question E.3.2 is amended as follows:

> **For an available-for-sale monetary financial asset, the entity ~~reports~~ recognises changes in the carrying amount relating to changes in foreign exchange rates in profit or loss in accordance with HKAS 21.23(a) and HKAS 21.28 and other changes in the carrying amount in other comprehensive income ~~in equity~~ in accordance with HKAS 39. How is the cumulative gain or loss that is recognised ~~in equity~~ in other comprehensive income determined?**
>
> ...
>
> To illustrate: on 31 December 20X1 ~~2001~~ Entity A acquires a bond … Entity A classifies the bond as available for sale, and thus recognises gains and losses ~~in equity~~ in other comprehensive income. The entity's …
>
> On 31 December 20X2 ~~2002~~, the foreign currency has appreciated … In this case, the cumulative gain or loss to be recognised in other comprehensive income and accumulated in equity ~~directly in equity~~ is the difference between the fair value and the amortised cost on 31 December 20X2 ~~2002~~, ie LC38 (= LC2,120 – LC2,082).
>
> Interest received on the bond on 31 December 20X2 ~~2002~~ is FC59 (= LC118). Interest …
>
> | | | |
> |---|---|---|
> | Cr | Fair value change in ~~equity~~ other comprehensive income | LC38 |
>
> On 31 December 20X3 ~~2003~~, the foreign currency has appreciated further … The cumulative gain or loss to be ~~recognised directly~~ accumulated in equity is the difference between the fair value and the amortised cost on 31 December 20X3 ~~2003~~, ie negative LC40 (= LC2,675 – LC2,715). Thus, ~~there is a debit to~~ the amount recognised in other comprehensive income ~~equity~~ equals ~~to~~ the change in the difference during 20X3 ~~2003~~ of LC78 (= LC40 + LC38).

Interest received on the bond on 31 December 20X3 ~~2003~~ is FC59 (= LC148). Interest …

Dr	Fair value change in other comprehensive income ~~equity~~	LC78

Question E.3.3 is amended as follows:

- the heading '**E.3.3 HKAS 39 and HKAS 21 Exchange differences arising on translation of foreign entities: equity or income?**' is amended to '**E.3.3 HKAS 39 and HKAS 21 Exchange differences arising on translation of foreign entities: other comprehensive income or profit or loss?**'.

- (in the fourth paragraph of the answer) 'its income statement' is amended to 'its profit or loss'.

- (in the last paragraph of the answer) 'classified as equity' is amended to 'accumulated in equity'.

In Question E.3.4 the answer is amended as follows:

- '*Income statement*' is amended to '*Profit or loss*'.

- 'in profit or loss or in equity' is amended to 'in profit or loss or in other comprehensive income'.

- 'recognises gains and losses on available-for-sale monetary financial assets in equity' is amended to 'recognises gains and losses on available-for-sale monetary financial assets in other comprehensive income'.

- 'resulting in a loss in equity' is amended to 'resulting in a loss recognised in other comprehensive income'.

Question E.4.9 is amended as follows:

- **'be recognised in profit or loss'** is amended to **'be reclassified from equity to profit or loss as a reclassification adjustment'**.

- 'removed from equity and recognised in profit or loss' is amended to 'reclassified from equity to profit or loss'.

- 'also recognised in profit or loss' is amended to 'also reclassified from equity to profit or loss'.

In Question F.1.2, in the answer to the second question, 'future sale is recognised in profit or loss' is amended to 'future sale is reclassified from equity to profit or loss as a reclassification adjustment'.

In Question F.1.5 the answer is amended as follows:

No. An internal contract designated at the subsidiary level or by a division as a hedge results in the recognition of changes in the fair value of the item being hedged in profit or loss (a fair value hedge) or in the recognition of the changes in the fair value of the internal derivative ~~in equity~~ in other comprehensive income (a cash flow hedge). There is no basis for changing the measurement attribute of the item being hedged in a fair value hedge unless the exposure is offset with an external derivative. There is also no basis for ~~including~~ recognising the gain or loss on the internal derivative in ~~equity~~ in other comprehensive income for one entity and recognising it in profit or loss by the other entity unless it is offset with

> an external derivative. In cases … It should be noted, however, that there will be no effect on profit or loss and ~~equity~~ other comprehensive income of reversing … Just as the internal derivatives offset at the treasury level, their use as fair value hedges by two separate entities or divisions within the consolidated group will also result in the offset of the fair value amounts recognised in profit or loss, and their use as cash flow hedges by two separate entities or divisions within the consolidated group will also result in the fair value amounts being offset against each other in other comprehensive income ~~equity~~. However, there may be an effect on individual line items in both the consolidated ~~income~~ statement of comprehensive income and the consolidated ~~balance sheet~~ statement of financial position, for example when internal derivatives that hedge assets (or liabilities) in a fair value hedge are offset by internal derivatives that are used as a fair value hedge of other assets (or liabilities) that are recognised in a different line item in the statement of financial position ~~balance sheet~~ or statement of comprehensive income ~~statement line item~~. In addition, to the extent that one of the internal contracts is used as a cash flow hedge and the other is used in a fair value hedge, ~~the effect on profit or loss and equity~~ gains and losses recognised would not offset since the gain (or loss) on the internal derivative used as a fair value hedge would be recognised in profit or loss and the corresponding loss (or gain) on the internal derivative used as a cash flow hedge would be recognised in ~~equity~~ other comprehensive income.

In Question F.1.6 the second paragraph of the answer is amended as follows:

- 'profit or loss or [in] equity' is amended to 'profit or loss or [in] other comprehensive income'.
- 'gains and losses that are initially recognised in equity are recognised in profit or loss' is amended to 'gains and losses that are initially recognised in other comprehensive income are reclassified from equity to profit or loss'.
- 'profit or loss and equity' is amended to 'profit or loss and other comprehensive income'.

Question F.1.7 is amended as described below.

The following references are amended as described below.

- '*Dr Equity*' is amended to '*Dr Other comprehensive income*'.
- '*Cr Equity*' is amended to '*Cr Other comprehensive income*'.
- 'Income' is amended to 'Profit or loss'.
- 'Equity' is amended to 'Other comprehensive income'.

In *Case 1*, 'the income statements' is amended to 'profit or loss'.

Case 2 is amended as follows:

> ...
>
> A and B complete the necessary documentation, the hedges are effective, and both A and B qualify for hedge accounting in their individual financial statements. A ~~defers~~ recognises the gain of LC20 on its internal derivative transaction in ~~a hedging reserve in equity~~ other comprehensive income and B ~~defers~~ recognises the loss of LC50 in ~~its hedging reserve in equity~~ other comprehensive income. TC does …

Case 3 is amended as follows:

> …
>
> As in cases 1 and 2, A and B apply hedge accounting for their cash flow hedges and TC measures its derivatives at fair value. A ~~defers~~ recognises a gain of LC20 on its internal derivative transaction ~~in equity~~ in other comprehensive income and B ~~defers~~ recognises a loss of LC50 on its internal derivative transaction in other comprehensive income ~~in equity~~. …

In Questions F.1.7 *Case 3* and *Case 4*, F.5.2, F.5.3 and F.5.6, 'Cr Equity' and 'Dr Equity' are amended to 'Cr Other comprehensive income' and 'Dr Other comprehensive income' respectively.

In the answer to Question F.1.10, 'reports changes in the fair value of the share in equity' is amended to 'recognises changes in the fair value of the share in other comprehensive income'.

In the answers to Questions F.2.4 and F.6.5, 'recognised directly in equity through the statement of changes in equity' is amended to 'recognised in other comprehensive income'.

In Question F.3.3, '**the income statement**' is amended to '**profit or loss**'.

In Question F.3.4, 'amount recognised directly in equity is transferred to profit or loss' is amended to 'amount recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment'.

In Question F.5.2, 'it credits the effective portion of the change in fair value of the swap, ie the net change in fair value of CU49, to equity' is amended to 'it recognises the effective portion of the change in fair value of the swap, ie the net change in fair value of CU49, in other comprehensive income'.

In Question F.5.3, '2001' is amended to '20X1, '2002' is amended to '20X2' and 'it debits the entire change in fair value of the forward contract (CU80) to equity' is amended to 'it recognises the entire change in fair value of the forward contract (CU80) in other comprehensive income'.

In Question F.5.6, references to the years '2001' and '2002' are amended to '20X1' and '20X2' respectively and 'directly in equity' is amended to 'in other comprehensive income' (six times).

Question F.6.2 is amended as described below.

The section '*Systems considerations*' of Issue (b) is amended as follows:

- 'the adjustments to equity from changes in the fair value of a hedging instrument should be recognised in profit or loss' is amended to 'the cumulative gains and losses recognised in other comprehensive income from changes in the fair value of a hedging instrument should be reclassified to profit or loss'.

- 'should be recognised in profit or loss' is amended to 'should be reclassified from equity to profit or loss'.

In Issue (f), 'recognised initially in equity are reclassified out of equity and recognised in profit or loss' is amended to 'recognised initially in other comprehensive income are reclassified from equity to profit or loss'.

Issue (g) is amended as follows:

- ‘should be recognised in profit or loss’ is amended to ‘should be reclassified from equity to profit or loss’.
- ‘are recognised in profit or loss’ is amended to ‘are reclassified from equity to profit or loss’.

In Issue (h), ‘net cumulative gain or loss is recognised in profit or loss’ is amended to ‘net cumulative gain or loss is reclassified from equity to profit or loss’.

Issue (j) is amended as follows:

- ‘are reclassified into profit or loss’ is amended to ‘are reclassified from equity to profit or loss’.
- ‘shall reclassify immediately into profit or loss’ is amended to ‘shall reclassify immediately from equity to profit or loss’.

In Question F.6.3, the section ‘*Systems considerations*’ in ‘**Designation objectives**’ is amended as follows:

- (in the second paragraph) ‘track of deferred derivative gains and losses in equity’ is amended to ‘track of gains and losses recognised in other comprehensive income’.
- (in the second paragraph, twice) ‘be recognised in profit or loss’ is amended to ‘be reclassified from equity to profit or loss’.
- (in the second and third paragraphs) ‘be reclassified out of equity’ is amended to ‘be reclassified from equity to profit or loss’.

In Question F.6.4, ‘amounts recognised in equity are released to profit or loss’ is amended to ‘amounts recognised in other comprehensive income are reclassified from equity to profit or loss’.

HKAS 41 *Agriculture*

IGA14 In the appendix accompanying HKAS 41, the rubric above paragraph A1 is amended as follows:

'This appendix, accompanies, but is not part of, HKAS 41. <u>*It has been updated to take account of the changes made by HKAS 1* Presentation of Financial Statements *(as revised in 2007).*</u>'

Example 1 in the appendix is amended as described below.

In the ‘**Statement of financial position**’ and in the ‘**Statement of changes in equity**’, the reference to ‘Accumulated profits’ is amended to ‘Retained earnings’.

The following footnote to the ‘**Statement of changes in equity**’ is deleted:

‘This is one of several formats for the statement of changes in equity permitted by HKAS 1.’

In the second footnote, ‘HKAS 7 *Cash Flow Statements*’ is amended to ‘HKAS 7 *Statement of Cash Flows*’.

HK(IFRIC)-Int 7 *Applying the Restatement Approach under HKAS 29* Financial Reporting in Hyperinflationary Economies

IGA15 In the Illustrative Example accompanying HK(IFRIC)-Int 7, in the quotation from HKAS 29 in paragraph IE6, 'income statement items' is amended to 'income and expense items'.

HK(IFRIC)-Int 12 *Service Concession Arrangements*

IGA16 The Illustrative Examples accompanying HK(IFRIC)-Int 12 are amended as described below.

In paragraphs IE4, IE6, IE17, IE20, IE33 and IE36, '[the] income statement' is amended to 'profit or loss'.

In paragraphs IE20 and IE36, 'The income statement charge each period is' is amended to 'The charge recognised each period in profit or loss is'.

In tables 2.3 and 3.6, 'income statement' is amended to 'profit or loss'.

HK(IFRIC)-Int 14 *HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IGA17 The illustrative examples accompanying HK(IFRIC)-Int 14 are amended as described below.

In paragraph IE7, 'balance sheet liability of 180' is amended to 'liability of 180 in the statement of financial position'.

In the tables below paragraphs IE7 and IE20, 'Net balance sheet liability' is amended to 'Net liability recognised in the statement of financial position'.

In paragraphs IE8 and IE21, 'balance sheet asset' is amended to 'asset recognised in the statement of financial position'.

In paragraph IE20 'balance sheet liability of 244' is amended to 'liability of 244 in the statement of financial position'.

Table of Concordance

This table shows how the contents of HKAS 1 and HKAS 1 (revised 2007) correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded HKAS 1 paragraph	HKAS 1 (revised 2007) paragraph
1	1, 3
2	2
3	4,7
4	None
5	5
6	6
7	9
8	10
9, 10	13, 14
11	7
12	7
None	8
None	11, 12
13–22	15–24
23, 24	25, 26
25, 26	27, 28
27, 28	45, 46
29–31	29–31
32–35	32–35
36	38
None	39
37–41	40–44
42, 43	47, 48
44–48	49–53
49, 50	36, 37
51–67	60–76
68	54
68A	54
69–73	55–59
74–77	77–80
None	81
78	88
79	89
80	89
81	82
82	83
None	84
83–85	85–87
None	90–96
86–94	97–105
95	107
None	108
96, 97	106, 107
98	109
101	None
102	111
103–107	112–116
108–115	117–124
116–124	125–133
124A–124C	134–136
125, 126	137, 138
127	139
127A	None
127B	None
128	140
IG1	IG1
None	IG2
IG2	IG3
None	IG4
IG3, IG4	IG5, IG6
None	IG7
None	IG8
None	IG9
IG5, IG6	IG10, IG11