

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS

Exposure Draft of Proposed AMENDMENTS TO FRS 1 PRESENTATION OF FINANCIAL STATEMENTS: *A REVISED PRESENTATION*

Comments to be received by 17 June 2006

This exposure draft (ED) contains proposed amendments to FRS 1 *Presentation of Financial Statements*.

This ED should be read in the context of the Preface to Financial Reporting Standards published by the Council on Corporate Disclosure and Governance (CCDG).

This ED is issued by CCDG for comment only and does not necessarily represent the views of CCDG.

Since this ED may be modified as a result of comments received, CCDG would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **17 June 2006**, preferably by email to: accounting_stds@acra.gov.sg or addressed to:

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Introduction

- 1 This Exposure Draft of proposed amendments to FRS 1 *Presentation of Financial Statements* is published as part of the project on performance reporting.
- 2 The objective of the performance reporting project was to enhance the usefulness of information presented in the income statement. A possible new model for reporting income and expenses was developed and preliminary testing was conducted. In the United States, the Financial Accounting Standards Board (FASB) also added a project on performance reporting to its agenda, developed its model and conducted preliminary testing. Concerns were raised about both models and about the fact that the two models were different from each other.
- 3 Accordingly, further work on performance reporting continued as a joint project. It was 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.
- 4 The project is undertaken in two segments. Segment A addresses the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. This Exposure Draft is the product of the deliberations on segment A, and proposes to bring FRS 1 largely into line with the US standard—Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income*. The FASB decided to consider segment A and segment B issues together, and therefore will not publish an Exposure Draft related to segment A issues only.
- 5 Segment B is being undertaken jointly and will address more fundamental issues 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 recognised income and expense 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.
- 6 In developing this Exposure Draft, amendments that affect the presentation of owner changes in equity and the presentation of recognised income and expenses have been proposed. It does not propose to change the recognition, measurement or disclosure of specific transactions and other events required by other Standards and Interpretations.
- 7 Not all the requirements in FRS 1 have been reconsidered. However, opportunity has been taken to reorder sections of FRS 1 to make the Standard easier to read. Non-substantive changes have also been made to the words of some paragraphs for consistency within the Standard and with other Standards. For example, 'shall be presented' has been amended to 'an entity shall present'. There is no intention to change meaning by the change of words.

Features of this Exposure Draft

- 8 The Exposure Draft proposes amendments that would require:

- (a) the presentation of a statement of financial position as at the beginning of the period in a complete set of financial statements.
- (b) all owner changes in equity to be presented separately from non-owner changes in equity in a statement of changes in equity.
- (c) all non-owner changes in equity (i.e. recognised income and expenses) to be presented in one or two statements of recognised income and expense. Components of recognised income and expense are not permitted to be presented in the statement of changes in equity.
- (d) the disclosure of reclassification adjustments and income tax relating to each component of other recognised income and expense.
- (e) the presentation of dividends and related per-share amounts on the face of the statement of changes in equity or in the notes.

Invitation to Comment

CCDG invites comments on the amendments to FRS 1 proposed in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative for consideration, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant comment.

CCDG is not requesting comments on matters in FRS 1 not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than 17 June 2006.

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

- (a) statement of financial position (previously 'balance sheet');
- (b) statement of recognised income and expense;
- (c) statement of changes in equity; and
- (d) statement of cash flows (previously 'cash flow statement').

CCDG does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard).

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard).

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (i.e. 'owner changes in equity') separately from other changes in equity (i.e. 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two

statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard).

Question 3 – Do you agree that non-owner changes in equity should be referred to as ‘recognised income and expense’ (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of ‘recognised income and expense’?

Question 4 – Do you agree that all non-owner changes in equity (i.e. components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard).

Question 6 – Do you agree with this proposal? If not, why?

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard).

Question 7 – Do you agree with this proposal? If not, why?

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to FRS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with FRS 33 and presented in the notes.

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

Summary of main changes

The following main changes are proposed:

A complete set of financial statements

- FRS 1 uses the titles 'balance sheet' and 'cash flow statement' to describe two of the statements that constitute a complete set of financial statements. The Exposure Draft proposes to use 'statement of financial position' and 'statement of cash flows' for those statements. The purpose of the proposed amendment is to reflect the function of the statements, referred to in the *Framework*, more closely).
- The Exposure Draft proposes to include a statement of financial position as at the beginning of the period in a complete set of financial statements. FRS 1 does not require the presentation of this statement in a complete set of financial statements. The purpose of the proposed amendment is to provide information that is useful to users in analysing an entity's financial statements.

Reporting owner changes in equity and recognised income and expenses

- FRS 1 requires the presentation of an income statement that includes income and expenses recognised in profit or loss. Other components of income and expense not recognised in profit or loss may be presented in the statement of changes in equity, together with owner changes in equity. The Exposure Draft:
 - proposes that all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) should be presented separately from non-owner changes in equity. An entity would not be permitted to present components of income and expense (i.e. non-owner changes in equity) in the statement of changes in equity.
 - proposes that income and expenses should be presented in one or two statements, separately from owner changes in equity.
 - proposes that profit or loss and total recognised income and expense should be presented in the financial statements.
- The purpose of the proposed amendments is to provide better information to users by requiring aggregation of items with shared characteristics.

Other recognised income and expense—reclassification adjustments and related tax effects

- The Exposure Draft proposes that entities should disclose reclassification adjustments relating to each component of other recognised income and expense. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other recognised income and expense in previous periods. The purpose of the proposed amendment is to provide users with information to assess the effect of reclassifications on profit or loss.
- The Exposure Draft also proposes that entities should disclose income tax relating to each component of other recognised income and expense. FRS 1 does not include such a requirement. The purpose of the proposed amendment is to provide users with tax information relating to these components because they often have tax rates different from those applied to profit or loss.

Presentation of dividends

- FRS 1 permits disclosure of the amount of dividends recognised as distributions to equity holders and the related amount per share on the face of the income statement, statement of changes in equity or in the notes. The Exposure Draft proposes that dividends recognised as distributions to owners and related per-share amounts should be presented on the face of the statement of changes in equity or in the notes. The presentation of such disclosures on the face of the statement of recognised income and expense would not be permitted.
- The purpose of the proposed amendment is to ensure that owner changes in equity (in this case, distributions to equity holders in the form of dividends) are presented separately from non-owner changes in equity (presented in the statement of recognised income and expense).

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[Draft] Financial Reporting Standard 1 *Presentation of Financial Statements* ([draft] FRS 1) is set out in paragraphs 1-140 and the Appendix. All the paragraphs have equal authority. [Draft] FRS 1 should be read in the context of its objective, the *Preface to Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[DRAFT] Financial Reporting Standard 1

Presentation of Financial Statements

[Paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. Proposed new paragraphs are underlined.]

Objective

- 1 ~~The objective of This [draft] Standard is to~~ prescribes the basis for presentation of general purpose financial statements, to ~~ensure~~ enhance comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. ~~To achieve this objective, this Standard~~ It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. *[The remainder of the paragraph has been moved to paragraph 3]*

Scope

- 2 **An entity shall apply this [draft] Standard ~~shall be applied~~ **to all general purpose financial statements (hereafter referred to as 'financial statements') prepared and presented in accordance with Financial Reporting Standards (FRSs).****
- 3 *[Moved from paragraph 1]* Other Standards and Interpretations set out the recognition, measurement and disclosure requirements for of specific transactions and other events ~~are dealt with in other Standards and in Interpretations.~~
- 3 ~~4~~ *[The beginning of this paragraph has been moved to paragraph 7]* This [draft] Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with FRS 34 *Interim Financial Reporting*. However, paragraphs ~~43–44~~ 10–30 apply to such financial statements. This [draft] Standard applies equally to all entities, ~~and whether or not they need to~~ including those that prepare consolidated financial statements or separate financial statements, as defined in FRS 27 *Consolidated and Separate Financial Statements*.
- 4 ~~[deleted]~~
- 5 This [draft] 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, public sector or government ~~seeking to~~ apply this [draft] 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 FRS 32 *Financial Instruments: Presentation* (e.g. some mutual funds) and entities whose share capital is not equity (e.g. some co-operative entities) may need to adapt the financial statement presentation ~~in the financial statements~~ of members' or unitholders' interests.

Definitions

- 44 7 **The following terms are used in this [draft] Standard with the meanings specified:**

[Moved from paragraph 3] 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 demand require an entity to prepare reports tailored to meet their particular information needs.

General purpose financial statements include those that are presented separately or within another public documents such as an annual report or a prospectus a regulatory filing or report to shareholders.

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

***Financial Reporting Standards (FRSs)* are Standards and Interpretations of Financial Reporting Standards (INT FRSs) adopted by the Council on Corporate Disclosure and Governance (CCDG). They comprise:**

- (a) Financial Reporting Standards; and
- (b) Interpretations of Financial Reporting Standards.

***Material Omissions* or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken 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.**

[Moved from paragraph 12] 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 ~~balance sheet statement of financial position, income statement of recognised income and expense, statement of changes in equity and cash flow statement of cash flows.~~ Notes provide narrative descriptions or disaggregations of items ~~disclosed~~ presented in those statements and information about items that do not qualify for recognition in those statements.**

***Other recognised income and expense* is the total of income less expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Standards or Interpretations.**

The components of other recognised income and expense are:

- (a) changes in revaluation surplus (see FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible Assets*);
- (b) gains and losses arising from translating the financial statements of a foreign operation (see FRS 21 *The Effects of Changes in Foreign Exchange Rates*);
- (c) gains and losses on remeasuring available-for-sale financial assets (see FRS 39 *Financial Instruments: Recognition and Measurement*);

- (d) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see FRS 39); and
- (e) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of FRS 19 *Employee Benefits*.

Profit or loss is the total of income less expenses excluding the components of other recognised income and expense.

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other recognised income and expense in previous periods.

Total recognised income and expense is the change in equity of an entity during a period from transactions and other events, other than those resulting from contributions by and distributions to equity holders in their capacity as equity holders.

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

42 [Paragraph 12 moved to paragraph 7]

8 This [draft] Standard uses the terms 'other recognised income and expense', 'profit or loss' and 'total recognised income and expense'. 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 statement presentation

Purpose of financial statements

7.9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of ~~general purpose~~ 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) other changes in equity contributions by and distributions to equity holders in their capacity as equity holders; 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.

Overall considerations

Fair presentation and compliance with FRSs

- ~~43~~ **10** Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation 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 FRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.
- ~~44~~ **11** An entity whose financial statements comply with FRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity ~~Financial statements~~ shall not be described financial statements as complying with FRSs unless they comply with all the requirements of FRSs.
- ~~45~~ **12** In virtually all circumstances, an entity achieves a fair presentation is ~~achieved~~ by compliance with applicable FRSs. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. FRS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.
 - (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 FRSs 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.
- ~~46~~ **13** ~~Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.~~
- ~~47~~ **14** In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation 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 ~~48~~ **15** if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.
- ~~48~~ **15** When an entity departs from a requirement of a Standard or an Interpretation in accordance with paragraph ~~47~~ **14**, 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 Standards and Interpretations, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation 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 impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

49 16 When an entity has departed from a requirement of a Standard or an Interpretation 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 48 15(c) and (d).

~~20-17~~ Paragraph 49 16 applies, for example, when an entity departed in a prior period from a requirement in a Standard or an Interpretation 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.

24 18 In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation 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 Standard or Interpretation 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 fair presentation.

~~22 19~~ For the purpose of paragraphs 47–24 14–18, 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 a Standard or an Interpretation 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

23 20 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 ~~shall be disclosed~~. When an entity does not prepare financial statements on a going concern basis, ~~are not prepared on a going concern basis,~~

it shall disclose that fact shall be disclosed, together with the basis on which it prepared the financial statements are prepared and the reason why the entity is not regarded as a going concern.

- 24 ~~21~~ 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 ~~balance sheet date~~ 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 ~~may be reached~~ 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

- 25 ~~22~~ **An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**

- 26 ~~23~~ When the accrual basis of accounting is used, an entity recognises ~~items are recognised~~ 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 ~~24~~ **An entity shall present separately each material class of similar items shall be presented separately in the financial statements. An entity shall present separately items of a dissimilar nature or function shall be presented separately unless they are immaterial.**

- 30 ~~25~~ 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 on the face of the ~~balance sheet~~ statements of financial position, income statement recognised income and expense, statement of changes in equity and cash flow statement cash flows, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless ~~be sufficiently material for it to be presented separately~~ warrant separate presentation in the notes.

- 34 ~~26~~ ~~Applying the concept of materiality means that a~~ An entity need not satisfy a specific disclosure required in by a Standard or an Interpretation ~~need not be satisfied~~ if the information is not material.

Offsetting

- 32 ~~27~~ **An entity shall not offset assets and liabilities, and or income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.**

- 33 ~~28~~ ~~It is important that~~ An entity reports separately both assets and liabilities, and income and expenses, ~~are reported separately~~. Offsetting in the income statements of recognised income and expense or the balance sheet financial position, 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 29 FRS 18 *Revenue* defines revenue and requires an entity to measure it to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. 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 ~~are presented~~, 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 reports gains and losses on the disposal of non-current assets, including investments and operating assets, ~~are reported~~ 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 FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) ~~may be netted~~ against the related reimbursement.

35 30 In addition, an entity reports gains and losses arising from a group of similar transactions ~~are reported~~ on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity reports such gains and losses ~~are, however, reported~~ separately if they are material.

Components Complete set of financial statements

8 31 A complete set of financial statements comprises:

- (a) ~~a balance sheet~~ statement of financial position as at the beginning of the period;^{*}
- (b) ~~an income statement~~ a statement of financial position as at the end of the period;
- (c) a statement of recognised income and expense for the period;
- ~~(e)~~(d) 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)~~(e) a cash flow statement of cash flows for the period; and
- ~~(e)~~(f) notes, comprising a summary of significant accounting policies and other explanatory notes information.

An entity may use titles for the statements other than those used in this [draft] Standard.

32 An entity shall present with equal prominence each financial statement in a complete set of financial statements.

33 As permitted by paragraph 81, an entity may present the components of profit or loss either in the statement of recognised income and expense or in a separate statement. A separate statement

* A statement of financial position as at the beginning of the period is not required in an entity's first financial statements, i.e. at the beginning of its first year of operations.

of profit or loss forms part of a complete set of financial statements and shall be displayed immediately before the statement of recognised income and expense.

9 34 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 ~~balance sheet~~ statement of financial position in accordance with FRSs.

40 35 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 FRSs.

Frequency of reporting period

49 36 **An entity shall present a complete set of financial statements (including comparative information) shall be presented at least annually. When the end of an entity's balance sheet date reporting period changes and the annual financial statements are presented 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 comparative amounts for the ~~income statements of recognised income and expense, statement of changes in equity, cash flow statement~~ cash flows, and related notes are not entirely comparable.**

50 37 Normally, an entity consistently prepares financial statements are consistently prepared covering for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Comparative information

36 38 **Except when a Standard or an Interpretation permits or requires otherwise, an entity shall disclose comparative information shall be disclosed in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**

39 On the basis of the description of a complete set of financial statements in paragraph 31, an entity disclosing comparative information 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 previous period.

37 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, the outcome of which was uncertain at the ~~last balance sheet date~~ end of the immediately preceding reporting period and is yet to be resolved, ~~are disclosed in the current period.~~ Users benefit from information that the uncertainty existed at the ~~last balance sheet date~~ end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

38 41 When the presentation or classification of items in the financial statements is amended changed, an entity shall reclassify comparative amounts ~~shall be reclassified~~ unless the reclassification is impracticable. When comparative amounts are reclassified, an 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.**

39 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.**

40 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 may not have been collected~~ in the prior period(s) in a way that allows reclassification, and it may ~~not~~ be impracticable to recreate the information.

41 44 FRS 8 ~~deals with~~ sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

27 45 An entity shall retain the presentation and classification of items in the financial statements ~~shall be retained~~ 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 FRS 8; or**
- (b) **a Standard or an Interpretation requires a change in presentation.**

~~28~~ 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 is 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 ~~38~~ 41 and ~~39~~ 42.

Structure and content

Introduction

~~42~~ 47 This [draft] Standard requires particular disclosures on the face of the ~~balance sheet statements of financial position, income statement recognised income and expense and statement of changes in equity~~ and requires disclosure of other line items either on the face of those statements or in the notes. FRS 7 ~~Cash Flow Statements~~ Statement of Cash Flows sets out requirements for the presentation of ~~a cash flow statement~~ cash flow information.

~~43~~ 48 This [draft] Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of the ~~balance sheet statements of financial position, income statement recognised income and expense, statement of changes in equity and cash flow statement cash flows~~, as well as in the notes. Disclosures are also required by other Standards and Interpretations. Unless specified to the contrary elsewhere in this [draft] Standard, or in another Standard or Interpretation, such disclosures are may be made either on the face of the ~~balance sheet statements of financial position, income statement recognised income and expense, statement of changes in equity or cash flow statement cash flows~~ (whichever is relevant), or in the notes.

Identification of the financial statements

~~44~~ 49 **An entity shall clearly identify the financial statements shall be identified clearly and distinguished them from other information in the same published document.**

~~45~~ 50 FRSs 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 FRSs from other information that may be useful to users but is not the subject of those requirements.

~~46~~ 51 **An entity shall clearly identify each component of the financial statements and the notes shall be identified clearly. In addition, an entity shall display the following information shall be displayed prominently, and repeated it when it is necessary for a proper an understanding of the information presented:**

- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding balance sheet date reporting period;
- (b) whether the financial statements ~~cover~~ are of the individual entity or a group of entities;
- (c) the ~~balance sheet date~~ of the end of the reporting period or the period covered by the each financial statements or notes, ~~whichever is appropriate to that component of the financial statements~~;

- (d) **the presentation currency, as defined in FRS 21 *The Effects of Changes in Foreign Exchange Rates*; and**
- (e) **the level of rounding used in presenting amounts in the financial statements.**

~~47~~ 52 An entity meets the requirements in paragraph 46 ~~51 are normally met~~ by presenting ~~page~~ appropriate headings and abbreviated column headings on each page of the financial statements 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 ~~are presented~~ electronically, separate pages are not always used; an entity then presents the above items ~~are then presented~~ frequently enough to ensure an proper understanding of the information included in the financial statements.

~~48~~ 53 An entity often makes financial statements ~~are often made~~ 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 in presentation ~~is disclosed~~ and does not omit material information ~~is not omitted~~.

Balance Sheet Statement of financial position

Information to be presented on the face of the balance sheet statement of financial position

~~68~~ 54 **As a minimum, the face of the balance sheet statement of financial position shall include line items that present the following amounts ~~to the extent that they are not presented in accordance with paragraph 68A:~~**

- (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) ***[moved from paragraph 68A]* the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*;**
- (~~jk~~) **trade and other payables;**
- (~~kl~~) **provisions;**
- (~~lm~~) **financial liabilities (excluding amounts shown under (~~jk~~) and (~~kl~~));**

- (~~mn~~) liabilities and assets for current tax, as defined in FRS 12 *Income Taxes*;
- (~~no~~) deferred tax liabilities and deferred tax assets, as defined in FRS 12;
- (p) [~~moved from paragraph 68A~~] liabilities included in disposal groups classified as held for sale in accordance with FRS 105;
- (~~oq~~) minority interest, presented within equity; and
- (~~pr~~) issued capital and reserves attributable to equity holders of the parent.

~~68A~~ [Moved to paragraph 54]

~~69~~ **55** An entity shall present additional line items, headings and subtotals shall be presented on the face of the ~~balance sheet~~ statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

~~70~~ **56** When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its ~~balance sheet~~ statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

~~74~~ **57** This [draft] Standard does not prescribe the order or format in which an entity presents items ~~are to be presented~~. Paragraph ~~68~~ 54 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the ~~balance sheet~~ 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.

~~72~~ **58** An entity makes the judgement ~~on~~ about whether to present additional items ~~are presented separately is based 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.

~~73~~ **59** The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity should present them ~~they should be presented~~ as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with FRS 16 ~~*Property, Plant and Equipment*~~.

Current/non-current distinction

~~54~~ **60** An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its ~~balance sheet~~ statement of financial position in accordance with paragraphs ~~57–67~~ 66–76 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception

applies, an entity shall present all assets and liabilities ~~shall be presented~~ broadly in order of liquidity.

52 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 ~~balance sheet date~~ end of the reporting period, and
- (b) ~~More than twelve months after the balance sheet date end of the reporting period, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.~~

53 62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the ~~balance sheet 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 realised within the current operating cycle, and liabilities that are due for settlement within the same period.

54 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 ~~is~~ more relevant than a current/ non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

55 64 In applying paragraph ~~54 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 ~~is~~ more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

56 65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. FRS 107 *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 and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the ~~balance sheet date~~ end of the reporting period.

Current assets

57 66 An entity shall classify an asset ~~shall be classified~~ as current when it ~~satisfies any of the following criteria:~~

- (a) ~~it is expected~~ expects to be realised in the asset, or ~~is intended for sale or consumption~~ intends to sell or consume it, in, ~~the entity's~~ its normal operating cycle;
- (b) ~~it is held~~ holds the asset primarily for the purpose of ~~being traded~~ trading;
- (c) ~~it is expected~~ expects to be realised the asset within twelve months after the ~~balance sheet date~~ end of the reporting period; or

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

An entity shall classify all other assets shall be classified as non-current.

58 67 This [draft] 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.

59 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, its duration 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 ~~balance-sheet date~~ **end of the reporting period**. Current assets also include assets held primarily for the purpose of ~~being traded~~ **trading** (financial assets within this category are classified as held for trading in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

Current liabilities

60 69 **An entity shall classify a liability shall be classified as current when it satisfies any of the following criteria:**

- (a) ~~it is expected~~ **expects to be settled the liability in the entity's its** normal operating cycle;
- (b) ~~it is held~~ **holds the liability** primarily for the purpose of ~~being traded~~ **trading**;
- (c) ~~it the liability is due to be settled within twelve months after the balance-sheet date~~ **end of 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 balance-sheet date~~ **end of the reporting period.**

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

64 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 ~~are classified~~ as current liabilities even if they are due to be settled more than twelve months after the ~~balance-sheet date~~ **end of 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, its duration is assumed to be twelve months.

62 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the ~~balance-sheet date~~ **end of the reporting period** or held primarily for the purpose of ~~being traded~~ **trading**. Examples are financial liabilities classified as held for trading in accordance with FRS 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 (i.e. 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 ~~balance-sheet date~~ **end of the reporting period** are non-current liabilities, subject to paragraphs 65 74 and 66 75.

~~63~~ 72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the ~~balance sheet date~~ end of 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 ~~balance sheet date~~ end of the reporting period and before the financial statements are authorised for issue.

~~64~~ 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the ~~balance sheet date~~ end of 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 to refinance), the potential to refinance is not considered and an entity classifies the obligation ~~is classified~~ as current.

~~65~~ 74 When an entity breaches ~~an undertaking under~~ a long-term loan arrangement on or before the ~~balance sheet date~~ end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability ~~is classified~~ as current, even if the lender has agreed, after the ~~balance sheet date~~ end of the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability ~~is classified~~ as current because, at the ~~balance sheet date~~ end of the reporting period, ~~the entity~~ it does not have an unconditional right to defer its settlement for at least twelve months after that date.

~~66~~ 75 However, an entity classifies the liability ~~is classified~~ as non-current if the lender agreed by the ~~balance sheet date~~ end of the reporting period to provide a period of grace ending at least twelve months after the ~~balance sheet date~~ end of the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

~~67~~ 76 In respect of loans classified as current liabilities, if the following events occur between the ~~balance sheet date~~ end of the reporting period and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with FRS 10 *Events after the ~~Balance Sheet Date~~ End of the Reporting Period*:

- (a) refinancing on a long-term basis;
- (b) rectification of a breach of a long-term loan arrangement; and
- (c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the ~~balance sheet date~~ end of the reporting period.

Information to be presented either on the face of the ~~balance sheet~~ statement of financial position or in the notes

~~74~~ 77 An entity shall disclose, either on the face of the ~~balance sheet~~ 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.

~~75~~ 78 The detail provided in subclassifications depends on the requirements of FRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph ~~72~~ 58 ~~also are used~~ 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 FRS 16;
- (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
- (c) inventories are subclassified, in accordance with FRS 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.

76 79 An entity shall disclose the following, either on the face of the ~~balance sheet~~ statement of financial position or of changes in equity, or in the notes:

- (a) for each class of share capital the number of shares authorised;
 - (i) the number of shares issued and fully paid, and issued but not fully paid;
 - (ii) par value per share, or that the shares have no par value;
 - (iii) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
 - (iv) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
 - (v) shares in the entity held by the entity or by its subsidiaries or associates; and
 - (vi) 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.

77 80 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph **76 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.

Income Statement of recognised income and expense

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

- (a) in a single statement of recognised income and expense; or
- (b) in two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense.

Information to be presented on the face of the ~~income statement of~~ recognised income and expense

84 ~~82~~ As a minimum, the face of the ~~income statement of~~ recognised income and expense 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; ~~and~~
- (f) profit or loss;
- (g) each component of other recognised income and expense classified by nature (excluding amounts in (h));
- (h) share of the other recognised income and expense of associates and joint ventures accounted for using the equity method; and
- (i) total recognised income and expense.

82 ~~83~~ An entity shall disclose the following items ~~shall be disclosed~~ on the face of the ~~income statement of~~ recognised income and expense as allocations of ~~profit or loss for the period~~:

- (a) profit or loss for the period attributable to:
 - (i) minority interest, and
 - (ii) equity holders of the parent;
- (b) ~~profit or loss attributable to equity holders of the parent~~ total recognised income and expense for the period attributable to:
 - (i) minority interest, and
 - (ii) equity holders of the parent.

84 An entity may present the line items in paragraph 82(a)–(f), and the disclosures in paragraph 83(a), on the face of a separate statement of profit or loss (see paragraph 33).

83 85 An entity shall present additional line items, headings and subtotals shall be presented on the face of the income statement of recognised income and expense when such presentation is relevant to an understanding of the entity's financial performance.

84 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 in an understanding of the financial performance achieved and in making projections of future results financial performance. An entity includes additional line items are included on the face of the income statement of recognised income and expense, and it amends the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. An entity considers factors to be considered include including materiality and the nature and function of the components of income and expenses. 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 are not offset unless the criteria in paragraph 32 27 are met.

85 87 An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement of recognised income and expense or in the notes.

Profit or loss for the period

78 88 An entity shall include all items components of income and expense recognised in a period shall be included in profit or loss unless a Standard or an Interpretation requires or permits otherwise.

79 89 Normally, all items of income and expense recognised in a period are included in profit or loss. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from profit or loss for the current period. Some Standards specify circumstances when an entity recognises particular components outside profit or loss in the current period. FRS 8 deals with specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other Standards require components of other recognised income and expense that meet the Framework definition of income or expenses to be excluded from profit or loss (see paragraph 7).

80 Other Standards deal with items that may meet the Framework definitions of income or expense but are usually excluded from profit or loss. Examples include revaluation surpluses (see FRS 16), particular gains and losses arising on translating the financial statements of a foreign operation (see FRS 21) and gains or losses on remeasuring available-for-sale financial assets (see FRS 39).

Other recognised income and expense for the period

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

91 An entity may present components of other recognised income and expense 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 each component of other recognised income and expense.

- 93 Other Standards specify whether and when amounts previously recognised in other recognised income and expense are reclassified to profit or loss. Such reclassifications are referred to as reclassification adjustments in this [draft] Standard. A reclassification adjustment is included with the related component of other recognised income and expense 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 recognised income and expense as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other recognised income and expense in the period in which the realised gains are included in profit or loss to avoid including them in total recognised income and expense twice.
- 94 An entity may present reclassification adjustments on the face of the statement of recognised income and expense or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other recognised income and expense after any related reclassification adjustments.
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see FRS 21), on derecognition of available-for-sale financial assets (see FRS 39) and when a hedged forecast transaction affects profit or loss in accordance with paragraph 100 of FRS 39 in relation to cash flow hedges.
- 96 Reclassification adjustments do not arise on changes in revaluation surplus or actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of FRS 19. These components are recognised in other recognised income and expense 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 FRS 16 and FRS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other recognised income and expense (see FRS 19).

Information to be presented either on the face of the income statement of recognised income and expense or in the notes

- ~~86~~ 97 **When items components of income and expense are material, an entity shall disclose their nature and amount shall be disclosed separately.**
- ~~87~~ 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.

88 99 An entity shall present an analysis of expenses within profit or loss using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

89100 Entities are encouraged to present the analysis in paragraph 88 99 on the face of the ~~income~~ statement of recognised income and expense.

90101 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.

91102 The first form of analysis is the nature of the expense method. An entity aggregates expenses ~~are aggregated in the income statement~~ within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and ~~are~~ does not reallocate them among various 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		<u>(X)</u>
Profit		<u><u>X</u></u>

92103 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		<u>(X)</u>
Gross profit		X
Other income		X
Distribution costs		(X)
Administrative expenses		(X)
Other expenses		<u>(X)</u>
Profit		<u><u>X</u></u>

93104 An entity ~~Entities~~ classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

94105 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 [draft] Standard requires management to select the most relevant and reliable presentation. 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 93 104, 'employee benefits' has the same meaning as in FRS 19 *Employee Benefits*.

- 95** ~~[Moved to paragraph 107] An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.~~

Statement of changes in equity

- 96**106 An entity shall present a statement of changes in equity showing on the face of the statement:

- ~~(a) profit or loss for the period;~~
- ~~(b) each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;~~
- ~~(c)(a) total recognised income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and~~
- ~~(d)(b) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with FRS 8;~~
- (c) ~~[moved from paragraph 97(a)]~~ the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately contributions by and distributions to equity holders; and
- (d) ~~[moved from paragraph 97(b) and (c)]~~ for each component of equity, a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.

~~A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense.~~

- 97**107 An entity shall ~~also~~ present, either on the face of the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.

- ~~(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;~~
- ~~(b) the balance of retained earnings (i.e. accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and~~
- ~~(c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.~~

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

~~98~~109 Changes in an entity's equity between ~~two balance sheet dates~~ 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 equity holders acting in their capacity as equity holders (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 expenses, including gains and losses, generated by the entity's activities during that period ~~(whether those items of income and expenses are recognised in profit or loss or directly as changes in equity).~~

~~99~~ This Standard requires all items of income and expense recognised in a period to be included in profit or loss unless another Standard or an Interpretation requires otherwise. Other Standards require some gains and losses (such as revaluation increases and decreases, particular foreign exchange differences, gains or losses on remeasuring available-for-sale financial assets, and related amounts of current tax and deferred tax) to be recognised directly as changes in equity. Because it is important to consider all items of income and expense in assessing changes in an entity's financial position between two balance sheet dates, this Standard requires the presentation of a statement of changes in equity that highlights an entity's total income and expenses, including those that are recognised directly in equity.

~~100~~110 FRS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Standard or an Interpretation require otherwise. FRS 8 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of retained earnings, except when a Standard or an Interpretation requires retrospective adjustment of another component of equity. Paragraph ~~96~~ 106(d) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

~~101~~ The requirements in paragraphs ~~96 and 97~~ may be met in various ways. One example is a columnar format that reconciles the opening and closing balances of each element within equity. An alternative is to present only the items set out in paragraph ~~96~~ in the statement of changes in equity. Under this approach, the items described in paragraph ~~97~~ are shown in the notes.

Cash flow Statement of cash flows

~~102~~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. FRS 7 ~~Cash Flow Statements~~ sets out requirements for the presentation and disclosure of the cash flow statement and related disclosures cash flow information.

Notes

Structure

~~103~~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 ~~108–115~~ 117–124;**

- (b) disclose the information required by FRSs that is not presented on the face of the ~~balance sheet~~ statements of financial position, income statement recognised income and expense, statement of changes in equity or cash flow statement cash flows; and
- (c) provide ~~additional~~ information that is not presented on the face of the ~~balance sheet~~ statements of financial position, income statement recognised income and expense, statement of changes in equity or cash flow statement cash flows, but is relevant to an understanding of any of them.

404113 ~~An entity notes~~ shall, as far as practicable, be presented notes in a systematic manner. An entity shall cross-reference each item on the face of the ~~balance sheet~~ statements of financial position, income statement recognised income and expense, statement of changes in equity and cash flow statement cash flows shall be cross-referenced to any related information in the notes.

~~405114~~ An entity normally presents notes ~~are normally presented~~ in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

- (a) a statement of compliance with FRSs (see paragraph 44 11);
- (b) a summary of significant accounting policies applied (see paragraph ~~408~~ 117);
- (c) supporting information for items presented on the face of the ~~balance sheet~~ statements of financial position, income statement recognised income and expense, statement of changes in equity and cash flow statement cash flows, in the order in which each statement and each line item is presented; and
- (d) other disclosures, including:
 - (i) contingent liabilities (see FRS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, e.g. the entity's financial risk management objectives and policies (see FRS 107).

~~406115~~ In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss ~~may be combined~~ with information on maturities of financial instruments, although the former disclosures relate to the ~~income~~ statement of recognised income and expense and the latter relate to the ~~balance sheet~~ statement of financial position. Nevertheless, an entity retains a systematic structure for the notes ~~is retained~~ as far as practicable.

~~407116~~ An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies ~~may be presented~~ as a separate ~~component~~ section of the financial statements.

Disclosure of accounting policies

408117 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.

~~409~~118 It is important for an entity to inform users ~~to be informed~~ 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 ~~are prepared~~ significantly affects their analysis. When an entity uses more than one measurement basis ~~is used~~ 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.

~~440~~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 the 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 Standards and Interpretations. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see FRS 31 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, FRS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment. FRS 23 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.

~~444~~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, an entity subject to income taxes would be expected 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, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. ~~When business combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.~~

~~442~~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 FRSs, but is selected and applied in accordance with FRS 8.

~~443~~122 **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph ~~446~~ 125), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.**

~~444~~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 recognised 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 special purpose entity is controlled by the entity.

~~445~~124 Some of the disclosures made in accordance with paragraph ~~443~~ 122 are required by other Standards. For example, FRS 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. FRS 40 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.

Key Sources of estimation uncertainty

~~446~~125 An entity shall disclose in the notes information about the **key significant assumptions made concerning the future, and other key major sources of estimation uncertainty at the ~~balance sheet date~~ 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. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and
- (b) their carrying amount as at the ~~balance sheet date~~ end of the reporting period.

~~447~~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 ~~balance sheet date~~ 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 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 used, future changes in salaries and future changes in prices affecting other costs.

~~448~~127 The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph ~~446~~ 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.

~~449~~128 The disclosures in paragraph ~~446~~ 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 ~~balance sheet date~~ end of the reporting period, they are measured at fair value based on recently observed market prices (their 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 ~~balance sheet date~~ end of the reporting period).

~~420~~129 An entity presents the disclosures in paragraph ~~446~~ 125 ~~are presented~~ in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key 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 made 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.

~~121~~130 An entity is not required ~~It is not necessary~~ to disclose budget information or forecasts in making the disclosures in paragraph ~~416~~ 125.

~~122~~131 When it is impracticable to disclose the extent of the possible effects of ~~a key~~ an assumption or another ~~key~~ source of estimation uncertainty at the ~~balance sheet date~~ end of the reporting period, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions 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.

~~123~~132 The disclosures in paragraph ~~413~~ 122 of particular judgements management made in the process of applying the entity's accounting policies do not relate to the disclosures of ~~key~~ sources of estimation uncertainty in paragraph ~~416~~ 125.

~~124~~133 Other Standards require the disclosure of some of the ~~key~~ assumptions that would otherwise be required in accordance with paragraph ~~416~~ 125 ~~is required by other Standards~~. For example, FRS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. FRS 107 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. FRS 16 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Capital

~~124A~~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.

~~124B~~135 To comply with paragraph ~~124A~~ 134, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

- (c) any changes in (a) and (b) from the previous period.
- (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 ~~shall be based~~ on the information provided internally to the ~~entity's~~ key management personnel.

~~124G136~~ 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 also 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

~~125137~~ 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 equity holders during the period, and the related amount per share; and
- (b) the amount of any cumulative preference dividends not recognised.

~~126138~~ 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.

Effective date

~~127139~~ An entity shall apply this [draft] Standard for annual periods beginning on or after 4 January 2005 [date to be inserted after exposure]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before 4 January 2005 [date to be inserted after exposure], it shall disclose that fact.

~~127A~~ ~~An entity shall apply the amendment in paragraph 96 for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to FRS 19 Employee Benefits, Actuarial Gains and Losses, Group Plans and Disclosures for an earlier period, that amendment shall be applied for that earlier period.~~

~~127B An entity shall apply the requirements of paragraphs 124A–124C for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.~~

Withdrawal of FRS 1 (revised ~~1997~~ 2004)

~~128~~140 This [draft] Standard supersedes FRS 1 *Presentation of Financial Statements* revised in ~~1997~~ 2004.

Appendix

Amendments to other pronouncements

The amendments in this [draft] Appendix shall be applied from the beginning of annual periods commencing on or after [date to be inserted after exposure]. If an entity applies this [draft] Standard from the beginning of an earlier annual period, these amendments shall be applied for that earlier period. Amended paragraphs are shown with the new text underlined and deleted text struck through.

A1 In the *Preface to Financial Reporting Standards*, the *Framework for the Preparation and Presentation of Financial Statements*, and Financial Reporting Standards (including Financial Reporting Standards and Interpretations) applicable at [date to be inserted after exposure], references to 'balance sheet', 'income statement' and 'cash flow statement' are amended to 'statement of financial position', 'statement of recognised income and expense' and 'statement of cash flows' respectively, unless otherwise stated in this Appendix.

A2 In Financial Reporting Standards (including Financial Reporting Standards and Interpretations) applicable at [date to be inserted after exposure], the following references are amended as described below, unless otherwise stated in this Appendix.

- 'FRS 1 *Presentation of Financial Statements* (as revised in 2004)' is amended to 'FRS 1 *Presentation of Financial Statements* (as revised in 200X)'.
- 'balance sheet date' is amended to 'end of the reporting period'.
- 'recognised in equity' is amended to 'recognised outside profit or loss'.
- 'recognised directly in equity' is amended to 'recognised outside profit or loss'.
- 'removed from equity and recognised in profit or loss' and 'removed from equity and included in profit or loss' are amended to 'removed from equity and reclassified from equity to profit or loss as a reclassification adjustment (see FRS 1)'.
- 'classified as equity' is amended to 'presented in equity'.

A3 FRS 101 *First-time Adoption of Financial Reporting Standards* is amended as described below.

Paragraphs 6 and 7 are amended as follows.

6 An entity shall ~~prepare~~ present an *opening FRS ~~balance sheet~~ statement of financial position* at the *date of transition to FRSS*. This is the starting point for its accounting under FRSS. ~~An entity need not present its opening FRS balance sheet in its first FRS financial statements.~~

7 **An entity ... Those accounting policies shall comply with each FRS effective at the reporting date for end of its first FRS financial statements reporting period, except as specified in paragraphs 13–34.**

In the example after paragraph 8, the paragraphs **Background** and **Application of requirements** are amended as follows.

Background

The ~~reporting date end~~ of entity A's first FRS ~~financial statements reporting period~~ is 31 December 2005. ...

Application of requirements

Entity A ... in:

- (a) preparing and presenting its opening FRS ~~balance sheet~~ statement of financial position at 1 January 2004; and ...

Paragraphs 21, 32 and 36 are amended as follows:

- 21 FRS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity:
- (a) to ~~classify~~ recognise some translation differences outside profit or loss and present 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) to ~~the income statement~~ profit or loss as part of the gain or loss on disposal.
- 32 An entity ... Instead, the entity shall reflect that new information in ~~its income statement~~ profit or loss (or, if appropriate, other recognised income and expense or other changes in equity) for the year ended 31 December 2004.
- 36 To comply with FRS 1 *Presentation of Financial Statements*, an entity's first FRS financial statements shall include at least one year of comparative information under FRSs. Accordingly, an entity shall present at least three statements of financial position, two of each of the other statements, and related notes.

In paragraph 36A, 'comparative period's reporting date' is amended to 'end of the comparative reporting period'.

Paragraph 39 is amended as follows.

- 39 To comply with paragraph 38, an entity's first FRS financial statements shall include: ...
- (b) a reconciliation of the ~~profit or loss total~~ recognised income and expense (or its equivalent) reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its ~~profit or loss total~~ recognised income and expense under FRSs for the same period; ...

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

first FRS reporting period	The reporting period ending on the reporting date <u>of covered by</u> an entity's first FRS financial statements .
reporting date	The end of the latest period covered by financial statements or by an interim financial report.

In Appendix B, paragraph B2 is amended as follows.

- B2(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 FRS ~~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.

The Implementation Guidance is amended as described below.

In Examples 1, 2, 3, 4, 201 and 202, 'Entity [X]'s [An entity's] first FRS financial statements have a reporting date of' is amended to 'The reporting date for an entity's [entity [X]'s] first FRS financial statements ends on'.

Example 10 is amended as follows.

IG Example 10 Interim financial reporting

Background

The reporting period for entity R's first FRS financial statements ~~have a reporting date of~~ ends on 31 December 2005, and its first interim financial report under FRS 34 is for the quarter ended 31 March 2005. Entity R prepared previous GAAP annual financial statements for the year ended 31 December 2004, and prepared quarterly reports throughout 2004.

Application of requirements

In each quarterly interim financial report for 2005, entity R includes reconciliations of:

- (a) its equity under previous GAAP at the end of the comparable quarter of 2004 to its equity under FRSs at that date; and
- (b) its ~~profit or loss~~ total recognised income and expense (or its equivalent) under previous GAAP for the comparable quarter of 2004 (current and year-to-date) to its ~~profit or loss~~ total recognised income and expense under FRSs.

In addition to the reconciliations required by (a) and (b) and the disclosures required by FRS 34, entity R's interim financial report for the first quarter of 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 2004 and 31 December 2004 to its equity under FRSs at those dates; and
- (b) its ~~profit or loss~~ total recognised income and expense (or its equivalent) for 2004 under previous GAAP to its ~~profit or loss~~ total recognised income and expense for 2004 under FRSs. ...

In paragraph IG21, 'the reporting date' is amended to 'the end of the first FRS reporting period'.

In paragraph IG36, 'the reporting date for its first FRS financial statements' is amended to 'the end of its first FRS reporting period'.

In paragraph IG43, 'the income statement' is amended to 'profit or loss'.

Paragraphs IG59 and IG60B are amended as follows.

IG59 An entity ... Subsequently, the entity recognises gains and losses on the available-for-sale financial asset outside profit or loss and presents 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 (FRS 39, paragraph 55(b)).

IG60B An entity ... in which case any related net cumulative gain or loss that had been recognised directly in equity is ~~recognised in~~ reclassified to profit or loss. ...

Paragraph IG63 and Example 11 are amended as follows.

IG63 Paragraphs 39(a) and (b), 40 and 41 of the FRS 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~~ statement of financial position, statement of recognised income and expense and, if applicable, ~~cash flow statement of cash flows~~. Paragraph 39(a) and (b) requires specific reconciliations of equity and ~~profit or loss~~ total recognised income and expense. IG Example 11 shows one way of satisfying these requirements.

IG Example 11 Reconciliation of equity and profit or loss total recognised income and expense				
...				
Reconciliation of profit or loss total recognised income and expense for 2004				
Note		<i>Previous GAAP</i>	<i>Effect of transition to FRSs</i>	<i>FRSs</i>
	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)
	Net Profit (loss)	264	(299)	(35)
6	<u>Available-for-sale financial assets</u>	<u>0</u>	<u>150</u>	<u>150</u>

continued...

continued...

IG Example 11 Reconciliation of equity and ~~profit or loss~~ total recognised income and expense

7	<u>Cash flow hedges</u>	<u>0</u>	<u>(40)</u>	<u>(40)</u>
8	<u>Tax relating to other recognised income and expense</u>	<u>0</u>	<u>(29)</u>	<u>(29)</u>
	<u>Other recognised income and expense</u>	<u>0</u>	<u>81</u>	<u>81</u>
	<u>Total recognised income and expense</u>	<u>264</u>	<u>(218)</u>	<u>46</u>

Notes to the reconciliation of ~~profit or loss~~ total recognised income and expense for 2004: ...

- 6 Available-for-sale financial assets under FRSs, carried at fair value, increased in value by 180 during 2004. They were carried at cost under previous GAAP. The entity sold available-for-sale financial assets during the year, realising a gain of 40 in profit or loss. Of that realised gain 30 had been included in the revaluation reserve as at 1 January 2004 and is reclassified from revaluation reserve to profit or loss (as a reclassification adjustment in other recognised income and expense) on disposal of the financial assets.
- 7 The fair value of forward foreign exchange contracts that are effective hedges of forecast transactions decreased by 40 during 2004.
- 8 Adjustments 6 and 7 above lead to an increase of 29 in deferred tax expense.
...

A4 FRS 104 *Insurance Contracts* is amended as described below.

In the Implementation Guidance, Example 4 is amended as follows.

Background

[Third paragraph] ... 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~~ outside profit or loss as a component of other recognised income and expense. ...

Application of paragraph 30 of the FRS

[First paragraph] ... Because insurer A recognised the change in their fair value ~~in equity outside profit or loss,~~ it recognises the additional amortisation of CU2 ~~directly in equity, through the statement of changes in equity~~ outside profit or loss as a component of other recognised income and expense.

When insurer A sells the assets in 2006, it makes no further adjustment to DAC, but ~~transfers~~ reclassifies DAC amortisation of CU2₁ relating to the now-realised gain₁ from equity to profit or loss as a reclassification adjustment (see FRS 1).

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~~ outside profit or loss rather than in profit or loss and (b) ~~transferred~~ reclassified to profit or loss when the gain on the asset becomes realised. ...

A5 FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* is amended as described below.

In paragraph 38, 'recognised directly in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

In Example 11 of the Implementation Guidance, footnote (b) is added as follows.

'(b) The entity did not recognise any components of other recognised income and expense in the periods presented.'

A6 In FRS 7 ~~Cash Flow Statements~~ Statement of Cash Flows, Appendix A is amended as follows.

A footnote (a) is added at the end of the **Consolidated income statement of recognised income and expense for the period ended 20X2** '(a) The entity did not recognise any components of other recognised income and expense in the period ended 20X2'.

A7 FRS 12 *Income Taxes* is amended as described below.

The heading above paragraph 58 is amended as follows.

Income statement Items recognised in profit or loss 58-60

The heading above paragraph 61 is amended as follows.

Items credited or charged directly to equity recognised outside profit or loss 61-65A...

In paragraphs 22(b), 23, 59, 60 and 65, 'the income statement' is amended to 'profit or loss'.

In paragraph 52, 'charged directly to equity' is amended to 'recognised outside profit or loss'.

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

Income statement Items recognised in profit or Loss 58-60

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, ~~directly in equity~~ outside profit or loss (see paragraphs 61 to 65); ...**

In the heading before paragraph 61 and in paragraphs 60, 61, 62, 63 and 65, 'credited or charged directly to equity' and 'charged or credited directly to equity' are amended to 'recognised outside profit or loss'.

In paragraph 61, 'credited or charged, in the same or a different period, directly to equity' is amended to 'recognised, in the same or a different period, outside profit or loss'.

Paragraph 62 is amended and paragraph 62A is added as follows.

62 ~~Financial Reporting Standards require or permit certain particular items to be credited or charged directly to equity~~ recognised outside profit or loss as components of other recognised income and expense. Examples of such items are:

- (a) a change in carrying amount arising from the revaluation of property, plant and equipment (see FRS 16 *Property, Plant and Equipment*); and
- (b) ~~[deleted] 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 FRS 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 FRS 21 *The Effects of Changes in Foreign Exchange Rates*); and
- (d) ~~[deleted] amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).~~

62A 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 FRS 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).

In paragraph 68C, 'directly in equity' is amended to 'outside profit or loss'.

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 on the face of the ~~income~~ statement of recognised income and expense.**

77A If an entity presents the components of profit or loss in a separate statement as described in paragraph 33 of FRS 1, it presents the tax expense (income) related to profit or loss from ordinary activities on the face of that separate statement.

Paragraph 81 is amended as follows.

81 **The following shall also be disclosed separately:**

- (a) the amount of income tax relating to each component of other recognised income and expense (see paragraph 62 and FRS 1);

(ab) the aggregate current and deferred tax relating to items that are charged or credited directly to equity and that are not recognised in other recognised income and expense (see paragraph 62A);

...

(g) (ii) the amount of the deferred tax income or expense recognised in the ~~income statement~~ profit or loss, if this is not apparent from the changes in the amounts recognised in the ~~balance sheet~~ statement of financial position; ...

In the heading above paragraph 1 of Appendix A, 'the income statement' is amended to 'profit or loss'.

In paragraph 11 of Appendix A, 'charged directly to equity' is amended to 'recognised outside profit or loss'.

In paragraph 18 of Appendix A, 'charged in the income statement' is amended to 'recognised in profit or loss', and 'charged to equity' is amended to 'recognised outside profit or loss'.

In the paragraph **Illustrative disclosure** of Example 2 of Appendix B, 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 recognised income and expense (paragraph 81(a))**'.

In Example 2 and Example 4 of Appendix B, 'recognised in the income statement' is amended to 'recognised in profit or loss'.

In Example 3 of Appendix B, 'charged or credited directly to equity' is amended to 'recognised outside profit or loss', and 'credits or charges the deferred tax to equity' is amended to 'recognises the deferred tax outside profit or loss'.

A8 In FRS 14 *Segment Reporting*, paragraph 2 is amended as follows.

2 A complete set of financial statements includes ~~a balance sheet, income statement, cash flow statement, statements of financial position, recognised income and expense, cash flows a statement showing~~ and changes in equity, and notes, as provided in FRS 1 *Presentation of Financial Statements (as revised in 200X)*.

A9 FRS 16 *Property, Plant and Equipment* is amended as described below.

In paragraphs 39 and 40, 'credited directly to' and 'debited to' are amended to 'recognised outside profit or loss, and presented in'.

Paragraph 40A is added as follows.

40A The increase or decrease in an asset's carrying amount recognised outside profit or loss as required by paragraphs 39 and 40 shall be presented as a component of other recognised income and expense in the statement of recognised income and expense (see FRS 1).

In paragraph 73, 'recognised or reversed directly in equity' is amended to 'recognised or reversed outside profit or loss'.

A10 FRS 19 *Employee Benefits* is amended as described below.

Paragraphs 93B and 93D are amended as follows.

93B Actuarial gains and losses recognised outside profit or loss as permitted by paragraph 93A shall be presented as a component of other recognised income and expense in a statement of changes in equity ~~in a statement of changes in equity titled 'the statement of recognised income and expense' that comprises only the items specified in paragraph 96 of FRS1 (as revised in 2004). 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 FRS 1 or any other format that includes the items specified in paragraph 97 of FRS 1.~~

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~~ outside profit or loss as a component of other recognised income and expense shall be ~~recognised immediately reported~~ reported in retained earnings. They shall not be ~~recognised in reclassified~~ reclassified to profit or loss in a subsequent period.

In the example illustrating paragraph 106, 'recognises in the income statement' is amended to 'recognises in profit or loss'.

Paragraph 120A is amended as follows.

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

- (i) **for entities that recognise actuarial gains and losses ~~in the statement of recognised income and expense~~ outside profit or loss in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised ~~in the statement of~~ as a component of other recognised income and expense.**

A11 FRS 21 *The Effects of Changes in Foreign Exchange Rates* is amended as described below.

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

In paragraph 23, 'At each balance sheet date' is amended to 'At the end of each reporting period'.

In paragraph 27, 'reported initially in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

In paragraphs 30 and 31, 'recognised directly in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

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

In paragraph 33, 'reclassified to the separate component of equity' is amended to 'recognised outside profit or loss as a separate component of other recognised income and expense'.

Paragraph 37 is amended as follows.

37 The effect ... Exchange differences arising from the translation of a foreign operation ~~previously classified in equity~~ recognised outside profit or loss in accordance with

paragraphs 32 and 39(c) are not ~~recognised in~~ reclassified to profit or loss until the disposal of the operation.

Paragraphs 39, 41, 45, 48 and 52 are amended as follows.

39 The results ...using the following procedures: ...

(c) all resulting exchange differences shall be recognised outside profit or loss as a separate component of equity other recognised income and expense.

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 are presented in a separate component of equity until disposal of the foreign operation.

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 outside profit or loss and presented as a component of equity until the disposal of the foreign operation.

48 On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, deferred recognised outside profit or loss as a component of other recognised income and expense and presented 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 FRS 1 Presentation of Financial Statements (as revised in 200X)).

52 An entity shall disclose: ...

(b) net exchange differences classified recognised outside profit or loss and presented in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

A12 In FRS 27 *Consolidated and Separate Financial Statements*, paragraph 30 is amended as follows.

30 The income ... recognised ~~in equity~~ outside profit or loss in accordance with FRS 21 *The Effects of Changes in Foreign Exchange Rates*, is ~~recognised in the~~ reclassified to consolidated income statement profit or loss as the gain or loss on the disposal of the subsidiary.

A13 In FRS 28 *Investment in Associates*, paragraphs 11 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 recognised income and expense or 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 outside profit or loss of the investor (see FRS 1 *Presentation of Financial Statements* (as revised in 200X)).

39 **The investor's share of changes recognised directly in the associate's equity outside the associate's profit or loss shall be recognised by the investor directly in equity by the investor outside profit or loss as other recognised income and expense and shall be disclosed in the statement of changes in equity as required by FRS 1 *Presentation of Financial Statements*.**

A14 In paragraph IE45 of the Illustrative Examples accompanying FRS 32 *Financial Instruments: Presentation*, 'income statement' is amended to 'profit or loss'.

A15 In FRS 33 *Earnings per Share*, paragraph 67A is added as follows.

67A If an entity presents the components of profit or loss in a separate statement as described in paragraph 33 of FRS 1, it presents basic and diluted earnings per share on the face of that separate statement.

A16 FRS 34 *Interim Financial Reporting* is amended as described below.

Paragraph 5 is amended as follows.

5 FRS 1 defines a complete set of financial statements as including the following components:

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

(b) an income statement a statement of financial position as at the end of the period;

(c) a statement of recognised income and expense for the period;

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

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

Paragraph 11A is added as follows.

11A If an entity presents the components of profit or loss in a separate statement as described in paragraph 33 of FRS 1, it presents basic and diluted earnings per share on the face of that separate statement.

Paragraph 13 is deleted.

In paragraph 20(c), 'statement showing changes in equity' is amended to 'statement of changes in equity'.

In paragraph B30 of Appendix B, 'in profit or loss or in equity' is amended to 'in profit or loss or outside profit or loss'.

A17 FRS 36 *Impairment of Assets* 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~~ outside profit or loss as a component of other recognised income and expense 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 outside profit or loss as a component of other recognised income and expense, and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.

In paragraph 129, '**directly in equity**' is amended to '**outside profit or loss**'.

A18 FRS 38 *Intangible Assets* is amended as described below.

In paragraphs 85 and 86, '**credited directly to**' and '**debited to**' are amended to '**recognised outside profit or loss, and presented in**'.

Paragraph 86A is added as follows.

86A The increase or decrease in an intangible asset's carrying amount recognised outside profit or loss as required by paragraphs 85 and 86 shall be presented as a component of other recognised income and expense in the statement of recognised income and expense (see FRS 1 *Presentation of Financial Statements* (as revised in 200X)).

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

In paragraph 118, '**recognised or reversed directly in equity**' is amended to '**recognised or reversed outside profit or loss**'.

A19 FRS 39 *Financial Instruments: Recognition and Measurement* is amended as described below.

References to 'reported in equity' or 'reports in equity' are amended to 'recognised outside profit or loss' or 'recognises outside profit or loss'.

Paragraphs 54 and 55 are amended as follows.

54 If, as a result ... accounted for as follows:

(a) **In that case ... If the financial asset is subsequently impaired, any gain or loss that has been recognised directly in equity outside profit or loss as a component of other recognised income and expense 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 outside profit or loss is recognised in 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 outside profit or loss as a component of other recognised income and expense (see FRS 1 *Presentation of Financial Statements* (as revised in 200X)), 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, ~~At which this time,~~ the cumulative gain or loss previously recognised in equity outside profit or loss shall be recognised in reclassified from equity to profit or loss as a reclassification adjustment (see FRS 1). ...

In paragraph 57, and in the answers to Questions D.2.1 and E.3.4 of the Implementation Guidance, references to 'in equity' are amended to 'outside profit or loss'.

In paragraph 95, 'recognised directly in equity through the statement of changes in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

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

In paragraph 98, 'into profit or loss' is amended to 'from equity to profit or loss as a reclassification adjustment (see FRS 1)'.

In paragraph 101, 'remains recognised directly in equity', 'shall remain separately recognised in equity' and 'shall be recognised in profit or loss' are amended to 'has been recognised outside profit or loss as a component of other recognised income and expense', 'shall remain separately presented in equity' and 'shall be reclassified from equity to profit or loss as a reclassification adjustment (see FRS 1)'.

In paragraph 102, 'recognised directly in equity through the statement of changes in equity' and 'recognised in profit or loss' are amended to 'recognised outside profit or loss as a component of other recognised income and expense' and 'reclassified to profit or loss'.

Paragraph 105 is amended as follows.

- 105 When ... For any such financial asset, the entity shall recognise present 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 FRS 1). ...

In paragraphs IE14, IE18, IE24, IE26, IE28 and IE30 of the Illustrative Example accompanying FRS 39, and in Questions and Answers (Q&As) E.3.3, E.3.4, F.1.7 and F.3.3 of the Implementation Guidance, 'income statement' is amended to 'profit or loss'.

The Implementation Guidance is amended as described below.

In Q&A E.3.2, 'in equity' is amended to 'outside profit or loss', and in the debit and credit entries, 'fair value change in equity' is amended to 'fair value change in other recognised income and expense'.

In Q&A E.4.9, in the last sentence of the answer, 'recognised in profit or loss' is amended to 'reclassified from equity to profit or loss as a reclassification adjustment'.

In Q&A F.1.5, in the penultimate sentence of the answer, 'the effect on profit or loss and equity' is amended to 'gains and losses recognised'.

In Q&A F.1.6:

- 'in equity' is amended to 'outside profit or loss'.
- in the second paragraph of the answer:
 - 'initially' is deleted.
 - 'and equity' is amended to 'and other recognised income and expense'.
 - 'recognised in profit or loss' is amended to 'reclassified from equity to profit or loss as a reclassification adjustment (see FRS 1)'.
- in the last paragraph of the answer, 'deferred in equity' is amended to 'recognised outside profit or loss'.

In Q&A F.1.7:

- in cases 2, 3 and 4, 'defers ... in a hedging reserve in equity', 'defers in equity' and 'deferred in equity' are amended to 'recognises [recognised] ... outside profit or loss as a component of other recognised income and expense (see FRS 1)'.
- in the debit and credit entries, references to 'equity' are amended to 'other recognised income and expense'.
- in the boxes titled '*TOTAL (for the internal derivatives)*', references to 'income' are amended to 'profit or loss'.

In Q&A F.2.4, in the last sentence of the first paragraph of the answer, 'recognised directly in equity through the statement of changes in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

In Q&A F.5.2 and Q&A F.5.3:

- 'credits ... to equity' in the answer of Q&A F.5.2 and 'debits ... to equity' in the answer of Q&A F.5.3 are amended to 'recognises ... outside profit or loss as a component of other recognised income and expense'.
- references to 'equity' are amended to 'other recognised income and expense' in the debit and credit entries.

In Q&A F.5.6, in the debit and credit entries in the answer, references to 'equity' are amended to 'other recognised income and expense'.

In Q&A F.6.2:

- in the section of the answer to issue (b) titled '*Systems considerations*', '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 outside profit or loss from changes in the fair value of a hedging instrument should be reclassified to profit or loss'.
- in the answer to issue (f), 'recognised initially in equity are reclassified out of equity and recognised in profit or loss' is amended to 'recognised outside profit or loss are reclassified from equity to profit or loss'.

In Q&A F.6.3, in the section of the answer titled 'Designation objectives – *Systems considerations*', 'deferred gains and losses in equity', 'recognised in profit or loss' and 'reclassified out of equity' are amended to 'gains and losses recognised outside profit or loss', 'reclassified from equity to profit or loss' and 'reclassified from equity to profit or loss'.

In Q&A F.6.5, in the last sentence of the answer, 'recognised directly in equity through the statement of changes in equity' is amended to 'recognised outside profit or loss as a component of other recognised income and expense'.

A20 In FRS 40 *Investment Property*, paragraph 62 is amended as follows.

62 Up to the date ... In other words:

- 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 outside profit or loss and reduces the revaluation surplus within equity.
- any resulting increase in the carrying amount is treated as follows:
 - ...
 - any remaining part of the increase is ~~credited directly in equity in~~ recognised outside profit or loss and increases the revaluation surplus within equity. ...

A21 In INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, paragraph 6 is amended as follows.

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

- changes in the liability ... so that:
 - a decrease in the liability shall (subject to (b)) be ~~credited directly to~~ recognised outside profit or loss and increases the revaluation surplus in equity, ...;
 - an increase in the liability shall be recognised in profit or loss, except that it shall be ~~debited directly to~~ recognised outside profit or loss and reduces the revaluation surplus in equity ...

...
- 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

outside profit or loss under (a). If a revaluation is necessary, all assets of that class shall be revalued.

- (d) FRS 1 requires disclosure on the face of the statement of ~~changes in equity~~ recognised income and expense of each ~~item~~ component of other recognised 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.

Guidance on implementing FRS 1 *Presentation of Financial Statements*

This guidance accompanies, but is not part of, [draft] FRS 1.

[Paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. New paragraphs are not underlined and tables are not marked up to show proposed changes.]

Illustrative financial statement structure

- IG1 The [draft] Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet statements of financial position, and the income statement recognised income and expense and as well as for the presentation of changes in equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of the Standard for the presentation of the balance sheet statements of financial position, income statement recognised income and expense 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 should be changed when necessary in order to achieve a fair presentation in each entity's to suit its particular circumstances.
- IG2 The guidance is divided into three sections. Paragraphs IG3–IG5 provide examples of the presentation of financial statements. Paragraphs IG6–IG8 provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. Paragraphs IG9 and IG10 provide examples of capital disclosures.
- IG2IG3 The illustrative balance sheet statement of financial position shows one way in which an entity may present a balance sheet statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.
- IG3IG4 Two income statements of recognised income and expense are provided, to illustrate the alternative presentations of income and expenses by nature and by function in a single statement or in two statements. The single statement of recognised income and expense illustrates the classification of income and expenses within profit by function. The separate statement (in this example, 'the statement of profit or loss') illustrates the classification of income and expenses within profit by nature. Two possible approaches to presenting changes in equity are also illustrated.
- IG4IG5 The examples are not intended to illustrate all aspects of FRSs, nor do they comprise constitute a complete set of financial statements, which would also include a cash flow statement of cash flows, a summary of significant accounting policies and other explanatory notes 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	31 Dec 20X5
ASSETS			
Non-current assets			
Property, plant and equipment	350,700	360,020	361,730
Goodwill	80,800	91,200	100,120
Other intangible assets	227,470	227,470	76,720
Investments in associates	100,150	110,770	120,360
Available-for-sale financial assets	<u>142,500</u>	<u>156,000</u>	<u>120,800</u>
	<u>901,620</u>	<u>945,460</u>	<u>779,730</u>
Current assets			
Inventories	135,230	132,500	125,000
Trade receivables	91,600	110,800	122,120
Other current assets	25,650	12,540	13,850
Cash and cash equivalents	<u>312,400</u>	<u>322,900</u>	<u>328,780</u>
	<u>564,880</u>	<u>578,740</u>	<u>589,750</u>
Total assets	<u>1,466,500</u>	<u>1,524,200</u>	<u>1,369,480</u>

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6	31 Dec 20X5
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	650,000	600,000	600,000
Retained earnings	243,500	161,700	118,500
Other components of equity	10,200	21,200	(400)
	<u>903,700</u>	<u>782,900</u>	<u>718,100</u>
Minority interest	<u>70,050</u>	<u>48,600</u>	<u>29,900</u>
Total equity	<u>973,750</u>	<u>831,500</u>	<u>748,000</u>
Non-current liabilities			
Long-term borrowings	120,000	160,000	180,000
Deferred tax	28,800	26,040	19,750
Long-term provisions	28,850	52,240	41,730
Total non-current liabilities	<u>177,650</u>	<u>238,280</u>	<u>241,480</u>
Current liabilities			
Trade and other payables	115,100	187,620	113,800
Short-term borrowings	150,000	200,000	200,000
Current portion of long-term borrowings	10,000	20,000	20,000
Current tax payable	35,000	42,000	41,000
Short-term provisions	5,000	4,800	5,200
Total current liabilities	<u>315,100</u>	<u>454,420</u>	<u>380,000</u>
Total liabilities	<u>492,750</u>	<u>692,700</u>	<u>621,480</u>
Total equity and liabilities	<u>1,466,500</u>	<u>1,524,200</u>	<u>1,369,480</u>

XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X7

(illustrating the presentation of recognised income and expenses 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 recognised income and expense:		
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 recognised income and expense of associates ^(c)	400	(700)
Income tax relating to components of other recognised income and expense	4,667	(9,334)
Other recognised income and expense for the year, net of tax	(14,000)	28,000
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	107,250	93,500

continued...

continued...

XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X7

(illustrating the presentation of recognised income and expenses in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	20X6
Profit attributable to:		
Equity holders of the parent	97,000	52,400
Minority interest	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Total recognised income and expense attributable to:		
Equity holders of the parent	85,800	74,800
Minority interest	21,450	18,700
	<u>107,250</u>	<u>93,500</u>
Earnings per share (in currency units):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

continued...

...continued

XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X7

(illustrating the presentation of recognised income and expenses in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

Alternatively, components of other recognised income and expense could be presented on the face of the statement of recognised income and expense, net of tax:

	20X7	20X6
Other recognised income and expense for the year, after tax:		
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 recognised income and expense of associates	400	(700)
Other recognised income and expense for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>

- (a) This means the share of associates' profit attributable to equity holders of the associates, i.e. 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 recognised income and expense attributable to equity holders of the associates, i.e. it is after tax and minority interests in the associates.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7

(illustrating the presentation of recognised income and expenses in two statements and classification of expenses within profit by nature)

(in thousands of currency units)

	<u>20X7</u>	<u>20X6</u>
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 ^(d)	35,100	30,100
Profit before tax	<u>161,667</u>	<u>128,000</u>
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	<u>121,250</u>	<u>96,000</u>
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	<u><u>121,250</u></u>	<u><u>65,500</u></u>
Profit attributable to:		
Equity holders of the parent	97,000	52,400
Minority interest	24,250	13,100
	<u><u>121,250</u></u>	<u><u>65,500</u></u>
Earnings per share (in currency units):		
Basic and diluted	<u>0.46</u>	<u>0.30</u>

(d) This means the share of associates' profit attributable to equity holders of the associates, i.e. it is after tax and minority interests in the associates.

XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X7

(illustrating the presentation of recognised income and expenses in two statements)

(in thousands of currency units)

	20X7	20X6
Profit for the year	121,250	65,500
Other recognised income and expense:		
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 recognised income and expense of associates ^(e)	400	(700)
Income tax relating to components of other recognised income and expense	4,667	(9,334)
Other recognised income and expense for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	<u>107,250</u>	<u>93,500</u>
Total recognised income and expense attributable to:		
Equity holders of the parent	85,800	74,800
Minority interest	21,450	18,700
	<u>107,250</u>	<u>93,500</u>

Alternatively, components of other recognised income and expense could be presented, net of tax. Refer to the statement of recognised income and expense illustrating the presentation of income and expenses in one statement.

(e) This means the share of associates' other recognised income and expense attributable to equity holders of the associates, i.e. it is after tax and minority interests in the associates.

XYZ Group
Disclosure of components of other recognised income and expense^(f)

Notes

Year ended 31 December 20X7

	20X7	20X6
Other recognised income and expense:		
Exchange differences on translating foreign operations ^(g)	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	<u>(25,333)</u>	<u>(4,000)</u>
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: Reclassification adjustments for amounts transferred to initial carrying amount of hedged items	<u>667</u>	<u>–</u>
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other recognised income and expense of associates	<u>400</u>	<u>(700)</u>
Other recognised income and expense	(18,667)	37,334
Income tax relating to components of other recognised income and expense	<u>4,667</u>	<u>(9,334)</u>
Other recognised income and expense for the year	<u><u>(14,000)</u></u>	<u><u>28,000</u></u>

(f) When an entity chooses an aggregated presentation on the face of the statement of recognised income and expense, the amounts for reclassification adjustments and current year gain or loss are presented in the notes.

(g) There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.

XYZ Group**Disclosure of tax effects relating to each component of other recognised income and expense****Notes****Year ended 31 December 20X7**

	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 recognised income and expense of associates	400	–	400	(700)	–	(700)
Other recognised income and expense	<u>(18,667)</u>	<u>4,667</u>	<u>(14,000)</u>	<u>37,334</u>	<u>(9,334)</u>	<u>28,000</u>

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 recognised income and expense for the year ^(h)	–	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 recognised income and expense for the year ⁽ⁱ⁾	–	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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XYZ Group – Statement of changes in equity for the year ended 31 December 20X7

(in thousands of currency units)

- (h) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to equity holders 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 recognised income and expense for each component, net of tax and minority interest, e.g. other recognised income and expense 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 recognised income and expense of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less minority interest 400). Other recognised income and expense of associates relates solely to gains or losses on property revaluation.

- (i) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to equity holders 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 recognised income and expense for each component, net of tax and minority interest, e.g. other recognised income and expense 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 recognised income and expense of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less minority interest 200). Other recognised income and expense of associates relates solely to gains or losses on property revaluation.

Part II: Illustrative example of the determination of reclassification adjustments

- IG6 The [draft] Standard requires an entity to disclose reclassification adjustments relating to each component of other recognised income and expense.
- IG7 This guidance provides an illustration of the calculation of reclassification adjustments for available-for-sale financial assets recognised in accordance with FRS 39.
- IG8 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 FRS 12 *Income Taxes* is 30 per cent.

Calculation of gains

(in currency units)

	Before tax CU	Income tax CU	Net of tax CU
Gains recognised in other recognised income and expense:			
Year ended 31 December 20X6	2,000	(600)	1,400
Year ended 31 December 20X7	3,000	(900)	2,100
Total gain	<u>5,000</u>	<u>(1,500)</u>	<u>3,500</u>

Amounts reported in profit or loss and other recognised income and expense for the year 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	<u>3,500</u>	
Other recognised income and expense:		
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 recognised income and expense	<u>(1,400)</u>	<u>1,400</u>
	<u>2,100</u>	<u>1,400</u>

Alternatively, components of other recognised income and expense 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	<u>3,500</u>	
Other recognised income and expense:		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	–
Income tax relating to other recognised income and expense	600	(600)
Net gain (loss) recognised in other recognised income and expense	<u>(1,400)</u>	<u>1,400</u>
	<u>2,100</u>	<u>1,400</u>

Part III: Illustrative examples of capital disclosures (paragraphs ~~124A–124C~~ 134–136)

An entity that is not a regulated financial institution

~~IG5~~IG9 The following example illustrates the application of paragraphs ~~124A~~ 134 and ~~124B~~ 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 ~~124A–134~~ and ~~124B~~ 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.

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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 ~~balance sheet~~ statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation reserve) other than amounts recognised in equity relating to cash flow hedges, and includes some forms of subordinated debt.

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 X4 CU million	31 Dec X3 CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	<u>910</u>	<u>950</u>
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts recognised <u>presented</u> in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	<u>138</u>	<u>138</u>
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

~~IG6~~IG10The following example illustrates the application of paragraph ~~424B~~ 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 ~~424A~~ 134 and ~~424B~~ 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.

Table of Concordance

This table shows how the contents of FRS 1 and the Exposure Draft correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

FRS 1 paragraph	Exposure Draft paragraph	FRS 1 paragraph	Exposure Draft paragraph	FRS 1 paragraph	Exposure Draft paragraph
1	1,3	41	44	96	106
2	2	42,43	47,48	97	107
3	4,7	44-48	49-53	98	109
4	None	49,50	36,37	99	None
5	5	51-67	60-76	100	110
6	6	68	54	101	None
7	9	68A	54	102	111
8	31	69	55	103-107	112-116
9	34	70	56	108-115	117-124
10	35	71	57	116-124	125-133
11	7	72	58	124A-124C	134-136
12	7	73	59	125,126	137,138
13-22	10-19	74-77	77-80	127	139
23,24	20,21	78	88	127A	None
25,26	22,23	79	89	127B	None
27,28	45,46	80	89	128	140
29-31	24-26	81	82	IG1	IG1
32-35	27-30	82	83	IG2	IG3
36	38	83	85	IG3	IG4
37	40	84	86	IG4	IG5
38	41	85	87	IG5	IG9
39	42	86-94	97-105	IG6	IG10
40	43	95	107		