

HKFRS News

Shedding light on the HKICPA's activities*

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Amendments to IAS 1

The IASB published Amendments to IAS 1 *Presentation of Financial Statements* in September, completing Phase A of the Board's joint project with the FASB. The changes align some aspects of IAS 1 with SFAS 130 Reporting Comprehensive Income. The Amendments to HKAS 1 are expected to be published by the Hong Kong Institute of Certified Public Accountants (HKICPA) in due course.

Implications

Transactions with owners are analysed separately from those relating to the performance of the entity. The user of the financial information will need to become familiar with understanding and explaining this new way of presentation.

The amendments define 'owners' as being "the holders of instruments classified as equity". This definition also includes interests and is likely to include holders of compound financial instruments, such as convertible debt.

Those entities that have previously presented a separate statement of recognised income and expense (SoRIE) will now be required to provide in addition, a statement of changes in equity. This will present information that has previously been provided in the notes. These entities can decide to make no change at all to the SoRIE or can elect to combine the SoRIE with the income statement into a single statement of comprehensive income. Entities are no longer allowed to present a statement of changes in equity that includes items of comprehensive income and changes due to transactions with owners.

The amendments consider aligning the comprehensive income concept with SFAS 130; however, there are still some differences. For example, SFAS 130 permits a third option of displaying comprehensive income in a statement of changes in equity. IAS 1 revised does not permit this third option. There are some items that are required by one standard but not the other. For example, the amendments to IAS 1 require an entity to display the share of each item of associates' other comprehensive income; while SFAS 130 does not provide explicit guidance.

In addition, the amendments require an entity to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, or when the entity reclassifies items in the financial statements.

The amendments do not address a number of issues of practical application of IAS 1, such as the presentation of gains and losses of financial instruments. These may be dealt with in Phase B of the project, but the outcomes of Phase B are not expected for a number of years, and inconsistencies might still appear in the intervening period. It does, however, add some potential practical difficulties in estimating the tax effects of each item within comprehensive income.



HKFRS has converged with IFRS effective from 1 January 2005. Contents contained in this newsletter are relevant to both HKFRS preparers and IFRS preparers.

The changes are likely to reduce comparability between entities because they allow choices in the presentation of financial information and in the names of the primary statements.

Next steps

The FASB did not publish a separate document considering Phase A of the project. It will expose its Phase A decisions along with its Phase B decisions.

Phase B

The Boards are jointly undertaking Phase B, which considers more fundamental questions, such as:

- consistent principles for aggregating information in each primary statement;
- the totals and subtotals that should be reported in each primary statement;
- whether the direct or the indirect method of presenting operating cash flows provides more useful information; and
- whether components of other comprehensive income should be reclassified to profit or loss and, if so, the characteristics of the transactions and events that should be reclassified and when reclassification is made.

The IASB expects to publish a discussion paper in early 2008.

Phase C

Phase C will address presentation and display of interim financial information in US GAAP. The IASB may reconsider the requirements in IAS 34 *Interim Financial Reporting*.

IAS 1 revised is effective for annual periods beginning on or after 1 January 2009. Early application is permitted. The revised IAS 1 resulted in consequential amendments to five IFRSs, 23 IASs and 10 interpretations.

Key changes to IAS 1

- Changes in equity arising from transactions with owners (such as dividends and shares repurchases) and the related tax impact are presented in the statement of changes in equity;
- 'Non-owner' changes in equity and the related tax impact are presented in comprehensive income[†];
- Comprehensive income is presented in either a single statement or in two statements (an income statement and a statement of comprehensive income);
- Dividends and per share amounts are presented in the statement of changes in equity or in the notes;
- A statement of financial position (balance sheet) at the beginning of the corresponding period is presented where restatements or reclassifications have occurred; and
- Reclassification adjustments (recycling) and the related income tax are disclosed in the comprehensive income.

[†] *Comprehensive income for a period includes profit or loss for that period and the components of 'recognised income and expense' previously reported in equity such as changes in revaluation surplus; actuarial gains and losses on defined benefit plans recognised in equity; gains and losses arising from translating the financial statements of a foreign operation; gains and losses on remeasuring available for sale financial assets and; the effective portion of gains and losses on hedging instruments in a cash flow hedge.*



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