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Approval by the Board of *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1) issued in February 2008

Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*) was approved for issue by eleven of the thirteen members of the International Accounting Standards Board. Professor Barth and Mr Garnett dissented. Their dissenting opinions are set out after the Basis for Conclusions on IAS 32.

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OF FINANCIAL STATEMENTS**

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Basis for Conclusions on IAS 1 Presentation of Financial Statements

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

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

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

References to the Framework are to IASC's Framework for the Preparation and Presentation of Financial Statements, adopted by the IASB in 2001. In September 2010 the IASB replaced the Framework with the Conceptual Framework for Financial Reporting.

Introduction

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 It was reformatted in 1994 and superseded in 1997 by IAS 1 *Presentation of Financial Statements*.^{*} In 2003 the International Accounting Standards Board revised IAS 1 as part of the Improvements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

The Improvements project—revision of IAS 1 (2003)

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of standards, including IAS 1. The project was undertaken in the light of queries and criticisms raised in relation to the standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within standards, to deal with some convergence issues and to make other improvements. The Board's

^{*} IASC did not publish a Basis for Conclusions.

intention was not to reconsider the fundamental approach to the presentation of financial statements established by IAS 1 in 1997.

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

- (a) to provide a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation;
- (b) to base the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date;
- (c) to prohibit the presentation of items of income and expense as 'extraordinary items';
- (d) to specify disclosures about the judgements that management has made in the process of applying the entity's accounting policies, apart from those involving estimations, and that have the most significant effect on the amounts recognised in the financial statements; and
- (e) to specify disclosures about sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

- (a) departures from IFRSs (paragraphs BC23–BC30)
- (b) criterion for exemption from requirements (paragraphs BC34–BC36)
- (c) effect of events after the reporting period on the classification of liabilities (paragraphs BC39–BC48)
- (d) results of operating activities (paragraphs BC55 and BC56)
- (e) minority interest^{*} (paragraph BC59)
- (f) extraordinary items (paragraphs BC60–BC64)
- (g) disclosure of the judgements management has made in the process of applying the entity's accounting policies (paragraphs BC77 and BC78)
- (h) disclosure of major sources of estimation uncertainty (paragraphs BC79–BC84).

^{*} In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended 'minority interests' to non-controlling interests'.

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

- BC5 In August 2005 the Board issued an Amendment to IAS 1—*Capital Disclosures*. The amendment added to IAS 1 requirements for disclosure of:
- (a) the entity’s objectives, policies and processes for managing capital.
 - (b) quantitative data about what the entity regards as capital.
 - (c) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.
- BC6 The following sections summarise the Board’s considerations in reaching its conclusions as part of its amendment to IAS 1 in 2005:
- (a) disclosures about capital (paragraphs BC85–BC89)
 - (b) objectives, policies and processes for managing capital (paragraphs BC90 and BC91)
 - (c) externally imposed capital requirements (paragraphs BC92–BC97)
 - (d) internal capital targets (paragraphs BC98–BC100).

Amendments to IAS 32 and IAS 1—*Puttable Financial Instruments and Obligations Arising on Liquidation* (2008)

- BC6A In July 2006 the Board published an exposure draft of proposed amendments to IAS 32 and IAS 1 relating to the classification of puttable instruments and instruments with obligations arising only on liquidation. The Board subsequently confirmed the proposals and in February 2008 issued an amendment that now forms part of IAS 1.

Financial statement presentation—Joint project

- BC7 In September 2001 the Board added to its agenda the performance reporting project (in March 2006 renamed the ‘financial statement presentation project’). The objective of the project was to enhance the usefulness of information presented in the income statement. The Board developed a possible new model for reporting income and expenses and conducted preliminary testing. Similarly, in the United States, the Financial Accounting Standards Board (FASB) added a project on performance reporting to its agenda in October 2001, developed its model and conducted preliminary testing. Constituents raised concerns about both models and about the fact that they were different.
- BC8 In April 2004 the Board and the FASB decided to work on financial statement presentation as a joint project. They agreed that the project should address presentation and display not only in the income statement, but also in the other statements that, together with the income statement, would constitute a complete

set of financial statements—the balance sheet, the statement of changes in equity, and the cash flow statement. The Board decided to approach the project in two phases. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. Phase B would be undertaken jointly with the FASB and would address more fundamental issues relating to presentation and display of information in the financial statements, including:

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

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

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

- (a) general purpose financial statements (paragraphs BC11–BC13)
- (b) titles of financial statements (paragraphs BC14–BC21)
- (c) equal prominence (paragraph BC22)
- (d) a statement of financial position as at the beginning of the earliest comparative period (paragraphs BC31 and BC32)
- (e) IAS 34 *Interim Financial Reporting* (paragraph BC33)
- (f) reporting owner and non-owner changes in equity (paragraphs BC37 and BC38)
- (g) reporting comprehensive income (paragraphs BC49–BC54)
- (h) subtotal for profit or loss (paragraphs BC57 and BC58)
- (i) other comprehensive income-related tax effects (paragraphs BC65–BC68)

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- (j) reclassification adjustments (paragraphs BC69–BC73)
- (k) effects of retrospective application or retrospective restatement (paragraph BC74)
- (l) presentation of dividends (paragraph BC75)
- (m) IAS 7 *Cash Flow Statements* (paragraph BC76)
- (n) presentation of measures per share (paragraphs BC101–BC104)
- (o) effective date and transition (paragraph BC105)
- (p) differences from SFAS 130 (paragraph BC106).

Definitions

General purpose financial statements (paragraph 7)

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

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

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

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

Financial statements

Complete set of financial statements

Titles of financial statements (paragraph 10)

- BC14 The exposure draft of 2006 proposed changes to the titles of some of the financial statements—from ‘balance sheet’ to ‘statement of financial position’, from ‘income statement’ to ‘statement of profit or loss’ and from ‘cash flow statement’ to ‘statement of cash flows’. In addition, the exposure draft proposed a ‘statement of recognised income and expense’ and that all owner changes in equity should be included in a ‘statement of changes in equity’. The Board did not propose to make any of these changes of nomenclature mandatory.
- BC15 Many respondents opposed the proposed changes, pointing out that the existing titles had a long tradition and were well understood. However, the Board reaffirmed its view that the proposed new titles better reflect the function of each financial statement, and pointed out that an entity could choose to use other titles in its financial report.
- BC16 The Board reaffirmed its conclusion that the title ‘statement of financial position’ not only better reflects the function of the statement but is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which contains several references to ‘financial position’. Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity; paragraph 19 of the *Framework* states that information about financial position is primarily provided in a balance sheet. In the Board’s view, the title ‘balance sheet’ simply reflects that double entry bookkeeping requires debits to equal credits. It does not identify the content or purpose of the statement. The Board also noted that ‘financial position’ is a well-known and accepted term, as it has been used in auditors’ opinions internationally for more than 20 years to describe what the ‘balance sheet’ presents. The Board decided that aligning the statement’s title with its content and the opinion rendered by the auditor would help the users of financial statements.
- BC17 As to the other statements, respondents suggested that renaming the balance sheet the ‘statement of financial position’ implied that the ‘cash flow statement’ and the ‘statement of recognised income and expense’ do not also reflect an entity’s financial position. The Board observed that although the latter statements reflect changes in an entity’s financial position, neither can be called a ‘statement of changes in financial position’, as this would not depict their true function and objective (ie to present cash flows and performance, respectively). The Board acknowledged that the titles ‘income statement’ and ‘statement of profit or loss’ are similar in meaning and could be used interchangeably, and decided to retain the title ‘income statement’ as this is more commonly used.
- BC18 The title of the proposed new statement, the ‘statement of recognised income and expense’, reflects a broader content than the former ‘income statement’. The

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statement encompasses both income and expenses recognised in profit or loss and income and expenses recognised outside profit or loss.

- BC19 Many respondents opposed the title ‘statement of recognised income and expense’, objecting particularly to the use of the term ‘recognised’. The Board acknowledged that the term ‘recognised’ could also be used to describe the content of other primary statements as ‘recognition’, explained in paragraph 82 of the *Framework*, is ‘the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 83.’ Many respondents suggested the term ‘statement of comprehensive income’ instead.
- BC20 In response to respondents’ concerns and to converge with SFAS 130, the Board decided to rename the new statement a ‘statement of comprehensive income’. The term ‘comprehensive income’ is not defined in the *Framework* but is used in IAS 1 to describe the change in equity of an entity during a period from transactions, events and circumstances other than those resulting from transactions with owners in their capacity as owners. Although the term ‘comprehensive income’ is used to describe the aggregate of all components of comprehensive income, including profit or loss, the term ‘other comprehensive income’ refers to income and expenses that under IFRSs are included in comprehensive income but excluded from profit or loss.
- BC21 In finalising its revision, the Board confirmed that the titles of financial statements used in this Standard would not be mandatory. The titles will be used in future IFRSs but are not required to be used by entities in their financial statements. Some respondents to the exposure draft expressed concern that non-mandatory titles will result in confusion. However, the Board believes that making use of the titles non-mandatory will allow time for entities to implement changes gradually as the new titles become more familiar.

Equal prominence (paragraphs 11 and 12)

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

Departures from IFRSs (paragraphs 19–24)

- BC23 IAS 1 (as issued in 1997) permitted an entity to depart from a requirement in a Standard ‘in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore

that departure from a requirement is necessary to achieve a fair presentation' (paragraph 17, now paragraph 19). When such a departure occurred, paragraph 18 (now paragraph 20) required extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

- BC24 The Board decided to clarify in paragraph 15 of the Standard that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.
- BC25 The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.
- BC26 These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.
- BC27 The Board considered whether IAS 1 should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.
- BC28 Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. The revised IAS 1 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BC25 for departure from a requirement in an IFRS, the entity should proceed as follows:
- (a) When the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 20.
 - (b) When the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 23.

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

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- BC29 After considering the comments received on the exposure draft of 2002, the Board added to IAS 1 a requirement in paragraph 21 to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.
- BC30 In view of the strict criteria for departure from a requirement in an IFRS, IAS 1 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Comparative information

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

- BC31 The exposure draft of 2006 proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.
- BC32 By adding a statement of financial position as at the beginning of the earliest comparative period, the exposure draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the Board decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when a reclassification has been made. In those circumstances three statements of financial position are required.

IAS 34 Interim Financial Reporting

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

Criterion for exemption from requirements (paragraphs 41–44)

- BC34 IAS 1 as issued in 1997 specified that when the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless it is impracticable to do so. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
- BC35 The exposure draft of 2002 proposed a different criterion for exemption from particular requirements. For the reclassification of comparative amounts, and its proposed new requirement to disclose key assumptions and other sources of estimation uncertainty at the end of the reporting period (discussed in paragraphs BC79–BC84), the exposure draft proposed that the criterion for exemption should be that applying the requirements would require undue cost or effort.
- BC36 In the light of respondents' comments on the exposure draft, the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. This affects the exemptions now set out in paragraphs 41–43 and 131 of IAS 1. Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material.*

Reporting owner and non-owner changes in equity

- BC37 The exposure draft of 2006 proposed to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners (ie all owner changes in equity) from other changes in equity (ie non-owner changes in equity). All owner changes in equity would be presented in the statement of changes in equity, separately from non-owner changes in equity.
- BC38 Most respondents welcomed this proposal and saw this change as an improvement of financial reporting, by increasing the transparency of those items recognised in equity that are not reported as part of profit or loss. However, some respondents pointed out that the terms 'owner' and 'non-owner' were not defined in the exposure draft, the *Framework* or elsewhere in IFRSs, although they are extensively used in national accounting standards. They also noted that the terms 'owner' and 'equity holder' were used interchangeably in the exposure draft. The Board decided to adopt the term 'owner' and use it throughout IAS 1 to converge with SFAS 130, which uses the term in the definition of 'comprehensive income'.

* In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC 47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

Statement of financial position

Current assets and current liabilities (paragraphs 68 and 71)

- BC38A As part of its improvements project in 2007, the Board identified inconsistent guidance regarding the current/non-current classification of derivatives. Some might read the guidance included in paragraph 71 as implying that financial liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are always required to be presented as current.
- BC38B The Board expects the criteria set out in paragraph 69 to be used to assess whether a financial liability should be presented as current or non-current. The 'held for trading' category in paragraph 9 of IAS 39 is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.
- BC38C The Board reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is not held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non-current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities.
- BC38D Therefore, the Board decided to remove the identified inconsistency by amending the examples of current liabilities in paragraph 71. The Board also amended paragraph 68 in respect of current assets to remove a similar inconsistency.

Classification of the liability component of a convertible instrument (paragraph 69)

- BC38E As part of its improvements project in 2007, the Board considered the classification of the liability component of a convertible instrument as current or non-current. Paragraph 69(d) of IAS 1 states that when an entity does not have an unconditional right to defer settlement of a liability for at least twelve months after the reporting period, the liability should be classified as current. According to the *Framework*, conversion of a liability into equity is a form of settlement.
- BC38F The application of these requirements means that if the conversion option can be exercised by the holder at any time, the liability component would be classified as current. This classification would be required even if the entity would not be required to settle unconverted instruments with cash or other assets for more than twelve months after the reporting period.
- BC38G IAS 1 and the *Framework* state that information about the liquidity and solvency positions of an entity is useful to users. The terms 'liquidity' and 'solvency' are

associated with the availability of cash to an entity. Issuing equity does not result in an outflow of cash or other assets of the entity.

- BC38H The Board concluded that classifying the liability on the basis of the requirements to transfer cash or other assets rather than on settlement better reflects the liquidity and solvency position of an entity, and therefore it decided to amend IAS 1 accordingly.
- BC38I The Board discussed the comments received in response to its exposure draft of proposed *Improvements to IFRSs* published in 2007 and noted that some respondents were concerned that the proposal in the exposure draft would apply to all liabilities, not just those that are components of convertible instruments as originally contemplated in the exposure draft. Consequently, in *Improvements to IFRSs* issued in April 2009, the Board amended the proposed wording to clarify that the amendment applies only to the classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

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

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

An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

- (a) the original term was for a period of more than twelve months;
- (b) the enterprise intends to refinance the obligation on a long-term basis; and
- (c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.

- BC40 Paragraph 65 stated:

Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non-current only when:

- (a) the lender has agreed, prior to the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach; and
- (b) it is not probable that further breaches will occur within twelve months of the balance sheet date.

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- BC41 The Board considered these requirements and concluded that refinancing, or the receipt of a waiver of the lender's right to demand payment, that occurs after the reporting period should not be taken into account in the classification of a liability.
- BC42 Therefore, the exposure draft of 2002 proposed:
- (a) to amend paragraph 63 to specify that a long-term financial liability due to be settled within twelve months of the balance sheet date should not be classified as a non-current liability because an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. This amendment would not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.
 - (b) to amend paragraph 65 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. However, if the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during which the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:
 - (i) the entity rectifies the breach within the period of grace; or
 - (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.
- BC43 Some respondents disagreed with these proposals. They advocated classifying a liability as current or non-current according to whether it is expected to use current assets of the entity, rather than strictly on the basis of its date of maturity and whether it is callable at the end of the reporting period. In their view, this would provide more relevant information about the liability's future effect on the timing of the entity's resource flows.
- BC44 However, the Board decided that the following arguments for changing paragraphs 63 and 65 were more persuasive:
- (a) refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency *at the balance sheet date*, the reporting of which should reflect contractual arrangements in force on that date. Therefore, it is a non-adjusting event in accordance with IAS 10 *Events after the Balance Sheet Date* and should not affect the presentation of the entity's balance sheet.

- (b) it is illogical to adopt a criterion that ‘non-current’ classification of short-term obligations expected to be rolled over for at least twelve months after the balance sheet date depends on whether the roll-over is at the discretion of the entity, and then to provide an exception based on refinancing occurring after the balance sheet date.
 - (c) in the circumstances set out in paragraph 65, unless the lender has waived its right to demand immediate repayment or granted a period of grace within which the entity may rectify the breach of the loan agreement, the financial condition of the entity at the balance sheet date was that the entity did not hold an absolute right to defer repayment, based on the terms of the loan agreement. The granting of a waiver or a period of grace changes the terms of the loan agreement. Therefore, an entity’s receipt from the lender, after the balance sheet date, of a waiver or a period of grace of at least twelve months does not change the nature of the liability to non-current until it occurs.
- BC45 IAS 1 now includes the amendments proposed in 2002, with one change. The change relates to the classification of a long-term loan when, at the end of the reporting period, the lender has provided a period of grace within which a breach of the loan agreement can be rectified, and during which period the lender cannot demand immediate repayment of the loan.
- BC46 The exposure draft proposed that such a loan should be classified as non-current if it is due for settlement, without the breach, at least twelve months after the balance sheet date and:
- (a) the entity rectifies the breach within the period of grace; or
 - (b) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.
- BC47 After considering respondents’ comments, the Board decided that the occurrence or probability of a rectification of a breach after the reporting period is irrelevant to the conditions existing at the end of the reporting period. The revised IAS 1 requires that, for the loan to be classified as non-current, the period of grace must end at least twelve months after the reporting period (see paragraph 75). Therefore, the conditions (a) and (b) in paragraph BC46 are redundant.
- BC48 The Board considered arguments that if a period of grace to remedy a breach of a long-term loan agreement is provided before the end of the reporting period, the loan should be classified as non-current regardless of the length of the period of grace. These arguments are based on the view that, at the end of the reporting period, the lender does not have an unconditional legal right to demand repayment before the original maturity date (ie if the entity remedies the breach during the period of grace, it is entitled to repay the loan on the original maturity date). However, the Board concluded that an entity should classify a loan as non-current only if it has an unconditional right to defer settlement of the loan for at least twelve months after the reporting period. This criterion focuses on the legal rights of the entity, rather than those of the lender.

Statement of comprehensive income

Reporting comprehensive income (paragraph 81)

- BC49 The exposure draft of 2006 proposed that all non-owner changes in equity should be presented in a single statement or in two statements. In a single-statement presentation, all items of income and expense are presented together. In a two-statement presentation, the first statement ('income statement') presents income and expenses recognised in profit or loss and the second statement ('statement of comprehensive income') begins with profit or loss and presents, in addition, items of income and expense that IFRSs require or permit to be recognised outside profit or loss. Such items include, for example, translation differences related to foreign operations and gains or losses on available-for-sale financial assets. The statement of comprehensive income does not include transactions with owners in their capacity as owners. Such transactions are presented in the statement of changes in equity.
- BC50 Respondents to the exposure draft had mixed views about whether the Board should permit a choice of displaying non-owner changes in equity in one statement or two statements. Many respondents agreed with the Board's proposal to maintain the two-statement approach and the single-statement approach as alternatives and a few urged the Board to mandate one of them. However, most respondents preferred the two-statement approach because it distinguishes profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income.
- BC51 The exposure draft of 2006 expressed the Board's preference for a single statement of all non-owner changes in equity. The Board provided several reasons for this preference. All items of non-owner changes in equity meet the definitions of income and expenses in the *Framework*. The *Framework* does not define profit or loss, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss. Therefore, the Board decided that it was conceptually correct for an entity to present all non-owner changes in equity (ie all income and expenses recognised in a period) in a single statement because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.
- BC52 However, in the Board's discussions with interested parties, it was clear that many were strongly opposed to the concept of a single statement. They argued that there would be undue focus on the bottom line of the single statement. In addition, many argued that it was premature for the Board to conclude that presentation of income and expense in a single statement was an improvement in financial reporting without also addressing the other aspects of presentation and

display, namely deciding what categories and line items should be presented in a statement of recognised income and expense.

- BC53 In the light of these views, although it preferred a single statement, the Board decided that an entity should have the choice of presenting all income and expenses recognised in a period in one statement or in two statements. An entity is prohibited from presenting components of income and expense (ie non-owner changes in equity) in the statement of changes in equity.
- BC54 Many respondents disagreed with the Board's preference and thought that a decision at this stage would be premature. In their view the decision about a single-statement or two-statement approach should be subject to further consideration. They urged the Board to address other aspects of presentation and display, namely deciding which categories and line items should be presented in a 'statement of comprehensive income'. The Board reaffirmed its reasons for preferring a single-statement approach and agreed to address other aspects of display and presentation in the next stage of the project.

Results of operating activities

- BC55 IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line item in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item.
- BC56 The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

Subtotal for profit or loss (paragraph 82)

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

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chooses to display comprehensive income in one statement should include profit or loss as a subtotal within that statement.

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

Minority interest (paragraph 83)*

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

Extraordinary items (paragraph 87)

- BC60 IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (issued in 1993) required extraordinary items to be disclosed in the income statement separately from the profit or loss from ordinary activities. That standard defined ‘extraordinary items’ as ‘income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly’.
- BC61 In 2002, the Board decided to eliminate the concept of extraordinary items from IAS 8 and to prohibit the presentation of items of income and expense as ‘extraordinary items’ in the income statement and the notes. Therefore, in accordance with IAS 1, no items of income and expense are to be presented as arising from outside the entity’s ordinary activities.
- BC62 Some respondents to the exposure draft of 2002 argued that extraordinary items should be presented in a separate component of the income statement because they are clearly distinct from all of the other items of income and expense, and because such presentation highlights to users of financial statements the items of income and expense to which the least attention should be given when predicting an entity’s future performance.

* In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended ‘minority interests’ to non-controlling interests’.

- BC63 The Board decided that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement. Items currently classified as ‘extraordinary’ are only a subset of the items of income and expense that may warrant disclosure to assist users in predicting an entity’s future performance.
- BC64 Eliminating the category of extraordinary items eliminates the need for arbitrary segregation of the effects of related external events—some recurring and others not—on the profit or loss of an entity for a period. For example, arbitrary allocations would have been necessary to estimate the financial effect of an earthquake on an entity’s profit or loss if it occurs during a major cyclical downturn in economic activity. In addition, paragraph 97 of IAS 1 requires disclosure of the nature and amount of material items of income and expense.

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

- BC65 The exposure draft of 2006 proposed to allow components of ‘other recognised income and expense’ (now ‘other comprehensive income’) to be presented before tax effects (‘gross presentation’) or after their related tax effects (‘net presentation’). The ‘gross presentation’ facilitated the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax. The ‘net presentation’ facilitated the identification of other comprehensive income items in the equity section of the statement of financial position. A majority of respondents supported allowing both approaches. The Board reaffirmed its conclusion that components of other comprehensive income could be displayed either (a) net of related tax effects or (b) before related tax effects.
- BC66 Regardless of whether a pre-tax or post-tax display was used, the exposure draft proposed to require disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income, in line with SFAS 130. Many respondents agreed in principle with this disclosure, because they agreed that it helped to improve the clarity and transparency of such information, particularly when components of other comprehensive income are taxed at rates different from those applied to profit or loss.
- BC67 However, most respondents expressed concern about having to trace the tax effect for each one of the components of other comprehensive income. Several observed that the tax allocation process is arbitrary (eg it may involve the application of subjectively determined tax rates) and some pointed out that this information is not readily available for some industries (eg the insurance sector), where components of other comprehensive income are multiple and tax allocation involves a high degree of subjectivity. Others commented that they did not understand why tax should be attributed to components of comprehensive income line by line, when this is not a requirement for items in profit or loss.

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

Reclassification adjustments (paragraphs 92–96)

- BC69 In the exposure draft of 2006, the Board proposed that an entity should separately present reclassification adjustments. These adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. The Board decided that adjustments necessary to avoid double-counting items in total comprehensive income when those items are reclassified to profit or loss in accordance with IFRSs. The Board's view was that separate presentation of reclassification adjustments is essential to inform users of those amounts that are included as income and expenses in different periods—as income or expenses in other comprehensive income in previous periods and as income or expenses in profit or loss in the current period. Without such information, users may find it difficult to assess the effect of reclassifications on profit or loss and to calculate the overall gain or loss associated with available-for-sale financial assets, cash flow hedges and on translation or disposal of foreign operations.
- BC70 Most respondents agreed with the Board's decision and believe that the disclosure of reclassification adjustments is important to understanding how components recognised in profit or loss are related to other items recognised in equity in two different periods. However, some respondents suggested that the Board should use the term 'recycling', rather than 'reclassification' as the former term is more common. The Board concluded that both terms are similar in meaning, but decided to use the term 'reclassification adjustment' to converge with the terminology used in SFAS 130.
- BC71 The exposure draft proposed to allow the presentation of reclassification adjustments in the statement of recognised income and expense (now 'statement of comprehensive income') or in the notes. Most respondents supported this approach.
- BC72 Some respondents noted some inconsistencies in the definition of 'reclassification adjustments' in the exposure draft (now paragraphs 7 and 93 of IAS 1). Respondents suggested that the Board should expand the definition in paragraph 7 to include gains and losses recognised in current periods in addition to those recognised in earlier periods, to make the definition consistent with paragraph 93. They commented that, without clarification, there could be differences between interim and annual reporting, for reclassifications of items that arise in one interim period and reverse out in a different interim period within the same annual period.

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

Statement of changes in equity

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

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

Reconciliation for each component of other comprehensive income (paragraphs 106(d)(ii) and 106A)

- BC74A Paragraph 106(d) requires an entity to provide a reconciliation of changes in each component of equity. In *Improvements to IFRSs* issued in May 2010, the Board clarified that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Presentation of dividends (paragraph 107)

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

Statement of cash flows

IAS 7 Cash Flow Statements (paragraph 111)

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

Notes

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

- BC77 The revised IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 122). An example of these judgements is how management determines whether financial assets are held-to-maturity investments. The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.
- BC78 Comments received on the exposure draft of 2002 indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 125) and added another four examples of the types of judgements disclosed (see paragraphs 123 and 124).

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

- BC79 IAS 1 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of

assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

- (a) their nature; and
- (b) their carrying amount as at the end of the reporting period (see paragraph 125).

- BC80 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.
- BC81 The *Framework* states that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 125 of the revised IAS 1 would be made in respect of relatively few assets or liabilities (or classes of them).
- BC82 The exposure draft of 2002 proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:
- (a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period'; and
 - (b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 128 of IAS 1).
- BC83 When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting

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period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value.

- BC84 IAS 1 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 1 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

Disclosures about capital (paragraphs 134 and 135)

- BC85 In July 2004 the Board published an exposure draft—ED 7 *Financial Instruments: Disclosures*. As part of that project, the Board considered whether it should require disclosures about capital.
- BC86 The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. The level of capital might also affect the entity's ability to pay dividends. Consequently, ED 7 proposed disclosures about capital.
- BC87 In ED 7 the Board decided that it should not limit the requirements for disclosures about capital to entities that are subject to external capital requirements (eg regulatory capital requirements established by legislation or other regulation). The Board believes that information about capital is useful for all entities, as is evidenced by the fact that some entities set internal capital requirements and norms have been established for some industries. The Board noted that the capital disclosures are not intended to replace disclosures required by regulators. The Board also noted that the financial statements should not be regarded as a substitute for disclosures to regulators (which may not be available to all users) because the function of disclosures made to regulators may differ from the function of those to other users. Therefore, the Board decided that information about capital should be required of all entities because it is useful to users of general purpose financial statements. Accordingly, the Board did not distinguish between the requirements for regulated and non-regulated entities.
- BC88 Some respondents to ED 7 questioned the relevance of the capital disclosures in an IFRS dealing with disclosures relating to financial instruments. The Board

noted that an entity's capital does not relate solely to financial instruments and, thus, capital disclosures have more general relevance. Accordingly, the Board included these disclosures in IAS 1, rather than IFRS 7 *Financial Instruments: Disclosures*, the IFRS resulting from ED 7.

- BC89 The Board also decided that an entity's decision to adopt the amendments to IAS 1 should be independent of the entity's decision to adopt IFRS 7. The Board noted that issuing a separate amendment facilitates separate adoption decisions.

Objectives, policies and processes for managing capital (paragraph 136)

- BC90 The Board decided that disclosure about capital should be placed in the context of a discussion of the entity's objectives, policies and processes for managing capital. This is because the Board believes that such a discussion both communicates important information about the entity's capital strategy and provides the context for other disclosures.
- BC91 The Board considered whether an entity can have a view of capital that differs from what IFRSs define as equity. The Board noted that, although for the purposes of this disclosure capital would often equate with equity as defined in IFRSs, it might also include or exclude some components. The Board also noted that this disclosure is intended to give entities the opportunity to describe how they view the components of capital they manage, if this is different from what IFRSs define as equity.

Externally imposed capital requirements (paragraph 136)

- BC92 The Board considered whether it should require disclosure of any externally imposed capital requirements. Such a capital requirement could be:
- (a) an industry-wide requirement with which all entities in the industry must comply; or
 - (b) an entity-specific requirement imposed on a particular entity by its prudential supervisor or other regulator.
- BC93 The Board noted that some industries and countries have industry-wide capital requirements, and others do not. Thus, the Board concluded that it should not require disclosure of industry-wide requirements, or compliance with such requirements, because such disclosure would not lead to comparability between different entities or between similar entities in different countries.
- BC94 The Board concluded that disclosure of the existence and level of entity-specific capital requirements is important information for users, because it informs them

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about the risk assessment of the regulator. Such disclosure improves transparency and market discipline.

- BC95 However, the Board noted the following arguments against requiring disclosure of externally imposed entity-specific capital requirements.
- (a) Users of financial statements might rely primarily on the regulator's assessment of solvency risk without making their own risk assessment.
 - (b) The focus of a regulator's risk assessment is for those whose interests the regulations are intended to protect (eg depositors or policyholders). This emphasis is different from that of a shareholder. Thus, it could be misleading to suggest that the regulator's risk assessment could, or should, be a substitute for independent analysis by investors.
 - (c) The disclosure of entity-specific capital requirements imposed by a regulator might undermine that regulator's ability to impose such requirements. For example, the information could cause depositors to withdraw funds, a prospect that might discourage regulators from imposing requirements. Furthermore, an entity's regulatory dialogue would become public, which might not be appropriate in all circumstances.
 - (d) Because different regulators have different tools available, for example formal requirements and moral suasion, a requirement to disclose entity-specific capital requirements could not be framed in a way that would lead to the provision of information that is comparable across entities.
 - (e) Disclosure of capital requirements (and hence, regulatory judgements) could hamper clear communication to the entity of the regulator's assessment by creating incentives to use moral suasion and other informal mechanisms.
 - (f) Disclosure requirements should not focus on entity-specific capital requirements in isolation, but should focus on how entity-specific capital requirements affect how an entity manages and determines the adequacy of its capital resources.
 - (g) A requirement to disclose entity-specific capital requirements imposed by a regulator is not part of Pillar 3 of the Basel II Framework developed by the Basel Committee on Banking Supervision.
- BC96 Taking into account all of the above arguments, the Board decided not to require quantitative disclosure of externally imposed capital requirements. Rather, it decided to require disclosures about whether the entity complied with any externally imposed capital requirements during the period and, if not, the consequences of non-compliance. This retains confidentiality between regulators and the entity, but alerts users to breaches of capital requirements and their consequences.
- BC97 Some respondents to ED 7 did not agree that breaches of externally imposed capital requirements should be disclosed. They argued that disclosure about breaches of externally imposed capital requirements and the associated regulatory measures subsequently imposed could be disproportionately damaging to entities. The Board was not persuaded by these arguments because it believes that such concerns

indicate that information about breaches of externally imposed capital requirements may often be material by its nature. The *Framework* states that ‘Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.’ Similarly, the Board decided not to provide an exemption for temporary non-compliance with regulatory requirements during the year. Information that an entity is sufficiently close to its limits to breach them, even on a temporary basis, is useful for users.

Internal capital targets

- BC98 The Board proposed in ED 7 that the requirement to disclose information about breaches of capital requirements should apply equally to breaches of internally imposed requirements, because it believed the information is also useful to a user of the financial statements.
- BC99 However, this proposal was criticised by respondents to ED 7 for the following reasons:
- (a) The information is subjective and, thus, not comparable between entities. In particular, different entities will set internal targets for different reasons, so a breach of a requirement might signify different things for different entities. In contrast, a breach of an external requirement has similar implications for all entities required to comply with similar requirements.
 - (b) Capital targets are not more important than other internally set financial targets, and to require disclosure only of capital targets would provide users with incomplete, and perhaps misleading, information.
 - (c) Internal targets are estimates that are subject to change by the entity. It is not appropriate to require the entity’s performance against this benchmark to be disclosed.
 - (d) An internally set capital target can be manipulated by management. The disclosure requirement could cause management to set the target so that it would always be achieved, providing little useful information to users and potentially reducing the effectiveness of the entity’s capital management.
- BC100 As a result, the Board decided not to require disclosure of the capital targets set by management, whether the entity has complied with those targets, or the consequences of any non-compliance. However, the Board confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful. The Board also concluded that these disclosures, together with disclosure of the components of equity and their changes during the year (required by paragraphs 106–110), would give sufficient information about entities that are not regulated or subject to externally imposed capital requirements.

Puttable financial instruments and obligations arising on liquidation

- BC100A The Board decided to require disclosure of information about puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation that are reclassified in accordance with paragraphs 16E and 16F of IAS 32. This is because the Board concluded that this disclosure allows users of financial statements to understand the effects of any reclassifications.
- BC100B The Board also concluded that entities with puttable financial instruments classified as equity should be required to disclose additional information to allow users to assess any effect on the entity's liquidity arising from the ability of the holder to put the instruments to the issuer. Financial instruments classified as equity usually do not include any obligation for the entity to deliver a financial asset to another party. Therefore, the Board concluded that additional disclosures are needed in these circumstances. In particular, the Board concluded that entities should disclose the expected cash outflow on redemption or repurchase of those financial instruments that are classified as equity and information about how that amount was determined. That information allows liquidity risk associated with the put obligation and future cash flows to be evaluated.

Presentation of measures per share

- BC101 The exposure draft of 2006 did not propose to change the requirements of IAS 33 *Earnings per Share* on the presentation of basic and diluted earnings per share. A majority of respondents agreed with this decision. In their opinion, earnings per share should be the only measure per share permitted or required in the statement of comprehensive income and changing those requirements was beyond the scope of this stage of the financial statement presentation project.
- BC102 However, some respondents would like to see alternative measures per share whenever earnings per share is not viewed as the most relevant measure for financial analysts (ie credit rating agencies that focus on other measures). A few respondents proposed that an entity should also display an amount per share for total comprehensive income, because this was considered a useful measure. The Board did not support including alternative measures per share in the financial statements, until totals and subtotals, and principles for aggregating and disaggregating items, are addressed and discussed as part of the next stage of the financial statement presentation project.
- BC103 Some respondents also interpreted the current provisions in IAS 33 as allowing de facto a display of alternative measures in the income statement. In its deliberations, the Board was clear that paragraph 73 of IAS 33 did not leave room for confusion. However, it decided that the wording in paragraph 73 could be improved to clarify that alternative measures should be shown 'only in the notes'. This will be done when IAS 33 is revisited or as part of the annual improvements process.

- BC104 One respondent commented that the use of the word ‘earnings’ was inappropriate in the light of changes proposed in the exposure draft and that the measure should be denominated ‘profit or loss per share’, instead. The Board considered that this particular change in terminology was beyond the scope of IAS 1.

Transition and effective date

- BC105 The Board is committed to maintaining a ‘stable platform’ of substantially unchanged standards for annual periods beginning between 1 January 2006 and 31 December 2008. In addition, some preparers will need time to make the system changes necessary to comply with the revisions to IAS 1. Therefore, the Board decided that the effective date of IAS 1 should be annual periods beginning on or after 1 January 2009, with earlier application permitted.

Differences from SFAS 130

- BC106 In developing IAS 1, the Board identified the following differences from SFAS 130:
- (a) **Reporting and display of comprehensive income** Paragraph 22 of SFAS 130 permits a choice of displaying comprehensive income and its components, in one or two statements of financial performance or in a statement of changes in equity. IAS 1 (as revised in 2007) does not permit display in a statement of changes in equity.
 - (b) **Reporting other comprehensive income in the equity section of a statement of financial position** Paragraph 26 of SFAS 130 specifically states that the *total of other comprehensive income* is reported separately from retained earnings and additional paid-in capital in a statement of financial position at the end of the period. A descriptive title such as *accumulated other comprehensive income* is used for that component of equity. An entity discloses accumulated balances for each classification in that separate component of equity in a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. IAS 1 (as revised in 2007) does not specifically require the display of a total of accumulated other comprehensive income in the statement of financial position.
 - (c) **Display of the share of other comprehensive income items of associates and joint ventures accounted for using the equity method** Paragraph 82 of IAS 1 (as revised in 2007) requires the display in the statement of comprehensive income of the investor’s share of the investee’s other comprehensive income. Paragraph 122 of SFAS 130 does not specify how that information should be displayed. An investor is permitted to combine its proportionate share of other comprehensive income amounts with its own other comprehensive income items and

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display the aggregate of those amounts in an income statement type format or in a statement of changes in equity.

Dissenting opinions on IAS 1

Dissent of Mary E Barth, Anthony T Cope, Robert P Garnett and James J Leisenring

- DO1 Professor Barth and Messrs Cope, Garnett and Leisenring voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. The reasons for their dissent are set out below.
- DO2 Those Board members agree with the requirement to report all items of income and expense separately from changes in net assets that arise from transactions with owners in their capacity as owners. Making that distinction clearly is a significant improvement in financial reporting.
- DO3 However, they believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise.
- DO4 As noted in paragraph BC51, the *Framework* does not define profit or loss, or net income. It also does not indicate what criteria should be used to distinguish between those items of recognised income and expense that should be included in profit or loss and those items that should not. In some cases, it is even possible for identical transactions to be reported inside or outside profit or loss. Indeed, in that same paragraph, the Board acknowledges these facts, and indicates that it had a preference for reporting all items of income and expense in a single statement, believing that a single statement is the conceptually correct approach. Those Board members believe that some items of income and expense that will potentially bypass the statement of profit and loss can be as significant to the assessment of an entity's performance as items that will be included. Until a conceptual distinction can be developed to determine whether any items should be reported in profit or loss or elsewhere, financial statements will lack neutrality and comparability unless all items are reported in a single statement. In such a statement, profit or loss can be shown as a subtotal, reflecting current conventions.
- DO5 In the light of those considerations, it is puzzling that most respondents to the exposure draft that proposed these amendments favoured permitting a two-statement approach, reasoning that it 'distinguishes between profit and loss and total comprehensive income' (paragraph BC50). Distinguishing between those items reported in profit or loss and those reported elsewhere is accomplished by the requirement for relevant subtotals to be included in a statement of comprehensive income. Respondents also stated that a two-statement approach gives primacy to the 'income statement'; that conflicts with the Board's requirement in paragraph 11 of IAS 1 to give equal prominence to all financial statements within a set of financial statements.
- DO6 Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRSs. The *Preface to International Financial Reporting Standards*, in paragraph 13, states: 'the IASB intends not to permit choices in

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accounting treatment ... and will continue to reconsider ... those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.' The *Preface* extends this objective to both accounting and reporting. The same paragraph states: 'The IASB's objective is to require like transactions and events to be accounted for *and reported* in a like way and unlike transactions and events to be accounted for *and reported* differently' (emphasis added). By permitting a choice in this instance, the IASB has abandoned that principle.

- DO7 Finally, the four Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds.

Guidance on implementing IAS 1 *Presentation of Financial Statements*

This guidance accompanies, but is not part of, IAS 1.

Illustrative financial statement structure

- IG1 IAS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of IAS 1 for the presentation of the statements of financial position, comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.
- IG2 The guidance is in three sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Paragraphs IG10 and IG11 provide examples of capital disclosures.
- IG3 The illustrative statement of financial position shows one way in which an entity may present a statement of financial position distinguishing between current and non-current items. Other formats may be equally appropriate, provided the distinction is clear.
- IG4 The illustrations use the term ‘comprehensive income’ to label the total of all components of comprehensive income, including profit or loss. The illustrations use the term ‘other comprehensive income’ to label income and expenses that are included in comprehensive income but excluded from profit or loss. IAS 1 does not require an entity to use those terms in its financial statements.
- IG5 Two statements of comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The single statement of comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the income statement’) illustrates the classification of income and expenses within profit by nature.
- IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, a summary of significant accounting policies and other explanatory information.

Part I: Illustrative presentation of financial statements

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

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Available-for-sale financial assets	142,500	156,000
	<u>901,620</u>	<u>945,460</u>
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	<u>564,880</u>	<u>578,740</u>
Total assets	<u><u>1,466,500</u></u>	<u><u>1,524,200</u></u>

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

(in thousands of currency units)

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

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**XYZ Group – Statement of comprehensive income for the year ended
31 December 20X7**

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

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ^(a)	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations ^(b)	5,334	10,667
Available-for-sale financial assets ^(b)	(24,000)	26,667
Cash flow hedges ^(b)	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ^(c)	400	(700)
Income tax relating to components of other comprehensive income ^(d)	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500

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**XYZ Group – Statement of comprehensive income for the year ended
31 December 20X7**

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

(in thousands of currency units)

	20X7	20X6
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interest	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interest	21,450	18,700
	<u>107,250</u>	<u>93,500</u>
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30
Alternatively, components of other comprehensive income could be presented in the statement of comprehensive income net of tax:		
Other comprehensive income for the year, after tax:	20X7	20X6
Exchange differences on translating foreign operations	4,000	8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
	<u>400</u>	<u>(700)</u>
Other comprehensive income for the year, net of tax^(d)	<u>(14,000)</u>	<u>28,000</u>

- (a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (b) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.
- (c) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (d) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group – Income statement for the year ended 31 December 20X7**(illustrating the presentation of comprehensive income in two statements and classification of expenses within profit by nature)**

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates ^(e)	35,100	30,100
Profit before tax	<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:		
Owners of the parent	97,000	52,400
Non-controlling interest	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(e) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

**XYZ Group – Statement of comprehensive income for the year ended
31 December 20X7**

(illustrating the presentation of comprehensive income in two statements)

(in thousands of currency units)

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ^(f)	400	(700)
Income tax relating to components of other comprehensive income ^(g)	4,667	(9,334)
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>107,250</u>	<u>93,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interest	<u>21,450</u>	<u>18,700</u>
	<u>107,250</u>	<u>93,500</u>

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

- (f) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (g) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group**Disclosure of components of other comprehensive income^(h)****Notes****Year ended 31 December 20X7**

(in thousands of currency units)

		20X7		20X6
Other comprehensive income:				
Exchange differences on translating foreign operations ⁽ⁱ⁾		5,334		10,667
Available-for-sale financial assets:				
Gains arising during the year	1,333		30,667	
Less: Reclassification adjustments for gains included in profit or loss	(25,333)	(24,000)	(4,000)	26,667
Cash flow hedges:				
Gains (losses) arising during the year	(4,667)		(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333		–	
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(667)	–	(4,000)
Gains on property revaluation		933		3,367
Actuarial gains (losses) on defined benefit pension plans		(667)		1,333
Share of other comprehensive income of associates		400		(700)
Other comprehensive income		(18,667)		37,334
Income tax relating to components of other comprehensive income ^(j)		4,667		(9,334)
Other comprehensive income for the year		(14,000)		28,000

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

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

(j) The income tax relating to each component of other comprehensive income is disclosed in the notes.

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

(in thousands of currency units)

	20X7			20X6		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	5,334	(1,334)	4,000	10,667	(2,667)	8,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)	26,667	(6,667)	20,000
Cash flow hedges	(667)	167	(500)	(4,000)	1,000	(3,000)
Gains on property revaluation	933	(333)	600	3,367	(667)	2,700
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)	1,333	(333)	1,000
Share of other comprehensive income of associates	400	–	400	(700)	–	(700)
Other comprehensive income	<u>(18,667)</u>	<u>4,667</u>	<u>(14,000)</u>	<u>37,334</u>	<u>(9,334)</u>	<u>28,000</u>

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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	Investments in equity instruments	Cash flow hedges	Re-valuation surplus	Total	Non-controlling interests	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year ^(k)	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
Balance at 31 December 20X6	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
Changes in equity for 20X7									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year ^(l)	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	(200)	–	–	–
Balance at 31 December 20X7	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

- (k) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus actuarial gains on defined benefit pension plans of 800 (1,333, less tax 333, less non-controlling interest 200).
- The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interest, eg other comprehensive income related to available-for-sale financial assets for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interest 4,000.
- The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less non-controlling interest 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.
- (l) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus actuarial losses on defined benefit pension plans of 400 (667, less tax 167, less non-controlling interest 100).
- The amount included in the translation, available-for-sale and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interest, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interest 800.
- The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less non-controlling interest 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

Part II: Illustrative example of the determination of reclassification adjustments

- IG7 The Standard requires an entity to disclose reclassification adjustments relating to each component of other comprehensive income.
- IG8 This guidance provides an illustration of the calculation of reclassification adjustments for available-for-sale financial assets recognised in accordance with IAS 39.
- IG9 On 31 December 20X5, XYZ Group purchased 1,000 shares (equity instruments) at 10 currency units (CU) per share, classified as available for sale. The fair value of the instruments at 31 December 20X6 was CU12; at 31 December 20X7 the fair value had increased to CU15. All of the instruments were sold on 31 December 20X7; no dividends were declared on those instruments during the time that they were held by XYZ Group. The applicable tax rate in accordance with IAS 12 *Income Taxes* is 30 per cent.

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Calculation of gains

(in currency units)

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

Amounts reported in profit or loss and other comprehensive income for the years ended 31 December 20X6 and 31 December 20X7

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	<u>3,500</u>	
Other comprehensive income:		
Gain arising during the year, net of tax	2,100	1,400
Reclassification adjustment, net of tax	(3,500)	–
Net gain (loss) recognised in other comprehensive income	<u>(1,400)</u>	<u>1,400</u>
	<u>2,100</u>	<u>1,400</u>

Alternatively, components of other comprehensive income may be shown gross of tax with a separate line item for tax effects:

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	3,500	
Other comprehensive income:		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	–
Income tax relating to other comprehensive income	600	(600)
Net gain (loss) recognised in other comprehensive income	(1,400)	1,400
	2,100	1,400

Part III: Illustrative examples of capital disclosures (paragraphs 134–136) An entity that is not a regulated financial institution

IG10 The following example illustrates the application of paragraphs 134 and 135 for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 134 and 135.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, non-controlling interest, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

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During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31 Dec 20X4	31 Dec 20X3
	CU million	CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	<u>910</u>	<u>950</u>
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated 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

- IG11 The following example illustrates the application of paragraph 135(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 134 and 135.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.