



# Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements”

(Relevant to ATE Paper 1 – Financial Accounting & Paper 7 – Advanced Accounting)

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## Introduction

This article will not go into the details of the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The emphasis here is instead on the main features of the revised version of the accounting standard and changes from the previous version. Illustrative examples on the format of the financial statements are also provided.

HKAS 1 (Revised) was issued in December 2007 to replace HKAS 1 “Presentation of Financial Statements” which was issued in 2004 and amended in 2005. The revised statement is effective for annual periods beginning on or after 1 January 2009. The revised HKAS 1 aims to maintain international

convergence arising from the revision of IAS 1, the objective of which was to aggregate information in the financial statements on the basis of shared characteristics.

## Main features

HKAS 1 (Revised) affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. It requires an entity to present or disclose the following information:

- (a) All owner changes in equity in a statement of changes in equity
- (b) All non-owner changes in equity (i.e. comprehensive income):
  - (i) in one statement of comprehensive income; or

- (ii) in two statements (a separate income statement and a statement of comprehensive income)
- (c) A statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements:
  - (i) when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”; or
  - (ii) when the entity reclassifies items in the financial statements

This means that three statements of financial position, as a minimum, have to be presented as at:

- the end of the current period

# 2

- the end of the previous period (which is the same as the beginning of the current period)
  - the beginning of the earliest comparative period
- (d) Reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognized in other comprehensive income.

## Changes from previous version

1. HKAS 1 (Revised) uses new titles to describe the balance sheet and cash flow statement. However, these titles are not mandatory, which means that entities are not required to use them in their financial statements. The reason is that making use of the titles non-mandatory will allow time for entities to implement changes gradually as the new titles become more familiar. The new titles are:
  - (a) Statement of financial position (balance sheet)
  - (b) Statement of cash flows (cash flow statement)
2. The presentation of the income statement is changed.
  - (a) “Statement of comprehensive income” is now used in HKAS 1 (Revised).
  - (b) The statement presents all income and expense items

passing through the profit or loss during a period; other income and expenses not passing through profit and loss are shown under the term “other comprehensive income”; finally the total comprehensive income is given.

*(Refer to note for the explanation of comprehensive income and other comprehensive income)*

3. HKAS 1 (Revised) requires an entity to disclose:
  - (a) Income tax relating to each component of other comprehensive income
  - (b) Reclassification adjustments relating to components of other comprehensive income. For example, reclassification adjustments arise on derecognition of available-for-sale financial assets (This is beyond the scope of the syllabus of Papers 1 & 7).
4. All changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) have to be presented separately from non-owner changes in equity. This means that components of comprehensive income are not permitted to be presented in the statement of changes in equity. For example, a gain on property revaluation is allowed to be presented in the statement of changes in equity under the previous version but not in the revised version.

5. The presentation of dividends allowed to be disclosed under previous version in the income statement, in the statement of changes in equity or in the notes has now been changed.
  - (a) The revised standard requires that dividends recognized as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes.
  - (b) Such disclosure as set out in (a) above can no longer be presented in the statement of comprehensive income.

## Illustrative financial statement structure

The following examples illustrate only the presentation of a statement of financial position, a statement of comprehensive income and a statement of changes in equity. These examples have been simplified to exclude comparative figures and items outside the scope of the Paper 1 or Paper 7 syllabus. Thus, they are not intended to illustrate all aspects of HKFRSs, nor do they constitute a complete set of financial statements. Higher level students can refer to the “Guidance on implementing” which is attached to HKAS 1 for information on the presentation of other statements or the disclosure of items such as reclassification adjustments for available-for-sale financial assets.

**Example 1 – Statement of financial position***(No change to the content and structure but note the change to the title of the statement)*

ABC Company  
Statement of financial position as at 31 December 20X8

<b>Assets</b>	\$'000
<u>Non-current assets</u>	
Property, plant and equipment	x
Goodwill	x
Other intangible assets	x
Investments in associates	<u>x</u>
	<u>X</u>
<u>Current assets</u>	
Inventories	x
Trade receivables	x
Other current assets	x
Cash at bank	<u>x</u>
	<u>X</u>
<b>Total assets</b>	<b><u>1,416</u></b>
<b>Equity and liabilities</b>	
<u>Equity attributable to owners of the parent</u>	
Share capital	650
Retained earnings	244
Other components of equity	<u>102</u>
	996
Minority interest	<u>99</u>
Total equity	<u>1,095</u>
<u>Non-current liabilities</u>	
Long-term borrowings	120
Bank loan	<u>28</u>
	<u>148</u>
<u>Current liabilities</u>	
Trade and other payables	115
Current portion of long-term borrowings	10
Tax payable	35
Provisions	<u>13</u>
	<u>173</u>
<b>Total equity and liabilities</b>	<b><u>1,416</u></b>

**Example 2 – Statement of comprehensive income in one statement**  
*(Note the change in the title, content and structure of the statement)*

ABC Company  
 Statement of comprehensive income for the year ended 31 December 20X8

	\$'000
Revenue	390
Cost of sales	<u>(245)</u>
Gross profit	145
Other income	21
Distribution costs	(9)
Administrative expenses	(20)
Other expenses	(4)
Finance costs	(8)
Share of profit of associates (a)	<u>35</u>
<b>Profit before tax</b>	<b>160</b>
Income tax expense	<u>(40)</u>
<b>Profit for the year</b>	<b>120</b>
 <i><b>Other comprehensive income:</b></i>	
Gains on property revaluation	93
Share of other comprehensive income of associates (a)	40
Income tax relating to components of other comprehensive income (b) (3)	<u>(3)</u>
<i><b>Other comprehensive income for the year, net of tax</b></i>	<i><b><u>130</u></b></i>
<b>Total comprehensive income for the year</b>	<b><u>250</u></b>
 Profit attributable to:	
Owners of the parent	96
Minority interest	<u>24</u>
	<u>120</u>
 Total comprehensive income attributable to:	
Owners of the parent	200
Minority interest	<u>50</u>
	<u>250</u>
 Earnings per share (Basic and Diluted)	 <u>46¢</u>

**Example 3– Statement of comprehensive income in two statements**

If the two-statement format is used, the first part is an income statement which presents the items from revenue to profit for the year, profit attributable to owners of the parent and minority interest and earnings per share.

ABC Company  
Income statement for the year ended 31 December 20X8

	\$'000
Revenue	390
:	:
:	:
:	:
<b>Profit for the year</b>	<b>120</b>
Profit attributable to:	
Owners of the parent	96
Minority interest	<u>24</u>
	<u>120</u>
Earnings per share (Basic and Diluted)	<u>46¢</u>

The second part is the statement of comprehensive income which continues from profit for the year of the first part, then presents items under other comprehensive income and ends with the final figure of total comprehensive income for the year. It also shows at the end the total comprehensive income amounts attributable to owners of the parent and to the minority interest.

ABC Company  
Statement of comprehensive income for the year ended 31 December 20X8

	\$'000
<b>Profit for the year</b>	<b>120</b>
<i>Other comprehensive income:</i>	
Gains on property revaluation	93
Share of other comprehensive income of associates (a)	40
Income tax relating to components of other comprehensive income (b) (3)	<u>130</u>
<i>Other comprehensive income for the year, net of tax</i>	<u>130</u>
Total comprehensive income for the year	<u>250</u>
Total comprehensive income attributable to:	
Owners of the parent	200
Minority interest	<u>50</u>
	<u>250</u>



#### Example 4 – Disclosure of components of other comprehensive income

*(Note that this disclosure is not new but it was included in the statement of changes in equity under the previous version of HKAS 1)*

If the components of other comprehensive income are not as simple as those in Example 2 above, notes to show the movements during the year have to be prepared separately for each item. For example, a separate statement would be needed to disclose the gains arising during the year and reclassification adjustments for gains included in profit or loss relating to “Available-for-sale financial assets”. (This is also beyond the scope of Papers 1 & 7.)

#### Example 5 – Disclosure of tax effects relating to each component of other comprehensive income *(This note is a new requirement)*

Notes

Year ended 31 December 20X8

	Before-tax amount \$'000	Tax expense \$'000	Net-of-tax amount \$'000
Gains on property revaluation	93	3	90
Share of other comprehensive income of associates	40	—	40
	<u>133</u>	<u>3</u>	<u>130</u>

**Example 6 – Statement of changes in equity for the year ended 31 December 20X8**

(Note that non-owner changes in equity, e.g., gains on property revaluation, are not shown in this statement anymore)

ABC Company  
Statement of changes in equity for the year ended 31 December 20X8

	Share capital \$'000	Retained earnings \$'000	Revaluation surplus \$'000	Total \$'000	Minority interest \$'000	Total equity \$'000
Balance at 1 January 20X7	x	x	x	x	x	x
Changes in accounting policy	x	x	x	x	x	x
Restated balance	x	x	x	x	x	x
Changes in equity for 20X7						
Dividends	x	x	x	x	x	x
Total comprehensive income for the year	x	x	x	x	x	x
Balance at 31 December 20X7	600	161	x	761	49	810
Changes in equity for 20X8						
Issue of share capital	50	-	-	50	-	50
Dividends	-	(15)	-	(15)	-	(15)
Total comprehensive income for the year	-	96	104	200	50	250
Transfer to retained earnings	-	2	(2)	-	-	-
Balance at 31 December 20X8	650	244	102	996	99	1,095

**Notes:**

- (a) It is after tax and minority interests in the associates.
- (b) Alternatively, components of other comprehensive income could be presented net of tax. In this case, the gain on property revaluation could be presented as \$90,000 and income tax not shown.
- (c) The amount included in the revaluation surplus of \$104,000 represents the share of other comprehensive income of associates of \$40,000 plus gains on property revaluation of

\$64,000 (\$93,000 less tax of \$3,000 and less minority interest of \$26,000). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

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 circumstance other than those resulting from transactions with owners in their capacity as owners.

Other comprehensive income

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.

**References:**

Hong Kong Accounting Standard 1 (Revised)  
 “Presentation of Financial Statements”  
 A Plus, July 2008, page 44