HKAS 1 Presentation of Financial Statements[1]

September 2005

Hong Kong Accounting Standard (HKAS) 1 *Presentation of Financial Statements* aims at prescribing the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, HKAS 1 mainly sets out:

(a) overall requirements for the presentation of financial statements, and

(b) guidelines for their structure and minimum requirements for their content.

The recognition, measurement and disclosure of specific transactions and other events are dealt with in other accounting standards.

1. Scope of HKAS 1

HKAS 1 ***shall be applied to all general purpose financial statements prepared and presented in accordance with Hong Kong Financial Reporting Standards (HKFRSs).*** *(HKAS 1 para. 2)*[2]

> ***Hong Kong Financial Reporting Standards (HKFRSs)*** ***are Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:***
>
> ***(a) Hong Kong Financial Reporting Standards;***
>
> ***(b) Hong Kong Accounting Standards; and***
>
> ***(c) Interpretations.*** *(HKAS 1 para. 11)*

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. An example of tailored reports are those accounts prepared by certain private companies taking advantage of the exemptions granted by Section 141D of the Hong Kong Companies Ordinance.

2. Purpose of Financial Statements

HKAS 1 states that "financial statements are a structured representation of the financial position and financial performance of an entity."

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. The objective stated in HKAS 1 is similar to that of the *Framework for the Preparation and Presentation of Financial Statements*.

To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

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

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[1] *This note is sourced from HKAS 1 Presentation of financial statements. While the note is aimed at covering all critical points of HKAS 1, a complete and comprehensive coverage should still be the original HKAS 1.*

[2] *All the paragraphs in HKAS now have equal authority while main principles and definitions are highlighted in bold and italic.*

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(e) other changes in equity; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty. *(HKAS 1, para. 7)*

3. Components of Financial Statements

A complete set of financial statements comprises:

(a) a balance sheet;

(b) an income statement;

(c) a statement of changes in equity showing either:

(i) all changes in equity, or

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

(d) a cash flow statement; and

(e) notes, comprising a summary of significant accounting policies and other explanatory notes. *(HKAS 1, para. 8)*

4. Overall Considerations

4.1 True and Fair View and Compliance with HKFRSs

Financial statements shall give a true and fair view of the financial position, financial performance and cash flows of an entity.

True and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of HKFRSs, with additional disclosure when necessary, is presumed to result in financial statements that give a true and fair view. *(HKAS 1, para. 13)*

4.1.1 Statement of compliance

An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with HKFRSs unless they comply with all the requirements of HKFRSs. *(HKAS 1, para. 14)*

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

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

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

(c) to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. *(HKAS 1, para. 15)*

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material. *(HKAS 1, para. 16)*

4.1.2 Departure from Standard or Interpretation

In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement in the manner set out in the paragraph below if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. *(HKAS 1, para. 17)*

When an entity departs from a requirement of a Standard or an Interpretation in accordance with the above paragraph, it shall disclose:

- ***(a) that management has concluded that the financial statements give a true and fair view of the entity's financial position, financial performance and cash flows;***
- ***(b) that it has complied with applicable Standards and Interpretations, except that it has departed from a particular requirement to give a true and fair view;***
- ***(c) the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and***
- ***(d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.*** *(HKAS 1, para. 18)*

When an entity has departed from a requirement of a Standard or an Interpretation in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in the above paragraph (c) and (d). *(HKAS 1, para. 19)*

The above paragraph applies, for example, when an entity departed in a prior period from a requirement in a Standard or an Interpretation for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements. *(HKAS 1, para. 20)*

4.1.3 Departure from Standard or Interpretation and Such Departure be Prohibited

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

- ***(a) the title of the Standard or Interpretation in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and***
- ***(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to give a true and fair view.*** *(HKAS 1, para. 21)*

For the purpose of the above several paragraphs, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

When assessing whether complying with a specific requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, management considers:

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

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

4.2 Going concern

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed.

When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. *(HKAS 1, para. 23)*

4.3 Accrual Basis of Accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. *(HKAS 1, para. 25)* When the accrual basis of accounting is used, items are recognised as *assets*, *liabilities*, *equity*, *income* and *expenses* (the 5 elements of financial statements as defined in the Framework) when they satisfy the definitions and recognition criteria for those elements in the Framework.

4.4 Consistency of Presentation

The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

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

(b) a Standard or an Interpretation requires a change in presentation. *(HKAS 1, para. 27)*

A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with HKAS 1.

4.5 Materiality and Aggregation

Material is defined in HKAS 1 as "***omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.***" *(HKAS 1, para. 11)*

Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial. *(HKAS 1, para. 29)*

Applying the concept of materiality means that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material.

4.6 Offsetting

Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation. *(HKAS 1, para. 32)*

It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the income statement or the balance sheet, except when offsetting reflects the *substance of the transaction or other event*, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.

4.7 Comparative Information

Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements.

Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. *(HKAS 1, para. 36)*

When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

- ***(a) the nature of the reclassification;***
- ***(b) the amount of each item or class of items that is reclassified; and***
- ***(c) the reason for the reclassification.*** *(HKAS 1, para. 38)*

Impracticable is defined in HKAS 1 as "***applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.***" *(HKAS 1, para. 11)*

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

- ***(a) the reason for not reclassifying the amounts; and***
- ***(b) the nature of the adjustments that would have been made if the amounts had been reclassified.*** *(HKAS 1, para. 39)*

Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. HKAS 8 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

5. Structure and Content

HKAS 1 requires particular disclosures on the face of the balance sheet, income statement and statement of changes in equity and requires disclosure of other line items either on the face of those statements or in the notes. Another standard, HKAS 7, sets out requirements for the presentation of a cash flow statement.

5.1 Identification of the Financial Statements

The financial statements shall be identified clearly and distinguished from other information in the same published document. *(HKAS 1, para. 44)*

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

Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(a) the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;

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

(c) the balance sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;

(d) the presentation currency, as defined in HKAS 21 The Effects of Changes in Foreign Exchange Rates; and

(e) the level of rounding used in presenting amounts in the financial statements. *(HKAS 1, para. 46)*

5.2 Reporting Period

Financial statements shall be presented at least annually. When an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

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

(b) the fact that comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable. *(HKAS 1, para. 49)*

5.3 Balance Sheet

5.3.1 Current/Non-current Distinction

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with the standards set out in 5.3.2 current assets and 5.3.3 current liabilities below, except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity. *(HKAS 1, para. 51)*

Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months. *(HKAS 1, para. 52)*

5.3.2 Current Assets

An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the balance sheet date; or

(d) it is cash or a cash equivalent (as defined in HKAS 7 Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date. All other assets shall be classified as non-current. *(HKAS 1, para. 57)*

HKAS 1 uses the term "non-current" to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months.

Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the balance sheet date.

Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

5.3.3 Current Liabilities

A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the balance sheet date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities shall be classified as non-current. *(HKAS 1, para. 60)*

Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date.

The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months.

Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the balance sheet date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading in accordance with HKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables.

(a) Current and Non-current Financial Liabilities

Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within 12 months after the balance sheet date are non-current liabilities, subject to the following paragraphs.

Financial liabilities classified as current An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the balance sheet date, even if:

(a) the original term was for a period longer than 12 months; and

(b) 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.

Financial liabilities with discretion to refinance If an entity expects, and has the discretion, to refinance or roll over an obligation for at least 12 months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.

Financial liabilities without discretion to refinance However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

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

Financial liabilities classified as non-current The liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Events occurring after the balance sheet date In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with HKAS 10 *Events after the Balance Sheet Date*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan agreement; and

(c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

5.3.4 Information to be Presented on the Face of the Balance Sheet

As a minimum, the face of the balance sheet shall include line items that present the following amounts to the extent that they are not presented in accordance with the next paragraph:

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

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

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) trade and other payables;

(k) provisions;

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

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

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

(o) minority interest, presented within equity; and

(p) issued capital and reserves attributable to equity holders of the parent.

The face of the balance sheet shall also include line items that present the following amounts:

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

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

Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities). *(HKAS 1, para. 68-70)*

5.3.5 Information to be Presented either on the Face of the Balance Sheet or in the Notes

An entity shall disclose, either on the face of the balance sheet or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations. *(HKAS 1, para. 74)*

An entity shall disclose the following, either on the face of the balance sheet or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised;

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

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

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

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

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

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

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

An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 76(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest. *(HKAS 1, para. 76-77)*

5.4. Income Statement

5.4.1 Profit or Loss for the Period

All items of income and expense recognised in a period shall be included in profit or loss unless a Standard or an Interpretation requires otherwise. *(HKAS 1, para. 78)*

5.4.2 Information to be Presented on the Face of the Income Statement

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

- ***(a) revenue;***
- ***(b) finance costs;***
- ***(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;***
- ***(d) tax expense;***
- ***(e) a single amount comprising the total of***
  - ***(i) the post-tax profit or loss of discontinued operations and***
  - ***(ii) the post tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and***
- ***(f) profit or loss.***

The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:

- ***(a) profit or loss attributable to minority interest; and***
- ***(b) profit or loss attributable to equity holders of the parent.***

Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. *(HKAS 1, para. 81-83)*

An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes. *(HKAS 1, para. 85)*

5.4.3 Information to be Presented either on the Face of the Income Statement or in the Notes

When items of income and expense are material, their nature and amount shall be disclosed separately. *(HKAS 1, para. 86)*

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

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. *(HKAS 1, para. 88)* Entities are encouraged to present this analysis on the face of the income statement.

Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. *(HKAS 1, para. 93)*

The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, HKAS 1 requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used.

An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share. *(HKAS 1, para. 95)*

5.5 Statement of Changes in Equity

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

- ***(a) profit or loss for the period;***
- ***(b) each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;***
- ***(c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and***
- ***(d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with HKAS 8.***

A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense. *(HKAS 1, para. 96)*

An entity shall also present, either on the face of the statement of changes in equity or in the notes:

- ***(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;***
- ***(b) the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and***
- ***(c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.*** *(HKAS 1, para. 96)*

5.6 Cash Flow Statement

Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. HKAS 7 *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures.

5.7 Notes

Notes contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements." *(HKAS 1, para. 11)*

5.7.1 Structure

The notes shall:

- ***(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with HKAS 1;***
- ***(b) disclose the information required by HKFRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement; and***
- ***(c) provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them.***

Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross-referenced to any related information in the notes. *(HKAS 1, para. 103-104)*

5.7.2 Disclosure of Accounting Policies

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

- ***(a) the measurement basis (or bases) used in preparing the financial statements; and***
- ***(b) the other accounting policies used that are relevant to an understanding of the financial statements.*** *(HKAS 1, para. 108)*

An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph below), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. *(HKAS 1, para. 113)*

5.7.3 Key Sources of Estimation Uncertainty

An entity shall disclose in the notes information about the key assumptions concerning the future, and other key 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. In respect of those assets and liabilities, the notes shall include details of:

- ***(a) their nature; and***
- ***(b) their carrying amount as at the balance sheet date.*** *(HKAS 1, para. 116)*

5.7.4 Other Disclosures

An entity shall disclose in the notes:

- ***(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and***
- ***(b) the amount of any cumulative preference dividends not recognised.***

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

- ***(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);***
- ***(b) a description of the nature of the entity's operations and its principal activities; and***
- ***(c) the name of the parent and the ultimate parent of the group.*** *(HKAS 1, para. 125-126)*