

Guidance on Implementing
Presentation of Financial Statements

This Guidance is applicable for annual reporting period beginning on
1 January 2023.

Guidance on implementing FRS 1 *Presentation of Financial Statements*

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

Illustrative financial statement structure

- IG1 FRS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, profit or loss and other 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 FRS 1 for the presentation of the statements of financial position, profit or loss and other 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 two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. 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 items of profit or loss and other comprehensive income. 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. FRS 1 does not require an entity to use those terms in its financial statements.
- IG5 Two statements of profit or loss and other comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The statement of profit or loss and other comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the statement of profit or loss’) illustrates the classification of income and expenses within profit by nature.
- IG5A Two sets of examples of statements of profit or loss and other comprehensive income are shown. One shows the presentation while FRS 39 *Financial Instruments: Recognition and Measurement* remains effective and is applied; the other shows presentation when FRS 109 *Financial Instruments* is applied.
- IG6 The examples are not intended to illustrate all aspects of FRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, disclosures about material accounting policy information 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 |
| Investments in equity instruments | 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>1,466,500</u> | <u>1,524,200</u> |

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 | <u>10,200</u> | <u>21,200</u> |
| | 903,700 | 782,900 |
| Non-controlling interests | <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 | <u>28,850</u> | <u>52,240</u> |
| 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 | <u>5,000</u> | <u>4,800</u> |
| 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> |

Examples of statement of profit or loss and other comprehensive income when FRS 39 *Financial Instruments: Recognition and Measurement* is applied

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

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

(in thousands of currency units)

| | 20X7 | 20X6 |
|---|-----------------------|----------------------|
| Revenue | 390,000 | 355,000 |
| Cost of sales | <u>(245,000)</u> | <u>(230,000)</u> |
| 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) | <u>35,100</u> | <u>30,100</u> |
| Profit before tax | 161,667 | 128,000 |
| Income tax expense | <u>(40,417)</u> | <u>(32,000)</u> |
| Profit for the year from continuing operations | 121,250 | 96,000 |
| Loss for the year from discontinued operations | <u>–</u> | <u>(30,500)</u> |
| PROFIT FOR THE YEAR | 121,250 | 65,500 |
| Other comprehensive income: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 933 | 3,367 |
| Remeasurements of defined benefit pension plans | (667) | 1,333 |
| Share of other comprehensive income of associates ^(b) | 400 | (700) |
| Income tax relating to items that will not be reclassified ^(c) | <u>(166)</u> | <u>(1,000)</u> |
| | 500 | 3,000 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations ^(d) | 5,334 | 10,667 |
| Available-for-sale financial assets ^(d) | (24,000) | 26,667 |
| Cash flow hedges ^(d) | (667) | (4,000) |
| Income tax relating to items that may be reclassified ^(c) | <u>4,833</u> | <u>(8,334)</u> |
| | <u>(14,500)</u> | <u>25,000</u> |
| Other comprehensive income for the year, net of tax | <u>(14,000)</u> | <u>28,000</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u><u>107,250</u></u> | <u><u>93,500</u></u> |

Examples of statement of profit or loss and other comprehensive income when FRS 39 *Financial Instruments: Recognition and Measurement* is applied

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

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

(in thousands of currency units)

| | 20X7 | 20X6 |
|---|-----------------------|----------------------|
| Profit attributable to: | | |
| Owners of the parent | <u>97,000</u> | <u>52,400</u> |
| Non-controlling interests | <u>24,250</u> | <u>13,100</u> |
| | <u><u>121,250</u></u> | <u><u>65,500</u></u> |
| Total comprehensive income attributable to: | | |
| Owners of the parent | 85,800 | 74,800 |
| Non-controlling interests | <u>21,450</u> | <u>18,700</u> |
| | <u><u>107,250</u></u> | <u><u>93,500</u></u> |
| Earnings per share (in currency units): | | |
| Basic and diluted | <u>0.46</u> | <u>0.30</u> |

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

| | 20X7 | 20X6 |
|--|------------------------|----------------------|
| Other comprehensive income for the year, after tax: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 600 | 2,700 |
| Remeasurements of defined benefit pension plans | (500) | 1,000 |
| Share of other comprehensive income of associates | <u>400</u> | <u>(700)</u> |
| | 500 | 3,000 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | 4,000 | 8,000 |
| Investments in equity instruments | (18,000) | 20,000 |
| Cash flow hedges | <u>(500)</u> | <u>(3,000)</u> |
| | <u>(14,500)</u> | <u>25,000</u> |
| Other comprehensive income for the year, net of tax^(c) | <u><u>(14,000)</u></u> | <u><u>28,000</u></u> |

Examples of statement of profit or loss and other comprehensive income when FRS 39 *Financial Instruments: Recognition and Measurement* is applied

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

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

(in thousands of currency units)

- (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 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. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
- (d) 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.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss 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 ^(a) | <u>35,100</u> | <u>30,100</u> |
| Profit before tax | 161,667 | 128,000 |
| Income tax expense | <u>(40,417)</u> | <u>(32,000)</u> |
| Profit for the year from continuing operations | 121,250 | 96,000 |
| Loss for the year from discontinued operations | <u>–</u> | <u>(30,500)</u> |
| 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 interests | <u>24,250</u> | <u>13,100</u> |
| | <u><u>121,250</u></u> | <u><u>65,500</u></u> |
| Earnings per share (in currency units): | | |
| Basic and diluted | <u>0.46</u> | <u>0.30</u> |

(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.

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

(illustrating the presentation of profit or loss and other comprehensive income in two statements)

(in thousands of currency units)

| | 20X7 | 20X6 |
|---|-----------------|----------------|
| Profit for the year | 121,250 | 65,500 |
| Other comprehensive income: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 933 | 3,367 |
| Remeasurements of defined benefit pension plans | (667) | 1,333 |
| Share of other comprehensive income of associates ^(a) | 400 | (700) |
| Income tax relating to items that will not be reclassified ^(b) | <u>(166)</u> | <u>(1,000)</u> |
| | 500 | 3,000 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | 5,334 | 10,667 |
| Investments in equity instruments | (24,000) | 26,667 |
| Cash flow hedges | (667) | (4,000) |
| Income tax relating to items that may be reclassified ^(b) | <u>4,833</u> | <u>(8,334)</u> |
| | <u>(14,500)</u> | <u>25,000</u> |
| 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 interests | <u>21,450</u> | <u>18,700</u> |
| | <u>107,250</u> | <u>93,500</u> |

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

- (a) 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. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

Examples of statement of profit or loss and other comprehensive income when FRS 109 *Financial Instruments* is applied

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

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss 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: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 933 | 3,367 |
| Investments in equity instruments | (24,000) | 26,667 |
| Remeasurements of defined benefit pension plans | (667) | 1,333 |
| Share of other comprehensive income of associates ^(b) | 400 | (700) |
| Income tax relating to items that will not be reclassified ^(c) | 5,834 | (7,667) |
| | (17,500) | 23,000 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations ^(d) | 5,334 | 10,667 |
| Cash flow hedges ^(d) | (667) | (4,000) |
| Income tax relating to items that may be reclassified ^(c) | (1,167) | (1,667) |
| | 3,500 | 5,000 |
| Other comprehensive income for the year, net of tax | (14,000) | 28,000 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 107,250 | 93,500 |

Examples of statement of profit or loss and other comprehensive income when FRS 109 *Financial Instruments* is applied

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

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

(in thousands of currency units)

| | 20X7 | 20X6 |
|---|----------------|---------------|
| Profit attributable to: | | |
| Owners of the parent | 97,000 | 52,400 |
| Non-controlling interests | 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 interests | 21,450 | 18,700 |
| | <u>107,250</u> | <u>93,500</u> |
| Earnings per share (in currency units): | | |
| Basic and diluted | <u>0.46</u> | <u>0.30</u> |

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

| | 20X7 | 20X6 |
|--|-----------------|---------------|
| Other comprehensive income for the year, after tax: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 600 | 2,700 |
| Investments in equity instruments | (18,000) | 20,000 |
| Remeasurements of defined benefit pension plans | (500) | 1,000 |
| Share of other comprehensive income of associates | 400 | (700) |
| | <u>(17,500)</u> | <u>23,000</u> |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | 4,000 | 8,000 |
| Cash flow hedges | (500) | (3,000) |
| | <u>3,500</u> | <u>5,000</u> |
| Other comprehensive income for the year, net of tax^(c) | <u>(14,000)</u> | <u>28,000</u> |

Examples of statement of profit or loss and other comprehensive income when FRS 109 *Financial Instruments* is applied

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

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

(in thousands of currency units)

- (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 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. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
- (d) 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.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7**(illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss 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 ^(a) | 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 interests | 24,250 | 13,100 |
| | <u>121,250</u> | <u>65,500</u> |
| Earnings per share (in currency units): | | |
| Basic and diluted | <u>0.46</u> | <u>0.30</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.

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

(illustrating the presentation of profit or loss and other comprehensive income in two statements)

(in thousands of currency units)

| | 20X7 | 20X6 |
|---|-----------------|---------------|
| Profit for the year | 121,250 | 65,500 |
| Other comprehensive income: | | |
| Items that will not be reclassified to profit or loss: | | |
| Gains on property revaluation | 933 | 3,367 |
| Investments in equity instruments | (24,000) | 26,667 |
| Remeasurements of defined benefit pension plans | (667) | 1,333 |
| Share of other comprehensive income of associates ^(a) | 400 | (700) |
| Income tax relating to items that will not be reclassified ^(b) | 5,834 | (7,667) |
| | <u>(17,500)</u> | <u>23,000</u> |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | 5,334 | 10,667 |
| Cash flow hedges | (667) | (4,000) |
| Income tax relating to items that may be reclassified ^(b) | (1,167) | (1,667) |
| | <u>3,500</u> | <u>5,000</u> |
| 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 interests | 21,450 | 18,700 |
| | <u>107,250</u> | <u>93,500</u> |

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

- (a) 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. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.
- (b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

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

(in thousands of currency units)

| | 20X7 | 20X6 |
|--|------------------------|----------------------|
| Other comprehensive income: | | |
| Exchange differences on translating foreign operations ^(b) | 5,334 | 10,667 |
| Investments in equity instruments | (24,000) | 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 | <u>4,000</u> | <u>–</u> |
| | (667) | (4,000) |
| Gains on property revaluation | 933 | 3,367 |
| Remeasurements of defined benefit pension plans | (667) | 1,333 |
| Share of other comprehensive income of associates | <u>400</u> | <u>(700)</u> |
| Other comprehensive income | (18,667) | 37,334 |
| Income tax relating to components of other comprehensive income ^(c) | <u>4,667</u> | <u>(9,334)</u> |
| Other comprehensive income for the year | <u>(14,000)</u> | <u>28,000</u> |

- (a) 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.
- (b) There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.
- (c) 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 |
| Investments in equity instruments | (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 |
| Remeasurements of 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> |

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 | Revaluation 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 ^(a) | – | 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 ^(b) | – | 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 |

(a) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus remeasurements of defined benefit pension plans of 800 (1,333, less tax 333, less non-controlling interests 200).

The amount included in the translation, investments in equity instruments and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 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 interests 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

(b) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus remeasurements of defined benefit pension plans of 400 (667, less tax 167, less non-controlling interests 100).

The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, 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 interests 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 interests 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

IG7 [Deleted]
 –IG9

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. In determining the form and content of the disclosure to satisfy those requirements, an entity also considers the disclosure requirements set out in paragraphs 44A–44E of FRS 7 *Statement of Cash Flows*.

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 interests, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

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

continued...

| <i>...continued</i> | 31 Dec 20X4 | 31 Dec 20X3 |
|--|--------------------|--------------------|
| | CU million | CU million |
| Total debt | 1,000 | 1,100 |
| Less: cash and cash equivalents | <u>(90)</u> | <u>(150)</u> |
| 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 | <u>(10)</u> | <u>(5)</u> |
| 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. |