2009

IFRS Foundation: Training Material for the *IFRS® for SMEs*

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

IFRS™

IFRS Foundation: Training Material for the *IFRS® for SMEs*

including the full text of
Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* of the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)
issued by the International Accounting Standards Board on 9 July 2009

with extensive explanations, self-assessment questions and case studies

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This training material has been prepared by IFRS Foundation education staff. It has not been approved by the International Accounting Standards Board (IASB). The training material is designed to assist those training others to implement and consistently apply the *IFRS for SMEs*. For more information about the IFRS education initiative visit http://www.ifrs.org/Use+around+the+world/Education/Education.htm.

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Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

This training material has been prepared by IFRS Foundation education staff and has not been approved by the International Accounting Standards Board (IASB).
The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

INTRODUCTION

This module focuses on the requirement to present changes in an entity's equity for a period in accordance with Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* of the *IFRS for SMEs*.

Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* sets out general presentation requirements and Sections 4–8 focus on the requirements for the presentation of the financial statements.

This module introduces the learner to the statement of changes in equity and the statement of income and retained earnings, guides the learner through the official text, develops the learner's understanding of the requirements through the use of examples and indicates significant judgements that are required in presenting a statement of changes in equity and the statement of income and retained earnings. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case studies to develop the learner's ability to present the statement of changes in equity and the statement of income and retained earnings in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the requirements for the presentation of the statement of changes in equity and the statement of income and retained earnings in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, you should have enhanced your ability to present the statement of changes in equity and the statement of income and retained earnings in accordance with the *IFRS for SMEs*. In particular you should, in the context of the *IFRS for SMEs*:

- know the purpose of the statement of changes in equity
- know the circumstances in which an entity may elect to present a statement of income and retained earnings instead of presenting a statement of comprehensive income and a statement of changes in equity
- know the purpose of the statement of income and retained earnings
- understand the requirements for presenting the statement of changes in equity and the statement of income and retained earnings
- be able to present the effects on equity of retrospective application of accounting policies and the retrospective restatement of prior period errors in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

IFRS for SMEs

The *IFRS for SMEs* is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* includes mandatory requirements and other material (non-mandatory) that is published with it.

The material that is not mandatory includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* and explains its purpose, structure and authority.
- implementation guidance that includes illustrative financial statements and a disclosure checklist.
- the Basis for Conclusions, which summarises the IASB's main considerations in reaching its conclusions in the *IFRS for SMEs*.
- the dissenting opinion of an IASB member who did not agree with the publication of the *IFRS for SMEs*.

In the *IFRS for SMEs* the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* there are appendices in Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* Those appendices are non-mandatory guidance.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
Section 3 *Financial Statement Presentation* prescribes general requirements for the presentation of financial statements.

Section 6 specifies line items to be presented in the statement of changes in equity and the statement of income and retained earnings and provides mandatory guidance on the sequencing of items and the level of aggregation.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

REQUIREMENTS AND EXAMPLES

The contents of Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* of the *IFRS for SMEs* are set out below and shaded grey. Terms defined in the Glossary of the *IFRS for SMEs* are also part of the requirements. They are in **bold type** the first time they appear in the text of Section 6. The notes and examples inserted by the IFRS Foundation education staff are not shaded. Other annotations inserted by the IFRS Foundation staff are presented within square brackets in ***bold italics***. The insertions made by the staff do not form part of the *IFRS for SMEs* and have not been approved by the IASB.

Scope of this section

6.1 This section sets out requirements for presenting the changes in an entity's **equity** for a period, either in a **statement of changes in equity** *[Refer paragraphs 6.2 and 6.3]* or, if specified conditions are met and an entity chooses, in a **statement of income and retained earnings** *[Refer paragraphs 6.4 and 6.5]*.

Notes

Equity is the residual interest in the assets of the entity after deducting all of its liabilities (see the definition of equity in the Glossary). Section 22 *Liabilities and Equity* specifies the classification of financial instruments as equity or liabilities. Only if the instrument issued is classified as equity would the issue of the instrument be presented in the statement of changes in equity as an investment by owners.

Statement of changes in equity

Purpose

6.2 The statement of changes in equity presents an entity's profit or loss for a **reporting period**, items of income and expense recognised in **other comprehensive income** for the period, the effects of changes in **accounting policies** and corrections of errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, equity investors during the period.

Information to be presented in the statement of changes in equity

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

(a) **total comprehensive income** for the period, showing separately the total amounts attributable to **owners** of the parent and to non-controlling interests.

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss.

(ii) each item of other comprehensive income.

(iii) the amounts of investments by, and dividends and other distributions to, owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

Notes

A statement of changes in equity reflects all changes in equity between the beginning and the end of the reporting period arising from transactions with owners in their capacity as owners (ie owner changes in equity) reflecting the increase or decrease in net assets in the period. This statement provides a linkage between the entity's statement of financial position and its statement of comprehensive income.

The statement of changes in equity presents the user with information about each component of equity, including:

- a reconciliation between the carrying amount at the beginning and the end of the period of each component of equity;
- the effects of retrospective application of accounting policies; and
- the effects of retrospective restatement of prior period errors.

The consolidated statement of changes in equity (of a group that includes one or more partly-owned subsidiaries) also provides information about the share of equity attributable to the owners of the parent and that attributable to the non-controlling interests and information about changes in such interests.

Example – statement of changes in equity

Ex 1 A group could present its consolidated statement of changes in equity as follows:

A group's consolidated statement of changes in equity for the year ended 31 December 20X7
(in thousands of currency units)

	Share capital	*Retained earnings*	*Hedges of foreign currency risk in forecast transactions*	*Hedge of commodity price risk in forecast transactions*	*Attributable to owners of the parent*	*Non-controlling interests*	*Total equity*
Balance at 1 Jan 20X6	500,000	256,000	(4,000)	2,000	754,000	83,778	837,778
Correction of a prior period error	–	5,000	–	–	5,000	500	5,500
Changes in accounting policy	–	5,500	–	–	5,500	667	6,167
Restated balance at 1 Jan 20X6	500,000	266,500	(4,000)	2,000	764,500	84,945	849,445
Total comprehensive income	–	64,000	2,600	(1,100)	65,500	7,111	72,611
Profit or loss	–	60,000	–	–	60,000	6,000	66,000
Translation of foreign operations	–	6,400	–	–	6,400	2,110	8,510
Actuarial losses—defined benefit plans	–	(2,400)	–	–	(2,400)	(999)	(3,399)
Changes in the fair value of the hedging instrument, net of tax	–	–	3,000	(2,000)	1,000	–	1,000
Reclassified to profit or loss	–	–	(400)	900	500	–	500
Transactions with owners							
Dividends	–	(8,000)	–	–	(8,000)	(889)	(8,889)
Restated balance at 31 Dec 20X6	500,000	322,500	(1,400)	900	822,000	91,167	913,167

Restated balance at 31 Dec 20X6	500,000	322,500	(1,400)	900	822,000	91,167	913,167
Total comprehensive income	–	101,100	800	(500)	101,400	11,233	112,633
Profit or loss	–	98,300	–	–	98,300	10,000	108,300
Translation of foreign operations	–	3,200	–	–	3,200	1,333	4,533
Actuarial losses—defined benefit plans	–	(400)	–	–	(400)	(100)	(500)
Changes in the fair value of the hedging instrument, net of tax	–	–	1,000	(800)	200	–	200
Reclassified to profit or loss	–	–	(200)	300	100	–	100
Transactions with owners							
Issues of share capital	100,000	–	–	–	100,000	–	100,000
Dividends	–	(12,000)	–	–	(12,000)	(1,333)	(13,333)
Transactions between owners							
Acquired shares in a subsidiary from the non-controlling interest	–	(3,000)	–	–	(3,000)	(5,000)	(8,000)
Balance at 31 Dec 20X7	600,000	408,600	(600)	400	1,008,400	96,067	1,104,467

Statement of income and retained earnings

Purpose

6.4 The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 3.18 permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

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Information to be presented in the statement of income and retained earnings

6.5 An entity shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5 *Statement of Comprehensive Income and Income Statement*:

(a) retained earnings at the beginning of the reporting period.

(b) dividends declared and paid or payable during the period.

(c) restatements of retained earnings for corrections of prior period errors.

(d) restatements of retained earnings for changes in accounting policy.

(e) retained earnings at the end of the reporting period.

Examples – statement of income and retained earnings

Ex 2 An entity's only changes to its equity in 20X8 and 20X7 (the periods for which its financial statements are presented) arise from profit or loss, payment of dividends and the corrections of prior period errors.

The entity presents an analysis of its expenses by nature.

The entity satisfies the criteria in paragraph 6.4 and could elect to present a statement of income and retained earnings as follows:

An entity's statement of income and retained earnings for the year ended 31 December 20X8
(in thousands of currency units)

	20X8	*20X7*
		Restated
Revenue	745,000	693,000
Other income	45,000	36,520
Changes in inventories of finished goods and work in progress	31,000	23,000
Raw material and consumables used	(461,000)	(342,000)
Employee benefits expense (20X7: previously stated–CU180,000)	(220,000)	(197,000)
Depreciation and amortisation expense	(45,000)	(40,500)
Other expenses	(9,000)	(8,900)
Finance costs	(18,000)	(21,320)
Profit before tax (20X7: previously stated–CU159,800)	**68,000**	**142,800**
Income tax expense (20X7: previously stated–CU39,950)	(42,000)	(35,700)
PROFIT FOR THE YEAR (20X7: previously stated–CU119,850)	**26,000**	**107,100**
Retained earnings at the beginning of the year	307,100	250,000
as previously stated	349,850	280,000
correction of a prior period error	(42,750)	(30,000)
Profit for the year (20X7: previously stated–CU119,850)	26,000	107,100
Dividends declared and paid	(60,000)	(50,000)
Retained earnings at the end of the year	**273,100**	**307,100**

Ex 3 A group (parent and its partly-owned subsidiary) that satisfies the criteria in paragraph 6.4 and presents an analysis of its expenses by nature could elect to present a consolidated statement of income and retained earnings as follows:

A group's consolidated statement of income and retained earnings for the year ended 31 December 20X8

(in thousands of currency units)

	20X8	*20X7*
		Restated
Revenue	745,000	693,000
Other income	45,000	36,520
Changes in inventories of finished goods and work in progress	31,000	23,000
Raw material and consumables used	(461,000)	(342,000)
Employee benefits expense (20X7: previously stated–CU180,000)	(220,000)	(197,000)
Depreciation and amortisation expense	(45,000)	(40,500)
Other expenses	(9,000)	(8,900)
Finance costs	(18,000)	(21,320)
Profit before tax (20X7: previously stated–CU159,800)	**68,000**	**142,800**
Income tax expense (20X7: previously stated–CU39,950)	(42,000)	(35,700)
PROFIT FOR THE YEAR (20X7: previously stated–CU119,850)	**26,000**	**107,100**
Retained earnings at the beginning of the year	307,100	254,000
as previously stated	349,850	284,000
correction of a prior period error*	(42,750)	(30,000)
Profit for the year attributable to the owners of the parent (20X7: previously stated–CU115,850)	21,000	103,100
Dividends declared and paid	(60,000)	(50,000)
Retained earnings at the end of the year	**268,100**	**307,100**
Non-controlling interest at the beginning of the year	15,000	12,000
Profit for the year attributable to the non-controlling interest	5,000	4,000
Share of dividends declared and paid	(2,000)	(1,000)
Non-controlling interest at the end of the year	**18,000**	**15,000**

* The error related only to the profit of the parent, so had no impact on non-controlling interest.

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SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* to transactions and events often requires judgement. Information about significant judgements and key sources of estimation uncertainty are useful in assessing the financial position, performance and cash flows of an entity. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements 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. Furthermore, in accordance with paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Other sections of the *IFRS for SMEs* require disclosure of information about particular judgements and estimation uncertainties.

Statement of changes in equity

In many cases little difficulty is encountered in presenting the statement of changes in equity in accordance with the *IFRS for SMEs*. However, in some cases significant judgement is required:

- to assess which additional line items, headings and subtotals are relevant to an understanding of the entity's statement of changes in equity
- in determining whether some financial instruments issued by the entity are classified as equity or liabilities (see Section 22 *Liabilities and Equity*). Only if the instrument issued is classified as equity would the issue of the instrument be presented directly in the statement of changes in equity.

Statement of income and retained earnings

In many cases little difficulty is encountered in presenting the statement of income and retained earnings in accordance with the *IFRS for SMEs*. However, in some cases significant judgement is required. For example, judgement is required:

- to assess which additional line items, headings and subtotals are relevant to an understanding of the entity's statement of income and retained earnings
- to identify discontinued operations and segregate their post-tax profit or loss from the income and expenses of continuing operations
- to assess which classification of expenses (by function or by nature) provides information that is reliable and more relevant
- to classify certain expenses by function (eg the allocation of expenses that relate to more than one function of the entity)
- to classify certain expenses by nature (eg to separate the components of certain expenses that include items that are different in nature).

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COMPARISON WITH FULL IFRSs

A high level overview of differences between the requirements as issued at 9 July 2009 for presenting the statement of changes in equity in accordance with the *IFRS for SMEs* (see Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*) and full IFRSs (see IAS 1 *Presentation of Financial Statements*) includes:

- The *IFRS for SMEs* is drafted in plain language and includes significantly less guidance on how to apply the principles.
- The *IFRS for SMEs* allows an entity to present a single statement of income and retained earnings in place of separate statements of comprehensive income and changes in equity if the only changes to its equity in the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. This option does not exist in full IFRSs.
- On disposal of a foreign operation, the *IFRS for SMEs* does not require 'reclassification' through profit or loss of any cumulative exchange differences that were recognised previously in other comprehensive income.

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TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for the presentation of the statement of changes in equity and the statement of income and retained earnings in accordance with the *IFRS for SMEs* by answering the questions below.

Once you have completed the test check your answers against those set out below this test.

Assume all amounts are material.

Mark the box next to the most correct statement.

Question 1

The statement of changes in equity includes a reconciliation between:

☐ (a) the carrying amount of retained earnings at the beginning and the end of the period.

☐ (b) the carrying amount of total equity at the beginning and the end of the period.

☐ (c) the carrying amount of each component of equity at the beginning and the end of the period separately disclosing changes resulting from: (i) profit or loss, (ii) each item of comprehensive income, and (iii) the amounts of investments by, and dividends and other distributions to, owners.

Question 2

In the statement of changes in equity the effects of the retrospective application of a change in accounting policy is presented:

☐ (a) separately for each component of equity only.

☐ (b) in aggregate for total equity only.

☐ (c) in aggregate for total equity and separately for the total amounts attributable to owners of the parent and to non-controlling interests.

Question 3

Which of the following are presented in the statement of changes in equity?

☐ (a) investments by owners (eg issues of shares).

☐ (b) distributions to owners (eg dividends).

☐ (c) changes in ownership interests in subsidiaries that do not result in a loss of control.

☐ (d) all of (a)–(c) above.

☐ (e) none of (a)–(c) above.

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Question 4

An entity:

☐ (a) must chose to present either a statement of income and retained earnings or a statement of comprehensive income and a statement of changes in equity (ie a free accounting policy choice available to all entities that prepare their financial statements in accordance with the *IFRS for SMEs*).

☐ (b) whose only changes to its equity in the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy is required to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity.

☐ (c) whose only changes to its equity in the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy is permitted but not required to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity.

☐ (d) that chooses to present a statement of income and retained earnings must also present a statement of comprehensive income and a statement of changes in equity.

Question 5

The statement of income and retained earnings presents:

☐ (a) an entity's profit or loss and retained earnings at the beginning and at the end of the reporting period.

☐ (b) an entity's profit or loss and, dividends declared and paid or payable in the period.

☐ (c) an entity's profit or loss retained earnings at the beginning of the reporting period, dividends declared and paid or payable in the period and retained earnings at the end of the reporting period.

☐ (d) the items required by Section 5 *Statement of Comprehensive Income and Income Statement*, retained earnings at the beginning of the reporting period, dividends declared and paid or payable in the period, restatements of retained earnings for corrections of prior period errors and changes in accounting policies and retained earnings at the end of the reporting period.

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Question 6

The existence of which of the following transactions in the current reporting period would preclude an entity from electing to present a statement of income and retained earnings?

- ☐ (a) The entity distributes land and buildings (classified as investment property) as a dividend to its only shareholder.
- ☐ (b) The entity distributes land and buildings (classified as property, plant and equipment) as a dividend to its only shareholder.
- ☐ (c) The entity distributes land and buildings (classified as inventory) as a dividend to its only shareholder.
- ☐ (d) The entity acquired 100 of its own shares from one of its two shareholders.

Question 7

The existence of which of the following events in the current reporting period would preclude an entity from electing to present a statement of income and retained earnings?

- ☐ (a) The discovery of a material prior period error. Note: the error is corrected by retrospective restatement.
- ☐ (b) The voluntary change of an accounting policy. Note: the new accounting policy is applied retrospectively.
- ☐ (c) A change from presenting the analysis of expenses from a presentation by function to a presentation by nature.
- ☐ (d) None of (a)–(c) above.

Question 8

Total comprehensive income for the period is presented in the statement of changes in equity:

- ☐ (a) showing separately the total amount attributable to owners of the parent and to non-controlling interests.
- ☐ (b) showing separately an analysis of expenses by function or by nature.
- ☐ (c) showing separately the items required by Section 5 *Statement of Comprehensive Income and Income Statement*.
- ☐ (d) showing separately profit or loss and the total of other comprehensive income.

Question 9

In the statement of changes in equity the effects of the correction of a prior period error are presented:

- ☐ (a) separately for each component of equity.
- ☐ (b) in aggregate for total equity.
- ☐ (c) in aggregate for total equity and separately for the total amounts attributable to owners of the parent and the non-controlling interests.

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Question 10

Since its formation a subsidiary was owned 75 per cent by the reporting entity (parent) and 25 per cent by an independent third party. In the current reporting period when the subsidiary's equity was CU100,000 (ie share capital of CU1,000 and retained earnings of CU99,000) the parent acquired the remaining 25 per cent of the shares in its subsidiary at their fair value of CU60,000.

How would the group present the parent's acquisition of 25 per cent of the equity of its subsidiary from the non-controlling interest in its consolidated statement of changes in equity?

☐ (a) The entity would show a separate line item in which CU25,000 would be shown as a reduction in non-controlling interest.

☐ (b) The entity would show a separate line item in which CU60,000 would be shown as a reduction in non-controlling interest.

☐ (c) The entity would show a separate line item in which CU25,000 would be shown as a reduction in non-controlling interest and CU35,000 would be shown as a reduction in retained earnings.

Note: Knowledge of the requirements of Sections 9 *Consolidated and Separate Financial Statements* and 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* is required to answer question 10. The requirements of Sections 9 and 19 are set out in Modules 9 and 19.

Question 11

The facts are the same as in question 10. However, in this question, in the current reporting period the parent sold 25 per cent of the shares in its subsidiary at their fair value of CU60,000. The parent did not lose control of the subsidiary.

How would the group present the parent's sale of 25 per cent of the equity of its subsidiary to the non-controlling interest in its consolidated statement of changes in equity?

☐ (a) The entity would show a separate line item in which CU25,000 would be shown as an increase in non-controlling interest.

☐ (b) The entity would show a separate line item in which CU60,000 would be shown as an increase in non-controlling interest.

☐ (c) The entity would show a separate line item in which CU25,000 would be shown as an increase in non-controlling interest and CU35,000 would be shown as an increase in retained earnings.

Note: Knowledge of the requirements of Sections 9 *Consolidated and Separate Financial Statements* and 19 *Business Combinations and Goodwill* of the *IFRS for SMEs* is required to answer question 10. The requirements of Sections 9 and 19 are set out in Modules 9 and 19.

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Answers

Q1	(c) see paragraph 6.2
Q2	(a) see paragraph 6.3(b)
Q3	(d) see paragraph 6.3(c)(iii)
Q4	(c) see paragraphs 6.1, 6.4 and 3.18
Q5	(d) see paragraphs 6.4 and 6.5
Q6	(d) see paragraph 6.4
Q7	(d) see paragraph 6.4
Q8	(a) see paragraph 6.3(a)
Q9	(a) see paragraph 6.3(b)
Q10	(c) see paragraph 6.3(c)(iii)
Q11	(c) see paragraph 6.3(c)(iii)

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APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for the presentation of the statement of changes in equity and statement of income and retained earnings in accordance with the *IFRS for SMEs* by solving the case studies below.

Once you have completed the case studies check your answers against those set out below this test.

Case study 1

Since the formation of SME B many years ago it has been a wholly-owned subsidiary of SME A.

In 20X4, after the SME A group's consolidated financial statements for the year ended 31 December 20X3 had been approved for issue, management discovered an error in its prior period financial statements. The effect of the error is CU230,000 overstatement of retained earnings at 1 January 20X3. The error related to an error in the calculation of depreciation of SME A's sales building.

The equity of SME A (separate entity) and SME B (separate entity) before correcting the prior period error is summarised as follows:

	20X3		*20X4*	
	SME A	*SME B*	*SME A*	*SME B*
	CU	*CU*	*CU*	*CU*
Total equity at the beginning of the year:				
- share capital	2,500,000	10,000	2,500,000	10,000
- share premium	1,900,000	–	1,900,000	–
- retained earnings	2,070,000	80,000	2,415,100	82,000
Profit for the year	500,000	32,000	658,300	40,000
Actuarial gains/(losses) on defined benefit pension obligation, net of tax	(1,900)	(5,000)	(3,000)	1,000
Exchange gains/(losses) on translation of foreign operation, net of tax	67,000	–	(46,200)	–
Issue of shares	–	–	6,000,000	–
Dividends declared and paid	(220,000)	(25,000)	(320,000)	(31,000)
Total equity at the end of the year	6,815,100	92,000	13,104,200	102,000

In 20X4, SME A issued 1,000,000 ordinary shares with a par value of CU1 each for CU6 each.

Prepare SME A Group's consolidated statement of changes in equity for the year ended 31 December 20X4 in accordance with the *IFRS for SMEs*.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

Answer to case study 1

SME A group's statement of changes in equity for the year ended 31 December 20X4
(in currency units)

	Share capital	*Share premium*	*Retained earnings*	*Total equity (attributable to owners of the parent)*
Balance at 1 Jan 20X3 [(a)]	2,500,000	1,900,000	2,150,000	6,550,000
Correction of prior period error	–	–	(230,000)	(230,000)
Restated balance at 1 Jan 20X3	2,500,000	1,900,000	1,920,000	6,320,000
Changes in equity for 20X3				
Total comprehensive income for the year	–	–	567,100	567,100
Profit for the year	–	–	507,000 [(b)]	507,000
Actuarial losses on defined benefit plans for the year, net of tax	–	–	(6,900) [(c)]	(6,900)
Gain on translation of foreign operation, net of tax	–	–	67,000	67,000
Dividends	–	–	(220,000) [(d)]	(220,000)
Balance at 31 Dec 20X3	2,500,000	1,900,000	2,267,100	6,667,100
Changes in equity for 20X4				
Total comprehensive income for the year	–	–	619,100	619,100
Profit for the year	–	–	667,300 [(e)]	667,300
Actuarial losses on defined benefit plans for the year, net of tax	–	–	(2,000) [(f)]	(2,000)
Loss on translation of foreign operation, net of tax	–	–	(46,200)	(46,200)
Issue of Shares	1,000,000	5,000,000	–	6,000,000
Dividends	–	–	(320,000) [(g)]	(320,000)
Balance at 31 Dec 20X4	3,500,000	6,900,000	2,566,200	12,966,200

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

The calculations below do not form part of the statement of changes in equity presented by the SME A group.

(a) Share capital and share premium: CU2,500,000 SME A + CU1,900,000 SME A + CU10,000 SME B less CU10,000 SME A's investment in SME B (ie on consolidation SME B's share capital is eliminated against SME A's investment in SME B).

Retained earnings: CU2,070,000 SME A + CU80,000 SME B = CU2,150,000.

(b) CU500,000 SME A less CU25,000 dividend income (ie eliminate intragroup transaction dividend received from SME B) + CU32,000 SME B = CU507,000.

(c) CU1,900 SME A + CU5,000 SME B = CU6,900.

(d) CU220,000 SME A + CU25,000 SME B less CU25,000 intragroup dividend (ie eliminate dividend declared by SME B to be received by SME A) = CU220,000.

(e) CU658,300 SME A less CU31,000 dividend income (ie eliminate intragroup transaction dividend received from SME B) + CU40,000 SME B = CU667,300.

(f) CU3,000 loss SME A less CU1,000 gain SME B = CU2,000 net loss.

(g) CU320,000 SME A + CU31,000 SME B less CU31,000 intragroup dividend (ie eliminate dividend declared by SME B to be received by SME A) = CU320,000.

Case study 2

Since the formation of SME D many years ago it has been a 75 per cent owned subsidiary of SME C.

On 31 December 20X4, after SME D declared and paid dividends for the year ending 31 December 20X4, SME C reduced its shareholding in SME D to 60 per cent by selling 15 per cent of the equity in SME D to the non-controlling interest for CU35,000.

In 20X4, after the SME C group's consolidated financial statements for the year ended 31 December 20X3 had been approved for issue, management of SME D discovered an error in its prior period financial statements. The error was a CU50,000 understatement of depreciation of SME D's sales building for the year ended 31 December 20X2 and consequently a CU10,000 overstatement of SME D's tax expense for the year ended 31 December 20X2.

The equity of SME C (separate entity) and SME D (separate entity) before correcting the prior period error (see above) and before accounting for the sale of SME D shares by SME C (see above) is summarised as follows:

	20X3		*20X4*	
	SME C	*SME D*	*SME C*	*SME D*
	CU	*CU*	*CU*	*CU*
Total equity at the beginning of the year:				
- share capital	2,500,000	10,000	2,500,000	10,000
- share premium	1,900,000	–	1,900,000	–
- retained earnings	2,070,000	80,000	2,415,100	82,000
Profit for the year	500,000	32,000	658,300	40,000
Actuarial gains/(losses) on defined benefit pension obligation, net of tax	(1,900)	(5,000)	(3,000)	1,000
Exchange gains/(losses) on translation of foreign operation, net of tax	67,000	–	(46,200)	–
Issue of shares	–	–	6,000,000	–
Dividends declared and paid	(220,000)	(25,000)	(320,000)	(31,000)
Total equity at the end of the year	6,815,100	92,000	13,104,200	102,000

In 20X4, SME C issued 1,000,000 ordinary shares with a par value of CU1 each for CU6 each.

Prepare SME C Group's consolidated statement of changes in equity for the year ended 31 December 20X4 in accordance with the *IFRS for SMEs*.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

Answer to case study 2

SME C group's statement of changes in equity for the year ended 31 December 20X4
(in currency units)

	Share capital	*Share premium*	*Retained earnings*		*Attributable to owners of the parent*	*Non-controlling interest*		*Total equity*
Balance at 1 Jan 20X3	2,500,000	1,900,000	2,130,000	(a)	6,530,000	22,500	(b)	6,552,500
Correction of prior period error	–	–	(30,000)	(c)	(30,000)	(10,000)	(d)	(40,000)
Restated balance at 1 Jan 20X3	2,500,000	1,900,000	2,100,000		6,500,000	12,500		6,512,500
Changes in equity for 20X3								
Total comprehensive income for the year	–	–	566,600		566,600	6,750		573,350
Profit for the year	–	–	505,250	(e)	505,250	8,000	(f)	513,250
Actuarial losses on defined benefit plans for the year, net of tax	–	–	(5,650)	(g)	(5,650)	(1,250)	(h)	(6,900)
Gain on translation of foreign operation, net of tax	–	–	67,000		67,000	–		67,000
Dividends	–	–	(220,000)	(i)	(220,000)	(6,250)	(j)	(226,250)
Balance at 31 Dec 20X3	2,500,000	1,900,000	2,446,600		6,846,600	13,000		6,859,600
Changes in equity for 20X4								
Total comprehensive income for the year	–	–	616,600		616,600	10,250		626,850
Profit for the year	–	–	665,050	(k)	665,050	10,000	(l)	675,050
Actuarial gains and (losses) on defined benefit plans for the year, net of tax	–	–	(2,250)	(m)	(2,250)	250	(n)	(2,000)
Loss on translation of foreign operation, net of tax	–	–	(46,200)		(46,200)	–		(46,200)
Issue of shares	1,000,000	5,000,000	–		6,000,000	–		6,000,000
Dividends	–	–	(320,000)	(o)	(320,000)	(7,750)	(p)	(327,750)
Sale of shares in subsidiary	–	–	25,700	(q)	25,700	9,300	(r)	35,000
Balance at 31 Dec 20X4	3,500,000	6,900,000	2,768,900		13,168,900	24,800		13,193,700

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

The calculations below do not form part of the statement of changes in equity presented by the SME Group.

(a) Share capital and share premium: CU2,500,000 SME C + CU1,900,000 SME C + CU10,000 SME D less CU7,500 SME C's investment in SME B less CU2,500 presented as non-controlling interest (ie on consolidation SME D's share capital is eliminated against SME C's investment in SME D and the non-controlling interest's initial investment in SME D is recognised as equity).

Retained earnings: CU2,070,000 SME C + CU80,000 SME D less CU20,000 presented as non-controlling interest = CU2,130,000.

(b) CU10,000 SME D + CU80,000 SME D = CU90,000 equity of SME D. CU90,000 × 25% = CU22,500.

(c) CU50,000 less CU10,000 tax = CU40,000 effect of retained earnings. CU40,000 × 75% = CU30,000.

(d) CU50,000 less CU10,000 tax = CU40,000 effect of retained earnings. CU40,000 × 25% = CU10,000.

(e) CU500,000 SME C less CU18,750 dividend income (ie eliminate intragroup transaction dividend received from SME D) + 75% × CU32,000 SME D = CU505,250.

(f) 25% × CU32,000 SME D = CU8,000.

(g) CU1,900 SME C + 75% × CU5,000 SME D = CU5,650.

(h) 25% × CU5,000 SME D = CU1,250.

(i) CU220,000 SME C + CU25,000 SME D less 75% × CU25,000 intragroup dividend less 25% × CU25,000 dividend paid to non-controlling interest = CU220,000.

(j) 25% × CU25,000 SME D = CU6,250.

(k) CU658,300 SME C less 75% × 31,000 dividend income (ie eliminate intragroup transaction dividend received from SME D) + 75% × CU40,000 SME D = CU665,050.

(l) 25% × CU40,000 SME D = CU10,000.

(m) CU3,000 loss SME C less 75% × CU1,000 gain SME D = CU2,250 net loss.

(n) 25% × CU1,000 gain SME D = CU250 gain.

(o) CU320,000 SME C + CU31,000 SME D less 75% × CU31,000 intragroup dividend less 25% × CU31,000 dividend paid to non-controlling interest (ie eliminate dividend declared by SME D to be received by SME C and the non-controlling interest) = CU320,000.

(p) 25% × CU31,000 SME D = CU7,750.

(q) CU35,000 proceeds on sale of shares in SME D less CU9,300 increase in the carrying amount of the non-controlling interest = CU25,700.

(r) 15% × CU62,000[(s)] carrying amount of the net assets of SME D immediately before sale of shares to non-controlling interest = CU9,300. Alternatively: CU15,500 non-controlling interest before acquisition of shares from SME C × 15% ÷ 25% = CU9,300.

(s) CU102,000 net assets of SME D before correcting the prior period error less CU40,000 effect of correcting the prior period error = CU62,000 net assets immediately before selling shares to the non-controlling interest.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

Case study 3

SME E Group (parent 'SME E' and its wholly-owned subsidiary 'SME F') is preparing its financial statements for the year ended 31 December 20X3.

The consolidated information about the group's financial performance and changes in equity for the years ended 31 December 20X3 and 20X2 are set out below:

	20X3	*20X2*
	CU'000	*CU'000*
Revenue	5,690	5,236
Other income	119	123
Changes in inventories of finished goods and work in progress	(635)	(136)
Work performed by the entity and capitalised	320	162
Raw material and consumables used	(3,181)	(3,234)
Employee benefits expense	(856)	(821)
Depreciation and amortisation expense	(298)	(307)
Other expenses	(83)	(79)
Finance costs	(101)	(98)
Income tax	(244)	(212)

In 20X3 SME E declared and paid CU150,000 dividends (20X2: CU120,000).

In the comparative figures in its financial statements for the year ended 31 December 20X2 the SME E Group reported retained earnings of CU1,112,000 at 1 January 20X2.

In 20X3, after the 20X2 financial statements were approved for issue, SME F discovered an error in its 31 December 20X1 financial statements. The effect of the error was a CU650,000 overstatement of profit for the year ended 31 December 20X1.

SME E Group presents a consolidated statement of income and retained earnings instead of a consolidated statement of comprehensive income and a consolidated statement of changes in equity.

Prepare, in compliance with the *IFRS for SMEs*, SME E Group's consolidated statement of income and retained earnings for the year ended 31 December 20X3.

Module 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings

Answer to case study 3

SME E group's consolidated statement of income and retained earnings for the year ended 31 December 20X3
(in thousands of currency units)

	20X3	*20X2 Restated*
Revenue	5,690	5,236
Other income	119	123
Changes in inventories of finished goods and work in progress	(635)	(136)
Work performed by the entity and capitalised	320	162
Raw material and consumables used	(3,181)	(3,234)
Employee benefits expense	(856)	(821)
Depreciation and amortisation expense	(298)	(307)
Other expenses	(83)	(79)
Finance costs	(101)	(98)
Profit before tax	975	846
Income tax expense	(244)	(212)
Profit for the year	731	634
Retained earnings at the beginning of the year (restated)	976	462
Retained earnings at the beginning of the year (as previously stated)	1,626	1,112
Correction of prior period error	(650)	(650)
Dividends declared and paid	(150)	(120)
Retained earnings at the end of the year	1,557	976