IFRS for SMEs (2009) + Q&As

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

Module 5 – Statement of Comprehensive Income and Income Statement

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

including the full text of
Section 5 *Statement of Comprehensive Income and Income Statement*
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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Module 5 – Statement of Comprehensive Income and Income Statement

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, updated in January 2013, focuses on the requirements for the presentation of the statement of comprehensive income and the income statement in accordance with Section 5 *Statement of Comprehensive Income and Income Statement* of the *IFRS for SMEs* that was issued in July 2009 and the related non-mandatory guidance subsequently provided by the IFRS Foundation SME Implementation Group..

Section 3 *Financial Statement Presentation* 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 comprehensive income and the income statement, guides the learner through the official text of the requirements for presenting those statements, develops the learner's understanding of the requirements through the use of examples and indicates significant judgements that are required presenting those statements. 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 those statements in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the financial reporting requirements for the presentation of the statement of comprehensive income and the income statement in accordance with the *IFRS for SMEs* as issued in July 2009. 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 those statements in accordance with the *IFRS for SMEs*. In particular, in the context of the *IFRS for SMEs,* you should:

- understand the choice between the single-statement approach and the two-statement approach
- be able to present a statement of comprehensive income
- be able to present an income statement
- know what items of income and expenses are presented as other comprehensive income
- be able to identify a discontinued operation
- be able to analyse expenses by nature and by function.

Module 5 – Statement of Comprehensive Income and Income Statement

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.

Further, the SME Implementation Group (SMEIG), responsible for assisting the IASB on matters related to the implementation of the IFRS for SMEs, published implementation guidance in the form of questions and answers (Q&As). The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SMEIG by users implementing the *IFRS for SMEs*.

When the *IFRS for SMEs* was issued in July 2009, the IASB undertook to assess entities' experience of applying the *IFRS for SMEs* following the first two years of application and consider whether there is a need for any amendments. To this end, in June 2012, the IASB issued a *Request for Information: Comprehensive Review of the IFRS for SMEs*. Currently it is expected that an exposure draft proposing amendments to the *IFRS for SMEs* will be issued in the first half of 2013.

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 (eg owners who are not involved in managing the business, potential owners, existing and potential lenders and other creditors) 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 5 *Statement of Comprehensive Income and Income Statement* specifies requirements for presenting an entity's financial performance for the period. It provides an accounting policy choice between presenting total comprehensive income in a single statement or in two separate statements. It specifies line items to be presented in those statements and prohibits the presentation or description of any items of income or expense as 'extraordinary items'. It also requires presentation of an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

Module 5 – Statement of Comprehensive Income and Income Statement

REQUIREMENTS AND EXAMPLES

The contents of Section 5 *Statement of Comprehensive Income and Income Statement* 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. Those terms are in **bold type** the first time they appear in the text of Section 5. The notes and examples inserted by the IFRS Foundation education staff are not shaded. 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

5.1 This section requires an entity to present its **total comprehensive income** for a period—ie its financial **performance** for the period—in one or two **financial statements**. It sets out the information that is to be presented in those statements and how to present it.

Notes

Profit or loss (sometimes called net income) is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. Paragraph 5.4(b) specifies three items of income and expenses that are recognised outside of profit or loss (ie in other comprehensive income). This section specifies the presentation of an entity's income and expenses. Other sections of the *IFRS for SMEs* specify requirements for recognising and measuring income and expenses.

Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Distinguishing between items of income and expense and combining them in different ways also permits several measures of entity performance to be displayed. These have differing degrees of inclusiveness. An entity may disclose additional line items, headings and subtotals in its financial performance statements (eg as additional subtotals it could display gross profit, profit or loss from ordinary activities before taxation and profit before tax) when such presentation is relevant to understanding the entity's financial performance.

Module 5 – Statement of Comprehensive Income and Income Statement

Presentation of total comprehensive income

5.2 An entity shall present its total comprehensive income for a period either:

(a) in a single **statement of comprehensive income**, in which case the statement of comprehensive income presents all items of income and expense recognised in the period, or *[Refer: paragraphs 5.4–5.6 and 5.8–5.10]*

(b) in two statements—an **income statement** and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of **profit or loss** as permitted or required by this IFRS. *[Refer: paragraphs 5.7–5.10]*

Notes

The choice presented in paragraph 5.2 (ie single-statement approach or a two-statement approach) is an accounting policy choice. Paragraph 10.7 requires an entity to select and apply its accounting policies consistently. Moreover, an entity cannot change its accounting policy unless the change would result in its financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows (see paragraph 10.8(b)).

5.3 A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 *Accounting Policies, Estimates and Errors* applies.

Notes

In accordance with Section 10 comparative figures are restated in financial statements following a change from a single-statement approach to a two-statement approach, or vice versa.

Single-statement approach

5.4 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this IFRS requires otherwise. This IFRS provides different treatment for the following circumstances:

(a) The effects of corrections of errors and changes in **accounting policies** are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10).

[Refer: paragraph 5.8]

Module 5 – Statement of Comprehensive Income and Income Statement

Example – retrospective adjustments

Ex 1 **During 20X7, after the entity's 20X6 financial statements were approved for issue, the entity discovered a computational error in the calculation of depreciation expense for the year ended 31 December 20X6 (ie profit before tax for the year ended 31 December 20X6 is overstated by CU7,800, with a resultant CU1,950 overstatement of income tax expense).**

The entity's statement of comprehensive income for the year ended 31 December 20X7 could be presented as follows:

An entity – statement of comprehensive income for the year ended 31 December 20X7

	20X7	*20X6*
		Restated
	CU	*CU*
Revenue	680,000	525,000
Other income	54,000	32,000
Changes in inventories of finished goods and work in progress	23,520	25,620
Raw material and consumables used	(428,000)	(299,800)
Employee benefits expense	(78,000)	(76,000)
Depreciation and amortisation expense (20X6: previously stated CU21,200)	(25,600)	(29,000)
Impairment of property, plant and equipment	–	(3,200)
Other expenses	(4,500)	(3,250)
Finance costs	(22,300)	(19,700)
Share of profit of associates	42,100	38,560
Profit before tax (20X6: previously stated CU198,030)	**241,220**	**190,230**
Income tax expense (20X6: previously stated CU49,508)	(60,305)	(47,558)
Profit/Total comprehensive income for the year (20X6: previously stated CU148,522)	**180,915**	**142,672**

(b) Three types of **other comprehensive income** are recognised as part of total comprehensive income, outside of profit or loss, when they arise:

(i) some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see Section 30 *Foreign Currency Translation*).

(ii) some actuarial gains and losses (see Section 28 *Employee Benefits*).

(iii) some changes in fair values of hedging instruments (see Section 12 *Other Financial Instruments Issues*).

Example – other comprehensive income

Ex 2 The statement of comprehensive income of an entity could be presented in a single statement as follows:

An entity's statement of comprehensive income for the year ended 31 December 20X8

	20X8	*20X7*
	CU	*CU*
Revenue	645,000	499,500
Cost of sales	(500,000)	(400,000)
Distribution costs	(50,000)	(30,000)
Administrative expenses	(30,000)	(15,000)
Finance costs	(10,000)	(5,000)
Profit before tax	**55,000**	**49,500**
Income tax expense	(13,750)	(12,375)
Profit for the year	**41,250**	**37,125**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	10,260	(22,360)
Change in the fair value of hedging instruments, net of tax	(3,800)	4,750
Reclassified losses on hedging instrument to profit or loss	(720)	(520)
Other comprehensive income for the year, net of tax	**5,740**	**(18,130)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**46,990**	**18,995**

5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:

(a) **revenue** *[Refer: paragraph 2.25 (a)]*.

(b) finance costs.

(c) share of the profit or loss of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled entities** (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method *[Refer: paragraphs 14.8 and 15.13]*.

(d) **tax expense** excluding tax allocated to items (e), (g) and (h) below (see paragraph 29.27).

(e) a single amount comprising the total of

(i) the post-tax profit or loss of a **discontinued operation**, 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 net assets constituting the discontinued operation.

(f) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented).

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)).

(h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method.

(i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).

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Example – statement of comprehensive income

Ex 3 A group (a parent and its wholly-owned subsidiary) that follows a single-statement approach to present its financial performance could prepare its statement of comprehensive income as follows:

A group's statement of comprehensive income for the year ended 31 December 20X7

	Note	*20X7*	*20X6*
		CU	*CU*
Revenue	10	680,000	525,000
Cost of sales		(400,000)	(300,000)
Distribution costs		(8,580)	(5,830)
Administrative expenses		(50,000)	(40,000)
Finance costs	11	(22,300)	(19,700)
Share of profit of associates	12	42,100	38,560
Profit before tax	13	**241,220**	**198,030**
Income tax expense	14	(60,305)	(49,508)
Profit for the year from continuing operations		**180,915**	**148,522**
Loss for the year from discontinued operations	15	(24,780)	–
Profit for the year		**156,135**	**148,522**
Other comprehensive income:			
Exchange differences on translating foreign operations, net of tax	16	10,260	(22,360)
Actuarial gains on defined benefit pension obligations, net of tax	17	(720)	(520)
Share of associates' other comprehensive income	13	(3,800)	4,750
Other comprehensive income for the year, net of tax	18	**5,740**	**(18,130)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**161,875**	**130,392**

Notes – discontinued operations

In the Glossary to the *IFRS for SMEs* a discontinued operation is defined as a component of an entity that either has been disposed of, or is held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

(c) is a subsidiary acquired exclusively with a view to resale.

Furthermore, a component of an entity is defined as operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

The sale of a component of an entity is not necessarily a discontinued operation. For it to be a discontinued operation the operation sold must represent a separate major line of business or geographical area of operations.

Section 27 *Impairment of Assets* identifies 'plans to discontinue or restructure the operation to which an asset belongs' and 'plans to dispose of an asset before the previously expected date' as internal sources of information that indicate that an asset may be impaired. The existence of such indicators compels the entity to perform an impairment test on the asset (see paragraph 27.7).

When an entity expects to recover the carrying amount of the assets of a discontinued operation through sale, the value in use of those assets would approximate their fair value less costs to sell. To the extent, if any, that the carrying amount of the assets exceeds their recoverable amount an impairment loss is recognised.
Paragraph 5.5(e)(ii) requires the resulting impairment loss, if any, on the assets of a discontinued operation to be included in the discontinued operations line-item presented in the statement of comprehensive income.

Example – presenting a discontinued operation

Ex 4 **An entity operates two separate major lines of business—candle manufacturing and clothing retailing.**

On 30 December 20X2, in response to an unsolicited offer, an entity disposed of its candle-making operation for CU1,000,000 when the carrying amount of the operation's assets were—factory building CU400,000, machinery CU300,000 and trade mark CU200,000. For simplicity it is assumed that the candle-making operation has no other assets or liabilities. CU20,000 income tax is payable on the gain on disposal of the plant.

The candle-making plant recognised a profit after tax of CU150,000 for the year ended 31 December 20X2 (20X1: CU250,000).

An entity's statement of comprehensive income for the year ended 31 December 20X2

	20X2		*20X1*
	CU		*CU*
…			
Profit for the year from continuing operations			
Profit for the year from discontinued operation	230,000	[(a)]	250,000
Profit for the year			
…			

[(a)] CU1,000,000 proceeds on disposal less CU400,000 building less CU300,000 machinery less CU200,000 trade mark = CU100,000 profit on disposal.

CU100,000 less CU20,000 tax = CU80,000 profit after tax from disposal of the discontinued operation.

CU80,000 + CU150,000 post-tax profit from discontinued operation = CU230,000 total post-tax profit from discontinued operation.

Ex 5 **The facts are the same as in example 4. However, in this example, although the management of the entity is committed to a single co-ordinated plan to dispose of its candle-making operation it had not yet finalised the sale of the operation.**

At 31 December 20X2 it estimated the fair value less costs to sell of the candle-making operation's assets at CU1,000,000.

An entity's statement of comprehensive income for the year ended 31 December 20X2

	20X2		20X1
	CU		CU
…			
Profit for the year from continuing operations			
Profit for the year from discontinued operation	150,000	(a)	250,000
Profit for the year			
…			

(a) CU150,000 post-tax profit of the discontinued operation.

The decision to sell the operation indicates that the assets might be impaired. Therefore the non-current assets of the candle-making operation would be tested for impairment at 31 December 20X2 in accordance with Section 27. The fair value less costs to sell of the cash-generating unit's assets (CU1,000,000) exceeds their carrying amount (ie CU400,000 building + CU300,000 machinery + CU200,000 trade mark = CU900,000). Therefore no impairment loss would result from the impairment test.

Ex 6 **The facts are the same as in example 5. However, in this example, the fair value less costs to sell of the candle-making operation's assets at 31 December 20X2 is estimated to be CU800,000. Assume a 20 per cent tax effect in respect of the impairment, if any.**

An entity's statement of comprehensive income for the year ended 31 December 20X2

	20X2		20X1
	CU		CU
…			
Profit for the year from continuing operations			
Profit for the year from discontinued operation	70,000	(a)	250,000
Profit for the year			
…			

(a) In accordance with Section 27, the decision to sell assets triggers an impairment test of those assets at 31 December 20X2—CU900,000 carrying amount of assets before impairment less CU800,000 fair value less costs to sell = CU100,000 impairment loss. CU100,000 less tax effect of the impairment loss CU20,000 = CU80,000 post-tax impairment loss.

CU150,000 post-tax profit from discontinued operation before impairment less CU80,000 post-tax impairment loss = CU70,000 total post-tax profit from discontinued operation.

5.6 An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period:

(a) profit or loss for the period attributable to
   (i) **non-controlling interest**.
   (ii) **owners** of the parent.

(b) total comprehensive income for the period attributable to
   (i) non-controlling interest.
   (ii) owners of the parent.

Example – separate disclosure in the statement of comprehensive income

Ex 7 **The facts are the same as in example 3. However, in this example, the parent owns only 90 per cent of the equity of its subsidiary. The subsidiary's profit for the year ended 31 December 20X7 is CU50,000 (20X6: CU40,000). The subsidiary's total other comprehensive income is a gain of CU3,000 for the year ended 31 December 20X7 (20X6: a loss of CU2,000).**

In addition to the line items presented in the answer to example 3, the group would present the following:

A group's consolidated statement of comprehensive income for the year ended 31 December 20X7

	20X7	*20X6*
	CU	*CU*
…		
Profit attributable to:		
Owners of the parent	151,135	144,522
Non-controlling interests	5,000	4,000
	156,135	148,522
Total comprehensive income attributable to:		
Owners of the parent	156,575	126,592
Non-controlling interests	5,300	3,800
	161,875	130,392

Two-statement approach

5.7 Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.

Example – two-statement approach

Ex 8 **The facts are the same as in example 7. However, in this example, the group follows the two-statement approach to present its financial performance.**

The group could prepare its separate income statement and separate statement of comprehensive income as follows:

A group's consolidated income statement for the year ended 31 December 20X7

	Note	20X7	20X6
		CU	CU
Revenue	10	680,000	525,000
Cost of sales		(400,000)	(300,000)
Distribution costs		(8,580)	(5,830)
Administrative expenses		(50,000)	(40,000)
Finance costs	12	(22,300)	(19,700)
Share of profit of associates	13	42,100	38,560
Profit before tax		241,220	198,030
Income tax expense	14	(60,305)	(49,508)
Profit for the year from continuing operations		**180,915**	**148,522**
Loss for the year from discontinued operations	15	(24,780)	–
PROFIT FOR THE YEAR		**156,135**	**148,522**
Profit for the year is attributable to:			
Owners of the parent		151,135	144,522
Non-controlling interests		5,000	4,000
		156,135	**148,522**

A Group – consolidated statement of comprehensive income for the year ended 31 December 20X7

	Note	20X7	20X6
		CU	CU
Profit for the year		156,135	148,522
Other comprehensive income:			
Exchange differences on translating foreign operations, net of tax	16	10,260	(22,360)
Actuarial gains on defined benefit pension obligations, net of tax	17	(720)	(520)
Share of associates other comprehensive income	13	(3,800)	4,750
Other comprehensive income for the year, net of tax	18	**5,740**	**(18,130)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**161,875**	**130,392**
Total comprehensive income for the year is attributable to:			
Owners of the parent		156,575	126,592
Non-controlling interests		5,300	3,800
		161,875	**130,392**

Requirements applicable to both approaches

5.8 Under this IFRS, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10).

Example – single-statement and two-statement approaches

Ex 9 **During 20X8, after the entity's 20X7 financial statements were approved for issue, the entity discovered an error in the calculation of pension expense. The error resulted in profit before tax for the year ended 31 December 20X7 being overstated by CU17,000, with a resultant CU4,250 overstatement of income tax expense.**

The entity's statement of comprehensive income for the year ended 31 December 20X8 using the single-statement approach could be presented as follows:

An entity's statement of comprehensive income for the year ended 31 December 20X8

	20X8	*20X7*
		Restated
	CU	*CU*
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**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	(3,000)	6,000
Actuarial gains on defined benefit pension obligations, net of tax	1,000	(2,000)
Other comprehensive income for the year, net of tax	**(2,000)**	**4,000**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (20X7: previously stated CU123,850)	**24,000**	**111,100**

If the entity used the two-statement approach it would have presented its financial performance for the year ended 31 December 20X8 as follows:

An entity's income statement for the year ended 31 December 20X8

	20X8	*20X7*
		Restated
	CU	*CU*
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**

An entity – statement of comprehensive income for the year ended 31 December 20X8

	20X8	*20X7*
		Restated
	CU	*CU*
Profit for the year (20X7: previously stated CU119,850)	**26,000**	**107,100**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	(3,000)	6,000
Actuarial gains on defined benefit pension obligations, net of tax	1,000	(2,000)
Other comprehensive income for the year, net of tax	(2,000)	4,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (20X7: previously stated CU123,850)	**24,000**	**111,100**

5.9 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.

[Refer: paragraphs 2.23–2.26]

Example – additional line items, headings and subtotals

Ex 10 A retailer may present additional line items (eg gross profit, profit before tax and profit from continuing operations) in its consolidated statement of comprehensive income because the group's management believes that such presentation is relevant to an understanding of the entity's financial performance.

An entity's statement of comprehensive income for the year ended 31 December 20X7

	Note	20X7	20X6
		CU	CU
Revenue	10	680,000	525,000
Cost of sales		(400,000)	(300,000)
Gross profit		**280,000**	**225,000**
Distribution costs		(8,580)	(5,830)
Administrative expenses		(50,000)	(40,000)
Finance costs	11	(22,300)	(19,700)
Share of profit of associates	12	42,100	38,560
Profit before tax	13	**241,220**	**198,030**
Income tax expense	14	(60,305)	(47,508)
Profit for the year from continuing operations		**180,915**	**150,522**
Loss for the year from discontinued operations	15	(24,780)	(2,000)
Profit for the year		**156,135**	**148,522**
Other comprehensive income:			
Exchange differences on translating foreign operations, net of tax	16	10,260	(22,360)
Actuarial gains on defined benefit pension obligations, net of tax	17	(720)	(520)
Share of associates other comprehensive income	13	(3,800)	4,750
Other comprehensive income for the year, net of tax	18	**5,740**	**(18,130)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**161,875**	**130,392**

5.10 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

Analysis of expenses

5.11 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

Notes

The analysis of expenses (by their nature or function) excludes finance costs, the expenses of discontinued operations, income tax and items of other comprehensive income. These expenses are presented separately in the statement of comprehensive income.

Analysis by nature of expense

(a) Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (eg depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity.

Examples – analysis by nature of expense

Ex 11 A group (a parent and its wholly-owned subsidiary) that presents its financial performance using the single-statement approach and presents an analysis by nature of expenses in its statement of comprehensive income could present its statement of comprehensive income as follows:

A group's consolidated statement of comprehensive income for the year ended 31 December 20X7

	20X7	*20X6*
	CU	*CU*
Revenue	734,000	557,000
Gain in the fair value of investment property	1,000	500
Changes in inventories of finished goods and work in progress	(26,480)	(42,180)
Raw material and consumables used	(378,000)	(232,000)
Employee benefits expense	(78,000)	(76,000)
Depreciation and amortisation expense	(25,600)	(21,200)
Impairment of property, plant and equipment	–	(3,200)
Advertising costs	(3,000)	(2,800)
Raw material freight costs	(2,000)	(750)
Operating lease expense	(400)	(150)
Finance costs	(22,300)	(19,700)
Share of associate's losses	(100)	(50)
Profit before tax	**199,120**	**159,470**
Income tax expense	(49,780)	(36,868)
Profit for the year from continuing operations	**149,340**	**122,602**
Loss for the year from discontinued operations	(24,780)	(3,000)
PROFIT FOR THE YEAR	**124,560**	**119,602**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	10,260	(22,360)
Actuarial losses on defined benefit pension plans, net of tax	(720)	(520)
Change in the fair value of hedging instruments, net of tax	(3,800)	4,750
Reclassified gains (losses) on hedging instruments to profit or loss	1,560	(846)
Other comprehensive income for the year, net of tax	**7,300**	**(18,976)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**131,860**	**100,626**

Analysis by function of expense

(b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

Examples – analysis by function of expenses

Ex 12 The facts are the same as example 11. However, in this example, the group presents an analysis by function of expenses. The employee benefit and depreciation and amortisation costs are attributable to the factory (50 per cent), administration (25 per cent) and distribution (25 per cent). The impairment loss was in respect of an item of manufacturing equipment. The operating lease expense is for a photocopier used by the group's sales office staff. The group could present its statement of comprehensive income as follows:

A group's consolidated statement of comprehensive income for the year ended 31 December 20X7

	20X7	*20X6*
	CU	*CU*
Revenue	734,000	557,000
Gain in the fair value of investment property	1,000	500
Cost of sales[(a)]	(458,280)	(326,730)
Distribution costs[(b)]	(29,300)	(27,250)
Administrative expenses[(c)]	(25,900)	(24,300)
Finance costs	(22,300)	(19,700)
Share of associate's losses	(100)	(50)
Profit before tax	**199,120**	**159,470**
Income tax expense	(49,780)	(36,868)
Profit for the year from continuing operations	**149,340**	**122,602**
Loss for the year from discontinued operations	(24,780)	(3,000)
PROFIT FOR THE YEAR	**124,560**	**119,602**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	10,260	(22,360)
Actuarial losses on defined benefit pension plans, net of tax	(720)	(520)
Change in the fair value of hedging instruments, net of tax	(3,800)	4,750
Reclassified gains (losses) on hedging instrument to profit or loss	1,560	(846)
Other comprehensive income for the year, net of tax	**7,300**	**(18,976)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**131,860**	**100,626**

Calculations that do not form part of the statement of comprehensive income:

	20X7	20X6
(a)	CU26,480 change in inventory levels + CU378,000 raw materials used + 50%(CU78,000 employee benefits + CU25,600 depreciation) + CU2,000 raw material freight costs = CU458,280 cost of sales	CU42,180 change in inventory levels + CU232,000 raw materials used + 50%(CU76,000 employee benefits + CU21,200 depreciation) + CU3,200 impairment + CU750 raw material freight costs = CU326,730 cost of sales
(b)	25%(CU78,000 employee benefits + CU25,600 depreciation) + CU3,000 advertising + CU400 operating lease expense = CU29,300 distribution costs	25%(CU76,000 employee benefits + CU21,200 depreciation) + CU2,800 advertising + CU150 operating lease expense = CU27,250 distribution costs
(c)	25%(CU78,000 employee benefits + CU25,600 depreciation) = CU25,900 administration costs	25%(CU76,000 employee benefits + CU21,200 depreciation) = CU24,300 administration costs

Ex 13 **An entity that manufactures concrete blocks for use in the home building sector has five vehicles.**

Vehicle 1 is used to transport raw materials (sand and cement) from the entity's suppliers to the entity's raw materials storeroom.

Vehicle 2 is used to transport the raw material from the storeroom to the factory floor.

Vehicle 3 is used to transport the blocks from the entity's factory to the entity's customers.

Vehicle 4 is used by the entity's sales staff to visit potential customers to seek orders.

Vehicle 5 is provided by the entity to its chief administrator for his personal use. The use of the vehicle is part of the chief administrator's remuneration package.

How should the entity classify depreciation of the vehicles by function?

The depreciation of vehicles 1 and 2 is classified as cost of sales when it is recognised as an expense. Note: in accordance with Section 13 *Inventories* this depreciation would first be recognised as part of the cost of inventories (and asset). When the inventories are derecognised (eg when they are sold) then the cost of the inventories (including the depreciation of vehicles 1 and 2) is recognised as an expense (ie cost of sales).

The depreciation of vehicles 3 and 4 is classified as a distribution cost—it relates to the distribution function of the business.

The depreciation of vehicle 5 is recognised as an administrative expense—it relates to the administrative function of the business.

Module 5 – Statement of Comprehensive Income and Income Statement

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

In many cases little difficulty is encountered in presenting the statement of comprehensive income and income statement 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 comprehensive income and income statement
- 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 some expenses by function (eg the allocation of expenses that relate to more than one function of the entity)
- to classify some expenses by nature (eg to separate the components of some expenses that include items that are different in nature).

Module 5 – Statement of Comprehensive Income and Income Statement

COMPARISON WITH FULL IFRSs

The main differences between the requirements to present an entity's financial performance (ie comprehensive income) at 9 July 2009 in accordance with full IFRSs (see IAS 1 *Presentation of Financial Statements*) and the *IFRS for SMEs* (see Section 5 *Statement of Comprehensive Income and Income Statement*) include:

- The *IFRS for SMEs* is drafted in simplified language.
- The *IFRS for SMEs* permits an entity to present a statement of income and retained earnings in place of the statement of comprehensive income and 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 (see paragraph 3.18). This option does not exist in full IFRSs.
- The *IFRS for SMEs* has only three items of other comprehensive income (OCI)—translating the financial statements of a foreign operation, some changes in fair values of hedging instruments and actuarial gains and losses of defined benefit plans. Full IFRSs have more items of comprehensive income (eg cumulative changes in the fair value of available-for-sale financial assets and gains on the revaluation of property, plant and equipment and intangible assets).
- Full IFRSs require reclassification through profit or loss of some items of OCI (sometimes called 'recycling') when they become realised (eg those in respect of available-for-sale financial assets and the translation of foreign operations). Except for specified gains and losses on hedging instruments (see Section 12 *Other Financial Instrument Issues*) the *IFRS for SMEs* does not permit reclassification.
- If the entity that applies full IFRSs classifies its expenses by function, it is also required to disclose information on the nature of expenses. The *IFRS for SMEs* does not explicitly require these additional disclosures of expenses by nature.
- Full IFRSs specify more detailed disclosures for discontinued operations.
- Full IFRSs (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) require a non-current asset held for sale (including the non-current assets of a discontinued operation) to be carried at the lower of its carrying amount and fair value less estimated costs to sell the asset. The *IFRS for SMEs* does not require separate presentation in the statement of financial position of 'non-current assets held for sale'. However, paragraph 27.9 of the *IFRS for SMEs* identifies 'plans to discontinue or restructure the operation to which an asset belongs' and 'plans to dispose of an asset before the previously expected date' as internal sources of information that indicate that an asset may be impaired. The existence of such indicators compels the entity to perform an impairment test on the asset (ie compute its recoverable amount) (see paragraph 27.7). Paragraph 4.14 specifies disclosure requirements when, at the reporting date, an entity has a binding sale agreement for a major disposal of assets or a group of assets and liabilities.

Module 5 – Statement of Comprehensive Income and Income Statement

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for presenting a statement of comprehensive income and income statement 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

In 20X8, after an entity's 20X7 financial statements were approved for issue, the entity discovered an error in the calculation of depreciation expense. The error occurred during 20X6. The entity presents one year's comparative figures. The effect of the correction of the error in the entity's 20X8 financial statements will be:

☐ (a) recognised in the entity's profit or loss for the year ended 31 December 20X8.

☐ (b) recognised in the entity's profit or loss for the year ended 31 December 20X7.

☐ (c) recognised outside of total comprehensive income, in the statement of changes in equity as an adjustment to retained earnings at 1 January 20X7.

Note: Knowledge of the requirements of Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* is required to answer question 1. The requirements of Section 10 are set out in Module 10.

Question 2

Which of the following gains and losses are recognised in other comprehensive income (ie in total comprehensive income outside of profit and loss)?

☐ (a) gains and losses from discontinued operations.

☐ (b) gains and losses arising on translating the financial statements of a foreign operation.

☐ (c) gains on the revaluation of property, plant and equipment.

☐ (d) gains and losses that management considers extraordinary items.

Question 3

Which of the following gains and losses can an entity elect (an accounting policy choice) to recognise in other comprehensive income (ie in total comprehensive income outside of profit or loss)?

☐ (a) losses from discontinued operations.

☐ (b) gains and losses arising on translating the financial statements of a foreign operation.

☐ (c) actuarial gains and losses of defined benefit plans.

☐ (d) gains and losses that management considers extraordinary items.

Note: Knowledge of the requirements of Section 28 *Employee Benefits* of the *IFRS for SMEs* is required to answer question 3. The requirements of Section 28 are set out in Module 28.

Question 4

Which of the following terms cannot be used to describe a line item in the statement of comprehensive income?

- ☐ (a) revenue
- ☐ (b) gross profit
- ☐ (c) profit before tax
- ☐ (d) extraordinary item

Question 5

Which of the following is a discontinued operation?

- ☐ (a) An entity has three machines located in one plant. All of the machines produce the same product. The entity significantly scales down its operations by disposing of one of the machines.
- ☐ (b) An entity has three machines located in one plant. Each machine produces a completely different product and each machine is managed as a separate business unit. The entity significantly scales down its operations by disposing of one of the machines and in doing so discontinues manufacturing one of its three products.
- ☐ (c) An entity has three plants that all produce the same product. Each plant is located in a separate continent and sells its output to customers local to the plant in which the product is manufactured. The entity scales down its operations by disposing of one of the plants.
- ☐ (d) Both (b) and (c) above.
- ☐ (e) Situations (a)–(c).

Question 6

Items of other comprehensive income are presented in the statement of comprehensive income analysed:

- ☐ (a) by nature.
- ☐ (b) by function.
- ☐ (c) either by nature or by function (an accounting policy choice).
- ☐ (d) both (a) and (b) above.

Module 5 – Statement of Comprehensive Income and Income Statement

Question 7

Staff costs are:

- ☐ (a) administrative expenses.
- ☐ (b) distribution expenses.
- ☐ (c) cost of sales.
- ☐ (d) allocated to categories (a)–(c) above according to the function of the employee to which the particular staff cost relates.

Question 8

An entity presents an analysis of expenses using a classification based on:

- ☐ (a) the nature of expenses.
- ☐ (b) the function of expenses.
- ☐ (c) either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.
- ☐ (d) either the nature of expenses or the function of expenses within the entity, whichever the entity would prefer to present.

Question 9

Separate line items in an analysis of expenses by nature include:

- ☐ (a) purchases of materials, transport costs, employee benefits, depreciation, extraordinary items.
- ☐ (b) purchases of materials, distribution costs, administrative costs, employee benefits, depreciation, taxes.
- ☐ (c) depreciation, purchases of materials, employee benefits and advertising costs.
- ☐ (d) cost of sales, administrative costs, transport costs, distribution costs etc.

Question 10

Separate line items in an analysis of expenses by function include:

- ☐ (a) purchases of materials, transport costs, employee benefits, depreciation, extraordinary items.
- ☐ (b) purchases of materials, distribution costs, administrative costs, employee benefits, depreciation, taxes.
- ☐ (c) depreciation, purchases of materials, employee benefits and advertising costs.
- ☐ (d) cost of sales, administrative expenses, distribution expenses etc.

Module 5 – Statement of Comprehensive Income and Income Statement

Answers

Q1 (c) see paragraphs 5.4(a) and 5.8
Q2 (b) see paragraph 5.4(b)(i)
Q3 (c) see paragraphs 5.4(b)(ii) and 28.24(b)
Q4 (d) see paragraph 5.10
Q5 (d) see the definitions of a discontinued operation and component of an entity in the Glossary
Q6 (a) see paragraph 5.5(g)
Q7 (d) see paragraph 5.11(b)
Q8 (c) see paragraph 5.11
Q9 (c) see paragraph 5.11(a)
Q10 (d) see paragraph 5.11(b)

Module 5 – Statement of Comprehensive Income and Income Statement

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting a statement of comprehensive income and income statement 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

SME A Group (parent and its 75 per cent owned subsidiary) presents the consolidated statement of comprehensive income following the single-statement approach.

SME A Group
Statement of comprehensive income at 31 December 20X8

	20X8	
Revenue	20,000	(a)
Cost of sales	(7,000)	(b)
Distribution costs	(1,000)	(c)
Administrative expenses	(4,000)	(d)
Other expenses	(2,500)	(e)
Extraordinary item	(500)	(f)
Finance costs	(1,000)	(g)
Profit before tax	**4,000**	
Income tax expense	(1,600)	(h)
Dividend declared and paid	(400)	(i)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,000**	

Notes that do not form part of the statement of comprehensive income prepared by the group's management.

		Parent		*Subsidiary*	*Total*
	All amounts presented in CUs	*Continuing operation*	*Discontinued operation*		
(a)	Increase in fair value of investment property	3,000			
	Sale of goods	10,000	1,500	5,000	
	Gain on disposal of discontinued operation	500			
	Revenue	**13,500**	**1,500**	**5,000**	**20,000**
(b)	Cost of sales	4,000	1,000	2,000	7,000
(c)	Distribution costs	100	500	400	1,000
(d)	Administrative expenses	2,000	1,000	1,000	4,000
(e)	Advertising costs	1,000			
	Actuarial losses on defined benefit plans	700		800	

		Parent		Subsidiary	Total
		Continuing operation	Discontinued operation		
	Other expenses	**1,700**		**800**	**2,500**
(f)	Impairment of a sales office equipment	500			500
(g)	Finance costs	500		500	1,000
(h)	All items of income and expense are subject to tax (deferred and current) at 40 per cent of the amount of the income or expense.				
(i)	Dividend declared and paid	400			400

The parent raised CU1,000 from the owners of the parent during 20X8 by issuing shares to the owners of the parent.

The group follows an accounting policy of recognising actuarial gains and losses on its defined benefit obligations in other comprehensive income.

Part A: List the errors and omissions in the presentation of SME A Group's consolidated statement of comprehensive income for the year ended 31 December 20X8.

Part B: Prepare SME A Group's financial performance statements for the year ended 31 December 20X8 using the single-statement approach.
Ignore comparative figures.

Part C: Prepare SME A Group's financial performance statements for the year ended 31 December 20X8 using the two-statement approach.
Ignore comparative figures.

Module 5 – Statement of Comprehensive Income and Income Statement

Answer to case study 1: Part A

Errors in the consolidated statement of comprehensive income presented by the SME A group for the year ended 31 December 20X8 include:

1. The text 'Consolidated' is missing from the title (ie the title should read 'Consolidated statement of comprehensive income'.
2. The statement of comprehensive income must be presented 'for the year ended 31 December 20X8' (not 'at' 31 December 20X8).
3. The presentation currency should be disclosed (ie CU or currency units).
4. The level of rounding of the amounts presented should be disclosed.
5. At least one year's comparative information must be presented for each line item of the statement of comprehensive income (see paragraph 3.14).
6. No items of income or expense should be described as 'extraordinary items' (see paragraph 5.10).
7. A separate line item 'discontinued operations' must be presented presenting the post-tax loss from the discontinued operation including the gain on disposal of the discontinued operations (see paragraph 5.5(e)).
8. A line item 'profit for the year' must be presented after discontinued operations but before other comprehensive income (see paragraph 5.5(f)).
9. a separate part of the statement of comprehensive income (below profit for the year) should be dedicated to other comprehensive income.
10. The group must disclose separately the allocation of profit or loss to the non-controlling interests and the owners of the parent (see paragraph 5.6(a)).
11. The group must disclose separately the allocation of total comprehensive income for the period attributable to non-controlling interests and owners of the parent (see paragraph 5.6(b).
12. The amount of each item of other comprehensive income (ie actuarial losses on defined benefit plans) must be disclosed separately.
13. The entity should disclose separately the aggregate current and deferred tax relating to items of other comprehensive income (see paragraphs 5.5(d) and 29.32(a)).
14. Dividends declared and paid must not be presented in the statement of comprehensive income.
15. The entity must present additional line items, headings and subtotals when such presentation is relevant to an understanding of the entity's financial performance (see paragraph 5.9).

Module 5 – Statement of Comprehensive Income and Income Statement

Answer to case study 1: Part B

SME A Group – consolidated statement of comprehensive income for the year ended 31 December 20X8

(all amounts in currency units)

	20X8	
Revenue	15,000	(a)
Cost of goods sold	(6,000)	(b)
Gross profit	**9,000**	(c)
Other income—increase in the fair value of investment property	3,000	
Distribution costs	(2,000)	(d)
Administration expenses	(3,000)	(e)
Finance costs	(1,000)	(f)
Profit before tax	**6,000**	(c)
Income tax expense	(2,400)	(g)
Profit for the year from continuing operations	**3,600**	(c)
Loss for the year from a discontinued operation	(300)	(h)
PROFIT FOR THE YEAR	**3,300**	
Other comprehensive income for the year, net of tax:		
Actuarial gains on defined benefit pension obligations, net of tax	(900)	(i)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,400**	
Profit attributable to:		
Owners of the parent	3,135	(l)
Non-controlling interests	165	(m)
	3,300	
Total comprehensive income attributable to:		
Owners of the parent	2,355	(o)
Non-controlling interests	45	(p)
	2,400	

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) CU10,000 parent + CU5,000 subsidiary = CU15,000.

(b) CU4,000 parent + CU2,000 subsidiary = CU6,000.

(c) Examples of additional line items, headings or subtotals that an entity presents when such presentation is relevant to an understanding of the entity's financial performance (see paragraph 5.9).

(d) CU100 parent + CU1,000 advertising costs + CU500 impairment of sales office equipment + CU400 subsidiary = CU2,000.

(e) CU2,000 parent + CU1,000 subsidiary = CU3,000.

(f) CU500 parent + CU500 subsidiary = CU1,000.

(g) 40%(CU6,000 consolidated profit before tax) = CU2,400.

(h) CU300[(j)] post-tax gain on the sale of a discontinued operation less CU600[(i)] post-tax loss of a discontinued operation = CU300 line item 'loss for the year from a discontinued operation'.

(i) CU1,500 revenue less CU1,000 cost of sales less CU500 distribution costs less CU1,000 administration costs = CU1,000 loss of a discontinued operation. CU1,000 less (40% of CU1,000) tax = CU600 post-tax loss of a discontinued operation.

(j) CU500 gain on disposal of discontinued operation less (40% of CU500) tax = CU300 post-tax gain on disposal of a discontinued operation.

(k) CU700 parent + CU800 subsidiary = CU1,500 actuarial losses before tax. CU1,500 less (40% of CU1,500) tax = CU900 post-tax actuarial losses.

(l) CU2,640[(n)] parent's profit for the year + 75%(CU660[(m)] subsidiary's profit for the year) = CU3,135.

(m) 25%(CU660[(n)] subsidiary's profit for the year) = CU165.

(n)

	Parent	*Subsidiary*	*Total*
	CU	*CU*	*CU*
Revenue	10,000	5,000	15,000
Increase in fair value of investment property	3,000	–	3,000
Cost of sales	(4,000)	(2,000)	(6,000)
Distribution costs	(1,600)	(400)	(2,000)
Administrative expenses	(2,000)	(1,000)	(3,000)
Finance costs	(500)	(500)	(1,000)
Profit before tax	**4,900**	**1,100**	**6,000**
Tax expense (40% of profit before tax)	(1,960)	(440)	(2,400)
Profit from continuing operations	**2,940**	**660**	**3,600**
Loss for the year from a discontinued operation	(300)	–	(300)
PROFIT FOR THE YEAR	**2,640**	**660**	**3,300**

(o) CU2,220[(q)] parent's total comprehensive income for the year + 75% (CU180[(q)] subsidiary's total comprehensive income for the year) = CU2,355.

(p) 25% × (CU180[(q)] subsidiary's total comprehensive income for the year) = CU45.

(q)

	Parent	*Subsidiary*	*Total*
	CU	*CU*	*CU*
Profit for the year (see [(m)] above)	**2,640**	**660**	**3,300**
Other comprehensive income—actuarial losses on defined benefit plans	(700)	(800)	(1,500)
Income tax effect of actuarial losses (40%)	280	320	600
Total other comprehensive income for the year, net of tax	**(420)**	**(480)**	**(900)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,220**	**180**	**2,400**

Answer to case study 1: Part C

SME A Group – consolidated income statement for the year ended 31 December 20X8
(all amounts in currency units)

	20X8	
Revenue	15,000	(a)
Cost of goods sold	(6,000)	(b)
Gross profit	**9,000**	
Other income—increase in the fair value of investment property	3,000	
Distribution costs	(2,000)	(c)
Administration expenses	(3,000)	(d)
Finance costs	(1,000)	(e)
Profit before tax	**6,000**	
Income tax expense	(2,400)	(f)
Profit for the year from continuing operations	**3,600**	
Loss for the year from a discontinued operation	(300)	(g)
PROFIT FOR THE YEAR	**3,300**	
Profit attributable to:		
Owners of the parent	3,135	(k)
Non-controlling interests	165	(l)
	3,300	

SME A Group – consolidated statement of comprehensive income for the year ended 31 December 20X8
(all amounts in currency units)

	20X8	
PROFIT FOR THE YEAR	**3,300**	
Other comprehensive income for the year, net of tax:		
Actuarial gains on defined benefit pension obligations, net of tax	(900)	(j)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,400**	
Total comprehensive income attributable to:		
Owners of the parent	2,355	(n)
Non-controlling interests	45	(o)
	2,400	

Module 5 – Statement of Comprehensive Income and Income Statement

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) CU10,000 parent + CU5,000 subsidiary = CU15,000.

(b) CU4,000 parent + CU2,000 subsidiary = CU6,000.

(c) CU100 parent + CU1,000 advertising costs + CU500 impairment of sales office equipment + CU400 subsidiary = CU2,000.

(d) CU2,000 parent + CU1,000 subsidiary = CU3,000.

(e) CU500 parent + CU500 subsidiary = CU1,000.

(f) 40%(CU6,000 consolidated profit before tax) = CU2,400.

(g) CU300[(i)] post-tax gain on the sale of a discontinued operation less CU600[(h)] post-tax loss of a discontinued operation = CU300 line item 'loss for the year from a discontinued operation'.

(h) CU1,500 revenue less CU1,000 cost of sales less CU500 distribution costs less CU1,000 administration costs = CU1,000 loss of a discontinued operation. CU1,000 less (40% of CU1,000) tax = CU600 post-tax loss of a discontinued operation.

(i) CU500 gain on disposal of discontinued operation less (40% of CU500) tax = CU300 post-tax gain on disposal of a discontinued operation.

(j) CU700 parent + CU800 subsidiary = CU1,500 actuarial losses before tax. CU1,500 less (40% of CU1,500) tax = CU900 post-tax actuarial losses.

(k) CU2,640[(m)] parent's profit for the year + 75% (CU660[(m)] subsidiary's profit for the year) = CU3,135.

(l) 25%(CU660[(m)] subsidiary's profit for the year) = CU165.

(m)

	Parent	*Subsidiary*	*Total*
	CU	*CU*	*CU*
Revenue	10,000	5,000	15,000
Increase in fair value of investment property	3,000		3,000
Cost of sales	(4,000)	(2,000)	(6,000)
Distribution costs	(1,600)	(400)	(2,000)
Administrative expenses	(2,000)	(1,000)	(3,000)
Finance costs	(500)	(500)	(1,000)
Profit before tax	**4,900**	**1,100**	**6,000**
Tax expense (40% of profit before tax)	(1,960)	(440)	(2,400)
Profit from continuing operations	**2,940**	**660**	**3,600**
Loss for the year from a discontinued operation	(300)		(300)
PROFIT FOR THE YEAR	**2,640**	**660**	**3,300**

(n) CU2,220[(p)] parent's total comprehensive income for the year + 75%(CU180[(p)] subsidiary's total comprehensive income for the year) = CU2,355.

(o) 25%(CU180[(p)] subsidiary's total comprehensive income for the year) = CU45.

(p)

	Parent	*Subsidiary*	*Total*
	CU	*CU*	*CU*
Profit for the year (see[(m)] above)	**2,640**	**660**	**3,300**
Other comprehensive income—actuarial losses on defined benefit plans	(700)	(800)	(1,500)
Income tax effect of actuarial losses (40%)	280	320	600
Total other comprehensive income for the year, net of tax	**(420)**	**(480)**	**(900)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,220**	**180**	**2,400**

Module 5 – Statement of Comprehensive Income and Income Statement

Case study 2

SME B Group (parent and its wholly-owned subsidiary) presents the statement of comprehensive income following the single-statement approach. SME B Group presented its consolidated statement of comprehensive income in its financial statements for the year ended 31 December 20X4 as follows.

SME B Group – consolidated statement of comprehensive income for the year ended 31 December 20X4

(in thousands of currency units)

	20X4	*20X3*
Revenue	56,231	57,896
Cost of sales	(25,976)	(17,346)
Other income	987	145
Distribution costs	(2,156)	(2,278)
Administrative expenses	(15,436)	(15,987)
Other expenses	(960)	(1,010)
Finance costs	(689)	(702)
Profit before tax	**12,001**	**20,718**
Income tax expense	(2,700)	(5,180)
PROFIT FOR THE YEAR	**9,301**	**15,538**
Other comprehensive income:		
Exchange differences on translating foreign operations, net of tax	340	(180)
Changes in the fair value of hedging instruments, net of tax	(80)	(91)
Transferred to profit or loss	(33)	37
Other comprehensive income for the year, net of tax	227	(234)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**9,528**	**15,304**

In 20X5, following a comprehensive assessment of the group's presentation policies, management decided to classify expenses by nature. Management expects that the analysis by function will provide information that is more relevant and more reliable—because the allocation of the costs to functions required arbitrary allocations.

Module 5 – Statement of Comprehensive Income and Income Statement

An analysis of the group's income and expenses for the 20X5 and 20X4 reporting period is set out below (in thousands of currency units):

		20X5	*20X4*
Revenue		55,457	56,231
Other income		534	987
Cost of sales:			
	Materials	(10,568)	(9,987)
	Change in inventory	(1,345)	(3,000)
	Wages, salaries and benefits	(8,890)	(8,234)
	Depreciation	(3,245)	(3,120)
	Transport	(1,010)	(990)
	Other	(640)	(645)
	TOTAL	**(25,698)**	**(25,976)**
Distribution costs:			
	Advertising	(1,310)	(1,156)
	Wages, salaries and benefits	(1,201)	(1,000)
	TOTAL	**(2,511)**	**(2,156)**
Administrative expenses:			
	Wages, salaries and benefits	(12,345)	(12,404)
	Depreciation	(2,220)	(2,388)
	Other	(1,008)	(644)
	TOTAL	**(15,573)**	**(15,436)**
Other expenses		(1,010)	(960)
Finance costs		(601)	(689)
Income tax expense		(2,686)	(2,700)
Other comprehensive income:			
	Exchange differences on translating foreign operations, net of tax	110	340
	Changes in the fair value of hedging instruments, net of tax	(65)	(80)
	Transferred to profit or loss	(7)	(33)

Prepare, in compliance with the *IFRS for SMEs*, SME B Group's consolidated statement of comprehensive income for the year ended 31 December 20X5.

Module 5 – Statement of Comprehensive Income and Income Statement

Answer to case study 2

SME B group presents the following statement of comprehensive income for the 20X5 classifying expenses by nature.

SME B Group – Statement of Comprehensive Income for the year ended 31 December 20X5
(in thousands of currency units)

	20X5		*20X4 Restated*
Revenue	55,457		56,231
Other income	534		987
Changes in inventories of finished goods and work in progress	(1,345)		(3,000)
Raw material and consumables used	(10,568)		(9,987)
Employee benefits expense	(22,436)	(a)	(21,638)
Depreciation and amortisation expense	(5,465)	(b)	(5,508)
Advertising	(1,310)		(1,156)
Other expenses	(3,668)	(c)	(3,239)
Finance costs	(601)	(d)	(689)
Profit before tax	**10,598**		**12,001**
Income tax expense	(2,686)		(2,700)
PROFIT FOR THE YEAR (attributable to owners of the parent)	**7,912**		**9,301**
Other comprehensive income:			
Exchange differences on translating foreign operations, net of tax	110		340
Changes in the fair value of hedging instruments, net of tax	(65)		(80)
Transferred to profit or loss	(7)		(33)
Other comprehensive income for the year, net of tax	**38**		**227**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (attributable to owners of the parent)	**7,950**		**9,528**

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) Employee benefits expense (20X5) = CU8,890 + CU1,201 + CU12,345 = CU22,436.
Employee benefits expense (20X4) = CU8,234 + CU1,000 + CU12,404 = CU21,638.

(b) Depreciation and amortisation expense (20X5) = CU3,245 + CU2,220 = CU5,465.
Depreciation and amortisation expense (20X4) = CU3,120 + CU2,388 = CU5,508.

(c) Other expenses (20X5) = CU1,010 + CU640 + CU1,008 + CU1,010 = CU3,668
Other expenses (20X4) = CU990 + CU645 + CU644 + CU960 = CU3,239

(d) Finance costs (20X5) = CU601
Finance costs (20X4) = CU689