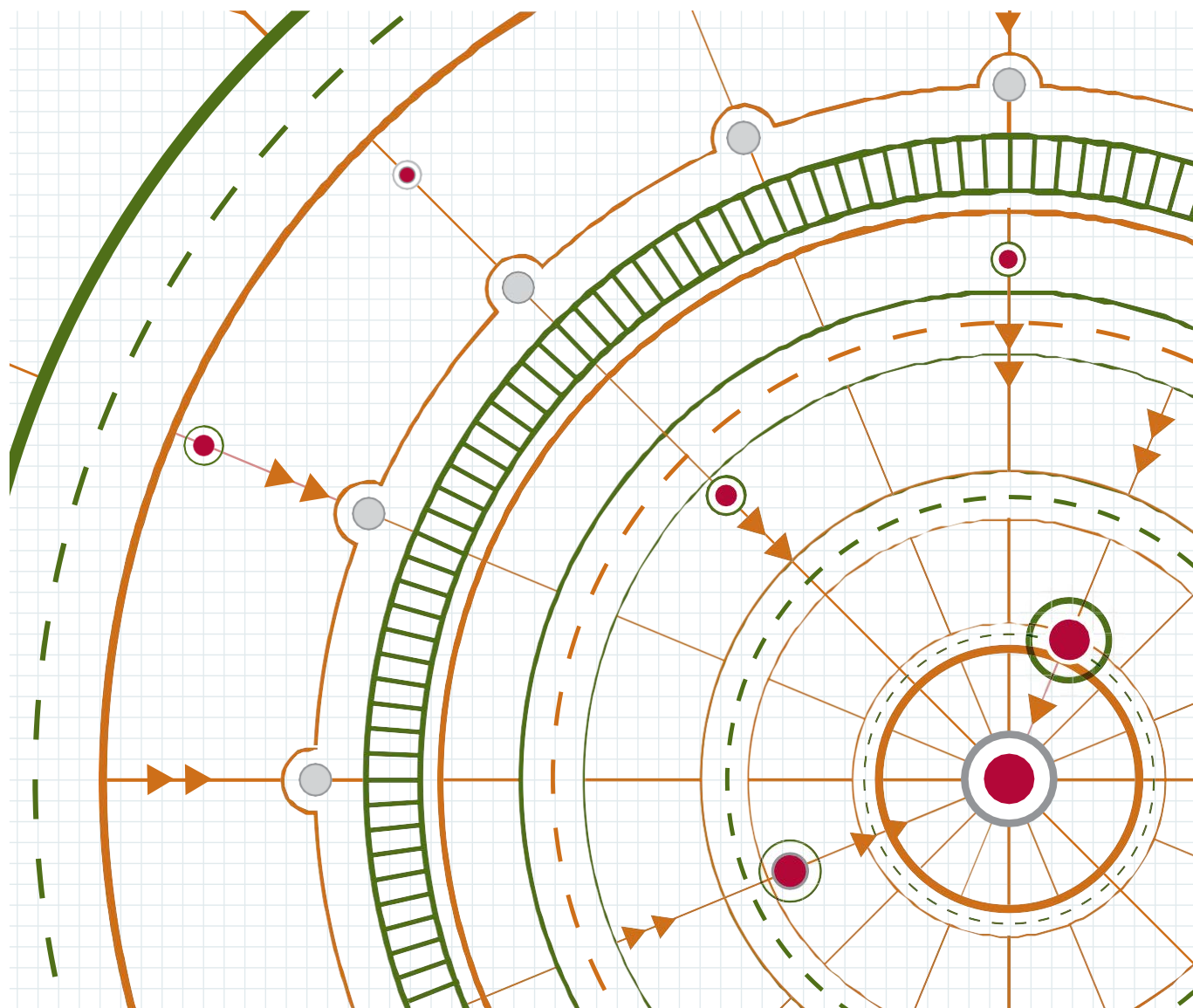


# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings



# **IFRS<sup>®</sup> Foundation**

## **Supporting Material**

### **for the *IFRS for SMEs<sup>®</sup> Standard***

including the full text of  
Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*  
of the *IFRS for SMEs Standard*  
issued by the International Accounting Standards Board in October 2015

*with extensive explanations, self-assessment questions and case studies*

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# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015. This module has been prepared by IFRS Foundation education staff. The contents of Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 6. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

## INTRODUCTION

### Which version of the *IFRS for SMEs* Standard

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

### This module

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 focuses on the requirements for presenting changes in an entity's equity for a period applying Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in presenting a statement of changes in equity and the statement of income and retained earnings. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provide a practical opportunity to apply the requirements to present those statements applying the *IFRS for SMEs* Standard.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard:

- 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 separately 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; and
- 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*.

## **IFRS for SMEs Standard**

The *IFRS for SMEs* Standard 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* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

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

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

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs*

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Standard and other interested parties. At the time of issue of this module (July 2018) the SMEIG has not issued any Q&As relevant to this module.

## 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. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

Section 3 prescribes general requirements for presenting financial statements.

Section 6 specifies the requirements for presenting the statement of changes in equity and the statement of income and retained earnings. It specifies the information to be presented in these statements.

## What has changed since the 2009 *IFRS for SMEs* Standard

The changes to Section 6 are based on amendments to full IFRS Standards set out in *Improvements to IFRSs*, issued in May 2010. The changes clarify the information to be presented in the statement of changes in equity—see paragraphs 6.2 and 6.3.

Other minor editorial amendments have been included but not highlighted.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## REQUIREMENTS AND EXAMPLES

### 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** or, if specified conditions are met and an entity chooses, in a **statement of income and retained earnings**.

### 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 of terms). Section 22 *Liabilities and Equity* establishes principles for classifying 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**, **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, **owners** in their capacity as owners during the period.

#### Information to be presented in the statement of changes in equity

- 6.3 The statement of changes in equity includes the following information:
- (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*; and
  - (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) other comprehensive income; and
    - (iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as 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**.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Notes

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

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

- a reconciliation between the carrying amount at the beginning and end of the period;
- 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, and changes in, equity attributable to the owners of the parent and the non-controlling interests.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Example—statement of changes in equity

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

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

|                                                                                           | <i>Attributable to owners of the parent</i> |                          |                                                                 |                                          |                                                   |                                  |
|-------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------|-----------------------------------------------------------------|------------------------------------------|---------------------------------------------------|----------------------------------|
|                                                                                           | <i>Share capital</i>                        | <i>Retained earnings</i> | <i>Hedges of foreign currency risk in forecast transactions</i> | <i>Translation of foreign operations</i> | <i>Total attributable to owners of the parent</i> | <i>Non-controlling interests</i> |
| <b>Total equity</b>                                                                       |                                             |                          |                                                                 |                                          |                                                   |                                  |
| <b>Balance at 1 Jan 20X6</b>                                                              | <b>500,000</b>                              | <b>236,000</b>           | <b>(4,000)</b>                                                  | <b>22,000</b>                            | <b>754,000</b>                                    | <b>83,778</b>                    |
| Correction of a prior period error                                                        | —                                           | 5,000                    | —                                                               | —                                        | 5,000                                             | 500                              |
| Changes in accounting policy                                                              | —                                           | 5,500                    | —                                                               | —                                        | 5,500                                             | 667                              |
| <b>Restated balance at 1 Jan 20X6</b>                                                     | <b>500,000</b>                              | <b>246,500</b>           | <b>(4,000)</b>                                                  | <b>22,000</b>                            | <b>764,500</b>                                    | <b>84,945</b>                    |
| Profit or loss                                                                            | —                                           | 60,000                   | —                                                               | —                                        | 60,000                                            | 6,000                            |
| Other comprehensive income:                                                               |                                             |                          |                                                                 |                                          |                                                   |                                  |
| Translation of foreign operations, net of tax*                                            | —                                           | —                        | —                                                               | 6,400                                    | 6,400                                             | 2,110                            |
| Actuarial losses—defined benefit plans, net of tax*^                                      | —                                           | (2,400)                  | —                                                               | —                                        | (2,400)                                           | (999)                            |
| Changes in the fair value of the hedging instrument, net of tax and of reclassifications* | —                                           | —                        | 1,500                                                           | —                                        | 1,500                                             | —                                |
| Other comprehensive income                                                                | —                                           | (2,400)                  | 1,500                                                           | 6,400                                    | 5,500                                             | 1,111                            |
| <b>Total Comprehensive income</b>                                                         | <b>—</b>                                    | <b>57,600</b>            | <b>1,500</b>                                                    | <b>6,400</b>                             | <b>65,500</b>                                     | <b>7,111</b>                     |
| Transactions with owners:                                                                 |                                             |                          |                                                                 |                                          |                                                   |                                  |
| Dividends                                                                                 | —                                           | (8,000)                  | —                                                               | —                                        | (8,000)                                           | (889)                            |
| <b>Restated balance at 31 Dec 20X6</b>                                                    | <b>500,000</b>                              | <b>296,100</b>           | <b>(2,500)</b>                                                  | <b>28,400</b>                            | <b>822,000</b>                                    | <b>91,167</b>                    |

...continued on next page

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

|                                                                                           | <i>Attributable to owners of the parent</i> |                          |                                                                 |                                          |                                                   | <i>Non-controlling interests</i> | <i>Total equity</i> |
|-------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------|-----------------------------------------------------------------|------------------------------------------|---------------------------------------------------|----------------------------------|---------------------|
|                                                                                           | <i>Share capital</i>                        | <i>Retained earnings</i> | <i>Hedges of foreign currency risk in forecast transactions</i> | <i>Translation of foreign operations</i> | <i>Total attributable to owners of the parent</i> |                                  |                     |
| <b>Restated balance at 31 Dec 20X6</b>                                                    | <b>500,000</b>                              | <b>296,100</b>           | <b>(2,500)</b>                                                  | <b>28,400</b>                            | <b>822,000</b>                                    | <b>91,167</b>                    | <b>913,167</b>      |
| Profit or loss                                                                            | –                                           | 98,300                   | –                                                               | –                                        | 98,300                                            | 10,000                           | 108,300             |
| Other comprehensive income:                                                               |                                             |                          |                                                                 |                                          |                                                   |                                  |                     |
| Translation of foreign operations, net of tax*                                            | –                                           | –                        | –                                                               | 3,200                                    | 3,200                                             | 1,333                            | 4,533               |
| Actuarial losses—defined benefit plans, net of tax**^                                     | –                                           | (400)                    | –                                                               | –                                        | (400)                                             | (100)                            | (500)               |
| Changes in the fair value of the hedging instrument, net of tax and of reclassifications* | –                                           | –                        | 300                                                             | –                                        | 300                                               | –                                | 300                 |
| Other comprehensive income                                                                | –                                           | (400)                    | 300                                                             | 3,200                                    | 3,100                                             | 1,233                            | 4,333               |
| Total Comprehensive Income                                                                | –                                           | 97,900                   | 300                                                             | 3,200                                    | 101,400                                           | 11,233                           | 112,633             |
| 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)             |
| <b>Balance at 31 Dec 20X7</b>                                                             | <b>600,000</b>                              | <b>379,000</b>           | <b>(2,200)</b>                                                  | <b>31,600</b>                            | <b>1,008,400</b>                                  | <b>96,067</b>                    | <b>1,104,467</b>    |

\* The requirement is to disclose 'other comprehensive income'—see paragraph 6.3(c)(ii). Consequently, these three items need not be presented on the face of the Statement of Changes in Equity.

^ In this example SME A has included the actuarial gains or losses in retained earnings. Entities may choose to include actuarial gains or losses recognised in other comprehensive income in retained earnings or in a separate component of equity.

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

### 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.

#### 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; and
  - (e) retained earnings at the end of the reporting period.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Examples—statement of income and retained earnings

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

SME B presents an analysis of its expenses by nature.

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

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

|                                                                |       | 20X8           | 20X7           |
|----------------------------------------------------------------|-------|----------------|----------------|
|                                                                | Notes |                | Restated       |
| <b>Revenue</b>                                                 | 10    | <b>745,000</b> | <b>693,000</b> |
| Other income                                                   | 11    | 45,000         | 36,520         |
| Changes in inventories of finished goods and work in progress  | 6     | 31,000         | 23,000         |
| Raw material and consumables used                              | 6     | (390,000)      | (342,000)      |
| Employee benefits expense (20X7: previously stated—CU180,000)  | 12    | (220,000)      | (197,000)      |
| Depreciation and amortisation expense                          | 5     | (45,000)       | (40,500)       |
| Other expenses                                                 | 12    | (9,000)        | (8,900)        |
| Finance costs                                                  | 13    | (18,000)       | (21,320)       |
| <b>Profit before tax (20X7: previously stated—CU159,800)</b>   |       | <b>139,000</b> | <b>142,800</b> |
| Income tax expense (20X7: previously stated—CU39,950)          | 14    | (42,000)       | (35,700)       |
| <b>PROFIT FOR THE YEAR (20X7: previously stated—CU119,850)</b> |       | <b>97,000</b>  | <b>107,100</b> |
| Retained earnings at the beginning of the year:                |       |                |                |
| as previously stated                                           | 16    |                | 280,000        |
| correction of a prior period error                             | 16    |                | (30,000)       |
|                                                                |       | 307,100        | 250,000        |
| Dividends declared and paid                                    | 15    | (60,000)       | (50,000)       |
| <b>Retained earnings at the end of the year</b>                | 16    | <b>344,100</b> | <b>307,100</b> |

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

**Ex 3** SME C, a parent with a partly-owned subsidiary, 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:

**SME C's consolidated statement of income and retained earnings for the year ended 31 December 20X8**  
(in thousands of currency units)

|                                                                  |              | 20X8           | 20X7           |
|------------------------------------------------------------------|--------------|----------------|----------------|
|                                                                  | <i>Notes</i> |                |                |
| <b>Revenue</b>                                                   | 10           | <b>745,000</b> | <b>693,000</b> |
| Other income                                                     | 11           | 45,000         | 36,520         |
| Changes in inventories of finished goods and work in progress    | 6            | 31,000         | 23,000         |
| Raw material and consumables used                                | 6            | (390,000)      | (342,000)      |
| Employee benefits expense                                        | 12           | (220,000)      | (197,000)      |
| Depreciation and amortisation expense                            |              | (45,000)       | (40,500)       |
| Other expenses                                                   | 12           | (9,000)        | (8,900)        |
| Finance costs                                                    | 13           | (18,000)       | (21,320)       |
| <b>Profit before tax</b>                                         |              | <b>139,000</b> | <b>142,800</b> |
| Income tax expense                                               | 14           | (42,000)       | (35,700)       |
| <b>PROFIT FOR THE YEAR</b>                                       |              | <b>97,000</b>  | <b>107,100</b> |
| Profit for the year attributable to the non-controlling interest | 16           | (5,000)        | (4,000)        |
| Profit for the year attributable to the owners of the parent     |              | 92,000         | 103,100        |
| Retained earnings at the beginning of the year                   | 16           | 307,100        | 254,000        |
| Dividends declared and paid                                      | 15           | (60,000)       | (50,000)       |
| <b>Retained earnings at the end of the year</b>                  | 16           | <b>339,100</b> | <b>307,100</b> |
| Non-controlling interest at the beginning of the year            | 16           | 15,000         | 12,000         |
| Profit for the year attributable to the non-controlling interest | 16           | 5,000          | 4,000          |
| Share of dividends declared and paid                             | 16           | (2,000)        | (1,000)        |
| <b>Non-controlling interest at the end of the year</b>           | 16           | <b>18,000</b>  | <b>15,000</b>  |

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying 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* Standard require disclosure of information about particular judgements and estimation uncertainties.

### Statement of changes in equity

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Difficulty is seldom encountered in presenting the statement of changes in equity in accordance with the *IFRS for SMEs* Standard. However, in some cases, significant judgement is required in applying other sections of the *IFRS for SMEs* Standard that might affect the statement of changes in equity. For example, significant judgement may be required 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

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Difficulty is seldom encountered in presenting the statement of income and retained earnings in accordance with the *IFRS for SMEs* Standard. 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 an entity's financial performance;
- 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, for example, the allocation of expenses that relate to more than one function of the entity; and
- to classify some expenses by nature, for example, to separate the components of some expenses that include items that are different in nature.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## COMPARISON WITH FULL IFRS STANDARDS

When presenting the statement of changes in equity for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 1 *Presentation of Financial Statements*) and the *IFRS for SMEs* Standard (see Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*) are:

- the *IFRS for SMEs* Standard contains less guidance;
- the *IFRS for SMEs* Standard allows an entity to present a single 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 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 IFRS Standards.
- regarding the statement of income and retained earnings, as explained in the ‘Comparison with full IFRS Standards’ in module 5:
  - o if an entity that applies full IFRS Standards classifies its expenses by function, it is also required to disclose information on the nature of expenses. The *IFRS for SMEs* Standard does not explicitly require these additional disclosures of expenses by nature.
  - o full IFRS Standards specify more detailed disclosures for discontinued operations and contain guidance on the meaning of ‘held for sale’.
  - o Full IFRS Standards contain more detailed guidance regarding the presentation of subtotals than is in the *IFRS for SMEs* Standard.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for presenting the statement of changes in equity and the statement of income and retained earnings applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

**Mark the box next to the most correct statement.**

### Question 1

Which of the following is not required to be presented on the face of the statement of changes in equity:

- ☐ (a) Total comprehensive income for the period, showing separately the amounts attributable to owners of the parent and to non-controlling interests.
- ☐ (b) the effects, on each component of equity, of retrospective application of new accounting policies and retrospective restatement to correct errors.
- ☐ (c) each item of other comprehensive income grouped into those that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met.
- ☐ (d) a reconciliation, for each component of equity, between the carrying amount at the beginning and end of the period, separately disclosing changes resulting from:
  - (i) profit or loss;
  - (ii) other comprehensive income; and
  - (iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately share issues, 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.

### Question 2

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

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

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

### Question 3

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

- ☐ (a) investments by owners (for example, an issues of shares).
- ☐ (b) distributions to owners (for example, dividends).
- ☐ (c) changes in ownership interests in subsidiaries that do not result in a loss of control.
- ☐ (d) all of (a)–(c).
- ☐ (e) none of (a)–(c).

### Question 4

An entity:

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

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

### 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, which is corrected by retrospective restatement.
- ☐ (b) The voluntary change of an accounting policy, with the new accounting policy being applied retrospectively.
- ☐ (c) A change from presenting the analysis of expenses by function to presenting them by nature.
- ☐ (d) None of (a)–(c).

### 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 each item of other comprehensive income.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Question 9

In the statement of changes in equity the effects of the correction of a prior period error are required to be 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.

## Question 10

The reporting entity (parent), owned 75% of a subsidiary from the subsidiary's inception. An independent third party owns the other 25%. In the current reporting period when the subsidiary's equity was CU100,000 (share capital of CU1,000 and retained earnings of CU99,000) the parent acquired the remaining 25% of the shares in its subsidiary at their fair value of CU60,000.

How would the group present the parent's acquisition of 25% 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 the non-controlling interest.
- ☐ (b) The entity would show a separate line item in which CU60,000 would be shown as a reduction in the non-controlling interest.
- ☐ (c) The entity would show a separate line item in which CU25,000 would be shown as a reduction in the 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* Standard 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% 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% 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 the non-controlling interest.
- ☐ (b) The entity would show a separate line item in which CU60,000 would be shown as an increase in the non-controlling interest.
- ☐ (c) The entity would show a separate line item in which CU25,000 would be shown as an increase in the 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* Standard is required to answer question 10. The requirements of Sections 9 and 19 are set out in modules 9 and 19.

## Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

### Answers

- Q1 (c) see paragraphs 6.3 (and 5.5(g)).
- Q2 (a) see paragraph 6.3(b).
- Q3 (d) see paragraph 6.3(c)(iii).
- Q4 (c) see paragraphs 6.4 and 3.18.
- Q5 (d) see paragraphs 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).

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting the statement of changes in equity and statement of income and retained earnings applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

### Case study 1

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In 20X4, after SME D's 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 a CU230,000 overstatement of retained earnings at 1 January 20X3. The error related to the calculation of depreciation of motor vehicles used by SME D's sales staff.

The equity of SME D before correcting the prior period error is summarised as follows:

|                                                                            | 20X3<br>CU       | 20X4<br>CU        |
|----------------------------------------------------------------------------|------------------|-------------------|
| Total equity at the beginning of the year:                                 |                  |                   |
| - share capital                                                            | 2,500,000        | 2,500,000         |
| - share premium                                                            | 1,900,000        | 1,900,000         |
| - revaluation surplus                                                      | 730,000          | 897,000           |
| - retained earnings                                                        | 2,150,000        | 2,455,100         |
| Profit for the year                                                        | 532,000          | 698,300           |
| Actuarial gains/(losses) on defined benefit pension obligation, net of tax | (6,900)          | (2,000)           |
| Increase/(decrease) in revaluation surplus, net of tax                     | 167,000          | (46,200)          |
| Issue of shares                                                            | —                | 6,000,000         |
| Dividends declared and paid                                                | (220,000)        | (320,000)         |
| Total equity at the end of the year                                        | <u>7,752,100</u> | <u>14,082,200</u> |

In 20X4, SME D issued 1,000,000 ordinary shares with a par value of CU1 each for CU6 each. The revaluation increases and decreases arise on land and buildings held within property, plant and equipment.

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

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Answer to case study 1

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

|                                                                                           | Share capital    | Share premium    | Revaluation surplus | Retained earnings              | Total equity                    |
|-------------------------------------------------------------------------------------------|------------------|------------------|---------------------|--------------------------------|---------------------------------|
| <b>Balance at 1 Jan 20X3</b>                                                              | <b>2,500,000</b> | <b>1,900,000</b> | <b>730,000</b>      | <b>2,150,000</b>               | <b>7,280,000</b>                |
| Correction of prior period error                                                          | —                | —                | —                   | (230,000)                      | (230,000)                       |
| Restated balance at 1 Jan 20X3                                                            | 2,500,000        | 1,900,000        | 730,000             | 1,920,000                      | 7,050,000                       |
| <b>Changes in equity for 20X3:</b>                                                        |                  |                  |                     |                                |                                 |
| Profit for the year                                                                       | —                | —                | —                   | 532,000                        | 532,000                         |
| Other comprehensive income for the year:                                                  |                  |                  |                     |                                |                                 |
| Actuarial losses on defined benefit plans for the year, net of tax <sup>^</sup>           | —                | —                | —                   | (6,900)                        | (6,900)                         |
| Increase in revaluation surplus on property, plant and equipment, net of tax <sup>*</sup> | —                | —                | 167,000             | —                              | 167,000                         |
| Other comprehensive income                                                                | —                | —                | 167,000             | (6,900)                        | 160,100                         |
| Total comprehensive income for the year                                                   | —                | —                | 167,000             | 525,100                        | 692,100                         |
| Dividends                                                                                 | —                | —                | —                   | (220,000)                      | (220,000)                       |
| <b>Balance at 31 Dec 20X3</b>                                                             | <b>2,500,000</b> | <b>1,900,000</b> | <b>897,000</b>      | <b>2,225,100<sup>(a)</sup></b> | <b>7,522,100<sup>(b)</sup></b>  |
| <b>Changes in equity for 20X4:</b>                                                        |                  |                  |                     |                                |                                 |
| Profit for the year                                                                       | —                | —                | —                   | 698,300                        | 698,300                         |
| Other comprehensive income for the year:                                                  |                  |                  |                     |                                |                                 |
| Actuarial losses on defined benefit plans for the year, net of tax <sup>^</sup>           | —                | —                | —                   | (2,000)                        | (2,000)                         |
| Decrease in revaluation surplus on property, plant and equipment, net of tax <sup>*</sup> | —                | —                | (46,200)            | —                              | (46,200)                        |
| Other comprehensive income                                                                | —                | —                | (46,200)            | (2,000)                        | (48,200)                        |
| Total comprehensive income                                                                | —                | —                | (46,200)            | 696,300                        | 650,100                         |
| Issue of Shares                                                                           | 1,000,000        | 5,000,000        | —                   | —                              | 6,000,000                       |
| Dividends                                                                                 | —                | —                | —                   | (320,000)                      | (320,000)                       |
| <b>Balance at 31 Dec 20X4</b>                                                             | <b>3,500,000</b> | <b>6,900,000</b> | <b>850,800</b>      | <b>2,601,400</b>               | <b>13,852,200<sup>(c)</sup></b> |

\* The requirement is to disclose 'other comprehensive income'—see paragraph 6.3(c)(ii). Consequently, these two items need not be presented on the face of the Statement of Changes in Equity.

<sup>^</sup> In this example SME D has included the actuarial gains or losses in retained earnings. Entities may choose to include actuarial gains or losses recognised in other comprehensive income in retained earnings or in a separate component of equity.

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

- (a) The retained earnings at 31 December 20X3 of CU2,225,100 comprise the CU2,455,100 originally reported less the CU230,000 prior period error.
- (b) The total equity at 31 December 20X3 of CU7,522,100 comprises the CU7,752,100 originally reported less the CU230,000 prior period error.
- (c) The total equity at 31 December 20X4 of CU13,852,200 comprises the CU14,082,200 set out in the question (before adjustment for the error) less the CU230,000 prior period error.

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Case study 2

Since the formation of SME F many years ago, it has been a 75% owned subsidiary of SME E.

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

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

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

|                                                                            | 20X3      |          | 20X4       |          |
|----------------------------------------------------------------------------|-----------|----------|------------|----------|
|                                                                            | SME E     | SME F    | SME E      | SME F    |
|                                                                            | 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   | 2,348,100  | 82,000   |
| - translation of foreign operation*                                        | —         | —        | 67,000     | —        |
| 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  |

\* At the start of 20X3, SME E opened a branch in an overseas jurisdiction. The exchange gains and losses on translation of the foreign operation in SME E's financial statements relate to this branch.

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

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

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Answer to case study 2

### SME E's consolidated statement of changes in equity for the year ended 31 December 20X4

(in currency units)

|                                                                                              | Share capital    | Share premium    | Retained earnings               | Translation of foreign operation | Attributable to owners of the parent | Non-controlling interest     | Total equity      |
|----------------------------------------------------------------------------------------------|------------------|------------------|---------------------------------|----------------------------------|--------------------------------------|------------------------------|-------------------|
| <b>Balance at 1 Jan 20X3</b>                                                                 | <b>2,500,000</b> | <b>1,900,000</b> | <b>2,130,000</b> <sup>(a)</sup> | –                                | <b>6,530,000</b>                     | <b>22,500</b> <sup>(b)</sup> | <b>6,552,500</b>  |
| Correction of prior period error                                                             | –                | –                | (30,000) <sup>(c)</sup>         | –                                | (30,000)                             | (10,000) <sup>(d)</sup>      | (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         |
| <b>Changes in equity for 20X3:</b>                                                           |                  |                  |                                 |                                  |                                      |                              |                   |
| Profit for the year                                                                          | –                | –                | 505,250 <sup>(e)</sup>          | –                                | 505,250                              | 8,000 <sup>(f)</sup>         | 513,250           |
| Other comprehensive income for the year:                                                     |                  |                  |                                 |                                  |                                      |                              |                   |
| Actuarial losses on defined benefit plans for the year, net of tax* <sup>^</sup>             | –                | –                | (5,650) <sup>(g)</sup>          | –                                | (5,650)                              | (1,250) <sup>(h)</sup>       | (6,900)           |
| Gain on translation of foreign operation, net of tax *                                       | –                | –                | –                               | 67,000                           | 67,000                               | –                            | 67,000            |
|                                                                                              | –                | –                | (5,650)                         | 67,000                           | 61,350                               | (1,250)                      | 60,100            |
| Total comprehensive income for the year                                                      | –                | –                | 499,600                         | 67,000                           | 566,600                              | 6,750                        | 573,350           |
| Dividends                                                                                    | –                | –                | (220,000) <sup>(i)</sup>        |                                  | (220,000)                            | (6,250) <sup>(j)</sup>       | (226,250)         |
| <b>Balance at 31 Dec 20X3</b>                                                                | <b>2,500,000</b> | <b>1,900,000</b> | <b>2,379,600</b>                | <b>67,000</b>                    | <b>6,846,600</b>                     | <b>13,000</b>                | <b>6,859,600</b>  |
| <b>Changes in equity for 20X4:</b>                                                           |                  |                  |                                 |                                  |                                      |                              |                   |
| Profit for the year                                                                          | –                | –                | 665,050 <sup>(k)</sup>          | –                                | 665,050                              | 10,000 <sup>(l)</sup>        | 675,050           |
| Other comprehensive income for the year:                                                     |                  |                  |                                 |                                  |                                      |                              |                   |
| Actuarial gains and (losses) on defined benefit plans for the year, net of tax* <sup>^</sup> | –                | –                | (2,250) <sup>(m)</sup>          | –                                | (2,250)                              | 250 <sup>(n)</sup>           | (2,000)           |
| Loss on translation of foreign operation, net of tax *                                       | –                | –                | –                               | (46,200)                         | (46,200)                             | –                            | (46,200)          |
|                                                                                              | –                | –                | (2,250)                         | (46,200)                         | (48,450)                             | 250                          | (48,200)          |
| Total comprehensive income for the year                                                      | –                | –                | 662,800                         | (46,200)                         | 616,600                              | 10,250                       | 626,850           |
| Issue of shares                                                                              | 1,000,000        | 5,000,000        | –                               | –                                | 6,000,000                            | –                            | 6,000,000         |
| Dividends                                                                                    | –                | –                | (320,000) <sup>(o)</sup>        | –                                | (320,000)                            | (7,750) <sup>(p)</sup>       | (327,750)         |
| Sale of shares in subsidiary                                                                 | –                | –                | 25,700 <sup>(q)</sup>           | –                                | 25,700                               | 9,300 <sup>(r)</sup>         | 35,000            |
| <b>Balance at 31 Dec 20X4</b>                                                                | <b>3,500,000</b> | <b>6,900,000</b> | <b>2,748,100</b>                | <b>20,800</b>                    | <b>13,168,900</b>                    | <b>24,800</b>                | <b>13,193,700</b> |

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

\* The requirement is to disclose 'other comprehensive income'—see paragraph 6.3(c)(ii). Consequently, these two items in 20X3 (and two items in 20X4) need not be presented on the face of the Statement of Changes in Equity.

^ In this example SME E has included the actuarial gains or losses in retained earnings. Entities may choose to include actuarial gains or losses recognised in other comprehensive income in retained earnings or in a separate component of equity.

The calculations below do not form part of the consolidated statement of changes in equity presented by SME E:

- (a) Share capital: CU2,500,000 SME E + CU10,000 SME F less CU7,500 SME E's investment in SME F less CU2,500 (CU10,000 × 25%) presented as non-controlling interest  
(On consolidation SME F's share capital is eliminated against SME E's investment in SME F and the non-controlling interest's initial investment in SME F (which is recognised as equity).)  
Share premium: CU1,900,000 SME E  
Retained earnings: CU2,070,000 SME E + CU80,000 SME F less CU20,000 (CU80,000 × 25%) presented as non-controlling interest = CU2,130,000.
- (b) CU10,000 SME F + CU80,000 SME F = CU90,000 equity of SME F. 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 E less CU18,750 (75% × CU25,000) dividend income (eliminate intragroup transaction dividend received from SME F) + CU24,000 (75% × CU32,000) SME F = CU505,250.
- (f) 25% × CU32,000 SME F = CU8,000.
- (g) CU1,900 SME E + 75% × CU5,000 SME F = CU5,650.
- (h) 25% × CU5,000 SME F = CU1,250.
- (i) CU220,000 SME E + CU25,000 SME F less 75% × CU25,000 intragroup dividend less 25% × CU25,000 dividend paid to non-controlling interest = CU220,000.
- (j) 25% × CU25,000 SME F = CU6,250.
- (k) CU658,300 SME E less 75% × 31,000 dividend income (eliminate intragroup transaction dividend received from SME F) + 75% × CU40,000 SME F = CU665,050.
- (l) 25% × CU40,000 SME F = CU10,000.
- (m) CU3,000 loss SME E less 75% × CU1,000 gain SME F = CU2,250 net loss.
- (n) 25% × CU1,000 gain SME F = CU250 gain.
- (o) CU320,000 SME E + CU31,000 SME F less 75% × CU31,000 intragroup dividend less 25% × CU31,000 dividend paid to non-controlling interest (eliminate dividend declared by SME F to be received by SME E and the non-controlling interest) = CU320,000.
- (p) 25% × CU31,000 SME F = CU7,750.
- (q) CU35,000 proceeds on sale of shares in SME F less CU9,300<sup>(i)</sup> increase in the carrying amount of the non-controlling interest = CU25,700.
- (r) 15% × CU62,000<sup>(s)</sup> carrying amount of the net assets of SME F immediately before sale of shares to non-controlling interest = CU9,300. Alternatively: CU15,500 non-controlling interest before acquisition of shares from SME E × 15% ÷ 25% = CU9,300.
- (s) CU102,000 net assets of SME F 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

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SME G is preparing its financial statements for the year ended 31 December 20X3.

The information about its 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                 | 4,552   | 4,189   |
| Other income            | 95      | 98      |
| Cost of sales           | (2,121) | (1,952) |
| Distribution costs      | (674)   | (627)   |
| Administration expenses | (989)   | (954)   |
| Finance costs           | (83)    | (77)    |
| Income tax              | (195)   | (169)   |

In 20X3 SME G declared and paid CU120,000 dividends (20X2: CU110,000).

In the comparative figures in its financial statements for the year ended 31 December 20X2, SME G reported retained earnings of CU1,104,000 at 1 January 20X2.

In 20X3, after the 20X2 financial statements were approved for issue, SME G discovered an error in its 31 December 20X1 financial statements. The effect of the error was a CU450,000 overstatement of profit for the year ended 31 December 20X1.

SME G presents a statement of income and retained earnings instead of a statement of comprehensive income and a statement of changes in equity.

**Prepare, in compliance with the *IFRS for SMEs* Standard, SME G's 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 G's statement of income and retained earnings for the year ended 31 December 20X3**  
(in thousands of currency units)

|                                                                       | 20X3                | 20X2<br><i>Restated</i> |
|-----------------------------------------------------------------------|---------------------|-------------------------|
| Revenue                                                               | 4,552               | 4,189                   |
| Cost of sales                                                         | <u>(2,121)</u>      | <u>(1,952)</u>          |
| Gross profit                                                          | 2,431               | 2,237                   |
| Other income                                                          | 95                  | 98                      |
| Distribution costs                                                    | (674)               | (627)                   |
| Administration expenses                                               | (989)               | (954)                   |
| Finance costs                                                         | <u>(83)</u>         | <u>(77)</u>             |
| <b>Profit before tax</b>                                              | 780                 | 677                     |
| Income tax expense                                                    | <u>(195)</u>        | <u>(169)</u>            |
| <b>Profit for the year</b>                                            | 585                 | 508                     |
| Retained earnings at the beginning of the year:                       |                     |                         |
| Retained earnings at the beginning of the year (as previously stated) |                     | 1,104                   |
| Correction of prior period error                                      |                     | (450)                   |
|                                                                       | 1,052               | 654                     |
| Dividends declared and paid                                           | <u>(120)</u>        | <u>(110)</u>            |
| <b>Retained earnings at the end of the year</b>                       | <u><u>1,517</u></u> | <u><u>1,052</u></u>     |

# Module 6—Statement of Changes in Equity and Statement of Income and Retained Earnings

## Case study 4

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SME H, which is the parent of one wholly-owned subsidiary, SME I, 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)   |
| Inventory capitalised in ppe                                  | 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 H declared and paid CU150,000 dividends (20X2: CU120,000).

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

In 20X3, after the 20X2 financial statements were approved for issue, SME I 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 H 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* Standard, SME H'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 4

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

|                                                                       | 20X3         | 20X2<br><i>Restated</i> |
|-----------------------------------------------------------------------|--------------|-------------------------|
| Revenue                                                               | 5,690        | 5,236                   |
| Other income                                                          | 119          | 123                     |
| Changes in inventories of finished goods and work in progress         | (635)        | (136)                   |
| Inventory capitalised in property, plant and equipment                | 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                                                         | <u>(101)</u> | <u>(98)</u>             |
| <b>Profit before tax</b>                                              | 975          | 846                     |
| Income tax expense                                                    | <u>(244)</u> | <u>(212)</u>            |
| <b>Profit for the year</b>                                            | 731          | 634                     |
| Retained earnings at the beginning of the year:                       |              |                         |
| Retained earnings at the beginning of the year (as previously stated) |              | 1,112                   |
| Correction of prior period error                                      |              | (650)                   |
|                                                                       | 976          | 462                     |
| Dividends declared and paid                                           | <u>(150)</u> | <u>(120)</u>            |
| <b>Retained earnings at the end of the year</b>                       | <u>1,557</u> | <u>976</u>              |