Chapter 1

Introducing IFRS

In This Chapter

- Seeing how standards are set, and amended
- Rolling out IFRS globally
- Presenting IFRS financial statements

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Many organisations use International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in preparing their *general purpose financial statements* – the year-/period-end statements prepared for *users*: shareholders and external stakeholders like employees, tax authorities, banks and financiers. The IFRS and IAS tell accountants and other preparers of financial statements how to account for transactions and events, and what to disclose, within the accounts.

Over recent years, the IFRS have become more and more prevalent throughout the world, but a frequently asked question is why? Well, many countries like the idea of being able to produce financial information comparable to that of other companies that report under IFRS – for example, comparing against other companies in the same industry but in a different country. Think from a potential investor's point of view: if you're planning to pump money into a company, you need to see clear and comparable financial information. And because IFRS is now gathering pace all around the world, you can compare financial information far more easily now than, say, 20 years ago.

In this chapter, I move beyond telling you what standards are to helping you understand what they do. To start, I explain how the standards are created and amended, and then I take a look at the scope of IFRS worldwide. Finally, I introduce you to the important financial statements that you must present to conform with IFRS: the statement of financial position, statement of comprehensive income and the statement of changes in equity. By the end of this chapter, you've a good grounding in IFRS.

Creating and Amending the Standards

The standards don't create themselves – someone has to produce them – and this unenviable job belongs to the International Accounting Standards Board (IASB). The Board began work in 2001 and took over from the International Accounting Standards Committee (IASC), which was originally set up in 1973. The IASB doesn't have the authority to impose its standards on any country – this decision is left to the various countries themselves. A major breakthrough came in 2002 when the European Union (EU) adopted legislation that requires listed companies in Europe to apply IFRS in their consolidated financial statements and this applied to more than 7,000 companies in 28 countries.

When the IASB sets the accounting standards, it has a clear objective in mind: that companies reporting under IFRS and IAS produce general purpose financial statements that are of a high quality, clear and transparent nature and allow the financial statements to be comparable. The objective is that the user (the shareholder or the external stakeholder) can make rational decisions about the company based on the information contained in the financial statements. The IASB also promotes the IFRS and IAS globally with the aim that eventually all countries report under the standards. The Board works with other national standard-setters (for example, the US Financial Accounting Standards Board) to converge national accounting standards to IFRS.

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The following sections take you through the IASB's *Conceptual Framework*, and how it sets and amends standards.

Understanding the Framework

When the IASB develops or changes an accounting standard, it does so with reference to their *Conceptual Framework for Financial Reporting.* The *Conceptual Framework* considers the theoretical and conceptual issues that surround financial reporting and its objective is to form a coherent and consistent basis upon which accounting standards are developed.

The differences between IFRS and IAS

A common question I hear is, 'Why are there IFRS *and* IAS?' When the IASB had its first meeting, it took on all the IASC's standards (which were all IAS). The IASB amended quite a lot of the standards, but also issued new standards, known as IFRS. The abbreviation IFRS has become a generic term to refer to all the standards (for example, when you hear people say 'the company reports under IFRS' what they mean is that they adopt all the IFRS and IAS in preparing their financial statements). Throughout this book, I refer to IFRS and IAS for consistency and simplicity.

Knowing who does what at the IASB

The structure of international financial reporting isn't exactly straightforward. You don't just find one senior person at the head of the IASB directing a load of accounting standard writers/editors underneath. Instead, you find a fairly complicated structure consisting of:

- Advisory Committee (appointed by the IASC Foundation, advises on activities of the IASB)
- Director of operations and non-technical staff (report to the IASC Foundation)
- Director of technical activities and technical staff (report to the IASB and IFRIC)
- International Accounting Standards Committee Foundation (22 trustees)
- International Financial Reporting Interpretations Committee (IFRIC, appointed by the IASC Foundation)
- National standard-setters and other interested parties (link to the Standards Advisory Council and the Advisory Committee)
- Standards Advisory Council (advises on activities of the IASB)
- The IASB itself (16 Board members appointed by the IASC Foundation)

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The *Conceptual Framework* is a vital tool used by the IASB in setting and updating standards. Its purpose is to:

- Assist in the development of future IFRS as well as assist the IASB when it reviews existing standards by setting out the underlying concepts
- Promote harmonisation of accounting regulation and standards by reducing the number of permitted alternative accounting treatments
- Assist other standard-setters in setting their own national standards
- Assist auditors to form an opinion as to whether (or not) financial statements have been prepared in accordance with IFRS
- Assist users in interpreting financial information contained in a set of IFRS financial statements
- Allow those interested in the work of the standard-setting process at the IASB to have an insight as to the IASB's approach to standard-setting

The *Conceptual Framework* itself is *not* an accounting standard. If conflicts exist between an IFRS or IAS and the *Conceptual Framework*, the standard always prevails.

The *Conceptual Framework* deals with various aspects of a set of IFRS financial statements as well as setting out the overall objective of why general purpose financial statements are prepared. In a nutshell, the objective of financial reporting is to help users to make informed decisions about a company – in particular whether (or not) to invest in it.

The evolution of the *Conceptual Framework*

Back in July 1989, the IASC Board published *The Framework for the Preparation and Presentation of Financial Statements*. In 2001, the IASB took over from the IASC and adopted the Framework. Over the years, financial reporting has become more and more complicated. The way financial statements were prepared and presented back in the late 1980s has changed considerably because the needs of users have changed considerably. So, in September 2010, the IASB decided to revise the Framework to take into account the revised objectives of general purpose financial reporting and the qualitative characteristics of useful information.

Setting out qualitative characteristics

The *Conceptual Framework* sets out certain characteristics of useful financial information. These characteristics are split into two bits:

- **Fundamental qualitative characteristics:** Financial information is:
  - **Relevant:** The information is capable of making a difference in the decisions made by users.
  - **Faithful in its presentation:** The information is complete, neutral and free from error.
- **Enhancing qualitative characteristics:** Financial information is enhanced when it is comparable, verifiable, timely and understandable.

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The *Conceptual Framework* also includes materiality as a sub-section of relevance. An item is *material* if the financial information's omission or misstatement may cause the user of the financial statements to arrive at the wrong conclusion. For example, if you forget to make an accrual for a late invoice amounting to $20, the chances are that this omission is immaterial and the user will still make the same conclusions he would have done had the $20 accrual been made. However, in contrast, if you missed a $20,000 accrual then this mistake may lead the user to the wrong conclusion about the company.

Where materiality is concerned, be especially careful. Sometimes (particularly in auditing), you can calculate materiality using a variety of methods. Something that may be immaterial in numerical terms may become material in nature; for example, if it turned a profit into a loss.

Laying out the elements of the financial statements

A key feature of the *Conceptual Framework* document is that it outlines the elements of the financial statements:

- **Assets:** Basically, things that belong to the organisation. The full definition of assets is quite complex; turn to Chapter 4 for details.
- **Capital maintenance adjustments:** Occur when a company revalues a building or another *non-current asset*, which is an asset not easily turned into cash and not expected to be turned into cash within a year (see Chapter 4 for more on revaluations). They're essentially gains and losses and you don't take them directly to the income statement but to the equity section of the statement of financial position as 'capital maintenance adjustments' or 'revaluation reserves'.
- **Equity:** The bit left over in the assets of a company when you deduct all its liabilities (flick to Chapter 9 for more on equity).
- **Expenses:** Cost of sales, payroll costs, bank charges, depreciation and the like. Expenses can also include things like exceptional items, such as if a building burns down, and you usually show these expenses as a separate line item in the income statement so the user is aware of them.
- **Income:** Relates to funds received from the selling of goods or rendering of services (*revenue*, which I cover in Chapter 8). Income also relates to *gains*: things that don't usually occur in the ordinary course of business, such as when a company sells a non-current asset (for example one of its buildings) at a profit; the profit on disposal is the gain.
- **Liabilities:** Basically, what a company owes to another person or another company. Chapters 6 and 7 explore liabilities in detail.
- **Performance:** Relates to income and expenses and the measure of income and expenses through the resulting profit (or loss as the case may be), the calculation of gross profit margins (gross profit/revenue), net profit margins (net profit/revenue) and trade receivables days (trade receivables/revenue x 365, or 366 if a leap year). (*Trade receivables* are customers who still owe you money.)

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Going through the IFRS-setting steps

Here's what happens when a new accounting standard is about to hit the streets. The IASB follows these six steps to setting an IFRS:

1. **Set the agenda.**
2. **Plan the project.**
3. **Develop and then publish the discussion paper.**
4. **Develop and then publish the Exposure Draft.**
5. **Develop and then publish the standard.**
6. **Meet with interested parties and other standard-setters after the standard is issued, to weed out any unanticipated issues.**

When the IASB issues an *Exposure Draft* (which sets out a specific proposal in the form of a standard), anyone can comment on the proposals. The comment period for international Exposure Drafts is generally 120 days, though (in exceptional circumstances) this comment period may be reduced to 60 days or less if the matter is urgent. The IASB publishes all comment letters received on its website (`www.ifrs.org`) as well as detailing how it has responded to comments in the 'Basis for conclusions' section, which is attached to the published standards.

Changing the standards

After a standard has been issued, that's not necessarily the end of the story. The IASB often needs to amend standards for a variety of reasons, and it makes necessary but not urgent changes through the *Annual Improvements Project* (IFRIC deals with the more pressing issues; see the next section).

The IASB looks at feedback from the IFRS Interpretations Committee, which interprets any ambiguities in the IFRS/IAS, and feedback from staff at the IASB and accountancy practitioners. The IASB focuses on areas of inconsistency within the standards themselves, or looks at the wording of the standards to see whether it needs to be clarified in any way to make the standard more transparent and easier to apply.

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During the third quarter of every year, the IASB publishes an Exposure Draft of all the proposals for public comment (the comment period is open for 90 days). When the comment period closes, the IASB goes through all the comments it has received and then aims to issue the amended standards in their final form in the following second quarter (usually with an 'effective from' date of 1 January of the next year).

Generally, the IASB makes two types of amendments to IFRS/IAS:

- To *clarify* a standard, usually because of ambiguous wording within the standard or because gaps appear in it. The effectiveness of a new standard is only apparent when the standard is put into practice.
- To *correct* a minor (and unintended) consequence, conflict resolution and deal with any oversights. The correction doesn't introduce, or change, the existing principles.

Understanding IFRIC

IFRIC is an abbreviation for the IFRS Interpretations Committee. It was previously known as the Standing Interpretations Committee (SIC), which is why on the IASB website (`www.ifrs.org`) you see reference to IFRIC and SIC interpretations (described as IFRIC-1, IFRIC-2 and SIC-1, SIC-2 and so on).

Sometimes when an IFRS is put into practice, issues emerge. It may also be the case that an IFRS is worded in such a way that clarification is needed. The IASB can't deal with all these emerging issues when they suddenly arise; so IFRIC must give the emerging issues attention before the standard can be amended, or even issued. IFRIC deals with conflicting or unsatisfactory interpretations of the standards when they emerge, and issues its interpretations of the standards.

IFRIC doesn't issue standalone standards, but IFRICs *are* authoritative as per IAS 1 at paragraph 7.

The *IFRIC Handbook* outlines the seven-stage process for how it applies the requirements of transparency and consistency:

1. **Identify the issues.**
2. **Set an agenda.**
3. **Hold the IFRIC meeting and vote.**
4. **Draft an interpretation.**
5. **The IASB releases the draft interpretation.**
6. **Comment period and deliberation.**
7. **The IASB releases the interpretation.**

When the IFRIC Committee issues draft interpretations for comment, the comment period isn't less than 60 days, and anyone can comment.

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Spreading IFRS Worldwide

IFRS is fast becoming one of the most used financial reporting frameworks around the world. Many countries adopt IFRS because they want consistency in financial reporting and believe that adopting IFRS gives access to more sources of capital because investors, creditors, financial analysts and other users of the financial statements welcome standards that require high-quality, transparent and comparable information. Without common standards, it's inherently difficult to compare financial information prepared by companies located in different parts of the world, particularly in an increasing global economy.

The following sections outline which countries are on board with IFRS, and which are on their way.

Countries that have taken the plunge and adopted IFRS

More than 120 countries around the globe are reported to be allowing, or mandating, the use of IFRS. The following must report under IFRS:

- All domestic listed companies in the European Union and European Economic Area member states
- All listed companies, including domestic companies, in Estonia, Brazil, Bangladesh, the Czech Republic and Canada (private sector companies in Canada are permitted to use IFRS, including those in the not-for-profit sector)
- Banks in Russia, Ukraine, Kazakhstan and the United Arab Emirates

IFRS is gathering momentum at a rapid pace and the number of countries that permit, or mandate, organisations to use IFRS as a financial reporting framework is constantly changing. The list highlights just exactly how quickly IFRS is gathering momentum throughout the world.

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Countries that are planning to take the plunge

Some countries do not permit IFRS (at present), including Pakistan, Saudi Arabia and Malaysia. But many other countries are aware of the existence of IFRS and are considering adopting it, purely because of the consistency it offers.

What usually happens is that countries 'converge' their standards to IFRS so that no fundamental gaps exist between domestic standards and IFRS (a bit like the UK has done). A convergence project is currently ongoing with Indonesia and convergence over to IFRS is expected in 2012. China has undertaken a convergence project to substantially converge all its domestic standards to IFRS, so China will probably take the plunge eventually.

Mexico is going to require all listed companies to report under IFRS in 2012, whereas Japan has introduced a roadmap for adoption of IFRS and is to decide on this roadmap in 2012, with adoption likely to occur in 2015 or 2016.

The country that seems to hold the key to the vast majority of countries converging to IFRS is the US. The US Securities and Exchange Commission (US SEC) is a prominent member of the International Organisation of Securities Commissions (IOSCO). The members of IOSCO are securities commissions

and other stock exchange regulators. The global harmonisation of financial reporting standards has been high on their agenda for quite a long time. However, the US has been reluctant to adopt IFRS because of the major gaps between IFRS and US Generally Accepted Accounting Practice (GAAP), some of which still exist, as shown in Table 1-1.

Table 1-1 Conflicts between IFRS and US GAAP

IFRS	*US GAAP*
Prohibits the last-in, first-out method of inventory valuation	Permits the last-in, first-out method of inventory valuation
Uses a single-step method for write-offs in respect of impairment losses	Uses a two-step method (so impairments are more likely for US companies if they adopt IFRS in its current form)
Permits a breach of a loan covenant to be recognised as non-current provided the lender gives their agreement and a covenant breach is unlikely to occur again within 12 months from the end of the reporting period	Requires current presentation in such cases

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The IASB and the US standard-setters (the Financial Accounting Standards Board (FASB)) are working to come to an agreement so that eventually the US may adopt IFRS, but for now it's just a case of sitting back and seeing what happens.

Dealing With the Numbers: The IFRS Financial Statements

The following sections explain the different types of performance and position statements that a company reporting under IFRS has to present in their *general purpose* financial statements (not to be confused with internal financial statements, such as internal management accounts, which may be produced monthly). The complete set of IFRS financial statements is as follows:

- A statement of financial position as at the end of the accounting period
- A statement of comprehensive income
- A statement of changes in equity

- A statement of cash flows (see Chapter 2 for more on the statement of cash flows)
- Notes to the financial statements that summarise the company's significant accounting policies, break down the information contained within the primary financial statements and show other disclosures required under the IFRS/IAS

At the heart of these statements is the numbers, which convey a lot of information to the user, some of which isn't always immediately apparent (for example, the gross profit margin of a company and whether the gross margins have fluctuated from one year to the next). You may prepare management accounts for internal use that follow a company-specific style (a house style). However, you have to prepare IFRS financial statements in a specified way to comply with the principles in IFRS.

IAS 1 *Presentation of Financial Statements* deals with the presentation of financial statements. It requires a minimum amount of information, but in general the standard is fairly permissive and offers great flexibility in terms of the order and layout.

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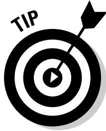
Translating terminology

Back in September 2007, the IASB issued a revised IAS 1, which changed the names of the primary financial statements as accountants have always known them.

The following table outlines the differences between the old and new terminology.

Traditional Terminology	*IFRS Calls It*
Balance sheet	Statement of financial position
Cash flow statement	Statement of cash flows
Debtors/creditors	Receivables/payables
Fixed assets	Non-current assets
Minority interest	Non-controlling interest
Movement on reserves	Changes in equity
Profit and loss account	Statement of comprehensive income/ income statement
Profit and loss reserves	Retained earnings
Stock	Inventories
Turnover (or sales)	Revenue

Be careful with the layouts – many jurisdictions have legislation that governs the way you lay out financial statements. So although IAS 1 may be fairly relaxed, legislation may dictate how a company sets out its financial statements.



If your company is adopting IFRS for the first time, then, as well as reading the following sections, take a look at Chapter 3. This chapter is an important one if your company (or one of your clients) is adopting IFRS for the first time because you've a lot (and I mean a lot) of extra things to take into consideration.

Presenting the statement of financial position

The *statement of financial position* is a snapshot of the financial state of a company at any one point in time. Many companies produce monthly management accounts, in which case the statement of financial position is at the close of business on the last working day of the month. The statement of financial position at the year-end shows details of the company's assets, liabilities and equity at the close of play as at the year-end or period-end.

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IAS 1 says that, as a minimum, the statement of financial position should include the line items that present the following amounts:

- Property, plant and equipment
- Investment property
- Intangible assets
- Financial assets, excluding amounts shown under:
  - Trade and other receivables
  - Cash and cash equivalents
  - Investments accounted for using the equity method
- Investments accounted for using the equity method
- Biological assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*
- Trade and other payables
- Provisions

- Financial liabilities, excluding amounts shown under:
  - Trade and other payables
  - Provisions
- Liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*
- Deferred tax liabilities and deferred tax assets, as defined in IAS 12
- Liabilities included in disposal groups classified as held for sale in accordance with IFRS 5
- Non-controlling interests, presented within equity
- Issued capital and reserves attributable to the owners of the parent

IAS 1 says that the statement of financial position must contain the items in the list ‘as a minimum’. So, for example, if a company has investment property, it needs to report it. It’s worth pointing out that not every company that reports under IFRS has every one of those items, but if it does it must report them under the relevant line.

Figure 1-1 shows how a typical statement of financial position looks.

When you first started out as a novice in the world of accountancy, you probably discovered the accounting equation:

Assets = Liabilities + Owners’ equity

However, if you look at the format of the statement of financial position, you see that it starts with assets, then equity and finally liabilities, so under IAS 1 the equation becomes:

Assets = Owners’ equity + Liabilities

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At the end of the day, the presentation of the equation may be slightly different, but the objective under IAS 1 is still the same as in any other GAAP – the statement of financial position shows the state of the company’s financial position as at a point in time; in other words, a snapshot of the financial position.

Understanding the statement of comprehensive income

The *statement of comprehensive income* shows the trading/financial performance of the company during the accounting period. For example, a company’s year-end may be 31 December 2011. This means that the accounting period starts on 1 January 2011. The statement of comprehensive income, therefore, shows the trading/financial performance of a company from the start of the year (1 January) to the end of the year (31 December).

Typical Co Limited		
Statement of Financial Position as at 31 December 2011	31/12/11 $	31/12/10 $
ASSETS		
Non-current assets		
Property, plant and equipment	X	X
Goodwill	X	X
Other intangible assets	X	X
Investments in associates	X	X
Available-for-sale investments	X	X
	X	X
Current assets		
Inventories	X	X
Trade receivables	X	X
Other receivables	X	X
Cash and cash equivalents	X	X
	X	X
Total assets	Y	Y
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	X	X
Other reserves	X	X
Retained earnings	X	X
	X	X
Non-controlling interest	X	X
Total equity	X	X
Non-current liabilities		
Long-term loans	X	X
Deferred tax	X	X
Provisions	X	X
Total non-current liabilities	X	X
Current liabilities		
Trade and other payables	X	X
Short-term borrowings	X	X
Current tax payable	X	X
Provisions	X	X
Total current liabilities	X	X
Total liabilities	X	X
Total equity and liabilities	Y	Y

Figure 1-1: A statement of financial position.

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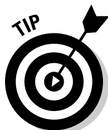
Under the revised IAS 1, you can split the statement of comprehensive income into two separate statements, showing:

- The income statement itself
- A second statement starting with profit (or loss) for the year from continuing operations (or loss for the year from discontinuing operations as the case may be) and then disclosing the separate components of other comprehensive income

So, what exactly is *other comprehensive income*? Well, essentially this income is any gains or losses that you take directly to the equity section of the statement of financial position (for example, a gain on revaluation of property, plant and equipment, which I cover in Chapter 4). You can also put in other comprehensive things like actuarial gains (or losses) when a company has a defined benefit pension plan (I explain actuarial gains and losses in Chapter 7). The upshot of other comprehensive income is that anything that goes here is a re-measurement as a result of movements in a price or valuation.

The objective of the statement of comprehensive income is to show the *inflows* (resources coming into the company) from the company's assets from sales of goods or services during the period. It also shows the *outflows* (resources going out of the company) of those assets that occur due to expenses, which is how you arrive at profit (or loss, as the case may be).

Figure 1-2 shows how a typical statement of comprehensive income prepared under IAS 1 looks.



You don't have to have the statement of comprehensive income running all in one statement if you prefer not to. The standard allows you to present the normal income statement in the traditional way and then show the bottom bit (the other comprehensive income bit) in a separate statement.

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Unravelling the statement of changes in equity

In addition to the statement of comprehensive income, the statement of financial position and the statement of cash flows (see Chapter 2 for more on the statement of cash flows), a company also has to produce a statement of changes in equity. The statement of changes in equity shows the capital that has been invested in the business from the shareholders as well as the profit earned by the business from its ordinary course of business and the amount of profit it has retained.

Typical Co

Statement of Comprehensive Income for the year ened

31 December 2011

	31/12/11 $	31/12/10 $
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Profit before tax	X	X
Income tax expense	(X)	(X)
Profit for the year from continuing operations	X	X
Loss for the year from discontinued operations	(X)	(X)
Profit for the year	X	X
Other comprehensive income:		
Exchange differences on translation of foreign operations	X	X
Available-for-sale financial assets	X	X
Cash flow hedges	X	X
Gains on property revaluation	X	X
Actuarial gains (losses) on defined benefit pension plans	X	X
Share of other comprehensive income of associates	X	X
Income tax relating to components of other comprehensive income	(X)	(X)
Other comprehensive income for the year net of tax	X	X
Total comprehensive income for the year	X	X

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Figure 1-2: A statement of comprehensive income.

When a company has worked out its *post*-tax profit, this profit is then 'distributable' to the shareholders in the form of a dividend. I say 'distributable' because in real life many companies won't distribute the entire amount of post-tax profit to its shareholders, but instead pay a certain amount in dividends and then retain some of this profit. The bit that's retained is called the *retained profit* and is put into *retained earnings* and you see it in the equity section of the statement of financial position. It consists of accumulated retained profits from when the company first started in business, and provided the company has sufficient funds available in this account, a company that makes a loss in one year may still be able to pay a dividend because of sufficient retained earnings.

For companies that are stand-alone companies and have a simple structure (usually referred to as *owner-managed businesses* or *OMBs*), the statement

of changes in equity is a fairly straightforward statement to make. However, the statement itself gets complicated and more detailed when the company is large, quoted on a recognised stock market and has hundreds of shareholders.

The statement of changes in equity isn't just about the changes that have arisen directly through profits and dividends. If you look at the other comprehensive income section of the statement of comprehensive income (see 'Understanding the statement of comprehensive income', earlier in this chapter), you see that other matters affect the statement of changes in equity, such as gains that arise when a company revalues some of its property, plant and equipment or when a defined benefit pension plan has an actuarial gain or loss. You don't report these items directly through the income statement as profits or losses; you report them in the statement of changes in equity.

Figure 1-3 shows how the statement of changes in equity may look.

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	Share capital	Retained earnings	Revaluation reserve	Total
Balance at 1 January 2011	X	X	X	X
Dividends		(X)		(X)
Issue of shares	X			X
Total comprehensive income for the year		X	X	X
Gain on revaluation of building			X	X
Balance at 31 December 2011	Y	Y	Y	Y

Figure 1-3: A statement of changes in equity.

Figure 1-3 shows a simple illustration that is applicable to a small, standalone company (though larger companies may also have a statement of changes in equity as simple as this one).

When a company is an owner-managed business, the only things that may affect the statement of changes in equity are the resulting profit or loss that is transferred to retained earnings and any dividends that the directors may have taken in their capacity as shareholders. So, in this situation, the statement of changes in equity simply consists of:

Opening balance at the start of the year	X
Less dividends paid	(X)
Plus profit for the year	X
Closing balance at end of the year	X

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