Module 11
Financial Reporting
(Pass Note)

Contents:

Part E: Consolidated financial statements

Part F: Specialised reporting

Introduction to the M11 Exam

Exam nature

- **Section A (Syllabus Part E)**: Case Questions (LONG Group accounting and practical HKFRS application, roughly 50% and 50% split), 50 marks.
- **Section B (Other Parts from Syllabus)** (SHORTER and NARROWER HKFRS application): Essay / Short Questions, 50 marks, with all questions compulsory.
- **Total number of questions** = 6-7 Qs, ie 3-4 in Section A, 3-4 in Section B.
- **Time management:** Module 11 is a 3-hour paper, 1.8 minutes per mark, ie about 90 minutes/section.
- **HKICPA Timetable:** Professional Module 11 running 9:30 am – 12:30 pm.

Syllabus

- **Complex business transactions: 30–45%**

  CH5 HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors；CH6 HKFRS 15 Revenue from Contracts with Customers；CH7 Inventories and Agriculture；CH8 HKAS 16 Property, Plant and Equipment；CH9 HKAS 38 Intangible Assets；CH10 HKAS 40 Investment Property；CH12 HKAS 36 Impairment of Assets；CH13 HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations；CH17 HKFRS 16 Leases；CH18 HKAS 37 Provisions, Contingent Liabilities and Contingent Assets；CH24 HKAS 10 Events after the Reporting Period

- **Group financial statements: 25–35%**

  CH28 Principles of Consolidation；CH29 Business Combinations and Goodwill；CH30 Subsidiaries and Consolidated Financial Statements；CH31 Associates and Joint Arrangements；CH32 Changes in Group Structure；CH33 Foreign Currency Transactions and Foreign Operations；CH34 Consolidated Statements of Cash Flows

- **Ordinary business transactions: 10–25%**

  CH11 HKAS 23 Borrowing Costs；CH14 HKAS 20 Government Grants；CH15 Financial Instruments；CH16 Hedge Accounting；CH19 HKAS 12 Income Taxes；CH20 HKAS 19 Employee Benefits；CH21 HKFRS 2 Share-based Payment；CH22 HKFRS 13 Fair Value Measurement；CH23 HKAS 24 Related Party Disclosures；CH25 HKAS 33 Earnings per Share；CH26 HKFRS 8 Operating Segments；CH27 HKAS 34 Interim Financial Reporting；CH33 Foreign Currency Transactions and Foreign Operations

- **Financial reporting framework: 5–10%**

  CH1 Regulatory Framework for Financial Reporting；CH2 Conceptual Framework for Financial Reporting (HK)；CH4 Presentation of Financial Statements；CH35 Small Company Reporting

- **Ethics: 5–10%** (Chapter 3 Ethics and Financial Reporting)

- **Current issues / developments: 2–5%** (<u>Chapter 36, 37 of this note</u>)

Exam techniques

Discussion question (Issue, standard, test, Case, Conclusion, Treatment)

- **Issue**: Is the arrangement a lease?
- **Standard**: HKFRS 16.
- **Test**: identified asset + right to control use + economic benefits + directing use.
- **Case**: map each fact to each test.
- **Conclusion**: lease / no lease.
- **Treatment**: recognise ROU asset and lease liability, or service expense.

Quoting HKFRS / HKAS (Key words are required)

Students do not need long paragraph quotations. They need the key words of the relevant requirement. Panelists have said candidates are not expected to recite everything from the standards, but they must know which standard applies and set out arguments with factual and technical support.

Examples:

- HKFRS 10: power, exposure to variable returns, ability to use power to affect returns.
- HKFRS 15: distinct, separately identifiable, highly interdependent, probable collection.
- HKFRS 9: business model, SPPI, cash flows on specified dates, basic lending arrangement.
- HKFRS 13: highest and best use from market participant perspective.
- HKAS 36: CGU, carrying amount including goodwill, recoverable amount, partial goodwill gross-up.

Calculation questions

Marking style for calculations:

- correct formula;
- correct data extraction;
- correct adjustments;
- clear workings;
- final figure.

Avoid long theory where the requirement asks only for calculation.

Format

REPORT	Memorandum / Memo	Explain/advice/evaluate:
Introduction Headings Conclusion	To: [Recipient] From: [Candidate role] Subject: [Accounting treatment of …] Introduction Headings Conclusion	**Explain/advice/evaluate:** Headings and conclusion **Calculate / compute** (show workings, tabular format is allowed) **Prepare journal entries**: Dr/Cr **Prepare statement / extract**: Show FS

Chapter 1 Regulatory Framework for Financial Reporting

Chapter summary

1. Regulatory Bodies

2. Financial Reporting Requirements

- Mandatory financial reporting requirements
- Advisory Financial Reporting Guidance
- When No Standard Applies (Hierarchy)

3. Directors' Roles and Responsibilities

- Fiduciary Duties (Underpinning the Principles)
- Directors' Responsibilities for Financial Statements

4. Powers and Obligations of Directors

5. Statutory Reporting Requirements

- Statutory Registers
- Required Financial Statements
- Key Sections of the Companies Ordinance (Cap. 622)

6. Reporting Requirements for Listed Companies

- Main Board Companies
- Growth Enterprise Market Companies
- Acceptance of Mainland Accounting and Auditing Standards

7. Fair Presentation and Compliance with Hong Kong Financial Reporting Standards

- True and Fair Override (Very Rare)

8. Break-Up Basis Accounting

- Going concern assessment
- Required disclosures

9. How Hong Kong Financial Reporting Standards Are Set (Due Process)

1. Regulatory Bodies

HKICPA sets the accounting standards, while other regulators use those standards to supervise specific markets or industries.

Regulatory bodies	What they do
Hong Kong Institute of Certified Public Accountants (HKICPA)	HKICPA is the central standard-setter. It creates Hong Kong Financial Reporting Standards (HKFRS), Interpretations, Accounting Guidelines, and Accounting Bulletins. All other bodies in Hong Kong rely on these standards for financial reporting.
Stock Exchange of Hong Kong (SEHK) / Hong Kong Exchanges and Clearing Limited (HKEX) + **Securities and Futures Commission (SFC)**	**SEHK** regulates listed companies and enforces Listing Rules. **HKEX** is the parent company of SEHK that operates the exchange. The **SFC** oversees the entire securities market (including stock market activities), ensuring market integrity and investor protection. The SFC approves changes to the Listing Rules that SEHK enforces.
Accounting and Financial Reporting Council (AFRC)	AFRC inspects auditors of public interest entities (listed companies), ensuring they meet required standards. It has investigatory and disciplinary powers, working alongside SEHK and SFC but operating independently in this role.
Hong Kong Insurance Authority (HKIA)	The HKIA applies insurance-specific prudential rules (such as solvency margins and risk-based capital) on top of HKFRS. It operates independently for the insurance sector, ensuring the financial stability of insurance companies.
Hong Kong Monetary Authority (HKMA)	The HKMA applies banking-specific prudential rules like Basel III (capital and liquidity requirements) in addition to HKFRS. It supervises licensed banks, restricted licence banks, and deposit-taking companies and works alongside the SFC and AFRC to regulate financial markets.

2. Financial Reporting Requirements

1. Mandatory financial reporting requirements

1. Companies Ordinance (Companies Ordinance/Cap. 622):

- Governs corporate practices in Hong Kong.
- Directors must ensure financial statements provide a true and fair view (Section 380) and comply with HKICPA standards (Section 380(4)).
- Directors must approve and sign financial statements (Section 387). Non-compliance can lead to civil and criminal penalties.

2. Hong Kong Financial Reporting Standards (HKFRS):

HKFRS is the official accounting framework aligned with IFRS. It covers recognition, measurement, presentation, and disclosure of financial transactions.

Includes: Hong Kong Accounting Standards (HKAS) /Hong Kong Financial Reporting Standards (HKFRS) numbered standards /Sustainability Disclosure Standards (S1 and S2)

Compliance with HKFRS ensures a true and fair view of the company's financial position.

3. Listing Rules & Growth Enterprise Market (GEM) Rules (for listed companies):

<u>Main Board:</u>

- Submit annual report within 3 months of year-end.
- Interim report within 2 months for the first 6 months.
- Must comply with HKAS 34 (Interim Financial Reporting).

<u>GEM:</u>

- Submit annual reports within 3 months.
- Half-yearly and quarterly reports within 45 days.
- Enhanced corporate governance and directors' remuneration disclosures.

2. Advisory Financial Reporting Guidance

While not legally mandatory, these guidelines are widely accepted:

1. Accounting Guidelines (AGs) by HKICPA:

Help with industry-specific financial issues not directly covered by HKFRS, ie Insurtech companies can use AGs to report unique insurance tech transactions.

2. Accounting Bulletins (ABs) by HKICPA:

Clarify and provide best practices on applying accounting principles, ie ABs help companies deal with new financial products or unusual situations.

3. International Pronouncements and Best Practices:

HKFRS aligns with IFRS but companies often refer to international standards (e.g., US, UK, Canada) for global consistency, ie Companies involved in cross-border mergers can follow IASB guidelines for consistent global reporting.

When No Standard Applies (Hierarchy)

If no standard specifically applies, management must use judgment to develop an accounting policy that produces information that is relevant and reliable.

The hierarchy to follow (in descending order):

1. Requirements and guidance in Hong Kong Financial Reporting Standards dealing with similar and related issues.
2. Definitions, recognition criteria, and measurement concepts in the Conceptual Framework.
3. Most recent pronouncements of other standard-setting bodies, other accounting literature, and accepted industry practices (only if not conflicting with the above).

3. Directors’ Roles and Responsibilities

Under the Companies Ordinance (Cap. 622), a director is anyone holding the position of director, regardless of the title they use. This also includes de facto directors, meaning senior managers who act as directors even if they are not officially named as such.

Every **private** company must have at least one natural person as a director.

A **public** company cannot have another company serving as a director. Only human individuals can take on this responsibility.

1. Fiduciary Duties (Underpinning the Principles)

- Must act honestly, in good faith, and in the best interests of the company. When financial distress arises, creditors’ interests take precedence over shareholders’.
- Must not misuse powers for personal benefit or prioritise one group of shareholders over another.
- Must not personally profit from company transactions without shareholder approval; unauthorised gains may be held in trust for the company.
- Must avoid conflicts of interest, including using company resources, inside information, or business opportunities for personal advantage.

Breach of fiduciary duties can result in personal liability, lawsuits, and director disqualification.

2. Directors’ Responsibilities for Financial Statements

Directors are legally responsible for ensuring financial statements are accurate, transparent, and compliant.

- Ensure financial statements provide a ‘true and fair view’ of the company’s financial position and performance.
- Comply with the Hong Kong Financial Reporting Standards, Companies Ordinance (Cap. 622), and Listing Rules (for listed companies).
- Maintain accurate accounting records and ensure proper internal financial controls.
- Approve annual financial statements before submission to auditors and shareholders.
- Prevent misstatements, fraud, and non-compliance with tax and regulatory laws.

Directors can be subject to civil and criminal penalties if financial statements are misleading, fraudulent, or materially misstated.

4. Powers and Obligations of Directors

Powers

A director's authority comes from the company's rules (articles of association). Directors must work together as a board, unless certain powers are given to specific individuals or committees. Under Cap. 622H, the company can allow certain directors or executives to have more authority.

Liabilities for failure

1. Directors can be held civilly liable for any losses the company suffers due to their negligence or failure to carry out their duties properly. For example, if a director makes poor decisions that lead to financial losses for the company, they can be personally responsible for those losses.

2. Directors can face criminal charges if they commit fraud or break the law. For example, if a director intentionally misrepresents financial information, they can face criminal penalties.

3. Directors may be fined or penalized by regulatory bodies such as the Accounting and Financial Reporting Council (AFRC), the Securities and Futures Commission (SFC), or Hong Kong Exchanges and Clearing (HKEX). These bodies can impose fines or other penalties for failing to comply with financial regulations or reporting standards.

4. Directors can also be disqualified from acting as directors in the future if they fail to follow the law or their duties. This means they could be banned from holding a director position at any company.

Section 468 of the Companies Ordinance clearly states that companies cannot excuse their directors from responsibility for mistakes or breaches of duty. This means that even if the company's internal rules or agreements try to shield a director from personal liability, they remain personally liable for their actions.

5. Statutory Reporting Requirements

Statutory Registers

All Hong Kong-incorporated companies must maintain the following registers:

Register	Content
Register of Members	Names, addresses, and shareholdings of shareholders.
Register of Directors	Names and personal particulars of directors.
Register of Directors' Interests	Direct or indirect interests in company transactions, including loans to directors.
Register of Charges	Any secured loans or charges over the company's assets.
Minutes of General and Board Meetings	Minutes and resolutions passed by shareholders and directors.
Register of Substantial Shareholders (listed companies)	Interests of individuals or entities with significant holdings in shares.
Register of Significant Controllers	Required under Part 12A of the Companies Ordinance. A significant controller generally holds more than 25% of issued shares or voting rights, has the right to appoint or remove a majority of directors, or exercises significant influence or control over the company.

Required Financial Statements

Under the Hong Kong Financial Reporting Standards and the Companies Ordinance, companies must prepare:

- Statement of financial position
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to financial statements

These must be accompanied by:

Directors' Report	A narrative report by the board: principal activities, business review (performance, risks, outlook), directors' interests in shares and contracts, recommended dividends, and corporate governance disclosures for listed companies.
Auditor's Report	An independent report by the external auditor stating whether the financial statements give a true and fair view, whether proper books of account have been kept, whether directors' reports are consistent with the financial statements, and identifying any issues (qualified opinion, adverse opinion, or disclaimer of opinion).

Financial statements must be approved and signed by the board of directors before filing with the Companies Registry.

Key Sections of the Companies Ordinance (Cap. 622)

Section	Requirement
s.379	Directors must prepare financial statements for each financial year. Holding companies must prepare consolidated financial statements unless exempted.
s.380(1)	Financial statements must give a true and fair view of the company’s financial position and performance.
s.380(2)	Consolidated statements must give a true and fair view of the group as a whole.
s.380(3)	Must comply with Schedule 4 (Parts 1 and 2) depending on reporting exemption eligibility.
s.380(4)	Must comply with other statutory and Hong Kong Financial Reporting Standards requirements.
s.380(5)	Must include all additional information required to provide a true and fair view.
s.380(6)	If departing from the Ordinance, the reasons and effects must be clearly stated.
s.381	Consolidated statements must include all subsidiary undertakings, except exclusions based on materiality or statutory exemptions.
s.387	The statement of financial position must be signed by at least two directors on behalf of the board.
s.436(2)	Specified financial statements (audited statutory statements) must be accompanied by the auditor’s report.
s.436(3)	Non-statutory financial statements must include a disclaimer stating they are not statutory statements, whether statutory statements have been filed, and whether the auditor’s report was qualified or modified.
s.436(4)	Non-statutory accounts must not be accompanied by an auditor’s report relating to statutory financial statements for the same period.

The Companies Ordinance defines accounting standards as those issued by the Hong Kong Institute of Certified Public Accountants, but does not provide a statutory definition of ‘true and fair view’ — this is left to professional judgment and Hong Kong Financial Reporting Standards guidance.

6. Reporting Requirements for Listed Companies

Main Board Companies

- **Annual reports**: Must be sent to shareholders within 3 months after the year ends.
- **Before the AGM**: These reports must be sent at least 21 days before the Annual General Meeting (AGM).
- **Interim reports**: Must be published within 2 months after the first 6 months of the year.
- **Interim report details**: Includes the profit and loss statement, balance sheet, cash flow statement, and equity changes (excluding shareholder transactions).
- **Standards**: Must follow Hong Kong Accounting Standard 34 for interim financial reports.
- **Audit review**: The interim financial statements must be reviewed by the audit committee or external auditors if there's no audit committee.

Additional disclosures beyond the Hong Kong Financial Reporting Standards and the Companies Ordinance:

- Companies need to provide extra details such as loan repayment schedules, analysis of director pay, pension info, and payment policies.
- Must publish these reports on both their company website and the Hong Kong Exchanges website. If they don't have a company website, it's a violation of the Listing Rules.

Growth Enterprise Market Companies

- **Annual reports:** Must be sent within 3 months of the year-end.
- **Half-year and quarterly reports:** Must be sent within 45 days of the reporting period end.
- **Business progress:** Companies must compare actual progress with goals stated in the listing documents.
- **Director pay disclosure:** Remuneration must be disclosed anonymously.
- **Disclosure of interests:** Must disclose interests held by the company's sponsor and management.
- **Audit committee work:** Must explain the audit committee's work and how many meetings they had.
- **Public announcements:** Information is shared through the HKEX Growth Enterprise Market website; paid press releases aren't usually required.

Acceptance of Mainland Accounting and Auditing Standards

Mainland Chinese companies listed in Hong Kong can use China Accounting Standards and hire Mainland audit firms approved by China's Ministry of Finance and China Securities Regulatory Commission. This helps reduce costs for companies listed in both places since Hong Kong and Mainland auditing standards are both acceptable.

7. Fair Presentation and Compliance with Hong Kong Financial Reporting Standards

Compliance with the Hong Kong Financial Reporting Standards is presumed to achieve a fair presentation. The following principles should be followed:

Principle	Detail
Accrual basis	Income and expenses are recognised when incurred, not when cash is received or paid.
Going concern	Financial statements assume the entity will continue operating unless management intends to liquidate or has no realistic alternative.
Explicit compliance statement	Compliance with the Hong Kong Financial Reporting Standards must be explicitly stated in the financial statements.
Full compliance	All applicable standards must be followed. Selective compliance is not permitted.
Substance over disclosure	Inappropriate accounting treatments cannot be corrected by disclosure of accounting policies or explanatory notes.

True and Fair Override (Very Rare)

If compliance with a specific standard would be misleading and conflicts with the Conceptual Framework's objectives, departure is required. The entity must disclose:

- A management statement confirming the financial statements fairly present the entity's position, performance, and cash flows.
- Confirmation of compliance with all other standards, except for the specific departure.
- The nature of the departure, why compliance would be misleading, and the alternative treatment applied.
- The financial impact of the departure on reported results.

Example:

Tsim Sha Tsui Properties Limited – Annual Report 2025.

This is a Hong Kong-incorporated company listed on HKEX. In its 2025 consolidated financial statements, the company stated that the accounts were prepared under HKFRS Accounting Standards and the Hong Kong Companies Ordinance, except for section 381.

Section 381 would require the company to include all "subsidiary undertakings" in the consolidated financial statements. The company explained that this conflicted with HKFRS 10 Consolidated Financial Statements where those undertakings were not controlled by the group. Therefore, under section 380(6), it departed from section 381 and did not treat those entities as subsidiaries. Instead, they were accounted for under the group's accounting policies, with the excluded undertakings disclosed separately.

The auditor still gave an unmodified opinion that the consolidated financial statements gave a true and fair view and were prepared in accordance with HKFRS Accounting Standards and the Hong Kong Companies Ordinance.

8. Break-Up Basis Accounting

When an entity is not a going concern (management intends to liquidate or has no realistic alternative), financial statements must be prepared on the break-up basis instead of the going concern basis.

Going concern assessment

Management must consider all available information for at least 12 months from the reporting date, including current and expected profitability, debt repayment schedules, and availability of financing sources.

Category	Break-Up Basis Treatment
Non-current assets	Test for impairment and write down to recoverable amount (higher of net realisable value or value in use).
Inventories	Measure at the lower of cost and net realisable value, with additional write-downs likely due to forced liquidation.
Receivables	Adjust to reflect expected cash recoveries; increase allowances for doubtful debts.
Monetary assets	Recognised at face value.
Liabilities	Only obligations existing at the reporting date are recognised; future winding-up costs are recognised only when incurred. Non-current liabilities may need to be reclassified as current (especially if loan covenants are breached).

Required disclosures

Fact that the going concern assumption is not used, the basis of preparation applied, and the reasons why the entity is not a going concern. If material uncertainties exist, these must also be disclosed.

9. How Hong Kong Financial Reporting Standards Are Set (Due Process)

The Financial Reporting Standards Committee of the Hong Kong Institute of Certified Public Accountants develops the Hong Kong Financial Reporting Standards. The standard-setting process typically follows these steps:

1. The Committee reviews draft standards or interpretations issued by the International Accounting Standards Board to decide whether they should be adopted in Hong Kong.
2. It also studies standards and guidance issued by the International Accounting Standards Board and other standard-setting bodies.
3. The Committee discusses with the Standard Setting Steering Board whether the topic should be added to its work agenda.
4. An advisory group may be formed to give expert advice on the project.
5. A discussion paper may be published for public comment. The deadline is usually earlier than the International Accounting Standards Board's deadline, so Hong Kong comments can be considered in time.
6. An Exposure Draft or draft Interpretation is then published for public comment.
7. The Exposure Draft explains the reasons behind the proposed standard.
8. The Committee reviews all comments received and, where appropriate, sends a comment letter to the International Accounting Standards Board.
9. Once the International Accounting Standards Board finalises the standard, the Committee reviews any changes and adopts the final version in Hong Kong, usually with the same effective date.
10. The final standard or Interpretation is approved by the Council.
11. The final published standard includes an explanation of how the Committee reached its conclusions.

Q1.1 Rider Games Inc

Rider Games Inc. (RGI) acquired a patented gaming technology with a ten-year legal protection period and a licence to use specialised game development software for five years on 1 October 20X4. The company paid $6.9 million in total, with $4.5 million allocated to the patented technology and $2.4 million to the software licence.

For tax purposes, the patent cost is non-deductible, while the software licence cost is fully deductible in the year of acquisition. The company's director has approached the financial controller with the following question:

If the company can claim a full tax deduction for the software licence, why don't we classify the entire $6.9 million as the cost of the software licence in our financial statements? Additionally, since software is intangible, we could generate more agreements and invoices internally to record additional software acquisitions, allowing for higher deductions.

Required:
In your position as financial controller of RGI, explain to the director his duties and responsibilities in connection with the subject matter and the preparation of the financial statements. **(Total = 8 marks)**

Chapter 2 Conceptual Framework for Financial Reporting (HK)

Accounting Practise Center

Chapter summary

1. Qualitative Characteristics of Useful Financial Information

- Fundamental Qualitative Characteristics
- Enhancing Qualitative Characteristics
- Cost Constraint

2. Financial Statements and the Reporting Entity

- General Purpose Financial Statements
- The Reporting Entity

3. Elements of Financial Statements

- Asset
- Liability
- Equity
- Income
- Expenses
- Other Matters: Unit of Account, Executory Contracts, Substance Over Form

4. Recognition and Derecognition

5. Measurement

- Historical cost
- Fair value
- Value in use / Fulfilment value
- Current cost
- Selecting a Measurement Basis

6. Presentation and Disclosure

- Communication
- Classification
- Aggregation

7. Capital Maintenance

- Financial capital maintenance
- Physical capital maintenance

1. Qualitative Characteristics of Useful Financial Information

If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. Usefulness is enhanced by comparability, verifiability, timeliness, and understandability.

CF 2.5,11,19,2.24-38,43

1. Fundamental Qualitative Characteristics

Characteristic	
Relevance Information capable of making a difference in user decisions.	**Predictive value:** helps forecast future outcomes. **Confirmatory value:** allows evaluation of past decisions. **Materiality:** Information is material if omitting, misstating, or obscuring it could reasonably influence decisions of primary users.
Faithful representation Information faithfully represents the substance of economic transactions.	**Complete:** all necessary information included. **Neutral:** free from bias. **Free from error:** no errors in description or process. *Estimates can be faithfully represented if properly disclosed with limitations and methodology.*

2. Enhancing Qualitative Characteristics

Characteristic	Example
Comparability Enables users to identify similarities and differences between entities and across periods. Requires at least two items. Consistency (same methods over time) supports comparability but is not the same thing.	If Company X uses fair value and Company Y uses historical cost, their statements may not be comparable.
Verifiability Different knowledgeable, independent observers could reach consensus that a depiction is faithful. Can be direct (observation, e.g. counting cash) or indirect (checking inputs and recalculating outputs of a valuation model).	Direct: physically counting cash. Indirect: checking market inputs in a discounted cash flow model.
Timeliness Information available in time to influence decisions. Generally, older information is less useful, but some information remains timely for trend analysis.	Annual statements published 6 months late may still be useful for some analysis but not for timely investment decisions.
Understandability Clear classification and concise presentation. Complex transactions should not be omitted just because they are difficult to explain — omission would be incomplete and potentially misleading. Users are expected to have reasonable business and finance knowledge.	Hedging derivatives are complex, but their disclosures must be included with clear explanations.

Enhancing characteristics cannot make irrelevant or unfaithfully represented information useful. They improve information that is already relevant and faithfully represented.

Cost Constraint

Cost is a constraint on useful financial reporting. The benefits of reporting should justify the costs. Preparers bear the direct costs of collecting, processing, and verifying information; users ultimately bear these costs through reduced returns. If information is not provided, users incur additional costs to obtain or estimate it elsewhere.

2. Financial Statements and the Reporting Entity

General Purpose Financial Statements

Objective: provide information about assets, liabilities, equity, income, and expenses useful for assessing prospects for future net cash inflows.

GC: Prepared under the going concern (**GC**) assumption (entity will continue operating) unless evidence suggests otherwise.

Information provided includes:

- Statement of financial position: assets, liabilities, equity.
- Statement of financial performance: income and expenses.
- Other statements and notes: cash flows, unrecognised items, risks, methods, assumptions, and judgments.

CF.3.1-3.9

The Reporting Entity

An entity that is required to, or chooses to, prepare general purpose financial statements. Need not be a legal entity.

Type	Covers
Consolidated financial statements	Parent and all subsidiaries presented as a single entity. Useful for assessing future net cash inflows to the parent.
Unconsolidated financial statements	Parent only. Useful because claims against the parent typically do not give holders a claim against subsidiaries, and distributions may depend on the parent's distributable reserves.
Combined financial statements	Two or more entities not linked by a parent–subsidiary relationship.

Financial statements are prepared for a specified reporting period and cover assets, liabilities, equity, income, and expenses existing at the end of or during that period.

CF.3.4-7,10-18