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FINANCIAL STATEMENT PRESENTATION

Joint Project of the IASB and FASB

Financial Instruments
Working Group Meeting
April 25, 2007



Background & Scope



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- Joint project since 2004
- Purpose: Establish a common, high-quality standard for presentation of information in the financial statements.
- Scope:
 - All business entities (public and private)
 - All financial statements
 - Form, content, classification and display
 - Aggregation into totals and subtotals



Advisory Groups



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- Joint International Group (JIG)
 - Assist in identifying project issues and developing proposed solutions
 - Senior professionals with extensive experience in and responsibility for preparation, analysis, audit, and regulation of financial statements
- Financial Institution Advisory Group (FIAG)
 - Assist in addressing presentation issues from the perspective of those who analyze and prepare financial institution financial statements

3



Project Objective



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- To present information in the financial statements in ways that improve the ability of investors, creditors, and others to:
 - Understand an entity's present and past financial position
 - Understand the past operating, financing, and other activities that caused an entity's financial position to change
 - Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

4



Project Phases



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- Phase A (IASB: Drafting final standard; FASB: Deliberations complete):
 - Complete set of financial statements
 - Comparative information
- Phase B (Currently deliberating):
 - Categories in each financial statement
 - Totals, subtotals
 - Other comprehensive income (and recycling)
 - Statement of cash flows (direct vs. indirect method)
- Phase C (Not started):
 - Interim financial information

5



Phase A – Decisions



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- A complete set of financial statements consists of:
 - Statement of financial position at the beginning and at the end of the period
 - Statement of comprehensive income
 - Statement of cash flows
 - Statement of changes in equity
- All shown with equal prominence
- A minimum of two annual periods of complete financial statements must be provided

6



Phase A – Status



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- IASB published Exposure Draft in March 2006
 - Decided to permit comprehensive income to be presented in either one or two statements
 - Similar to FASB Statement No. 130, *Reporting Comprehensive Income*
 - Redeliberated in December 2006
 - Expect to publish Amendment to IAS 1 in 2nd quarter of 2007
- FASB to expose Phase A decisions at the same time as Phase B decisions

7



Phase B – Working Principles



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Financial statements should present information in a manner that:

1. Portrays a cohesive financial picture of an entity
2. Separates an entity's financing activities from its business and other activities and further separates financing activities into transactions with owners in their capacity as owners and all other financing activities
3. Helps a user assess the liquidity of an entity's assets and liabilities (the Board expressed interest in adding the concept of solvency to this working principle)
4. Helps a user understand:
 - a. The basis on which assets and liabilities are measured
 - b. The uncertainty in measurement of individual assets and liabilities
 - c. What causes a change in reported amounts of assets and liabilities

8



Phase B – Working Principles



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Financial statements should present information in a manner that:

5. Disaggregates line items if that disaggregation enhances the usefulness of that information in predicting future cash flows
6. Will help investors, creditors, and others to assess
 - a. An entity's ability to generate future cash inflows
 - b. An entity's ability to meet its obligations, its ability to pay dividends, and its need for external financing
 - c. The difference between cash transactions and accrual accounting
 - d. The effects of noncash activities during the period on an entity's financial position

9



Tentative Views: Working Format



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- Possible Sections
 - *Business* further broken down into Operating and Investing categories
 - *Financing* further broken down into Financing asset and Financing liability categories
 - *Equity*
 - *Discontinued Operations*
 - *Income Taxes*
 - *Note: No Extraordinary Items Section*

10



Tentative Views: Working Format



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- Classification of assets and liabilities drives classification of changes in those items on
 - the statement of comprehensive income
 - the statement of cash flows
- Classification based on how an entity manages its business
 - Explain, as a matter of accounting policy, basis for classifying assets and liabilities



Tentative Views: Working Format



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Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business •Operating assets and liabilities •Investing assets and liabilities	Business •Operating income •Investing income	Business •Operating cash flows •Investing cash flows
Financing •Financing assets •Financing liabilities	Financing •Financing income •Financing expenses	Financing •Financing asset cash flows •Financing liability cash flows
Equity		Equity
Discontinued operations	Discontinued operations	Discontinued operations
Income taxes	Income taxes	Income taxes
	Statement of Changes in Equity	



Tentative Views: Business Section



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- Includes assets and liabilities not related to financing an entity's business activities. Broken into two categories:
 - *Operating Category*: Includes business assets and liabilities that management views as integral to its main business activities (plus any asset or liability not otherwise classified)
 - *Investing Category*: Includes business assets and liabilities that management views as not integral to its main business activities

13



Tentative Views: Financing Section



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- Includes financial assets and liabilities that management views as part of the financing of the entity's business activities
- An entity should consider whether the item
 - is interchangeable with other sources of financing
 - can be characterized as independent of specific business activities

14



Tentative Views: Equity Section



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- Includes all equity items, such as:
 - Common stock
 - Preferred stock
 - Retained earnings

15



Tentative Views: Income Tax Section



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- No more intraperiod tax allocation
- Discontinued operations and OCI items shown on a pretax basis
- Additional income tax disclosures

16



Tentative Views: Discontinued Operations Section



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- Effects of a discontinued *component of an entity* reported as a discontinued operation only if that component is an *operating segment* (as defined in SFAS 131 and IFRS 8)
- Report additional information in the notes for all discontinued *components of an entity* (as defined in SFAS 144 and IFRS 8)

17



Tentative Views: Disaggregation



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Statement of Comprehensive Income

- Present line items by function (primary activity)
 - Sales, Services, Cost of Sales, R&D, Marketing
- Further breakdown by nature of items important in understanding the business (possibly in notes)
 - Labor, Materials, Depreciation, Amortization, Pension costs
- Separately report any expense important in understanding operating results not related to a functional line item

18



Tentative Views: Other Comprehensive Income



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Long-term goal:

- Recognize all current period non-owner changes in assets and liabilities in one of the functional sections or categories
 - Subset of income/expense items would not need to be categorized as other comprehensive income and the mechanism of recycling would not be necessary
 - Accommodation may be granted in the interim
 - Boards will address the standards that give rise to OCI items individually and separately, rather than as part of this project

19



Tentative Views: Other Comprehensive Income



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Differing views on presentation:

- **FASB**
 - OCI items *other than foreign currency translation adjustments* will be classified on the statement of comprehensive income consistent with the classification of the asset or liability that gives rise to those items
 - OCI items should continue to be recycled, as required by other standards, within the functional category in which the OCI item was initially recognized
- **IASB**
 - Has not reached a consensus on how to present OCI items in the statement of comprehensive income

20



Tentative Views: Statement of Cash Flows



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- The following information should be presented:
 - FASB: require use of the direct method
 - IASB: permit use of the indirect method
 - The related reconciliation prepared under the direct method
 - Information about noncash activities

21



Tentative Views: Statement of Cash Flows



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- Eliminate the notion of cash equivalents
- Present information on changes in cash only
 - Currently exploring whether net amounts of cash receipts and payments related to items previously classified as cash equivalents would continue to be permitted for presentation on the statement of cash flows

22



Tentative Views: Statement of Changes in Equity



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- Include details of the change in the beginning and ending balance of each component of equity
 - Accumulated other comprehensive income would be presented in the aggregate
 - The details for each other comprehensive income item would be presented in the notes
 - Proceeds from capital transactions should be presented in the aggregate

23



Tentative Views: Liquidity Information



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- Currently developing guidelines for presenting liquidity information that would apply to all entities
 - Detailed maturity information presented in the notes for contractual assets and liabilities with maturities < 12 months
 - In certain circumstances, classification of assets and liabilities into short- and long-term categories on the statement of financial position may be sufficient
- All entities would present details of maturities for contractual long-term assets and liabilities

24



Possible Reconciliation



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- Considering reconciliation of statement of financial position indicating what gives rise to changes in assets and liabilities
 - May separately identify changes relating to cash, accruals, fair values and other remeasurements
 - Will help achieve line-item cohesiveness
 - Boards will consider the characteristics of persistence and measurement subjectivity in determining what information should be presented in the reconciliation

25



Diversified Entities



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- Classification and presentation principles apply equally to financial institutions and non-financial entities
- Should there be consistency in classifying items into business and financing sections across the two types of entities?
 - For example, cash and other financial instruments
 - Raises issue of how entities with significant financial and non-financial components should apply classification guidelines

26



Immediate Plans



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- Remaining Issues:
 - Presentation of liquidity information
 - Providing information about changes in assets and liabilities
 - The level at which an entity should apply the classification guidance
 - The presentation and related disclosures based on new definition of discontinued operations
 - Totals and subtotals

27



Next Document



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- Initial discussion document expected in the 4th quarter of 2007
 - Preliminary Views (FASB)
 - Discussion Paper (IASB)

28



Contact Information



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