Project	**Financial Statement Presentation**
Topic	**Miscellaneous issues**

Introduction

1. At the December 2009 joint meeting, the staff would like the IASB and the FASB (collectively, the boards) to reconsider their proposals in the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation* that are specific to **basket transactions** (Issue 1) and classification of **foreign currency transaction gains and losses** (Issue 2). Issue 3 in this paper addresses how **noncontrolling interests** should be presented in the exposure draft.

Issue 1: Basket transactions

2. The boards encountered challenges in developing their preliminary views on how an entity should present the effects of a basket transaction. This issue addresses how those effects should be presented in the statement of comprehensive income (SCI) and the statement of cash flows (SCF).

3. The discussion paper defines a *basket transaction* as a single acquisition or disposal transaction that recognizes or derecognizes assets and liabilities that an entity has classified in more than one section or category. A typical example of a basket transaction is a business combination in which the acquirer acquires 100

percent of the equity instruments of the acquiree for cash; the acquiree's assets and liabilities are then consolidated with the existing assets and liabilities of the acquirer and presented in the appropriate sections and categories (e.g., business and financing). As explained in the discussion paper, an entity would classify and present the assets and liabilities acquired in a basket transaction in the appropriate sections and categories in the statement of financial position (SFP).

4. However, basket transactions also may result in income or expense items and cash receipts or payments. The discussion paper refers to the income or expense items and the cash flows arising from a basket transaction collectively as the *effects of basket transactions*. In current practice, the effects of basket transactions often are presented in a single line item in the SCI and in the SCF.

5. The boards did not reach a preliminary view on how to classify and present the *effects of basket transactions*. Instead, they decided to seek respondents' views on whether or not the effects should be classified in more than one section or category, thereby requiring an allocation of the total effect. The discussion paper noted the following three alternatives if the effects of basket transactions were **not** to be allocated:

   Alternative A: Present in the operating category.

   Alternative B: Present in the category that reflects the activity that was the predominant source of those effects.

   Alternative C: Present in a separate section.

Respondent feedback

6. Question 21 in the discussion paper asks respondents if the effects of basket transactions should be allocated to the related sections and categories in the SCI and SCF to achieve cohesiveness.

7. Respondents acknowledge that an advantage of allocating the effects of basket transactions to sections and categories is that it would achieve the cohesiveness objective. That is because an entity would allocate the income and cash flow effects of basket transactions to the sections or categories in which the related assets or liabilities are classified. For example, an entity might sell a group of

assets that includes both operating assets and investing assets. For users to be able to relate the resulting gain or loss on the transaction to the categories in which the assets are presented in the SFP, the entity would need to allocate that gain or loss between the operating category and the investing category in the SCI. However, most respondents, including users of financial statements, state that allocating the effects of basket transactions would be arbitrary, not provide decision-usefulness information, and lend to excess disaggregation.

8. The majority (over two-thirds) of respondents support classifying the effects of basket transactions in a single section or category resulting in **no allocation** of the effects of basket transactions on the SCI or SCF. Most respondents state that the effects of basket transactions should be presented in the category that best reflects the sources of the assets and liabilities that are acquired or disposed of.

Staff analysis

9. The staff agree with those respondents who state that any allocation method would be arbitrary, at least to some extent, and that it could be very difficult and costly for an entity to allocate the effects of a basket transaction to each section and category that is affected by the acquisition or disposal for very small marginal benefit. Thus, the staff would like the boards to consider the alternatives for presenting the effects of basket transactions if allocation is **not** required that were in the discussion paper:

    Alternative A: present in the operating category.

    Alternative B: present in the category that reflects the activity that was the predominant source of those effects.

    Alternative C: present in a separate section.

10. Presenting the effects of basket transactions in the operating category (Alternative A) would be easy to implement and may be viewed as a practical expedient since most effects are likely to affect the operating category. However, the staff think some basket transactions will relate to the acquisition or disposal of assets or liabilities that are predominantly classified in something category other than

operating (e.g. a sale of a group of assets and liabilities where the primary asset is an equity investment categorized in investing).

11. Presenting the effects of basket transactions in the section or category that was the predominant source of the assets and liabilities acquired or disposed of (Alternative B) would accommodate a situation in which the acquisition or disposal is not predominantly operating assets and liabilities. This presentation would avoid arbitrary allocations as well as excessive disaggregation.

12. Presenting the effects of basket transactions in a separate section (Alternative C) would prominently display the effects to users. The staff believe creating a separate section would create excessive disaggregation and not provide better information than presenting the effects of basket transactions in the existing sections or categories.

Staff recommendation

13. The staff recommend that the boards require entities to present the effects of basket transactions in the section or category that was the predominant source of those assets and liabilities acquired or disposed of (Alternative B). The staff think that requiring an entity to allocate the effects of basket transactions would result in arbitrary allocations and not provide meaningful information to users of financial statements. Presenting the entire effect of a basket transaction in the predominant section or category would allow users to understand how the acquisition or disposal best relates to the entity's business.

Question for the boards
Q1. The staff recommend that the boards require an entity to present the effects of a basket transaction in the section or category that was the predominant source of those assets and liabilities acquired or disposed of. **Do the boards agree with that recommendation?**

Issue 2: Classification of foreign currency transaction gains and losses

14. The discussion paper proposes that an entity should present foreign currency transaction gains and losses, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section or category as the assets and liabilities that gave rise to the transaction gains or losses. The alternative would be to present the transaction gains and losses in one line item within a specific section or within their own section.

Comment letters

15. Question 18 in the discussion paper asks whether the proposed presentation for foreign currency transaction gains and losses would provide decision-useful information to users in their capacity as capital providers. The discussion paper also asks what costs the boards should consider related to presenting the components of net foreign currency transaction gains and losses in different sections and categories.

16. Comment letter respondents were mixed on how to present foreign currency transaction gains and losses. Generally, respondents agree that the proposal in the discussion paper was consistent with the core presentation principle of cohesiveness. Respondents were mixed on whether the practical concerns about implementing this proposal outweigh the benefits of achieving cohesiveness and were not specific about why they held a particular view.

17. Some respondents expressed concern that there would be a mismatch between related foreign currency transaction gains and losses that would be presented in different sections. One respondent gave the following example:

> In the case of an entity acting in the financial services industry, if a 1 billion EUR foreign exchange gain is made on a loan funded through a bond issue on which a foreign exchange loss of 1 billion EUR is to be recognised, the classification in sections suggested by the Discussion Paper would lead to a gain of 1 billion EUR recognised in the Operating category (lending business) and a loss of 1 billion EUR recognised in the Financing category.

Respondents state that they believe application of the proposed requirements would lead to a higher perceived volatility when there is only a presentation mismatch.

18. One preparer respondent said that the proposed presentation of foreign currency transaction gains and losses would obscure useful information for users by presenting it in multiple sections and categories on the financial statements instead of one location. Another respondent noted that users might not be able to readily perceive the overall impact of foreign exchange on the SCI.

19. Some respondents cited centralized management of foreign exchange risks, such as hedges which cover overall foreign exchange exposure, as a reason why the classification of transaction gains and losses might be difficult or result in arbitrary allocation into various categories. However, the staff believe that foreign exchange risks that are offset by designated and qualified hedges should be classified in the same category as the transaction gain or loss being hedged, thus demonstrating the entity's management of that risk.

Staff analysis

20. The staff think that the proposal in the discussion paper and the "presentation mismatch" of operating and financing foreign exchange transaction gains and losses may provide useful information about the economic exposures of an entity. The staff think it may be useful to know that an entity has or has not been able to effectively offset its foreign exchange risk in this way.

21. The staff think that the classification of foreign exchange transaction gains and losses will provide useful information even if those effects are presented in more than one section or category in the financial statements. Users who wish to see the overall effect will be able to aggregate the various foreign exchange transaction gains and losses presented in the SCI.

22. The most compelling argument in favor of classification appears to be that it aligns with the core presentation principle of cohesiveness. The staff think maintaining cohesiveness is a good reason to retain this proposal.

23. The staff did not get a sense from preparer respondents that the cost of this proposal would be excessive. Preparers provided very few estimates of the cost of applying this proposal in their responses, and, if they objected, tended to phrase their objection in general terms. Those who did address the costs that might be required mentioned identifying foreign exchange effects on the transaction level as one of the major costs involved. However, several respondents specifically stated that they did not believe the requirements would be costly to implement.

24. Users of financial statements generally supported the proposals, as did other non-preparer respondents. However, the responses were not focused so much on usefulness as they were on consistency with the cohesiveness principle.

Staff recommendation

25. The staff did not find any of the concerns expressed in the comment letters strong enough to override alignment with the core presentation principle of cohesiveness.

26. The staff recommend that the boards retain the proposal from the discussion paper to present foreign currency transaction gains and losses, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section or category as the assets and liabilities that gave rise to the gains or losses.

Question for the boards
Q2. The staff recommend that the boards retain the proposal for presentation of foreign currency transaction gains and losses. **Do the boards agree with that recommendation?**

Issue 3: Noncontrolling interests

27. A few comment letters noted that the discussion paper did not address noncontrolling interests. At the time, the staff did not think that there were any

issues related to presenting noncontrolling interests using the proposed presentation model. However, we had not spent much time thinking about it.

28. During the comment period the staff reviewed how noncontrolling interests would be presented using the proposed model. We continue to believe that the presentation model would not affect the way in which IFRSs and US GAAP require noncontrolling interests to be presented. In addition, field test preparer participants did not indicate any difficulty in incorporating noncontrolling interests into their recast financial statements.

29. The illustrations in the appendix to this paper (and in paper 8A/72A) include a noncontrolling interest. The staff do not believe there are any issues that the boards need to address related to the presentation of noncontrolling interests. **If after reviewing the financial statements you believe there is a presentation issue that needs to be addressed prior to issuing the exposure draft, please let the staff know as soon as possible**.

Appendix A: Illustration: Noncontrolling interests

Chip Co

Statement of Comprehensive Income	For the year ended 2011	For the year ended 2010
Business		
Operating		
Sales	3,083,000	2,945,000
Cost of Goods Sold		
Materials	(1,528,000)	(1,430,000)
Labor	(160,000)	(155,000)
Pension	(30,000)	(29,500)
Rent	(87,000)	(75,000)
Depreciation	(81,500)	(81,500)
Other	(31,230)	(28,300)
Total	(1,917,730)	(1,799,300)
Selling		
Labor	(94,050)	(90,850)
Advertising	(81,900)	(81,900)
Other expense	(36,500)	(33,080)
Total	(212,450)	(205,830)
Research and development		
Labor	(143,200)	(116,180)
Rent	(53,000)	(45,000)
Other	(36,000)	(22,000)
Total	(232,200)	(183,180)
Administration		
Labor	(184,000)	(174,900)
Audit	(30,000)	(30,000)
Legal	(35,000)	(32,000)
Other	(66,400)	(64,900)
Total	(315,400)	(301,800)
Impairment loss		(120,000)
Total operating income	**405,220**	**334,890**
Investing		
Equity income	3,050	2,872
Total investing income	**3,050**	**2,872**
Total business income	**408,270**	**337,762**
Financing		
Interest expense	(93,950)	(93,950)
Total financing expense	**(93,950)**	**(93,950)**
Profit before taxes	314,320	243,812
Income tax		
Income tax expense	(129,350)	(198,719)
Net income	**184,970**	**45,093**
Other comprehensive income, net of tax		
Unrealized holding (loss) gain	(14,800)	2,000
Net actuarial pension loss	(1,650)	(4,200)
Total other comprehensive income, net of tax	(16,450)	(2,200)
Total comprehensive Income for the year, net of tax	168,520	42,893
Net income attributable to:		
Owners of the parent	169,220	25,331
Noncontrolling interests	15,750	19,762
Total comprehensive income attributable to:		
Owners of the parent	152,970	23,131
Noncontrolling interests	15,550	19,762
Earnings per share (in currency units)		
Basic and diluted	0.10	0.02

Chip Co

Statement of Financial Position		
	For the years ended 31 December	
	2011	2010
Business		
Operating		
Short Term		
Cash	447,004	708,302
Accounts Receivable	1,677,000	1,017,500
Inventories	1,563,625	1,851,625
Other Short Term Assets	63,750	53,750
Total Short Term Operating Assets	3,751,379	3,631,177
Accounts Payable	(850,604)	(1,046,202)
Accrued Labor	(80,625)	(62,125)
Accrued Advertising	(46,300)	(76,600)
Deferred Income	(353,700)	(353,700)
Other Accruals	(96,981)	(95,350)
Total Short Term Operating Liabilities	(1,428,210)	(1,633,977)
Long Term		
Land	100,000	100,000
Plant	170,000	177,500
Equipment	99,740	173,740
Goodwill	1,076,600	1,076,600
Other Intangibles	425,900	175,900
Other Long Term Assets	64,125	64,125
Total Long Term Operating Assets	1,936,365	1,767,865
Pension Obligation	(300,530)	(281,630)
Other Long Term Liabilities	(63,450)	(63,450)
Total Long Term Operating Liabilities	(363,980)	(345,080)
Total Operating	**3,895,554**	**3,419,985**
Investing		
Short Term		
Short Term Investments	758,700	859,500
Investment in Common Stock	87,000	102,000
Total Short Term Investing Assets	845,700	961,500
Equity Investment	130,642	127,592
Total Investing	**976,342**	**1,089,092**
Total Business	**4,871,896**	**4,509,077**
Income Tax		
Net Short Term Tax Liability	(61,254)	(54,754)
Net Long Term Tax Liability	(254,400)	(254,400)
Total Income Tax	**(315,654)**	**(309,154)**
Financing		
Debt		
Short Term		
Short Term Portion of Debt	(150,000)	
Short Term Portion of Lease	(10,000)	(10,000)
Total Short Term Debt	(160,000)	(10,000)
Long Term		
Long Term Debt	(1,273,000)	(1,335,000)
Lease Obligation	(20,000)	(30,000)
Total Long Term Debt	(1,293,000)	(1,365,000)
Total Debt	(1,453,000)	(1,375,000)
Equity		
Chip Co Shareholders' Equity		
Common Stock	(240,500)	(240,500)
Paid in Capital	(780,400)	(670,400)
AOCI	18,650	2,200
Retained Earnings	(1,983,653)	(1,814,433)
Total Chip Co Shareholders' Equity	(2,985,903)	(2,723,133)
Noncontrolling Interests	(117,340)	(101,790)
Total Equity	(3,103,243)	(2,824,923)
Total Financing	**(4,556,243)**	**(4,199,923)**
Total Assets	6,664,086	6,488,134
Total Liabilities	(3,560,843)	(3,663,211)
Total Equity	(3,103,243)	(2,824,923)

Chip Co

Statement of Cash Flow

	2011	2010
Business		
Operating		
Cash from customers	2,473,500	2,373,600
Cash paid to suppliers	(1,457,598)	(926,598)
Cash paid for rent	(219,500)	(212,500)
Cash paid to employees	(445,500)	(409,500)
Cash paid for advertising	(112,200)	(106,800)
Cash paid for other expenses	(154,000)	(153,500)
Cash contribution to pension	(20,000)	(10,000)
Cash received (paid) for acquisition	(200,000)	0
Cash (used in) provided by operating activities	(135,298)	554,702
Investing		
Net change in short term investments	100,800	(523,000)
Purchase of common stock		(100,000)
Cash provided by (used in) investing activities	100,800	(623,000)
Total cash used in business activities	(34,498)	(68,298)
Financing		
Cash paid for interest	(93,450)	(93,450)
Cash Paid on lease	(10,500)	(10,500)
Total cash from used in financing activities	(103,950)	(103,950)
Income Taxes		
Cash paid for income taxes	(122,850)	(118,450)
Total change in cash	(261,298)	(290,698)
Beginning cash	708,302	999,000
Ending cash	447,004	708,302
Supplemental Cash Disclosures		
Increase in debt from acquisitions	88,000	
Indirect reconciliation of Operating Cash Flows		
Operating income	405,220	334,890
Non-cash Operating Income Items		
Depreciation expense	81,500	81,500
Stock compensation expense	110,000	110,000
Impairment charge		120,000
Changes in Operating Assets and Liabilities		
Change in accounts receivable	(609,500)	(571,400)
Change in inventory	288,000	(239,000)
Change in accounts payable	(217,598)	742,402
Change in accrued compensation	18,500	11,500
Change in accrued advertising	(30,300)	(24,900)
Change in other accrued	1,630	(35,720)
Change in pension liability	17,250	25,430
Cash received (paid) for acquisition	(200,000)	-
Cash (used in) provided by operating activities	(135,298)	554,702

Chip Co

Statement of Changes in Equity

	Chip Co. Shareholders						Noncontrolling Interests	Total Equity
	Common Stock	Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Comprehensive Income	Total		
Balance 1 January 2010	240,500	560,400	-	1,789,102		2,590,002	82,028	2,672,030
Issuance of stock options		110,000				110,000		110,000
Comprehensive income								
Net income				25,331	25,331	25,331	19,762	45,093
Accumulated other comprehensive income items:								
Unrealized holding gain			2,000		2,000	2,000		2,000
Net actuarial pension loss			(4,200)		(4,200)	(4,200)		(4,200)
Other comprehensive loss					(2,200)	(2,200)		(2,200)
Total comprehensive income					23,131	23,131	19,762	42,893
						-		
Balance 31 December 2010	240,500	670,400	(2,200)	1,814,433		2,723,133	101,790	2,824,923
Issuance of stock options		110,000				110,000		110,000
Comprehensive income								
Net income				169,220	169,220	169,220	15,750	184,970
Accumulated other comprehensive income items:								
Unrealized holding loss			(14,800)		(14,800)	(14,800)	(200)	(15,000)
Net actuarial pension loss			(1,650)		(1,650)	(1,650)		(1,650)
Other comprehensive loss					(16,450)	(16,450)	(200)	(16,650)
Total comprehensive income					152,770	152,770	15,550	168,320
Balance at 31 December 2011	240,500	780,400	(18,650)	1,983,653		2,985,903	117,340	3,103,243