



Financial statement presentation

Joint project of the IASB and FASB

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation, the IASB or the FASB.

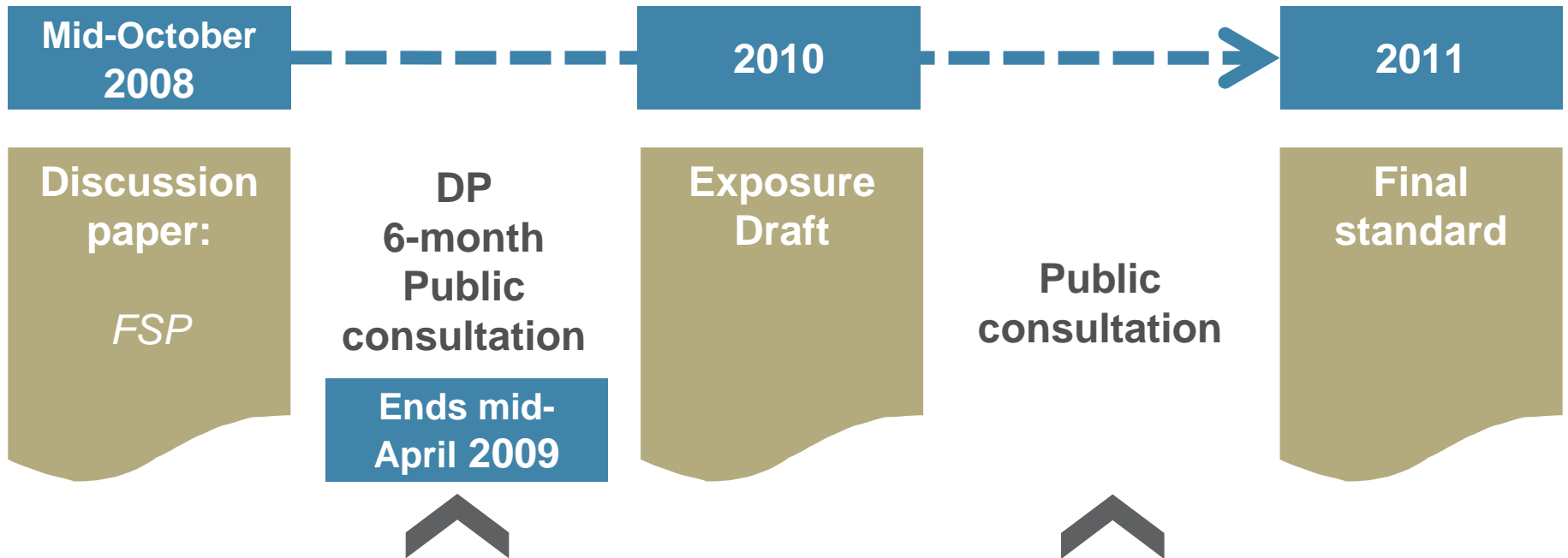


- Develop a common standard on organisation and presentation of information in financial statements
- Improve
 - The usefulness of information provided to users of financial statements (in making decisions as providers of capital)
 - Communication between management and users of financial statements

Project scope

- Three phases to project
 - A: Complete set of financial statements
 - **B: Fundamental presentation issues**
 - C: Interim reporting
- All business entities
- All financial statements
- Phase B: Form, content, classification and display
- Not reconsidering:
 - Recognition or measurement requirements in other standards
 - Segment reporting, EPS, Management commentary or MD&A
 - Current note disclosures

Where are we in the due process?



Additional input from:
Working group, analysts, preparers, local standard setters, regulators and other groups and field tests.



Why a project on presentation?

- Global convergence of accounting standards requires a common approach to presenting information in financial statements
 - Within IFRS and US GAAP: No common format, alternative formats allowed
- Address current shortcomings:
 - Relationships between individual statements are not clear
 - Dissimilar items are often aggregated
 - Highly simplified, condensed amounts

Financial statements should:

- Portray a *cohesive* financial picture
 - Relationships are clear, statements are complementary
- *Disaggregate* information so that it is useful in assessing the amount, timing, and uncertainty of future cash flows
 - Common sections and categories, more line items
- Present information about *liquidity and financial flexibility*
 - Ability to meet financial commitments and invest in business opportunities

Financial statement presentation

Statement of financial position	Statement of comprehensive income	Statement of cash flows
<p>Business</p> <ul style="list-style-type: none"> •Operating assets and liabilities •Investing assets and liabilities 	<p>Business</p> <ul style="list-style-type: none"> •Operating income and expenses •Investing income and expenses 	<p>Business</p> <ul style="list-style-type: none"> •Operating cash flows •Investing cash flows
<p>Financing</p> <ul style="list-style-type: none"> •Financing assets •Financing liabilities 	<p>Financing</p> <ul style="list-style-type: none"> •Financing asset income •Financing liability expenses 	<p>Financing</p> <ul style="list-style-type: none"> •Financing asset cash flows •Financing liability cash flows
<p>Income taxes</p>	<p>Income taxes on continuing operations (business and financing)</p>	<p>Income taxes</p>
<p>Discontinued operations</p>	<p>Discontinued operations, net of tax</p>	<p>Discontinued operations</p>
	<p>Other comprehensive income, net of tax</p>	
<p>Equity</p>		<p>Equity</p>

→ **Cohesive**



Defining sections and categories

- **Business section:** activities conducted with the intention of creating value—e.g. producing goods and services
 - **Operating** category: primary (or core) revenue and expense generating activities
 - Transactions with customers, suppliers, and employees
 - **Investing** category: activities that generate a return, but not part of primary (or core) activities

Defining sections and categories

- **Financing section:** activities that fund an entity's business activities
 - **Financing asset** category
 - **Financing liability** category
 - Must relate to *financial assets* and *financial liabilities* as defined in IFRS/USGAAP
 - Should be interchangeable with other sources of financing

- **Equity section:**

- All equity (as defined in IFRS/US GAAP) and related activities

- **Discontinued Operations section:**

- All assets and liabilities related to discontinued operations (as defined in IFRS 5 and SFAS 144) and related activities

- **Income Tax section:**

- All current and deferred income tax assets and liabilities (recognised in accordance with IFRS/US GAAP) and related activities



- Classification of A&L drives classification of changes in those items in:
 - Statement of comprehensive income
 - Statement of cash flows
- Classification based on the way asset or liability is used within the entity (referred to as *management approach* to classification)
 - Accounting policy note disclosure
- Classification at reportable segment level

Statement of financial position

12

- Grouped by major activities – not by elements
 - Disaggregate assets and liabilities with different measurement bases
- Present assets and liabilities in:
 - **Short- and long-term** subcategories
 - classification based on a one-year distinction
 - OR**
 - **In order of liquidity (if more relevant)** and provide information on the maturities of short-term contractual A/L in the notes



Statement of financial position

BUSINESS		
<i>Operating assets and liabilities</i>		
Accts receivable	xx	
Inventory	xxx	
Accts payable	(xx)	
PP&E	x,xxx	
Pension liability	<u>(xxx)</u>	
Net operating assets		\$ <u>xxx</u>
<i>Investing assets and liabilities</i>		
Investment in affiliate	xxx	
AFS securities	<u>xxx</u>	
Net investing assets		\$ <u>x,xxx</u>
Net Business assets		\$ <u>x,xxx</u>
FINANCING		
<i>Financing assets</i>		
Cash		\$ <u>xxx</u>
<i>Financing liabilities</i>		
Bonds payable		\$ <u>(xxx)</u>
Net Financing assets		\$ <u>xx</u>
Total NET ASSETS		\$ <u>xxx</u>
EQUITY		
Common Stock		(xxx)
Retained earnings		<u>(xx)</u>
Total EQUITY		\$ <u>xxx</u>

- **What will change from current practice?**
 - classified SFP/order of liquidity – not a requirement in US GAAP
 - current/non-current distinction in IFRS/US GAAP considers operating cycle
 - IAS 1 prohibits classifying a deferred tax asset or liability as current
 - total of A/L and subtotals for short/long-term A/L might be disclosed in the notes
 - disclose maturities of short-term contractual assets

Statement of comprehensive income

- *Single statement of comprehensive income*
- *Separate classification of OCI items*
 - Identify whether related to operating, investing, or financing
- OCI items recycled from OCI section to other sections or categories
 - When required by current standards
- *Profit or loss/net income* – relevant subtotal

Statement of comprehensive income

16

BUSINESS	
Operating	
Sales, COGS, Other Expenses	<u>x,xxx</u>
Operating Income	\$ <u>x,xxx</u>
Investing	
Investing activities	<u>xx</u>
Investing Income	\$ <u>xx</u>
BUSINESS Income	\$ <u>x,xxx</u>
FINANCING	
Financing activities	<u>(xxx)</u>
FINANCING Expense	\$ <u>(xxx)</u>
<i>Income from continuing operations</i>	\$ <u>x,xxx</u>
Income tax expense	<u>(xxx)</u>
<i>Net income from continuing ops</i>	\$ <u>x,xxx</u>
DISCONTINUED OPERATIONS	
Loss on Disc Ops, net of tax	<u>\$ (xxx)</u>
OTHER COMPREHENSIVE INCOME	
OCI items, net of tax	\$ <u>xxx</u>
TOTAL COMPREHENSIVE INCOME	\$ <u>XXX</u>



Statement of comprehensive income

17

- Disaggregation by *function*
 - *selling goods, providing services, manufacturing, advertising, administration*
- Further disaggregation *by nature*
 - *labour, materials, transportation*
- *Taxes* should be allocated to:
 - continuing operations
 - discontinued operations
 - OCI items



- **What will change from current practice?**
 - Eliminate permitted alternative formats for presenting information about other comprehensive income
 - Improve comparability and provide clear segregation of other comprehensive income items
 - IAS 1 provides for disaggregation of expenses by function or by nature
 - If present by function, additional information required by nature
 - No similar requirement in US GAAP

Statement of cash flows

BUSINESS		
Operating		
Sales receipts	xxx	
Purchase of inventory	(xxx)	
Rent payment	<u>(xxx)</u>	
Net cash provided by <u>operating</u> activities		\$ <u>xx</u>
Investing		
Purchase of investment in affiliate	(xxx)	
Purchase of AFS securities	<u>(xxx)</u>	
Net cash used in <u>investing</u> activities		\$ <u>(x,xxx)</u>
Net cash used in BUSINESS activities		\$ <u>(xxx)</u>
FINANCING		
Interest payment	(xxx)	
Issuance of bonds	<u>xx,xxx</u>	
Net cash provided by FINANCING activities		\$ <u>x,xxx</u>
EQUITY		
Net cash used in EQUITY activities		<u>--</u>
CHANGE IN CASH		\$ <u>xxx</u>
Beginning cash		<u>xx</u>
Ending cash		<u>xxx</u>

- **What will change from current practice?**
 - Use of an *indirect method* of presenting operating cash flows would not be permitted
 - Classification of cash flows into operating, investing, and financing categories dependent on the classification of related assets and liabilities
 - e.g. capital expenditures would be in the operating category
 - Cash equivalents not presented as part of cash
 - Netting of cash receipts and payments related to short-term investments (former cash equivalents) would be permitted

Reconciling the statements

- Users want to better understand persistence and measurement subjectivity of comprehensive income – to estimate future cash flows
- Disaggregate:
 - Cash flows
 - Accruals and systematic allocations
 - Remeasurements that are recurring valuation adjustments or fair value changes
 - Remeasurements that are not recurring valuation adjustments or fair value changes
- *FASB*: separate column for unusual and infrequent events or transactions

Reconciliation schedule

Changes in assets and liabilities, excluding transactions with owners						
Not from remeasurements			From remeasurements			
Cash component		Accrual components				
A	B	C	D	E	F	G
Caption in statement of cash flows	Cash flows	Accruals, allocations, and Other	Recurring fair value changes/ valuation adjustments	All other changes	Statement of comprehensive income (B+C+D+E)	Caption in statement of comprehensive income



- *Considered:* Full reconciliation of opening and closing balance sheet
 - Shows links with cash flows and comprehensive income
 - Can be very complex
- *Considered:* SCI matrix
 - Does not explain relationship between SCF and SCI

- Statement of comprehensive income
 - *OCI items and recycling*
 - *Application of cohesiveness (eg pensions)*
 - Single statement
 - *Allocation of income taxes*
- Direct method cash flow statement – cost vs benefit
- Reconciliation schedule
 - level of detail that needs to be reconciled
 - appropriateness for financial institutions
- Management approach to classification—comparability concerns
- Disaggregation – balance between decision-useful and too much detail
- Costs of adopting the proposed model, transition, effective date

- Discussion paper published on October 16, 2008
- Field test during comment period
 - Recast financial statements
 - Compare recast and traditional financial statements
 - Review with analysts
- Comment letters welcome until April 14, 2009
- Exposure draft in second quarter 2010
- Final standard in mid-2011

Questions or comments?

Expressions of individual views by members of the IASB, FASB and their staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB and FASB on accounting matters are determined only after extensive due process and deliberation.



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27

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