

Staff Paper

Financial Statement Presentation

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1. In October 2008, the IASB and the Financial Accounting Standards Board (FASB) published for public comment a Discussion Paper on financial statement presentation. The Discussion Paper contains an analysis of the current issues in financial statement presentation and presents the boards' initial thinking on how those issues could be addressed in a possible future format.

What are the boards' initial ideas?

2. Financial statements are important. The boards believe that a common format for financial statement presentation will improve communication between users and preparers of financial statements. Analysts and investors have long raised concerns about the way companies present information in financial

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statements. In their joint project, the boards aim to address these concerns as described below.

Improving comparability

3. Financial statements prepared under IFRS or US GAAP can be presented in many alternative ways. This makes it difficult for analysts, investors and others to compare the financial statements of different companies domestically as well as internationally. By creating a common format, analysts and investors would have an improved starting point for generating analysis. As illustrated in the following table, that format would require common sections and categories in the statements of financial position, comprehensive income, and cash flows.

Statement of financial position	Statement of comprehensive income	Statement of cash flows
Business Operating assets and liabilities Investing assets and liabilities	Business Operating income and expenses Investing income and expenses	Business Operating cash flows Investing cash flows
Financing Financing assets Financing liabilities	Financing Financing asset income Financing liability expenses	Financing Financing asset cash flows Financing liability cash flows
Income taxes	Income taxes on continuing operations (business and financing)	Income taxes
Discontinued operations	Discontinued operations , net of tax	Discontinued operations
	Other comprehensive income , net of tax	
----- Equity		----- Equity

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Linking information in financial statements

4. A set of financial statements includes several individual statements; however, the formats of those statements do not make it easy to see how the information in them is linked.
 - The proposed presentation model illustrated in the table above introduces a clear separation between a company's financing activities (how it obtains capital) and its business activities (how it uses that capital to create value). It further separates business activities into those that are conducted as part of the core operations (operating) and those that are not (investing). Today, operating assets are commingled with non-operating investments (for example, securities held for investment) and operating liabilities are commingled with financing liabilities (such as debt). When the proposed model is applied to the financial statements, the evaluation of operating returns and cash flows as compared to net operating assets (as well as investing returns and cash flows on investing assets and financing costs and cash flows on financing liabilities) is more readily apparent.
 - Each company would decide how to classify its assets and liabilities into the sections and categories, on the basis of how an item is used (the 'management approach'). A company would classify income, expenses and cash flows in the same section and category as the related asset or liability. For example, if a company classifies inventory in the operating category of the statement of financial position, it would classify changes in inventory in the operating category of the statement of comprehensive income (as part of cost of goods sold) and classify the related cash payments to suppliers in the operating category of the statement of cash flows.
 - The proposed model would require a company to separately present its cash receipts and payments for operating activities in its statement of cash flows. A direct method presentation allows for a more clear understanding of the

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relationships between, for example, income (sales), assets (accounts receivables), and their ultimate conversion into cash (cash received from customers). Today these relationships are assessed through less precise analysis and estimation. This is because most companies present operating cash flows using an indirect method that adjusts net income to arrive at a single number representing net operating cash flows.

Separating different components

5. The proposed model would generate additional line items in the statement of comprehensive income by requiring separate presentation of dissimilar items. For example, direct product costs (such as materials and labor) as well as general and administrative costs (such as rent, utilities, and corporate salaries) would not be combined in as they often are today. These different costs may respond differently to economic events. Separately presenting dissimilar items would enhance an investor's ability to analyze a company.
6. The notes to financial statements would include a new schedule reconciling cash flows to comprehensive income. This reconciliation schedule separates income components of cash, accrual, fair value changes, and all other remeasurements. Separately presenting these different components of income would allow investors to apply their own judgments about how and if they will be realized in cash in the future (and thus how they will ultimately impact investment value).

What are the main objectives?

7. To address these issues the IASB and the FASB propose to introduce cohesiveness and disaggregation as the two main objectives for financial statement presentation. Cohesiveness would ensure that a reader of financial statements can follow the flow of information through the different statements of a company; disaggregation would ensure that items that respond differently to economic events are shown separately. To achieve these main objectives

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the boards have developed a principle-based format that is presented in the Discussion Paper.

What happens next?

8. The boards are currently seeking comments from interested parties on the proposed objectives for the financial statement presentation and the proposed format. The comment period ends April 14, 2009.
9. The Discussion Paper is available at <http://go.iasb.org/FSP-DP>.