Project **Financial Statement Presentation**

Topic **Sweep issues from preballot draft**

Introduction

1. At the April 22, 2010 joint meeting, the staff would like the boards to discuss a number of issues that were raised during review of the preballot draft. Those issues are as follows:

   Issue 1: Whether to retain the guidance in the *FASB Accounting Standards Codification*™ related to unusual or infrequently occurring items

   Issue 2: Whether to retain existing guidance in IAS 1 *Presentation of Financial Statements* and Codification Topic 210 (Balance Sheet) on classifying short-term assets and liabilities

   Issue 3: Whether to revise the guidance in IAS 1 and Codification Topic 470 (Debt) on classifying debt as short term or long term

   Issue 4: Mixed presentation in the statement of financial position

   Issue 5: Whether supplemental cash flow information should presented immediately following the statement of cash flows rather than in the notes

   Issue 6: Whether to retain 'other disclosures' from IAS 7, *Statement of Cash Flows,* that are included in Chapter 7 of the preballot draft

   Issue 7: Whether sections and categories should be required to be presented in the same order on all statements.

Issue 1: Unusual or infrequently occurring items

2. The FASB board agreed to eliminate the notion of extraordinary items in its deliberations in the financial statement presentation (FSP) project. This will align US GAAP with IFRSs. However, US GAAP (Codification reference 225-20-45-16) requires presentation of unusual or infrequently occurring items in the statement of comprehensive income (SCI); there is no similar requirement in IFRSs.

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3. In the discussion paper, the FASB's preliminary view was that an entity should present information about unusual or infrequent events or transactions in a 'memo' column on the proposed reconciliation schedule. The following paragraphs further explain that view.

> 4.50 … the FASB supports adding a "memo" column to the reconciliation schedule so that managers can inform users about components within a line item in the reconciliation schedule that are less persistent and more subjective than the rest of the components in that line item. …
>
> 4.51. An entity should look to the definition of unusual or infrequent in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (Opinion 30), and consider the notion of persistence and subjectivity in determining events or transactions to include in the memo column. An entity may include events or transactions that are similar to items that are unusual in nature or occur infrequently but do not meet the following Opinion 30 definitions:
>
> > *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
> >
> > *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. [paragraph 20]
>
> 4.53. The IASB does not support including this information in the reconciliation schedule because there is no notion of unusual or infrequent events or transactions in IFRSs.

Staff analysis

4. When the boards decided to eliminate the proposed reconciliation schedule, the 'memo' column for unusual or infrequently occurring items was implicitly eliminated as well. In preparing the proposed Update for FASB review, the staff came across the existing guidance on unusual and infrequently occurring items and needed to decide whether it should be included in or excluded from the FASB exposure draft.

5. The staff think that the existing requirement in US GAAP to present unusual or infrequently occurring items in the SCI is consistent with the proposed disaggregation principle. However, application of that disaggregation principle

would not necessarily result in the separate presentation of these items because a reporting entity may view the item as economically similar in nature *during the period* and therefore may not disaggregate the item. The separate presentation of unusual or infrequently occurring items draws attention to items that may need separate or additional consideration by a user in assessing an entity's performance and future cash flows. Therefore, the staff think that the existing presentation and disclosure requirements for unusual and infrequently occurring items should be retained in US GAAP (see paragraph 7).

6. Given the IASB's preliminary view on presenting unusual or infrequently occurring items in the proposed reconciliation schedule, the staff presume that the IASB is not interested in including similar guidance in its exposure draft. However, we will ask the IASB to affirm that view at the April 2010 joint meeting.

Staff recommendation

7. The staff recommend that the existing requirements in Codification Topic 225 (Income Statement) for presentation and disclosure of unusual or infrequently occurring items be retained and included in the FASB exposure draft (see below).

> *Presentation of unusual or infrequently occurring items*
>
> 225-20-45-16 A material event or transaction that is unusual in nature or occurs infrequently shall be reported as a separate component of income within the appropriate section or category as determined by the classification guidance in paragraphs 205-10-45-xx through 45-yy. The nature and financial effects of each event or transaction shall be disclosed on the face of the income statement or, alternatively, in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.
>
> *Unusual or infrequently occurring items*
>
> 225-20-45-2A A material event or transaction that is unusual in nature or occurs infrequently shall be reported as a separate component of income within the appropriate section or category as determined by the classification guidance in paragraphs 205-10-45-36 through 45-56. The nature and financial effects of each event or transaction shall be disclosed on the face of the income statement or, alternatively, in notes to financial statements. Gains or losses of a

similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.

225-20-50-3 The nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently, but not both, shall be disclosed on the face of the income statement or, alternatively, in notes to the financial statements.

Questions on Issue 1
1a. Does the FASB want to retain the presentation and disclosure guidance for unusual or infrequently occurring items in Codification Topic 225? 1b. If yes, does the IASB want to include similar guidance in its exposure draft?

Issue 2: Guidance on classifying short-term assets and liabilities

8. Codification Topic 210 (Balance Sheet) currently provides examples of the types of assets and liabilities that should be classified as current or noncurrent. IAS 1 also includes guidance on classifying assets or liabilities as current. The staff think some of the guidance in Codification Topic 210 and IAS 1 should be retained. None of that guidance was included in the IASB's preballot draft; it was included in the FASB's preballot draft of the proposed Update.

Staff analysis and recommendation

9. Appendix A to this paper includes the current and noncurrent guidance that is in IAS 1. Appendix B to this paper includes the current and noncurrent guidance from Codification Topic 210 that the staff included in the preballot draft of the proposed Update. Codification Topic 210 has more many examples of current assets and liabilities than IAS 1. The staff propose adding some of the current asset and liability guidance in IAS 1 to the guidance in Topic 210 (as modified) for inclusion in the exposure draft. The staff think that the guidance that the staff propose retaining adds to the usefulness and understanding of the FSP exposure draft. However, some may view it as excessive and not necessary.

10. The staff recommend that the guidance in paragraphs 5.3.8–5.3.10 (see below) be included in the exposure draft. Paragraph 5.3.5 establishes the main principle for classifying an asset or liability as short term or long term.

5.3.5 An asset or liability is classified as short term if either its contractual maturity or its expected date of realisation or settlement is within one year of the reporting date. The distinction is based on the shorter of the following two dates: (a) contractual maturity and (b) expected realisation or settlement. Otherwise, an asset or liability is classified as long term.

5.3.8 Short-term assets include, among others:

a) cash, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period;

b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts;

c) trade accounts, notes, and acceptances receivable;

d) receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year;

e) installment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business and are due within the next 12 months;

f) investments in securities that may be sold or redeemed at any time within 12 months;

g) prepaid expenses, as they would require the use of short-term assets within 12 months; and

h) the short-term portion of long-term financial assets.

5.3.9 Long-term assets include, among others:

a) cash and claims to cash that are restricted as to withdrawal or use for other than operations occurring within a year, are designated for expenditure in the acquisition or construction of long-term assets, or are segregated for the liquidation of long-term debts. Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes shall also, under this concept, be excluded from short-term assets. However, if such funds are considered to offset maturing debt that has properly been set up as a short-term liability, they may be included within the short-term asset classification.

b) investments in securities or advances that have been made for the purposes of control, affiliation, or other continuing business advantage;

c) cash surrender value of life insurance policies;

d) land and other natural resources;

e) depreciable assets; and

f) deferred charges such as bonus payments under a long-term lease.

5.3.10 Short-term liabilities include, among others:

a) estimated or accrued amounts that are expected to be required to cover expenditures within the year for known obligations the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or where the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold);

b) due on demand loan agreements;

c) callable debt agreements;

d) serial maturities of long-term obligations;

e) amounts required to be expended within one year under sinking fund provisions;

f) financial liabilities that meet the definition of held for trading;

g) [bank] overdrafts;

h) the short term portion of long term financial liabilities;

i) dividends payable;

j) Agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons. Loans accompanied by pledge of life insurance policies would be classified as short-term liabilities if, by their terms or by intent, they are to be repaid within 12 months. The pledging of life insurance policies does not affect the classification of the asset any more than does the pledging of receivables, inventories, real estate, or other assets as collateral for a short-term loan. However, when a loan on a life insurance policy is obtained from the insurance entity with the intent that it will not be paid but will be liquidated by deduction from the proceeds of the policy upon maturity or cancellation, the obligation shall be excluded from short-term liabilities.

k) If the amounts of the periodic payments of an obligation are, by contract, measured by transactions in the current period, as for example by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a short-term liability shall be that representing the amount accrued at the statement of financial position date.

11. As illustrated in Appendix B by shading, the Codification includes additional current and noncurrent classification guidance (for example in Subtopics 715-20 and 715-60 on pensions and postretirement benefits). The staff recommend retaining that guidance in the Codification modified as necessary to be consistent with the overall classification guidance to be included in the exposure draft. Issue 3 addresses the guidance in Codification Topic 470 (Debt).

Question on Issue 2
2a. Does the FASB want to include the guidance proposed in paragraphs 5.3.8–5.310 above in the exposure draft?
2b. If so, does the IASB want to include the guidance proposed in paragraphs 5.3.8–5.310 above in the exposure draft?

Issue 3: Classification of debt

12. The guidance in IAS 1 on classification of debt was not included in the preballot draft. That guidance (see paragraphs 69(d) and 72–76 in Appendix A) and the guidance in Codification Topic 470 on the classification of debt differ in each of the following circumstances:
    (a) The debt is due within twelve months and is to be refinanced.
    (b) The debt is settled after the reporting date but prior to the issuance of the financial statements by the issuance of equity.
    (c) The debt is payable on demand due to breach of a loan agreement.
13. The following table summarizes the differences between IAS 1 and Topic 470 regarding the classification of debt as short term or long term.

	IAS 1	Codification Topic 470
(a)	An entity must have an "unconditional right to defer settlement" as well as expect and have the discretion to do so.	An entity must be able to demonstrate the ability to "consummate the refinancing" and have the intent to do so.
(b)	If the terms of the liability provide that the liability could be settled by the issue of equity that has no effect on the classification of the liability.	If equity is issued after the reporting date but before the issuance of the financial statements the liability is classified as long-term.
(c)	Events, such as entering into an agreement to refinance for a period greater than twelve months from the reporting date that occur after the reporting date but before issuance of the financial statements are disclosed as non-adjusting events and the related debt due within twelve months as at the reporting date would be classified as short-term.	Events, such as entering into an agreement to refinance for a period greater than twelve months from the reporting date, that occur after the reporting date but before issuance of the financial statements result in the related liabilities being classified as long-term.
(d)	A breach of a provision in a loan agreement that results in that long-term liability becoming payable on demand results in that liability being classified as short-term. If a waiver is obtained after the reporting date but before the financial statements are issued, the entity would disclose the waiver as a non-adjusting event and classify the liability as short-term.	A breach of a provision in a loan agreement that results in that long-term liability becoming payable on demand results in that liability being classified as short-term. If a waiver is obtained after the reporting date but before the financial statements are issued, the entity would classify the liability as long-term.
(e)	In the case of a breach of an agreement that contains a grace period of at least 12 months to cure a breach during which the lender cannot demand payment, the liability may be classified as long term (as long as it is not otherwise due within 12 months).	In the case of a breach of an agreement that contains a grace period, and that breach is expected to be cured within that period, the liability may be classified as long term (as long as it is not otherwise due within 12 months).

14. The staff think it is important that an entity classify debt as short term or long term in the same manner whether applying IFRSs or US GAAP. Although the staff began analyzing the differences and developing recommendations on how to converge the boards' guidance on classification of debt, we have not completed that analysis. Thus, the staff would like to know whether the boards would like us to complete that analysis and recommendations for discussion with the boards in May (so that the exposure drafts include the same guidance on classification of debt) or whether we should address converging guidance on classification of debt during the exposure period. If the boards want to address this issue in May, the ballot draft will be delayed. Alternatively, the boards could acknowledge in the exposure draft that there are some differences in the classification of debt that they intend to resolve during the exposure period.

Question on Issue 3
3. Should the boards' exposure drafts include the same application guidance on the classification of debt? In other words, should the staff pursue amending and/or deleting paragraphs 69(d), 72–76 of IAS 1 and/or in Topic 470 for discussion with the boards in May?

Issue 4: Mixed presentation in the statement of financial position

15. The staff recommend that paragraph 5.3.7 from the preballot draft (see below) **not** be included in the exposure draft because the staff does not think there are many instances in which that paragraph would apply and the paragraph seems to confuse rather than inform. One board member and a few external reviewers questioned what the paragraph was suggesting. The paragraph is from IAS 1. The staff confirmed with two Big Four firms that not carrying forward that paragraph from IAS 1 would not pose any problems in applying the presentation provisions for the statement of financial position.

> 5.3.6 A reporting entity shall present short-term assets and long-term assets, and short-term liabilities and long-term liabilities, as separate subcategories in each category within its statement of financial position … [or it] shall present all assets and liabilities in order of liquidity within each section or category.
>
> 5.3.7 In applying paragraph 5.3.6, a reporting entity is permitted to present some of its assets and liabilities using a short-term/long-term classification, and others in order of liquidity when this provides

information that is relevant. The need for a mixed basis of presentation might arise when a reporting entity has diverse operations.

Question on Issue 4
4. Do the boards agree with not including paragraph 5.3.7 from the preballot draft (above) in the FSP exposure draft?

Issue 5: Supplemental cash flow information

16. US GAAP currently requires that a reconciliation of net income to operating cash flows be required if an entity provides a direct-method statement of cash flows (SCF). IAS 7 does not have a similar requirement. US GAAP states that this reconciliation may be in a separate schedule. It does not specify whether that separate schedule should accompany the SCF or be presented in the notes.

17. US GAAP and IAS 7 both require that information about non-cash transactions be provided to supplement the statement of cash flows. Both US GAAP and IAS 7 say these amounts should be disclosed but do not specify where.

18. The FASB and the IASB both agreed that the reconciliation of operating income to operating cash flows and disclosure of non-cash transactions should be provided by a reporting entity as a supplement to a direct-method statement of cash flows.

19. In practice today, information about non-cash transactions commonly follows the SCF. Although there are not many examples (because most companies do not present a direct-method SCF), it appears to be common practice that the reconciliation of net income to operating cash flows follows a direct-method SCF.

Staff analysis and recommendation

20. Board members suggested in their review comments that the supplemental cash flow information is best presented **with** the SCF. Based on discussions with users of financial statements, the staff think that if this information does not accompany the SCF, users who are not familiar with the requirements of financial statement presentation may not know to look in the notes for this

information. Furthermore, having this information follow the statement it supplements seems to be most useful, as an analysis of the SCF would be incomplete without it.

21. The staff recommend that the exposure draft require both the reconciliation of operating income to operating cash flows and non-cash transaction information to be presented immediately following the SCF. That is, an entity would not be permitted to present the reconciliation or non-cash transaction information in the notes.

Question on Issue 5
5. Do the boards agree that both the reconciliation of operating income and operating cash flows and non-cash transaction information should be presented immediately following the statement of cash flows and not in the notes?

Issue 6: Other disclosures from IAS 7

22. A number of board members and external reviewers commented on paragraphs 7.6.5–7.6.7 of the preballot draft that describe encouraged disclosures of cash and cash flow information. Those paragraphs, along with paragraphs 7.6.3 and 7.6.4 (see below), are from the 'Other disclosures' section of IAS 7.

23. FASB Board members and at least one IASB Board member commented on use of the word "encouraged" in paragraph 7.6.5. External reviewers commented on that word as well as the term *operating capacity* in paragraphs 7.6.5(c) and 7.6.6. Some board members also commented that the last sentence in paragraph 7.6.6 does not belong in an accounting standard.

> **7.6.3 A reporting entity shall disclose, together with a narrative explanation, the amount of significant cash balances held by the reporting entity that are not available for general use by the reporting entity, and an explanation of why those amounts are not available.**
>
> 7.6.4 There are various circumstances in which cash balances held by a reporting entity are not available for use by the reporting entity. Examples include cash held by a subsidiary that operates in a country where exchange controls or other legal restrictions (eg repatriation taxes) apply, and these controls and/or restrictions make the balances unavailable for general use by the parent or other subsidiaries.

> 7.6.5 Additional information may be relevant to users in understanding the financial position and liquidity of a reporting entity. Disclosure of this information, together with a narrative explanation, is encouraged, and may include: [emphasis added]
>
> (a) the amount of undrawn borrowing facilities that may be available for future business activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
>
> (b) the aggregate amount of cash flows that represent increases in operating capacity, presented separately from those cash flows that are required to maintain operating capacity; and
>
> (c) the amount of the cash flows arising from the activities of each reportable segment (see IFRS 8 *Operating Segments*). [IASB ED only]
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> 7.6.6 The separate disclosure of cash flows that represent increases in operating capacity, and cash flows that are required to maintain operating capacity, is useful in enabling a capital provider to determine whether a reporting entity is investing adequately in the maintenance of its operating capacity. [A reporting entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.] [shading and brackets added]
>
> 7.6.7 The disclosure of segmental cash flows enables a capital provider to obtain a better understanding of the relationship between the cash flows of the business as a whole, and those of its component parts, and the availability and variability of segmental cash flows. [IASB ED only]

Should the disclosures be required rather than encouraged?

24. FASB board members have indicated that they do not want to encourage disclosures; disclosures should either be required or not included in a standard. The FASB exposure draft does not include paragraph 7.6.5(c) and related paragraph 7.6.7 on disclosure of cash flows by segment because the FASB exposure draft **requires** that disclosure (along with other segment measures). Given that the FASB's leaning has been not to introduce new disclosures as part of the FSP project unless a disclosure relates directly to a presentation objective, the staff suggest that paragraphs 7.6.5(a) and 7.6.5(b) not be included in the FASB exposure draft. This would mean related paragraph 7.6.6 also would not be included.

25. The staff presume that the IASB will want to retain the paragraphs in question as they are from IAS 7. The staff will ask the IASB if they want to require those disclosures or continue to encourage them.

How to handle the term 'operating capacity'?

26. The staff note that the definition of *operating activities* in the exposure draft (items and transactions that generate revenue through a process that requires the interrelated use of the net resources of the reporting entity) may be inconsistent with what is meant by *operating capacity* in IAS 7.

27. The staff has identified three alternatives for the boards' consideration:

    (a) define the term *operating capacity* (for purposes of this draft standard),

    (b) replace the term *operating capacity* with another term, or

    (c) not include the disclosure (along with paragraph 7.6.6) in the exposure draft.

28. If board members want to retain this disclosure, the staff suggest it be rewritten to not use the term *operating capacity* or *investing*, for example as follows:

> (b) the aggregate amount of cash flows that represent ~~increases in operating capacity~~ an expansion of revenue-generating activities, presented separately from those cash flows that are required to maintain ~~operating capacity~~ the existing level of revenue-generating activity
>
> 7.6.6 The separate disclosure of cash flows that represent ~~increases in operating capacity~~ an expansion of revenue-generating activities, and cash flows that are required to maintain ~~operating capacity~~ the existing level of revenue-generating activity, is useful in enabling a capital provider to determine whether a reporting entity is adequately funding the maintenance of its ~~operating capacity~~ revenue-generating activities. ~~A reporting entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.~~

29. The wording in paragraph 7.6.6 infers that the disclosure is meant to provide liquidity information. The boards decided that providing information about liquidity and financial flexibility should not be an explicit focus of the FSP project. For those reasons and because the disclosure is not required, the staff suggest not including paragraphs 7.6.5(b) and 7.6.6 in the FSP exposure draft. An entity would of course be permitted to disclose that information.

30. In summary, the staff recommend:

    (a) The FASB exposure draft **not** include paragraphs 7.6.5–7.6.7 that were in the preballot draft

(b) The IASB retain paragraphs 7.6.5(a), 7.6.5(c), and 7.6.7 in its exposure draft and possibly require, rather than encourage, disclosure of that information.

(c) The IASB exposure draft not include paragraphs 7.6.5(b) and 7.6.6.

Questions on Issue 6
6a. The staff recommend that the FASB exposure draft not include the encouraged disclosures from IAS 7 as repeated in paragraphs 7.6.5(a) and 7.6.5(b) of the preballot draft. Does the FASB agree? If not, does the FASB want to require rather than encourage those disclosures?
6b. Does the IASB want to retain the disclosures from IAS 7 repeated in paragraphs 7.6.5(a) and 7.6.5(c) (along with related paragraph 7.6.7)? If so, should either or both of those disclosures be required?
7. The staff recommend not including the disclosure related to *operating capacity* in the IASB exposure draft (paragraphs 7.6.5(b) and 7.6.6 in the preballot draft). Does the IASB agree? If not, should those paragraphs be revised as suggested in paragraph 28?

Issue 7: Should sections and categories be in the same order on all statements?

31. The discussion paper proposed that an entity should present the sections and categories in the same order in the SFP, SCI, and SCF. In selecting that order, an entity should choose the order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals. However, the preballot draft did not include a similar requirement. In fact, Chapter 4 says that the draft Standard/proposed Update "does not prescribe the order in which an entity presents its sections in the financial statements." The basis for conclusions says that "the boards decided not to propose that requirement in this exposure draft, because there are instances in which it may be more understandable to present the sections and categories in a different order." As a few board members noted in their review comments, the boards never explicitly discussed this issue in deliberations (staff oversight).

Staff analysis and recommendation

32. The sections and categories in the illustrative financial statements are not all in the same order primarily because the income tax section has to be before the discontinued operation section in the statement of comprehensive income (SCI) to arrive at a net income subtotal. The staff think that because equity will now be classified in the financing section, reporting entities may want to present the financing section last in the SFP so that equity is presented at the bottom of the SFP. In order to achieve that familiar presentation, the order of sections in the SFP and SCI cannot be the same. Therefore, the staff think that the exposure draft should not **require** an entity to present sections and categories in **exactly** the same order in each statement. Also, as noted in the discussion paper, there may be instances in which it makes more sense (produces more understandable results) if one or more sections is presented in a slightly different order in one of the statements.

33. The staff do not think that changing the proposed requirement in the discussion paper contradicts the cohesiveness principle. The fact that the sections and categories will be clearly labeled in each statement will allow a reader of the financial statements to associate related information even though it may not be in the exact same location in each statement.

34. Therefore, the staff recommend that the exposure draft **not** require an entity to present the sections and categories in the same order in the statements of financial position, comprehensive income, and cash flows. The staff recommend that the exposure draft state that in selecting the order in which to present sections and categories, an entity should try to align the sections and categories across the statements. However, the entity should choose an order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals. In other words, understandability is more important than strict alignment. The basis for conclusions would clarify that the goal is to align the sections and categories as closely as possible but allow some flexibility.

35. An external reviewer suggested that the exposure draft clarify that the discontinued operation section and other comprehensive income should be

presented after the income tax section in the SCI (because those items are presented net of tax). The staff think that is a good suggestion and recommend that the exposure draft clarify that all sections other than the discontinued operation section should be presented before the income tax section in the SCI (the exposure draft already clarifies that other comprehensive income should be presented after profit or loss/net income).

Questions on Issue 7	
8a.	Do the boards agree that the exposure draft should not prescribe the order in which an entity presents its sections and categories in the financial statements?
8b.	If so, do the boards agree that the exposure draft should clarify that an entity should try to align the sections and categories across the statements, but choose an order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals?
9.	Do the boards agree that the exposure draft should clarify that in the statement of comprehensive income all sections except the discontinued operation section should be presented before the income tax section?

FASB-only issue on not-for-profit entities

36. The only remaining sweep issue relates to statement of cash flow guidance for not-for-profit entities. As that is a FASB-only issue, the FASB will address that issue at the April 23, 2010 education session and April 28, 2010 board meeting.

Appendix A – Excerpts from IAS 1 (Issues 2 and 3)

A1. The following paragraphs are from IAS 1. The staff recommend retaining the shaded portions in the exposure draft.

Current assets

66 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

67 This Standard uses the term ‘non-current’ to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with IAS 39) and the current portion of non-current financial assets.

Current liabilities

69 An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity’s normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity’s assets and liabilities. When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with IAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity’s normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

76 In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Appendix B – Excerpts from Codification (Issues 2 and 3)

A2. The following paragraphs are from the Codification (as presented in the preballot draft of the proposed Update). The portions that the staff recommendation in Issue 2 do not include are ~~struck through~~. The portions that would be retained in the proposed Update but not in the standards section are shaded.

> Classification of Short-Term Assets

210-10-55-3 Short-term assets generally include all of the following:

a. Cash available for current operations
b. Inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts
c. Trade accounts, notes, and acceptances receivable
d. Receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year
e. Installment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business
f. ~~Marketable~~ securities representing the investment of cash available for current operations, including investments in debt and equity securities classified as trading securities under Subtopic 320-10
g. Prepaid expenses ~~such as the following~~:
   ~~1. Insurance~~
   ~~2. Interest~~
   ~~3. Rents~~
   ~~4. Taxes~~
   ~~5. Unused royalties~~
   ~~6. Current paid advertising service not yet received~~
   ~~7. Operating supplies.~~

210-10-55-4 ~~Prepaid expenses are not short-term assets in the sense that they will be converted into cash but in the sense that, if not paid in advance,~~ they would require the use of short-term assets ~~during the operating cycle~~. An asset representing the overfunded status of a single-employer defined benefit pension or postretirement plan shall be classified pursuant to Subtopics 715-30 and 715-60.

210-10-55-5 The concept of the nature of short-term assets contemplates the **exclusion** from that classification of such resources as the following [emphasis added]:

a. Cash and claims to cash that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of long-term assets, or are segregated for the liquidation of long-term debts. Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes shall also, under this concept, be excluded from short-term assets. However, if such funds are

considered to offset maturing debt that has properly been set up as a short-term liability, they may be included within the short-term asset classification.

b. Investments in securities ~~(whether marketable or not)~~ or advances that have been made for the purposes of control, affiliation, or other continuing business advantage.

~~c. Receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) that are not expected to be collected within 12 months.~~

d. Cash surrender value of life insurance policies.

e. Land and other natural resources.

f. Depreciable assets.

g. ~~Long-term prepayments that are fairly chargeable to the operations of several years, or~~ deferred charges such as bonus payments under a long-term lease, ~~costs of rearrangement of factory layout or removal to a new location~~.

> Classification of Short-Term Liabilities

210-10-55-7 Short-term liabilities include estimated or accrued amounts that are expected to be required to cover expenditures within the year for known obligations the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or where the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold).

210-10-55-8 Section 470-10-45 [Debt] includes guidance on various debt transactions that may result in short-term liability classification. These transactions are the following:

a. Due on demand loan agreements

b. Callable debt agreements

c. Short-term obligations expected to be refinanced.

> > Other Liabilities

210-10-55-9 ~~Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually 12 months, are also generally included, such as the following:~~

a. Short-term debts arising from the acquisition of capital assets

b. Serial maturities of long-term obligations

c. Amounts required to be expended within one year under sinking fund provisions

d. Agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons. Loans accompanied by pledge of life insurance policies would be classified as short-term liabilities if, by their terms or by intent, they are to be repaid within 12 months. The pledging of life insurance policies does not affect the classification of the asset any more than does the pledging of receivables, inventories, real estate, or other assets as collateral for a short-term loan. However, when a loan on a life insurance policy is obtained from the insurance entity with the intent that it will not be paid but will be liquidated by deduction from the proceeds of the policy upon maturity or cancellation, the obligation shall be excluded from short-term liabilities.

210-10-55-10 A liability representing the underfunded status of a single-employer defined benefit pension or postretirement plan shall be classified pursuant to Subtopics 715-30 and 715-60.

210-10-55-11 If the amounts of the periodic payments of an obligation are, by contract, measured by transactions in the current period, as for example by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a short-term liability shall be that representing the amount accrued at the balance sheet date.

210-10-55-12 ~~The short-term liability classification is not intended to include debts to be liquidated by funds that have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of working capital for long periods.~~