Project **Financial Statement Presentation**

Topic **Analyses of changes in assets and liabilities**

Introduction

1. At the working group (WG) meeting, we would like to discuss the boards' tentative decision to replace the reconciliation schedule with an analysis of changes in all significant asset and liability line items from the beginning to the end of the period.

Background

2. The reconciliation schedule proposed in the discussion paper reconciles the cash flows to comprehensive income on a line-by-line basis and disaggregated comprehensive income into four components:
   (a) cash received or paid other than in transactions with owners
   (b) accruals other than remeasurements[1]
   (c) remeasurements that are recurring fair value changes or valuation adjustments
   (d) remeasurements that are not recurring fair value changes or valuation adjustments.
3. The reconciliation schedule had two objectives:
   (a) to provide a link between the statement of cash flows (SCF) and the statement of comprehensive income (SCI), thereby improving the articulation among those financial statements
   (b) to provide information about what gives rise to changes in assets and liabilities that would allow users of financial statements to apply their

[1] A *remeasurement* is defined as a change in the carrying amount of an asset or a liability attributable to a change in a price or an estimate.

own judgments about how and if the components of comprehensive income will be realized in cash in the future (and thus how they would ultimately affect investment value).

4. At the joint October 2009, the boards agreed with two of the alternatives the working group discussed at their meeting in July 2009:
   (a) replace the reconciliation schedule with reconciliations of key SFP line items
   (b) eliminate the reconciliation schedule and present information about remeasurements in the SCI or the notes.
5. This paper addresses the first alternative solution; WG Paper 5 addresses the second.

Analyses of changes in significant asset and liability line items

6. An entity should consider the following factors in determining the asset and liability line items to analyze in the notes:
   (a) whether assumptions or judgments are used in measuring the asset or liability and the level of uncertainty in the measurement
   (b) the variability in the measurement resulting from exposure to risk and the nature of that exposure (eg credit risk, foreign exchange risk, interest rate risk);
   (c) the significance of the beginning and ending balance with respect to total assets or total liabilities
   (d) the significance of a change in the line item balance with respect to revenues, expenses, and/or cash flows
   (e) the significance of the activity flowing through the line item with respect to revenues, expenses, and/or cash flows
   (f) any other economic phenomena that could affect the decision making of a capital provider.
7. The analysis should explain the nature of the transactions and other events that gave rise to a change in the line item balance in sufficient detail and should separately distinguish the following components:
   (a) the beginning balance of the asset or liability
   (b) changes resulting from cash inflows and cash outflows

(c) changes resulting from non-cash transactions (excluding remeasurements) that are recurring and routine in nature (eg credit sales, interest expense)

(d) changes resulting from non-cash transactions (excluding remeasurements) that are non-recurring or non-routine (eg acquisition or disposition of a business)

(e) changes resulting from accounting allocations (eg depreciation);

(f) changes resulting from accounting allowances or reserves (eg bad debts, obsolete inventory)

(g) changes resulting from remeasurements (eg foreign currency translation, impairment)

(h) the ending balance of the asset or liability.

Disclose all together or present in same place as related information?

8. At the October 2009 joint meeting, the boards addressed but did not reach a tentative decision on whether the analysis of changes in the various asset and liability line items (along with a narrative explanation) should be presented together in a single note or be presented individually as part of a related note disclosure. The staff think it makes the most sense to present the analyses within the context of related information and not to duplicate information presented in the notes to financial statements.

Present analyses of changes for comparable periods?

9. Another issue is whether an entity should present the analysis of changes for only the current period or also for comparable periods. The staff think that IAS 1 would require an entity to present an analysis for a previous period(s) if it is presented for the current period, thus the current period financials would drive the presentation of the financials for previous periods. The staff see no reason why there should be an exception for the analysis of changes in significant asset and liability line items.

Should existing reconciliation requirements be removed from current standards?

10. Some standards in IFRSs and US GAAP already require a reconciliation of the beginning and ending balance of a certain account (eg carrying amounts of

property, plant and equipment at the beginning and end of the period (IAS 16.73(e)). If reconciliations are removed from specific standards this might result in a loss of information, as there would be a lack of explanatory guidance about the specific components of such reconciliations and ways to prepare this information.

11. Therefore, the staff think that reconciliations of specific items, as required elsewhere in IFRSs or US GAAP, should always be disclosed notwithstanding the factors outlined in paragraph 6. The staff considers that the structure of such reconciliations follows a similar structure to the one proposed in paragraph 7.

Discussion questions—analysis of changes in accounts
1. Is the requirement to present an analysis of the changes in balances of significant line items along with related information in the notes to the financial statements an improvement over the proposed reconciliation schedule? Will it result in decision-useful information? 2. Are the **factors** listed in paragraph 6 for determining a significant line item and the **components** listed in paragraph 7 that should be included in the analyses of changes clear? Are they operational (that is, can they be easily implemented)? 3. Is there any reason why an entity should **not** be required to present an analysis of changes in a line item for a previous period(s) if it is presented for the current period? 4. Should existing reconciliations of specific items as required elsewhere in IFRSs or US GAAP be retained?