Project **Financial statement presentation: *Replacement of IAS 1 and IAS 7***

Topic **Disaggregation, classification and cash flow information**

Introduction

1. This paper reflects some of the cumulative and tentative decisions made to date jointly by the IASB and FASB. Those tentative decisions have been reported in the newsletter IASB *Update*. Financial statement presentation is an ongoing project and, like any project, tentative decisions sometimes, and often do, change.

Disaggregation principle

2. The proposals in this project contain the disaggregation principle as one of the two core financial statement presentation principles. Disaggregation means separating resources by the activity in which they are used and by their economic characteristics. The disaggregation principle includes three attributes (function, nature and measurement bases). Those attributes would be applied to the financial statements both individually and in concert with each other to provide the best representation of how an entity uses its resources to generate income and cash flows.

3. In IFRSs, most entities would disaggregate income and expenses by their function and nature on an entity basis (not by reportable segment) and present information by function in the statement of comprehensive income. By-nature information would be presented either in the statement of comprehensive income or disclose that information in a separate note. In US GAAP, entities would disaggregate income and expenses by their nature for each reportable segment and present that information in the segment note, with different by-

nature disaggregation permitted for each reportable segment. Those entities also would disclose additional operating measures in the segment note.

4. The current proposals represent a change from the proposal in the discussion paper the boards published on this project in October 2008 where an entity was required to disaggregate its income and expenses in the statement of comprehensive income by both function and nature.

Questions for breakout session on disaggregation (15 mins)
1. The **disaggregation principle** is based on three attributes (function, nature and measurement basis). Is this principle understandable and operational for each financial statement? Why or why not? Are there any **attributes** that should be either added or removed from the disaggregation principle?
2. In your opinion, which disaggregated information should be presented on the face of the financial statements and which in the notes to financial statements?
3. Should the IASB require income and expenses to be disaggregated by nature for each reportable **segment** as proposed by FASB? If so, should additional operating measures be required to be disclosed in the segment note?

Classification and format

5. The proposals in this project would establish a common structure for the financial statements in the form of required sections, categories and subcategory and related subtotals. An entity would determine the appropriate classification for its assets and liabilities based on the proposed definitions of the sections, categories and subcategory and then similarly classify the related income, expenses and cash flows in the statements of comprehensive income and cash flows. This is a change from the proposal in the October 2008 discussion paper where classification of assets and liabilities involved more judgement because the definitions were more subjective.

6. The business section would include items that are part of an entity’s day-to-day and other income-generating activities and segregate them into operating and investing categories. Select liabilities directly related to operating activities,

which some users view as an alternative source of financing (eg a pension obligation), would be classified in the operating finance subcategory within the operating category.

7. The financing section would include items that are part of an entity's activities to obtain (or repay) capital and segregate them into debt and equity categories.

8. Discontinued operations and income taxes would be presented in their own separate sections.

9. The statement of changes in equity would not include the sections and categories used in the other statements because that statement presents information solely about changes in items classified in the equity category in the statement of financial position.

10. The following table illustrates the sections, categories and subcategory in each financial statement:

Statement of financial position	Statement of comprehensive income	Statement of cash flows
Business section	**Business section**	**Business section**
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	**Financing section**	**Financing section**
Debt category	Debt category	
Equity category		
	Multi-category transaction section	**Multi-category transaction section**
Income tax section	**Income tax section**	**Income tax section**
Discontinued operation section	**Discontinued operation section**, net of tax	**Discontinued operation section**
	Other comprehensive income, net of tax	

Questions for break out session on classification and format (15 mins)
1. Do you think the **proposed financial statement structure** with common section, categories and subcategory will improve communication of an entity's financial results to users of its financial statements? Why or why not? 2. Do you think the proposed structure will result in **consistent and uniform classification** of assets, liabilities, income and expenses across entities? Why or why not? 3. Do you think the segregation of the **operating liabilities that have a finance component** will provide useful information? If so, will the benefit of that segregation outweigh any complexity that it may add to the format of those financial statements? Why or why not? 4. Should assets such as **cash and marketable securities** be included within the **financing section** as a move toward equating this section with a notion of **net debt**? Why or why not?

Statement of cash flows

11. In the statement of cash flows, an entity would use a direct method to present cash flows in each of the sections and categories. For example, an entity would present separately the classes of its cash receipts and payments for its operating activities, such as cash collected from customers and cash paid to suppliers to acquire inventory. The disaggregation of cash flows in the statement of cash flows would be more limited than in the statement of comprehensive income. This is a change from the proposal in the October 2008 discussion paper. An entity also would be required to reconcile operating income to operating cash flows and provide this information as a supplement to the statement of cash flows.

12. In current practice, most entities choose to present their operating cash flows indirectly in the statement of cash flows by reconciling profit or loss to net operating cash flows rather than present those cash flows using a direct method. Existing IFRSs and US GAAP require all entities to use a direct method to present their investing and financing cash flows.

Questions for break out session on statement of cash flows (15 mins)
1. Should the financial statements include a **reconciliation of profit or loss from operating activities to net cash flows from operating activities**? If so, should it be presented as part of the statement of cash flows or in the notes? 2. Should there be more **disaggregation of operating cash flows** information in the statement of cash flows that is required today? If so, describe the level of disaggregation and how that incremental information would be used in analyses. What would be the **minimum operating cash flow line** items you would like to see disaggregated in a statement of cash flows?