STAFF PAPER

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Project	**Financial Instruments with Characteristics of Equity research project**
Paper topic	Classification and presentation

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Introduction

1. At this meeting, we are seeking input from the CMAC and GPF members on our work related to the classification and presentation of financial instruments with characteristics of both liabilities and equity.

2. The Board is currently considering an approach which would provide information about such instruments through a combination of classification and presentation requirements. In order to obtain feedback on the approach being developed, the breakout sessions will discuss case studies that illustrate the outcome of this approach based on the features of specific instruments.

3. In particular, we are seeking input on the following:

    (a) From investors, how the approach to classification and presentation of these instruments would affect your assessments of a company's financial position and performance.

    (b) From preparers, costs and other concerns about preparing the information required by the different approaches.

4. This paper is structured as follows:

    (a) Background (paragraphs 5–7)

    (b) Overview of the approach (paragraphs 8–11)

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/The+organisation/Advisory+bodies/CMAC/.aspx
Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx

(c) Feedback we are seeking (paragraphs 12–13)

Background

5. The Board has previously identified the Financial Instruments with Characteristics of Equity (FICE) project as one of its research projects. This is on the basis of:

   (a) the views received during the 2012 Agenda Consultation (which have been reinforced in the 2015 Agenda Consultation); and

   (b) diversity in practice as evidenced by issues submitted to the Interpretations Committee (eg, put options written on non-controlling interests).

6. Initially, the objective of the project was to inform the IASB's Conceptual Framework project. We have previously discussed liability and equity classification with the CMAC and GPF as part of our *Conceptual Framework* project.[1] The Board subsequently decided to continue to research issues with liability and equity classification as part of the FICE project. As a result, the 2015 Exposure Draft *Conceptual Framework for Financial Reporting* did not address these issues.

7. The Board decided that the scope of the FICE research project should be to investigate:

   (a) potential improvements to the classification of liabilities and equity in IAS 32 *Financial Instruments: Presentation*, including investigating potential amendments to the definitions of liabilities and equity in the *Conceptual Framework*. These improvements will focus on reinforcing the underlying principles to ensure they are robust enough to deal with existing and new instruments that are posing challenges in practice.

   (b) potential improvements to the presentation and disclosure requirements, irrespective of whether they are classified as liabilities or equity. This

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[1] http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/past-meetings/Documents/CMAC-GPF-minutes-June-2014.pdf

will provide an additional tool through which some of the problems identified could also be addressed.

Overview of the approach

8. The Board has observed over previous consultations that there are a number of different features of liabilities and equity[2] that are relevant to various assessments of the company's financial position and performance. These various features have also been identified in the classification requirements of IAS 32.

9. Classification as a liability or equity can provide information about some similarities and differences in features, but it cannot provide information about all similarities and differences. In addition, the Board observed that there is, at present, a big gap between the information provided for items classified as equity and those classified as liabilities. In particular, liabilities are measured with changes recognised as income and expense, whereas equity instruments are not. Therefore, the Board has been considering additional presentation and disclosure requirements to help provide better information about the similarities and differences *within liabilities* and *within equity*.

10. Feedback received during previous discussions with the CMAC and other user groups, and the GPF, suggested that the following features are relevant:

    (a) The **timing** of potential economic resource outflows: in particular whether the claim requires the company to transfer cash or other economic resources prior to liquidation. In previous discussions, many GPF members supported an approach that distinguished between liabilities and equity based on this feature alone. However, CMAC members expressed concern that instruments without such a feature could still behave like debt.

    (b) The **amount** of the claim: in particular whether the amount of the claim depends on the company's economic resources (and changes thereof) or not. In previous consultations, some user representative groups

[2] We refer to both liabilities and equity as claims against the entity.

supported an approach that would classify as equity all claims that shared without limit in the upside potential of the company.

(c) The **priority** of the claim on liquidation: in previous discussions, many CMAC members have suggested that financial statements should provide information about all claims other than ordinary shares. Thus many supported a narrow equity approach. However, some GPF members were concerned that changes in some ‘equity-like’ instruments would be recognised in profit or loss. In response, CMAC members suggested using other comprehensive income (OCI) for the remeasurement of such instruments.

11. In consideration of prior consultations, over the past few months the Board has been focusing on an approach that would account for instruments with characteristics of both liabilities and equity as follows:

Classification	***Rationale***
Classify as liabilities claims that include either (a) or (b) below:	
(a) an obligation to transfer economic resources at particular points in time other than at liquidation. *This feature is intended to capture claims, such as ordinary bonds, and redeemable instruments, the terms of which could require the company to transfer resources.*	Useful to assess the extent the entity is expected to have the resources required to meet its obligations as and when they fall due.
(b) an obligation for a specified amount independent of the economic resources of the entity. *This feature is intended to capture claims that do not share without limit in the upside potential of the*	Useful to assess the extent the entity has sufficient resources to meet its obligations and whether it is expected to produce a return on its economic resources to satisfy the return it has promised on these claims.

company, as suggested by some user representative groups. For example, ordinary bonds, variable share settled instruments and cumulative preference shares.	
Classify as equity other claims that are not liabilities. *Such claims could include ordinary shares, and other instruments with similar pay-offs that do not require the company to transfer economic resources.* *Importantly, equity **would not** be limited to ordinary shares.*	These would represent claims that both: (a) do not require the entity to transfer any assets prior to liquidation; and (b) share in the residual economic resources of the entity.
Presentation	***Rationale***
Within liabilities, present separately amounts arising from claims that include either feature (a) or (b) but not both. In particular, if the amount of the obligation depends on the residual amount (eg shares redeemable at fair value on demand), present income and expense separately. One approach being considered would present such income and expense in OCI.[3] We have illustrated the OCI approach in the case studies.	Separate presentation will help facilitate the specific assessments above. Separately presenting the income and expense items arising from changes in the fair value of the share price will highlight the similar payoff to ordinary shares. It will also alleviate the consequences of incomplete recognition and mixed measurement. These consequences arise when the changes in share price are driven by changes in unrecognised assets (as is the case, for example, when there

[3] The Board is currently considering principles for the presentation of income and expense between profit or loss and other comprehensive income as part of its Conceptual Framework project.

	are changes in internally generated goodwill).
Presentation	***Rationale***
Within equity, separately present classes of equity other than ordinary shares. In particular, attribute items of profit and loss and other comprehensive income to specific classes of equity, and update carrying amounts, similar to the attribution of non-controlling interests. To reduce the cost of application, the Board is considering using some of the existing requirements in IAS 33 *Earnings per Share* for the purposes of updating the carrying amounts for classes of equity other than ordinary shares.	Provide more information about the distribution of returns amongst various classes of equity other than ordinary shares. Attributing profit and loss and other comprehensive income items for different classes of equity other than ordinary shares would provide similar information to a narrow approach to equity.

Input we are seeking

12. The Board will be addressing further details in the approach in the coming year (such as the accounting for derivatives and compound instruments), and will be considering additional disclosure requirements.[4]

13. However, at this juncture we would like to get input on:

    (a) whether the classification and presentation approach being considered will address the information needs of users under different scenarios; and

    (b) the cost impact from the point of view of preparers of the classification and presentation approach being considered.

Case studies-overview

14. This paper contains two case studies. These are included to help you evaluate the effects of this possible approach on financial statements, and to facilitate discussion in break-out sessions.

15. **Two breakout groups will discuss one case study, and two breakout groups will discuss the other case study.**

16. **The questions we ask for each are the same.**

17. The case studies describe two different reporting entities, with different fact patterns and events for each.

18. We have made simplifying assumptions, such as ignoring taxes.

19. **Case Study 1 Utilicorp**: A utility company with infrastructure assets that are low risk but illiquid. At the beginning of year 20x4, investors redeem certain claims against the company. The company is unable to raise additional funds to cover these claims. This results in the need to sell some of its long-term assets to meet the redemption requirements.

[4] The Board has already indicated that additional information about the priority of the claim would be helpful to assess the extent to which any potential shortfall or excess in economic resources will be distributed amongst claims.

20. **Case Study 2 Pharmacorp**: A pharmaceuticals company with assets that are high risk and illiquid, many of which are unrecognised because they were internally developed (for example, intangibles). At the beginning of year 20x4, the introduction of a competitor product severely impairs the company's unrecognised assets. Financial markets have adequate liquidity to provide funding for projects with a range of positive returns.

21. In these case studies, monetary amounts are denominated in 'currency units (CU)'.

Instruments-overview

22. Both companies are funded by claims that have the same features; however the mix is slightly different for each company.

23. For the purpose of the case studies we focus on the classification and presentation of two particular instruments:

    (a) A claim with equivalent features to an ordinary share, except that the entity has an obligation to settle the claim, at fair value in cash, on demand by the holder. For convenience we call these **shares redeemable at fair value on demand.**[5]

    (b) A claim with equivalent features to an ordinary interest-bearing bond except that the entity has the right to defer settling the claim in part (ie interest/coupon payments), or in full (ie principal), prior to liquidation. Missed payments are compounded over time. For convenience we call these **cumulative preference shares**.[6]

[5] In practice, the redemption feature could appear in a separate written put option, or the underlying share could be in a subsidiary. In the cases, we ignore these complications to simply focus on the requirements to pay cash on demand, and the amount of cash to pay being equal to the fair value of an ordinary share.

[6] Instruments with similar features are also sometimes called perpetual bonds or hybrid bonds and are equity classified under IAS 32 because of the unconditional right to defer payment of principal and interest. These are also similar to variable share settled bonds which are classified as liabilities under IAS 32, however the instrument we use does not have a variable share settlement feature. We have called the instruments cumulative preference shares to avoid confusion with perpetual bonds that require specified annual coupon payments in perpetuity.

Questions for discussion

24. When reading the case studies please consider these questions for discussion:

Questions primarily for CMAC members

Shares redeemable at fair value

25. Do you think that classifying the **shares redeemable at fair value on demand** as a liability, together with separate presentation, would be useful for:

    (a) your assessment of the company's **financial position**? For example:

        (i) would you include the carrying amount in your assessment of the company's liquidity ratios such as the quick ratio, or current ratio?

        (i) when you assess the company's cash requirements, would you consider the possibility that this amount will be redeemed?

        (ii) would you treat the claim differently from other liabilities for some balance sheet assessments (such as debt/equity) because it has the same pay-off as an ordinary share?

    (b) your assessment of the company's **financial performance**? For example:

        (i) would you include or exclude the changes in the fair value of the redeemable shares from your analysis of the company's performance? Why?

        (ii) how would the changes in fair value of this instrument impact the performance ratios that you might use?

Cumulative preference shares

26. Do you think that classification of **cumulative preference shares** as a liability, **together with separate presentation,** would be useful for:

    (a) your assessment of the company's **financial position**? For example,:

        (i) would you include the carrying amount in your assessment of the company's solvency or financial leverage (eg debt/equity ratio, debt overhang)?

(ii) would you include this claim in your analysis of the company's financial flexibility?

(iii) how would the 'payment deferral' feature of the claim affect your analysis? Would there be some assessments of financial position for which you would treat cumulative preference shares differently to, say, an extremely long-dated bond?

(b) your assessment of the company's **financial performance**? For example, would you:

(i) include the cumulative dividend in your assessment of interest coverage or return leverage (eg EBIT/interest expense, debt/EBIT, return on equity)?

(ii) include the cumulative dividend in your assessment of the potential returns to ordinary shareholders?

27. If cumulative preference shares continue to be classified as equity, would measuring these instruments similar to liabilities (eg at amortised cost), along with more prominent presentation within equity, be useful for your assessments of the company's financial position and performance?

Questions primarily for GPF members

28. Do you think the suggested classification and presentation requirements being considered by the Board for these instruments would be practicable for preparers of financial statements? If no, why? What would you see as more practicable options?

29. To what extent do you, or would you, provide the information suggested already, if applicable, perhaps by way of disclosure?

Case study 1—Utilicorp

30. Utilicorp owns a number of infrastructure assets internationally. Because of the size of its infrastructure projects, the company has had to tap into various sources of finance to meet different risk-profile requirements of its investors.

31. Accordingly, Utilicorp is funded with a mix of different claims, including:

    (a) short-term notes and long-term ordinary bonds that bear interest at 2% and 5%, respectively;

    (b) **cumulative preference shares** that, while promising a compounding return of 7%, give Utilicorp the unconditional right to defer payment of any coupons or principal amounts;

    (c) **1000 shares redeemable at fair value on demand**; and

    (d) 10,000 ordinary shares.

32. Utilicorp pays dividends on its cumulative preference shares and ordinary shares in 20x1, 20x2 and 20x3. It also pays down some of the principal on its other liabilities when it has sufficient free cash flow.

33. At the beginning of year 20x4, many of Utilicorp's investors redeem some of their claims against it, including all of the shares redeemable at fair value. Utilicorp is unable to replace these claims with alternative sources of finance. It is therefore compelled to sell some of its infrastructure assets for less than their carrying value in order to meet the claims.

34. Utilicorp suspends dividends on both its ordinary shares and cumulative preference shares in years 20x4 and 20x5.

35. Utilicorp's share price is as follows at the end of each year:

Period ending	**20x1**	**20x2**	**20x3**	**20x4**	**20x5**
Share price	6	6.4	6.65	6.00	5.00

Utilicorp—Summary financial statements

<u>Existing</u> classification and presentation requirements

Period ending	20x1	20x2	20x3	20x4	20x5
Assets					
Non-current assets					
Property, plant and equipment	19,000	19,475	19,874	11,726	11,784
Long-term receivable	8,000	8,240	8,364	8,447	8,616
	27,000	27,715	28,238	20,173	20,400
Current assets					
Inventory	5,500	5,665	5,770	4,904	4,855
Receivables	4,000	4,120	4,202	3,572	3,501
Cash	2,500	2,550	2,588	1,888	1,190
	12,000	12,335	12,560	10,364	9,546
Total assets	**39,000**	**40,050**	**40,798**	**30,537**	**29,946**
Current liabilities					
Short-term notes	3,000	3,060	3,121	2,238	1,186
Ordinary bonds due in 12 months	-	-	1,348	-	-
Other liabilities[7]	6,000	6,390	6,652	-	-
	9,000	9,450	11,121	2,238	1,186
Non-current liabilities					
Ordinary bonds	9,000	9,180	7,832	7,989	8,148
	9,000	9,180	7,832	7,989	8,148
Total liabilities	**18,000**	**18,630**	**18,953**	**10,227**	**9,335**
Equity					
Cumulative preference shares	3,000	3,000	3,000	3,000	3,000
Ordinary shares	14,000	14,000	14,000	14,000	14,000
Retained earnings	4,000	4,420	4,845	3,311	3,612
Total Equity	**21,000**	**21,420**	**21,845**	**20,311**	**20,612**

[7] Other liabilities include **shares redeemable at fair value on demand**. Today there is no specific requirement to present these separately on the face of the statement of financial position, or in the notes. Therefore, in practice this line item could include other liabilities as well.

Utilicorp—Summary financial statements

***Existing* classification and presentation requirements (contd…)**

Summarised statement of profit or loss and OCI	**20x1**	**20x2**	**20x3**	**20x4**	**20x5**
EBIT[8]	2,500	2,725	2,998	(1,097)	749
Fair value gains/(losses)[9]	(120)	(390)	(262)	-	-
Interest costs	540	520	454	437	447
Total profit or loss	**1,840**	**1,815**	**2,282**	**(1,535)**	**302**
Basic EPS*	0.16	0.16	0.20	- (0.17)	0.01

***Basic EPS workings (presented in notes)**					
Total profit or loss	**1,840**	**1,815**	**2,282**	**(1,535)**	**302**
Cumulative preference share dividend	210	210	210	210	225[10]
P&L attributed to ordinary shareholders	1,630	1,605	2,072	(1,745)	77
Number of ordinary shares outstanding	10,000	10,000	10,000	10,000	10,000

[8] For convenience, we have presented all other income and expenses within the EBIT line. IFRS Standards require additional presentation and disclosure of income statements line items.

[9] Fair value gains/losses here include changes in shares redeemable at fair value on demand. Today there is no specific requirement to present this information separately on the face of the statement of profit or loss and OCI, or in the notes. In practice this line item could include other changes as well.

[10] Increase compared to prior year because of compounding when dividends are unpaid.

Utilicorp—Summary financial statements

Possible classification and presentation (differences highlighted)

Period ending	20x1	20x2	20x3	20x4	20x5
Assets					
Non-current assets					
Property, plant and equipment	19,000	19,475	19,874	11,726	11,784
Long-term receivable	8,000	8,240	8,364	8,447	8,616
	27,000	27,715	28,238	20,173	20,400
Current assets					
Inventory	5,500	5,665	5,770	4,904	4,855
Receivables	4,000	4,120	4,202	3,572	3,501
Cash	2,500	2,550	2,588	1,888	1,190
	12,000	12,335	12,560	10,364	9,546
Total assets	**39,000**	**40,050**	**40,798**	**30,537**	**29,946**
Current liabilities					
Short-term payables	3,000	3,060	3,121	2,238	1,186
Ordinary bonds due in 12 months	-	-	1,348	-	-
Shares redeemable at fair value	6,000	6,390	6,652	-	-
	9,000	9,450	11,121	2,238	1,186
Non-current liabilities					
Ordinary bonds	9,000	9,180	7,832	7,989	8,148
Cumulative preference shares	3,000	3,000	3,000	3,210	3,435
	12,000	12,180	10,832	11,199	11,583
Total liabilities	**21,000**	**21,630**	**21,953**	**13,437**	**12,769**
Equity					
Ordinary shares	14,000	14,000	14,000	14,000	14,000
Retained earnings	4,000	4,420	4,845	3,101	3,178
Total Equity	**18,000**	**18,420**	**18,845**	**17,101**	**17,178**

Utilicorp—Summary financial statements

Possible classification and presentation (differences highlighted)

Summarised statement of profit or loss and OCI	**20x1**	**20x2**	**20x3**	**20x4**	**20x5**
EBIT	2,500	2,725	2,998	(1,097)	749
Interest costs[11]	750	730	664	647	672
Total profit or loss	**1,750**	**1,995**	**2,334**	**(1,745)**	**77**
Basic EPS	0.17	0.20	0.23	(0.17)	0.01
Other comprehensive income					
Fair value gains/(losses)- redeemable shares	(120)	(390)	(262)	-	-
Total comprehensive income	**1,630**	**1,605**	**2,072**	**(1,745)**	**77**

[11] Includes required dividends on cumulative preferred shares.

Utilicorp—Summary of proposed classification and presentation effects

Some ratios:

	20x1	20x2	20x3	20x4	20x5
Existing: Total liabilities/total equity	0.9	0.9	0.9	0.5	0.5
Possible: Total liabilities/total equity	1.2	1.2	1.2	0.8	0.7
Existing: Interest cover (EBIT/interest cost)	4.6	5.2	9.6	-2.5	1.7
Possible: Interest cover (EBIT/interest cost)	3.3	3.7	5.7	-1.7	1.1

	IAS 32 (today's requirements)	Possible approach
Shares redeemable at fair value on demand[12]		
Statement of financial position:	Classified as a liability with no further presentation requirements. Included in 'other liabilities'	Classified as a liability, but presented separately. No change to statement of financial position totals. Allows user to consider the similar payoff with ordinary shares.
Statement of profit or loss and OCI:	Income or expense (changes in fair value) recognised in profit or loss.	Income or expense (changes in fair value) presented separately in OCI. Increasing total profit or loss and EPS in years 20x1-20x3 Redeemed at the beginning of 20x4, so no further effect in subsequent years.

[12] Assuming **does not** meet the puttables exception in IAS 32 paragraphs 16A-16D

	IAS 32 (today's requirements)	Possible approach
Cumulative preference shares		
Statement of financial position:	Classified as equity with no further presentation requirements.	Classified as a liability and presented separately as a non-current liability. Increases total liabilities and affects the debt to equity ratio based on those totals. Reflects that the amount of this obligation will not be affected by changes in the value of the company's economic resources or the performance of Utilicorp.
Statement of profit or loss and OCI:	Not income or expense. However, amount of dividend deducted in deriving EPS	Income or expense in profit or loss presented consistently with interest expense on ordinary bonds. Decreases profit or loss for all years by the amount of the required dividend. Interest cover ratio falls compared to existing requirements. Shows whether Utilicorp is producing sufficient returns to service the promises on its claims.

Case study 2— Pharmacorp

1. Pharmacorp develops and markets pharmaceutical products. It is the sole owner of various product patents, most of which were developed in-house, including an international best-selling product.

2. Pharmacorp is funded with a mix of different claims, including:

    (a) short-term notes and long-term ordinary bonds that bear interest at 2% and 5%, respectively, at specified dates;

    (b) **cumulative preference shares** that, while promising a compounding return of 7%, give Pharmacorp the unconditional right to defer payment of any coupons or principal amounts;

    (c) **800 shares redeemable at fair value on demand**; and

    (d) 1000 ordinary shares.

3. Pharmacorp pays dividends on its cumulative preference shares and ordinary shares in 20x1, 20x2 and 20x3. It also pays down some of the principal on its other liabilities if it has sufficient free cash flow.

4. At the beginning of year 20x4, a competitor announces a new product that directly competes with Pharmacorp's best-selling product, but at a lower price point and with fewer side-effects. As a result, Pharmacorp's sales margins drop and it loses significant market share for its best-selling product. Reduced expectations about future cash-flows result in a reduction in the share price, and impairment to some of its recognised, and unrecognised, assets.

5. As a result, Pharmacorp suspends dividends on both its ordinary shares and cumulative preference shares in years 20x4 and 20x5.

6. Pharmacorp's share price is as follows:

	20x1	**20x2**	**20x3**	**20x4**	**20x5**
Share price	13.00	13.30	14.00	2.20	2.80

Pharmacorp—Summary financial statements and some analytical ratios

Existing *classification and presentation requirements*

Period ending	20x1	20x2	20x3	20x4	20x5
Assets					
Non-current assets					
Property, plant and equipment	10,000	10,280	10,565	11,199	11,400
Intangible assets	9,000	9,100	9,204	7,317	7,383
	19,000	19,380	19,770	18,516	18,783
Current assets					
Inventory	14,400	14,688	14,982	10,165	10,368
Receivables	3,000	3,060	3,118	3,305	3,470
Cash	2,000	2,040	2,081	2,306	2,668
	19,400	19,788	20,180	15,775	16,506
Total assets	**38,400**	**39,168**	**39,950**	**34,291**	**35,289**
Current liabilities					
Short-term notes	5,000	5,100	5,202	5,290	5,417
Other liabilities[13]	10,400	10,608	10,820	1,760	2,240
	15,400	15,708	16,022	7,050	7,657
Non-current liabilities					
Ordinary bonds	14,000	14,280	14,566	14,857	15,154
	14,000	14,280	14,566	14,857	15,154
Total liabilities	**29,400**	**29,988**	**30,588**	**21,907**	**22,811**
Equity					
Cumulative preference shares	7,000	7,000	7,000	7,000	7,000
Ordinary shares	1,000	1,000	1,000	1,000	1,000
Retained earnings	1,000	1,180	1,362	4,384	4,476
Total Equity	**9,000**	**9,180**	**9,362**	**12,384**	**12,476**

[13] Other liabilities include shares redeemable at fair value on demand. Today there is no specific requirement to present these separately on the face of the statement of financial position, or in the notes. In practice, this line item could include other liabilities as well.

Pharmacorp—Summary financial statements and some analytical ratios

***Existing* classification and presentation requirements**

Summarised statement of profit or loss and OCI	**20x1**	**20x2**	**20x3**	**20x4**	**20x5**
EBIT	2,500	2,725	2,998	(5,206)	1,469
Fair value gains/(losses) [14]	(208)	(208)	(212)	9,060	(480)
Interest costs	850	816	832	833	896
Total profit or loss	**1,442**	**1,701**	**1,953**	**3,022**	**93**
Basic EPS*	0.95	1.21	1.46	2.53	(0.43)

***Basic EPS Workings (in notes)**					
Total profit or loss	1,442	1,701	1,953	3,022	93
Preference share dividend	490	490	490	490	524[15]
P&L attributed to ordinary shareholders	952	1,211	1,463	2,532	(432)
Number of ordinary shares outstanding	1000	1000	1000	1000	1000

[14] Fair value gains/losses here include changes in shares redeemable at fair value on demand. Today there is no specific requirement to present this information separately on the face of the statement of statement of profit or loss and OCI, or in the notes. In practice this line item could include other changes as well.

[15] Increase compared to prior year because of compounding when dividends are unpaid.

Pharmacorp—Summary financial statements and some analytical ratios

Possible classification and presentation (differences highlighted)

Period ending	20x1	20x2	20x3	20x4	20x5
Assets					
Non-current assets					
Property, plant and equipment	10,000	10,280	10,565	11,199	11,400
Intangible assets	9,000	9,100	9,204	7,317	7,383
	19,000	19,380	19,770	18,516	18,783
Current assets					
Inventory	14,400	14,688	14,982	10,165	10,368
Receivables	3,000	3,060	3,118	3,305	3,470
Cash	2,000	2,040	2,081	2,306	2,668
	19,400	19,788	20,180	15,775	16,506
Total assets	**38,400**	**39,168**	**39,950**	**34,291**	**35,289**
Current liabilities					
Short-term notes	5,000	5,100	5,202	5,290	5,417
Shares redeemable at fair value	10,400	10,608	10,820	1,760	2,240
	15,400	15,708	16,022	7,050	7,657
Non-current liabilities					
Ordinary bonds	14,000	14,280	14,566	14,857	15,154
Cumulative preference shares	7,000	7,000	7,000	7,490	8,014
	21,000	21,280	21,566	22,347	23,168
Total liabilities	**36,400**	**36,988**	**37,588**	**29,397**	**30,826**
Equity					
Ordinary shares	1,000	1,000	1,000	1,000	1,000
Retained earnings	1,000	1,180	1,362	3,894	3,462
Total Equity	**2,000**	**2,180**	**2,362**	**4,894**	**4,462**

Pharmacorp—Summary financial statements and some analytical ratios

Possible classification and presentation (differences highlighted)

Summarised statement of profit or loss and OCI	**20x1**	**20x2**	**20x3**	**20x4**	**20x5**
EBIT	2,500	2,725	2,998	(5,206)	1,469
Interest costs[16]	1,340	1,306	1,322	1,323	1,420
Total profit or loss	**1,160**	**1,419**	**1,675**	**(6,528)**	**48**
Ordinary shares outstanding	1000	1000	1000	1000	1000
Basic EPS	1.16	1.42	1.68	(6.53)	0.05
Other comprehensive income					
Fair value gains/(losses) on redeemable shares	(208)	(208)	(212)	9,060	(480)
Total comprehensive income	**952**	**1,211**	**1,463**	**2,532**	**(432)**

[16] Includes required dividends on cumulative preferred shares.

Utilicorp—Summary of proposed classification and presentation effects

Some ratios:

	20x1	20x2	20x3	20x4	20x5
Existing: Total liabilities/total equity	3.3	3.3	3.3	1.8	1.8
Possible: Total liabilities/total equity	18.2	17.0	15.9	6.0	6.9
Existing: Interest cover (EBIT/interest cost)	2.9	3.3	3.6	-6.3	1.6
Possible: Interest cover (EBIT/interest cost)	1.9	2.1	2.3	-3.9	1.0

	IAS 32 (today's requirements)	**Possible approach**
Shares redeemable at fair value on demand[17]		
Statement of financial position:	Classified as a liability with no further presentation requirements. Included in 'other liabilities'	Classified as a liability, but presented separately. No change to statement of financial position totals. Allows user to consider link with share price when assessing financial position.
Statement of profit or loss and OCI:	Income or expense (changes in fair value) recognised in profit or loss. Including change in fair value of redeemable shares in profit or loss, which turns an EBIT **loss of (5,206)** to a **profit of 3,022** in year 20x4 when the event impaired Pharmacorp's business.	Income or expense (changes in fair value) presented separately in OCI. Compared to existing requirements, increased total profit or loss and EPS in years 20x1-20x3, but decreased total profit or loss and EPS in year 20x4 when the impairment event occurs.

[17] Assuming **does not** meet the puttables exception in IAS 32 paragraphs 16A-16D

	IAS 32 (today's requirements)	Possible approach
Cumulative preference shares		
Statement of financial position:	Classified as equity with no further presentation requirements.	Classified as a liability and presented separately as a non-current liability. Compared to existing requirements, possible approach increases total liabilities and affects the debt to equity ratio based on those totals. Shows Pharmacorp as having higher financial leverage. Reflects that the amount of this obligation will not be affected by changes in the value of the company's economic resources or the performance of Pharmacorp. The claim continued to accumulate dividends throughout.
Statement of profit or loss and OCI:	Not income or expense. However, amount of dividend deducted in deriving EPS	Income or expense in profit or loss presented consistently with interest expense on ordinary bonds. Decreases profit or loss for all years by the amount of the required dividend. Interest cover ratio falls compared to existing requirements. Shows Pharmacorp's financial leverage.