



IASB Discussion Paper

Preliminary Views on Financial Statement Presentation

Public Discussion

Frankfurt, 4 March 2009



Content

1. Introduction
2. Objectives and principles of financial statement presentation
3. Implications of the objectives and principles for each financial statement
4. Notes



Content

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2. Objectives and principles of financial statement presentation
3. Implications of the objectives and principles for each financial statement
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Background

- Phase A (finished)
 - Complete set of financial statements
 - Revised version of IAS 1 issued in September 2007
- **Phase B (current)**
 - Presentation of information in the financial statements
 - Discussion paper ‚Preliminary Views on Financial Statement Presentation‘ issued in October 2008 (comments to be received by 14 April 2009)
- Phase C (planned)
 - Presentation of interim financial information and other presentation issues that are not being addressed in phase B



Purpose of the project

- Status quo
 - Existing requirements permit too many alternative **types of presentation**
 - Information in financial statements is **highly aggregated and inconsistently** presented
 - Difficult to fully understand the relationship between the financial statements and the financial results of an entity
- Goal
 - **Improving the usefulness of the information** provided in an entity's financial statements to help users make decisions in their capacity as capital providers



Scope of the project

- Focus: Information of ***primary financial statements***
 - *Statement of financial position*
 - *Statement of comprehensive income*
 - *Statement of cash flows*
 - *Statement of changes in equity*
- Aspects
 - How assets, liabilities, equity, revenues, expenses, gains, losses and cash flows should be **grouped into line items and categories**
 - Which **subtotals and totals** should be presented



Scope of the project

- **Issues excluded:**

- Notes to financial statements
- Condensed financial statements for an interim period
- Financial ratios (e.g. earnings per share)
- Management discussion or management commentary
- Non-financial information and forecasts
- Recognition or measurement requirements
 - Which items must or may be presented in other comprehensive income outside of profit or loss or net income
 - When and how items of other comprehensive income must be reclassified to profit or loss or net income



Content

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2. Objectives and principles of financial statement presentation
 - Objectives of financial statement presentation
 - Principles of financial statement presentation
 - Classifying information in the sections and categories
3. Implications of the objectives and principles for each financial statement
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Objectives of financial statement presentation

1. Cohesiveness objective

- Portraying a cohesive financial picture of the entities activities

2. Disaggregation objective

- Disaggregation of information that makes it useful in assessing the amount, timing and uncertainty of the entities future cash flows

3. Liquidity and financial flexibility objective

- Presentation in a manner that helps users to assess the entity's ability ...
 - ... to meet its financial commitments
 - ... to invest in business opportunities



Principles of financial statement presentation

- **Presenting a cohesive set of financial statements**
 - Align the line items, their descriptions and the order in which information is presented in the statements of financial position, comprehensive income and cash flows
- **Presenting meaningful subtotals**
 - Subtotals and related headings for each section and category within a section in the statements of financial position, comprehensive income and cash flows
 - Optional: additional subtotals and headings, if ...
 - ... presentation is helpful to understanding financial position and
 - ... presented consistently in the three statements

Principles of financial statement presentation

- **Separating information into sections and categories**

| Statement of Financial Position | Statement of Comprehensive Income | Statement of Cash Flows |
|---|---|--|
| Business Operating assets and liabilities Investing assets and liabilities | Business Operating income and expenses Investment income and expenses | Business Operating cash flows Investment cash flows |
| Financing Financing assets Financing liabilities | Financing Financing asset income Financing liability expenses | Financing Financing asset cash flows Financing liability cash flows |
| Income taxes | Income taxes on continuing operations (business and financing activities) | Income taxes |
| Discontinued operations | Discontinued operations, net of tax | Discontinued operations |
| | Other comprehensive income, net of tax | |
| Equity | | Equity |



Classifying information in the sections and categories

- **Management approach**
 - When classifying assets and liabilities in the business and financing section
- **Existing standards**
 - When classifying assets, liabilities and equity items in the income taxes section, the discontinued operations section and the equity section
- **Classification in the statement of financial position** determines the classification in the statements of comprehensive income and cash flows



Classifying information in the sections and categories

- **Business section**

Assets and liabilities that management views as part of its continuing business activities

- **Operating category**

Assets and liabilities that management views as related to the central purpose(s) for which the entity is in business

- **Investing category**

Business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business



Classifying information in the sections and categories

- **Financing section**
 - **Financing asset category** and **financing liability category**
 - Financing assets and financing liabilities
= **financial assets** and **financial liabilities** (as those terms are defined in IFRSs and US GAAP) that management views as part of the financing of the entity's business and other activities
 - An entity may exclude a financial asset or a financial liability from the financing section but cannot include a non-financial asset or a non-financial liability in that section.



Classifying information in the sections and categories

- **Discontinued operations section**

- Assets and liabilities related to a discontinued operation, as that term is defined in IFRSs and US GAAP

- **Income tax section**

- Current and deferred income tax assets and liabilities recognised in accordance with IFRSs or US GAAP

- **Equity section**

- Items that meet the definition of equity in IFRSs and US GAAP
- Separation of owner and non-owner financing



Classifying information in the sections and categories

– Issues that the IASB have yet to discuss –

- **Change of use of an asset or liability**

- Example: An entity might purchase land as an investment but later build a manufacturing plant on that land.
- A change in the land's use should result in a change in its classification.

- **Use of an asset or liability for more than one function**

- Example: An entity's headquarters building might be used in its operations and also be viewed by management as a real estate investment.
- Possibilities of classifying
 - On the basis of its predominant purpose (operating or investing)
 - By splitting up into components (operating and investing)



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3. Implications of the objectives and principles for each financial statement
 - Statement of financial position
 - Statement of comprehensive income
 - Statement of cash flows
 - Statement of changes in equity
 - Basket transactions
4. Notes



Statement of financial position

- Presenting information about liquidity and financial flexibility of assets and liabilities
 - **Short-term and long-term subcategories** unless a presentation based on liquidity provides information that is more relevant (short-term = if either the contractual maturity or the expected date of realisation or settlement is within one year of the reporting date)
 - In the case of presentation based on liquidity: **Increasing or decreasing order of liquidity** and information about maturities of its short-term contractual assets and liabilities in the notes
 - In all cases: Information about the **maturities of long-term** contractual assets and liabilities in the notes



Statement of financial position

- Classification of **cash equivalents** in a manner similar to other short-term investments
- Disaggregation of similar assets and liabilities with **different measurement bases**
- Either in the statement of financial position or in the notes to financial statements
 - **Total** assets and total liabilities
 - **Subtotals** for short-term assets, short-term liabilities, long-term assets and long-term liabilities (if an entity presents its assets and liabilities in short-term and long-term subcategories)



Statement of comprehensive income

- **Single statement of comprehensive income**

- Subtotal of profit or loss or net income and the total amount of comprehensive income
- **Other comprehensive income** items in a **separate section** and indication whether items relate to business (operating or investing) or financing
- Reclassification of an item from the other comprehensive income section to one of the other sections or categories if and as required by existing standards



Statement of comprehensive income

- **Disaggregating income and expense items**
 - **Disaggregation by function** (within operating, investing, financing)
... to the extent that this will enhance the usefulness of the information in predicting the entity's future cash flows
 - Further **disaggregation by nature** within those functions
... to the extent that this will enhance the usefulness of the information in predicting the entity's future cash flows



Statement of comprehensive income

- **Disaggregating income and expense items**
 - **Function:** primary activities in which an entity is engaged
 - Examples: selling goods, providing services, manufacturing, advertising, marketing, business development or administration
 - **Nature:** economic characteristics or attributes that distinguish income and expense items that do not respond equally to similar economic events
 - Examples: disaggregating total revenues (realised by selling goods) into → wholesale revenues and retail revenues; or disaggregating total cost of sales (regarding the goods) into → materials, labour, transport and energy costs



Statement of comprehensive income

- **Allocating income taxes**
 - Application of existing requirements
 - No allocation of income taxes to the business or financing section or to categories within those sections
- **Foreign currency transaction gains and losses**
 - In the same section and category as the assets and liabilities that gave rise to the gains or losses



Statement of cash flows

- **Direct method**

- Presentation of all cash flows directly, including its operating cash flows
- **Disaggregation** of cash receipts and payments **within each of the sections and categories**
(in a manner that helps users to understand how those cash flows relate to information presented in the statements of comprehensive income and financial position)



Statement of changes in equity

- **For each component of equity**
 - Reconciliation between the carrying amount at the beginning and the end of the period
 - Effects, at the beginning of the earliest period presented, of retrospective application or retrospective restatement, recognised in accordance with IFRSs or US GAAP
- **Total comprehensive income,**
showing separately total amounts attributable ...
 - ... to owners of the parent and
 - ... to the non-controlling interest, if any



Basket transactions

- **Issue:** Presentation of the effects of a single acquisition or disposal transaction that recognises or derecognises assets and liabilities that are classified in more than one section or category
- **DP: No preliminary view**, seeking respondents views instead
- **Possible presentations:** Classification of the effects ...
 - ... in more than one section or category, thereby requiring an **allocation** of the total effect; or
 - ... in a single section or category, which would **not require allocation** of the total effect.



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4. Notes
 - Reconciliation schedule
 - Other Information in the notes

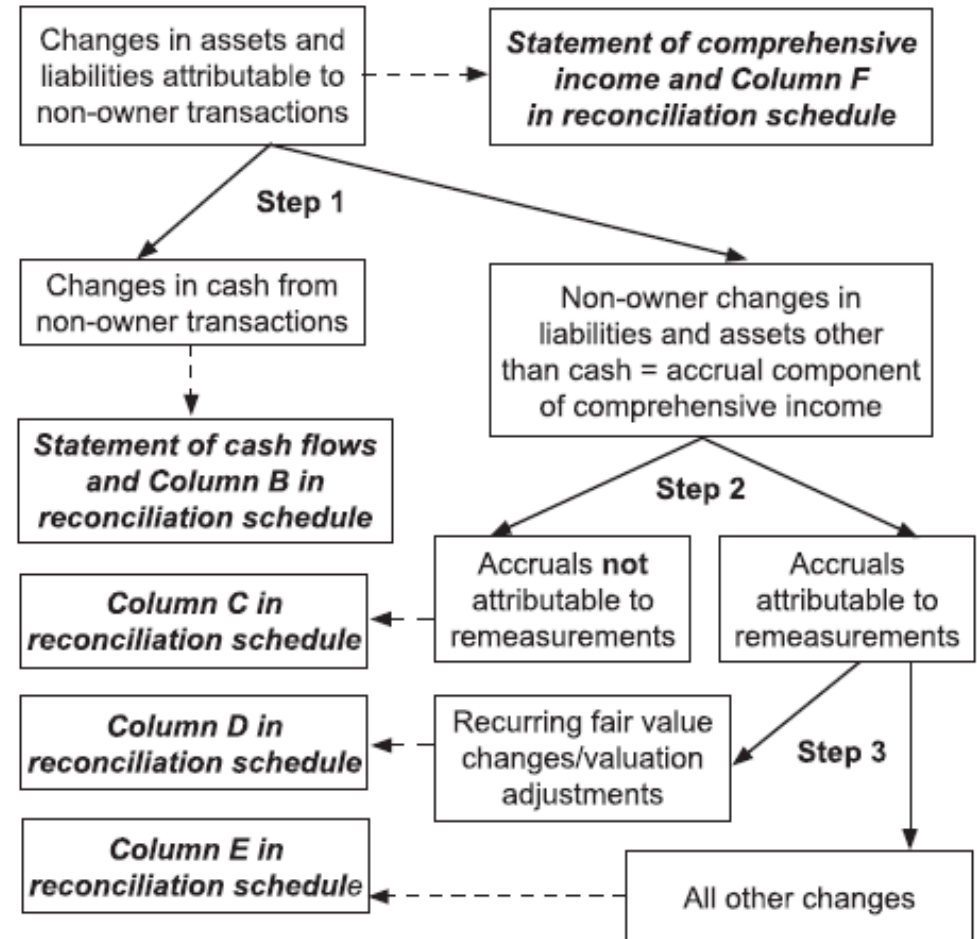


Reconciliation schedule

- **Schedule that reconciles cash flows to comprehensive income** and
- **Disaggregates comprehensive income** into the following components
 - Cash received or paid other than in transactions with owners
 - Accruals other than remeasurements
 - Remeasurements that are recurring fair value changes or recurring valuation adjustments
 - Remeasurements that are not recurring fair value changes or valuation adjustments

Reconciliation schedule

- Process for disaggregating the components of comprehensive income





Other information in the notes

- **Information about the accounting policy**
 - Explanation of the bases for **classifying** assets and liabilities in the operating, investing, financing assets and financing liabilities categories
- **Information related to the liquidity and financial flexibility objective**
 - Description of the **operating cycle** (if longer than one year)
- **Information about non-cash activities**
 - Information as narrative disclosure or summary in a schedule
 - Unless information is presented elsewhere in the financial statements



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