October 2008

Discussion Paper

Snapshot: Preliminary Views on Financial Statement Presentation

This snapshot is a quick introduction to the discussion paper *Preliminary Views on Financial Statement Presentation*. Its purpose is to provide a first insight into the major ideas presented in the discussion paper. The snapshot has been prepared by staff and is not an official technical document of the IASB or the FASB.

Project objective:	The objective is to create a standard that requires entities to organise financial statements in a manner that clearly communicates an integrated financial picture of the entity. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are undertaking this project jointly.
Process stage:	The discussion paper (DP) is the first step towards the creation of a standard. In the DP the boards explain the issue and present their initial ideas on the topic. The objective is to receive feedback from interested parties early in the process.
Comment deadline:	The DP is open for public comment until 14 April 2009.
Next step:	The boards will consider responses to the DP and then develop an exposure draft (ED) that sets out a specific proposal in the form of a proposed standard. The boards expect to publish an ED in 2010.

International Accounting Standards Board®

Why are we doing the project?

Financial statements are important. The boards believe that a common format for financial statement presentation will improve communication between users and preparers of financial statements.

Analysts and investors have long raised concerns about some issues in the way entities present information in financial statements. In creating a new standard the boards aim to address these concerns, including those listed below:

No common approach for financial statement presentation

US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs) provide only limited presentation guidance. In addition, presentation guidelines in GAAP are dispersed across standards. As a result, financial statements prepared under US GAAP or IFRSs can be presented in many alternative ways. This makes it difficult for analysts, investors and other users to compare the financial statements of different entities.

Information is not linked between the statements

A set of financial statements includes several individual statements, such as statements of financial position, of comprehensive income and of cash flows.

However, the formats of those individual statements do not make it easy for users to see how the information in them is linked. For example, the statement of cash flows separates operating activities from financing activities, but that distinction is not always apparent in the statements of financial position and of comprehensive income. This makes it difficult to compare operating income with operating cash flows – a step often taken in assessing the quality of an entity's earnings.

Dissimilar items are sometimes aggregated into one number

In many cases, entities do not show separately items that respond differently to the same economic events:

- Some entities present direct product costs (such as materials and labour) as well as general and administrative costs (such as rent and utilities) separately in their statement of comprehensive income, while others aggregate those costs. These different costs may respond differently to economic events.
- Most entities do not present information about different types of operating cash receipts and payments. Instead, they use an indirect method of presenting operating cash flows that adjusts net income (profit or loss) to arrive at a single number representing net operating cash flows. However, users need information about operating cash inflows and outflows because this helps them to assess an entity's ability to generate cash.

What is the project scope?

This project is about finding the right packaging of information. It is not about how profits and losses are recognised or measured.

However, the boards decided that a future standard that results from the project will retain the notion of profit or loss or net income.

A future standard on financial statement presentation would replace existing guidance in both US GAAP and IFRSs. It would apply to all business entities.

What are the boards' initial ideas?

The boards' objective is to create a format that addresses users' and preparers' needs.

Users need a format that ensures comparability and allows them to understand better how the different pieces within the financial statements of a company fit together.

Preparers need a format that allows them to tailor financial statements to communicate the unique aspects of their businesses.

The boards propose the following two objectives to achieve that:

- Cohesiveness – formatting the information in financial statements so that a reader can follow the flow of information through the various statements
- Disaggregation – separating information that responds differently to economic events

The boards also propose that a future standard should ensure that financial statements show information about an entity's ability to meet its financial commitments.

What format are we proposing to achieve these objectives?

The section names are in bold and the bullet points indicate the required categories within sections.

Proposed format for the presentation of financial statements

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 • Investing income and expenses	**Business** • Operating cash flows • Investing 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)	**Income taxes**
Discontinued operations	**Discontinued operations** net of tax	**Discontinued operations**
	Other comprehensive income, net of tax	
Equity		**Equity**

Providing classification guidance

- All entities applying IFRSs or US GAAP would present each of the sections and categories shown in the table opposite.
- Each entity would decide the order of the sections and categories, but would use the same order in each individual statement.
- Each entity would decide how to classify its assets and liabilities into the sections and categories, on the basis of how an item is used (the 'management approach'). The entity would disclose why it chose those classifications.
- All entities would present a single statement of comprehensive income; the boards would eliminate the option to present the same information split between two statements. The single statement of comprehensive income would still include a subtotal for net income or profit or loss and a separate section for other comprehensive income. The proposed format would not change existing requirements that 'recycle' items in specified circumstances from other comprehensive income to net income or profit or loss.

"Providing clear classification guidance would make it easier to compare financial statements across entities."

Introducing cohesiveness – fitting pieces together

- An entity would classify income, expenses and cash flows in the same section and category as the related asset or liability. For example, if an entity classifies inventory in the operating category of the statement of financial position, it would classify changes in inventory in the operating category of the statement of comprehensive income (as part of cost of goods sold) and classify the related cash payments to suppliers in the operating category of the statement of cash flows.

- The notes to financial statements would include a new schedule reconciling cash flows to comprehensive income. This reconciliation schedule disaggregates income components of cash, accrual and remeasurement (for example, fair value changes).

"Introducing cohesiveness would make it easier for users to relate income and expense to cash flows and to analyse the quality of earnings."

Separating items with different characteristics – disaggregation

- The model would introduce a clear separation between an entity's financing activities (how it obtains capital) and its business activities (how it uses that capital to create value).
- In addition to classifying its items of income and expense into operating, investing and financing categories, an entity would disaggregate items within those categories on the basis of their function (such as cost of sales or administration) and their nature (such as materials, labour and depreciation). Existing IFRSs permit an entity to classify expenses either by nature or by function.

" Separating dissimilar items would facilitate the work of analysts and investors and other users when assessing an entity's future cash flows."

- In the statement of cash flows, an entity would present separately the main categories of its cash receipts and payments for operating activities, such as cash collected from customers, and cash paid to suppliers to acquire inventory (a direct method), rather than reconciling net income to net operating cash flow (an indirect method) as most entities do today.

What happens next?

The boards welcome comments on the proposals from anyone who uses, prepares or works with financial statements. The deadline for comments is 14 April 2009.

For further information

To view the discussion paper and submit your comments, visit www.fasb.org and www.iasb.org. You may answer all or selected questions in the discussion paper.

The boards will review all responses received. Their deliberations on the outcome of the consultation will, as usual, take place in public board meetings as announced on the project Website on www.fasb.org or www.iasb.org

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