

iGAAP Alert.

IASB issues new financial statement presentation proposals



Proposals to revise financial statement presentation

On 16 March 2006 the IASB issued an ED which would amend IAS 1 **Presentation of Financial Statements**. The proposals arise from Segment A of the Board's joint project with the FASB on performance reporting. Segment A of this project addresses the statements that should constitute a complete set of financial statements and the periods for which they are required to be presented.

In a nutshell

The IASB has recently published an Exposure Draft (ED) of proposed changes to IAS 1.

Under the ED's proposals, a company would be required to present all income and expenses separately from changes in equity that arise from transactions with its owners. Companies would have a choice of presenting income and expenses in a single statement or in two statements. A company would also be required to include in its financial statements an additional balance sheet showing the position at the beginning of the comparative period.

The ED did not suggest a proposed effective date. Comments on the ED are due by 17 July 2006.

A complete set of financial statements

The ED proposes that a complete set of financial statements should comprise:

- Statements of financial position (balance sheet) as at the beginning and end of the period;
- A statement of recognised income and expense for the period;
- A statement of changes in equity for the period;
- A statement of cash flows for the period; and
- Notes to the financial statements.

Each of the statements required would be presented with equal prominence.

Statement of financial position

The ED proposes the use of the term 'statement of financial position' instead of 'balance sheet' as it better reflects the function of the statement. The ED proposes that a statement of financial position should be presented as at the beginning of the reporting period. In practice, this means that companies presenting comparative information for the previous period would be required to include three statements of financial position.

Statement of recognised income and expense

The proposals in the ED are founded on the premise that because all items of income and expense share the characteristic that they are 'non-owner movements in equity', they should always be presented separately from 'owner movements in equity'. As a result, companies would no longer have the option that currently exists of presenting the separate components of recognised income and expense that are not presented within profit and loss in a statement of changes in equity. Instead they would have to be presented in a statement of recognised income and expense and the total carried to the statement of changes in equity.

As a result, the statement of recognised income and expense required under the revised IAS 1 would effectively combine the current content of the income statement and the statement of recognised income and expense. However, the proposals retain the previous distinction between 'profit or loss' (the previous income statement) and 'other recognised income and expense'. The components of 'other recognised income and expense' would be:

- Changes in revaluation surplus (in accordance with IAS 16 **Property, Plant and Equipment**);
- Gains and losses arising from translating the financial statements of a foreign operation (in accordance with IAS 21 **The Effects of Changes in Foreign Exchange Rates**);
- Gains and losses on remeasuring available-for-sale financial assets (in accordance with IAS 39 **Financial Instruments: Recognition and Measurement**);
- The effective portion of gains and losses on hedging instruments in a cash flow hedge (in accordance with IAS 39); and

- Actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 **Employee Benefits**.

The IASB notes their preference for profit and loss items to be reported together with items of 'other recognised income and expense' in a single statement. However, they note that many commentators disagree with this proposition, and that it would be premature to conclude that a single statement would be an improvement in financial reporting without also addressing other aspects of presentation and display. Accordingly, the IASB proposes that companies should have a choice between presenting all income and expenses recognised in a period either in one statement or in two. Where two statements are used the 'statement of profit or loss' must be displayed immediately before the 'statement of other recognised income and expense'.

Since the option to prepare two statements is already permitted by IAS 1 the only significant impact of these proposals is therefore to allow companies to present all recognised income and expense in a single statement.

Statement of Changes in Equity

Under the proposals a 'statement of changes in equity' would reconcile opening equity to closing equity by presenting:

- The total recognised income and expense for the period;
- The effect on equity of changes in accounting policies and corrections of errors accounted for in accordance with IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors**; and
- Changes in equity arising from transactions with owners in their capacity as owners.

As the ED proposes that all statements be presented with equal prominence, owner movements in equity could no longer be presented only in the notes to the financial statements. Furthermore, companies would no longer be permitted to present dividends on the face of the statement of recognised income and expense.

Who do the proposals affect and when would they apply?

The ED would impact the consolidated financial statements of all listed companies and any companies preparing financial statements under IFRS. The IASB did not propose an effective date.

Companies reporting under UK GAAP should be aware that the two statement approach proposed by the IASB is very similar to the UK's profit and loss account and statement of recognised gains and losses required under FRS 3 **Reporting Financial Performance**. As a result the ASB has issued a statement indicating that they do not intend to propose any consequential changes to UK GAAP at this time.

Opinion

We believe that this ED will have limited impact in practice and would encourage the Board to complete Segment B of this project as quickly as possible in order to achieve more significant improvements to the presentation of financial statements.

In this publication, Deloitte refers to one or more of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither DTT nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the DTT Verein.

In the UK, Deloitte & Touche LLP is the member firm of DTT, and services are provided by Deloitte & Touche LLP and its subsidiaries. For more information, please visit the firm's website at www.deloitte.co.uk

Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte & Touche LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© Deloitte & Touche LLP 2006. All rights reserved.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office. Tel: +44 (0) 20 7936 3000. Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London.