

IFRS in Focus

IASB proposes changes to the presentation of profit or loss and other comprehensive income in IAS 1

The Bottom Line

- All entities would be required to present profit or loss and other comprehensive income in two distinct sections within a continuous statement.
- The proposals may represent a significant presentation change for investors and other stakeholders.
- The measurement and recognition of items of profit or loss and other comprehensive income would not be affected by the proposals.
- The comment period on the ED is open until 30 September 2010 and a final standard is expected to be issued later this year.

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The proposals

On May 27, 2010, the International Accounting Standards Board, (IASB) published ED/2010/5 (the "ED") *Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)*. The ED is the result of a joint project with the Financial Accounting Standards Board. It proposes a limited amendment to IAS 1 regarding the presentation of items contained in other comprehensive income (OCI) and their classification within OCI. The ED proposes the following:

- Presentation of profit or loss and OCI as separate components in a single financial statement; and
- Separate presentation in OCI of items that will be reclassified to profit or loss in a subsequent period.

The ED does not change the items that must be reported in OCI, but focuses on their presentation within the OCI section of the single, continuous statement.

Principal features of the proposed guidance

Currently, entities have an option under IAS 1 to present either a single statement of comprehensive income or two separate statements, a statement of profit or loss and a separate statement of OCI. Under the proposals, the latter option of presenting two separate statements would be eliminated. As a result, all entities would be required to present a single continuous statement comprising both profit or loss and OCI for the period.

While the notion of profit or loss will be preserved, the proposals reflect the view of the IASB that all income and expenses that are components of the total non-owner changes in equity should be presented within a single statement. Profit or loss would be a required sub-total within this statement, with total comprehensive income being the final total/line item.

The term "profit or loss" will be retained under the proposals as the IASB believes this will continue to be an important performance measure. The ED does not change what is recognised in OCI or profit or loss. The calculation of other performance indicators, such as Earnings per Share, are also unaffected by the proposals.

For more useful information please see the following websites:

www.iasplus.com

www.deloitte.co.uk

The proposed ED would require entities to disclose one continuous statement with two sections – net income followed by other comprehensive income.

The required presentation of a single continuous statement will likely be, for many, the most significant change proposed in the ED. Other proposed changes relate to the presentation and classification of items within OCI. These are to require:

- Grouping of items of OCI into:
 - Items that might be reclassified to profit or loss in subsequent periods; and
 - Items that will not be reclassified to profit or loss in subsequent periods.
- Allocation of income tax between the above groupings of OCI where OCI is presented before related income tax effects.

The ED proposes the title “Statement of Profit or Loss and Other Comprehensive Income” for this single, two-section statement. However, in line with the current requirements of IAS 1, the proposals would continue to permit entities to use other titles for this statement.

Observation

The primary concern raised by respondents of the Discussion Paper which preceded the ED related to the requirement for a single statement and the risk that this would undermine the importance of the net income or “profit or loss” amount. Related concerns were raised around the elimination of the profit or loss statement option prior to the Boards addressing and resolving the broader conceptual issues relating to performance reporting as a whole.

Benefits of the proposal

The IASB believes that by combining two separate statements into one continuous statement, the following benefits would be given to users:

- all non-owner changes in equity would be presented in the same statement;
- comparability would be improved as the presentation option currently available under IAS 1 would be eliminated;
- a clear distinction would be made between profit or loss and items in other comprehensive income, thus preserving the importance of profit or loss and at the same time highlighting the importance of the gains or losses as a result of other changes in non-owner equity; and
- full transparency of items included in OCI, thus highlighting to users the items in OCI that will never be recycled into profit or loss.

Next steps

The comment period for the ED is open until 30 September 2010 and a final standard is expected to be issued later this year.

Illustrative examples – the presentation proposals under the ED

The following examples adapted from the ED are intended to illustrate two possible presentations of profit or loss and OCI under the proposals. In practice, the actual presentation will vary depending on the specific facts and circumstances.

The proposed changes are limited to presentation and do not change the items that should be recorded in other comprehensive income.

Example 1

Statement of profit or loss and other comprehensive income

Profit and loss	Current year	Prior year
Revenue	500,000	400,000
Cost of Sales	(250,000)	(200,000)
Gross profit	250,000	200,000
Other Income	20,000	15,000
Administrative Costs	(50,000)	(40,000)
Other expenses	(15,000)	(10,000)
Operating profit	205,000	165,000
Finance costs	(12,000)	(12,000)
Finance income	18,000	17,000
Profit before tax	211,000	170,000
Income tax expense	(67,520)	(54,400)
Profit for the year	143,480	115,600

Profit attributable to	Current year	Prior year
Owners of the parent	121,500	97,150
Non-controlling interests	21,980	18,450
	143,480	115,600

Earnings per share	Current year	Prior year
Basic earnings per share	0.96	0.77
Dilutive earnings per share	0.90	0.72

Other comprehensive income, net of tax	Current year	Prior year
Items that will never be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on defined benefit plans (net of tax of 3,200 and 6,400, respectively)	6,800	(13,600)
Total items never reclassified to profit or loss	6,800	(13,600)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Gains/(losses) arising during the period (net of tax of 3,840 and 5,120, respectively)	8,160	(10,880)
Reclassification adjustments for amounts recognised in profit or loss (net of tax of 640 and 800, respectively)	(1,360)	1,700
Total items that may be reclassified to profit or loss	6,800	(9,180)
Other comprehensive income/(loss) for the year	13,600	(22,780)
Total comprehensive income for the year	157,080	92,820

Total comprehensive income attributable to	Current year	Prior year
Owners of the parent	135,100	74,370
Non-controlling interests	21,980	18,450
	157,080	92,820

Example 2

Statement of comprehensive income

Profit and loss	Current year	Prior year
Revenue	500,000	400,000
Cost of Sales	(250,000)	(200,000)
Gross profit	250,000	200,000
Other Income	20,000	15,000
Administrative Costs	(50,000)	(40,000)
Other expenses	(15,000)	(10,000)
Operating profit	205,000	165,000
Finance costs	(12,000)	(12,000)
Finance income	18,000	17,000
Profit before tax	211,000	170,000
Income tax expense	(67,520)	(54,400)
Net income for the year	143,480	115,600

Other comprehensive income		
Items that will never be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on defined benefit plans	10,000	(20,000)
Related income tax effects	(3,200)	6,400
Total items never reclassified to profit or loss	6,800	(13,600)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Gains/(losses) arising during the period	12,000	(16,000)
Reclassification adjustments for amounts recognised in profit or loss	(2,000)	2,500
Related income tax effects	(3,200)	4,320
Total items that may be reclassified to profit or loss	6,800	(9,180)
Other comprehensive income/(loss) for the year	13,600	(22,780)
Total comprehensive income for the year	157,080	92,820

Net income attributable to	Current year	Prior year
Owners of the parent	121,500	97,150
Non-controlling interests	21,980	18,450
	143,480	115,600

Earnings per share (based on net income)	Current year	Prior year
Basic earnings per share	0.96	0.77
Dilutive earnings per share	0.90	0.72

Total comprehensive income attributable to	Current year	Prior year
Owners of the parent	135,100	74,370
Non-controlling interests	21,980	18,450
	157,080	92,820

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