

Straight away

IFRS bulletin from PricewaterhouseCoopers

IASB/FASB publish 'staff draft' of financial statement presentation proposals

What is the issue?

The FASB and IASB published on 1 July 2010 a staff draft of an exposure draft ('staff draft') that will propose changes to the presentation of financial statements under IFRS and US GAAP. The boards believe that the revised format will allow users of the financial statements to better understand a company's performance by requiring entities to subdivide their financial position, comprehensive income and cash flows into core operations and other activities.

The staff draft reflects the boards' collective tentative decisions. The boards' modified convergence strategy delays the publication of the official exposure draft until the first quarter of 2011. The boards plan to use the extra time to consult further with stakeholders and evaluate concerns about: (1) the benefits of the proposals compared to the costs; and (2) the implications for financial reporting of financial institutions. The staff draft was released to provide information to constituents in connection with the boards' further consultation.

New format for the financial statements

The staff draft explains the boards' tentative conclusions on a new format for the primary financial statements, with a focus on cohesiveness and disaggregation of information. The proposed new categories for the statements of financial position and comprehensive income are as follows:

New categories for the 'Statement of financial position'

Business
 Operating
 Financing arising from operating activities
 Investing
Discontinuing operations
Income taxes
Financing
 Debt
 Equity
Total assets
Total liabilities

New categories for the 'Statement of comprehensive income'

Business
 Operating
 Financing arising from operating activities
Total operating income
 Investing
Total business income
Financing
Income taxes
Net income from continuing operations
Discontinued operations
Net income
Other comprehensive income
Total other comprehensive income

Information will be further disaggregated by function in the primary financial statements and by nature in the footnotes. 'Function' refers to an entity's primary activities in (for example, selling goods or selling services). 'Nature' refers to the economic characteristics or attributes that distinguish assets, liabilities, income and expenses (for example, the nature of expenses includes labour and materials, etc.). The disaggregation and cohesiveness principles do not apply to the statement of changes in equity.

Statement of cash flows

The boards have tentatively concluded that cash flows should be presented using the direct method and that a reconciliation from operating income to net cash from operating activities (that is, an indirect reconciliation) should also be presented. The boards believe that the direct-method cash flow statement, together with the indirect reconciliation, provides more transparent and useful cash flow data. The staff draft suggests that direct method cash flow information could be prepared either using information directly from the accounting records or by deriving it from changes in assets and liabilities. This is an important clarification from the boards' 2008 discussion paper.

Roll-forward analyses

The staff draft includes a proposal that all companies (except non-public entities) provide a 'roll-forward' presentation of changes in significant assets and liabilities. This presentation would include an analysis and explanation of the nature of transactions and re-measurements that caused the changes in the account balances.

Net debt reconciliation

The IASB has tentatively concluded that all companies present, in a single note, the changes in each item of debt, cash, short-term investments and finance leases. The staff draft does not define net debt explicitly but requires presentation of the information needed to determine net debt in a single note. This conclusion reflects comments on the 2008 discussion paper; the IASB believes the additional disclosure will provide users with the information they require.

Convergence with US GAAP

The boards' tentative conclusions are expected to result in similar presentation of financial statements under IFRS and US GAAP, but there are three key differences between the proposals. (1) the FASB but not IASB will require the disaggregated information to be provided by segment; (2) the IASB's proposal includes a separate note that reconciles changes in debt and related financial balances (a net debt reconciliation); (3) the IASB's proposal requires certain additional disaggregated line items in the balance sheet.

Am I affected?

The proposals would change the presentation and disclosure of three of the primary financial statements and would therefore affect all preparers and users of IFRS and US GAAP. The proposals would not apply to not-for-profit entities, entities applying 'IFRS for Small and Medium Entities' and employee benefit plans.

What do I need to do?

The boards have not formally invited comment on the staff draft but would welcome input. They expect to issue the official exposure drafts during the first quarter of 2011 and final standards at the end of 2011.

The tentative conclusions in the staff draft would significantly alter the presentation and disclosure in the financial statements. Management should consider the potential impact on the financial statements and the information needed to comply with the additional disclosure requirements. Management should also consider whether to provide input for the boards as they work towards finalising their exposure drafts.

If you have questions about this issue, please contact your PwC engagement partner. Engagement teams that have questions should contact their Global Accounting Consulting Services Contact.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2010 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.