

FINANCIAL STATEMENT PRESENTATION PROJECT
A Joint Project of the FASB and IASB
Phase B: Summary of Tentative Preliminary Views as of June 30, 2008

BACKGROUND

1. After completing their deliberations on Phase A issues in December 2005, the Boards began discussing the fundamental issues related to the presentation and display of information in each of the financial statements (Phase B).

PROJECT OBJECTIVE

2. The Boards took on this joint project to establish a common, high-quality standard for presentation of information in the basic financial statements, including the classification and display of line items and the aggregation of line items into subtotals and totals. The objective is to present information in the financial statements in ways that enable investors, creditors, and other financial statement users to:
 - a. Understand an entity's present and past financial position
 - b. Understand how past operating, financing, and other activities caused an entity's financial position to change and the components of those changes
 - c. Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

PROJECT WORKING PRINCIPLES

3. The working principles of financial statement presentation follow:

The financial statements should:

 - a. Portray a cohesive financial picture of an entity.
 - b. Separate an entity's financing activities from its business and other activities and further separates financing activities between transactions with owners in their capacity as owners and all other financing activities.
 - c. Disaggregate line items if that disaggregation enhances the usefulness of that information in predicting future cash flows.
 - d. Help a user assess an entity's ability to
 - (1) meet its financial commitments as they come due (including, but not limited to, its ability to raise capital and to use existing assets for generating future cash flows) and
 - (2) invest in business opportunities.
 - e. Help a user understand:
 - (1) The basis on which assets and liabilities are measured
 - (2) The uncertainty in measurements of individual assets and liabilities
 - (3) What causes a change in reported amounts of individual assets and liabilities
 - (4) The difference between cash-based accounting and accrual accounting
 - (5) The effects of noncash activities during the period on an entity's financial position.

The staff has prepared this summary of the Boards' tentative preliminary views for information purposes only. All of the views are tentative and may be changed at future Board meetings.

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*WORKING FORMAT

4. The following table represents the working format for presenting information within the financial statements, excluding the notes. (The section names are in ***bold italics***; bullet points indicate required categories within sections.) The statement of changes in equity is not included in this table because it will not include the sections and categories of the other financial statements.

| Statement of Financial Position | Statement of Cash Flows | Statement of Comprehensive Income |
|--|---|---|
| <i>Business</i> ♦ Operating assets and liabilities ♦ Investing assets and liabilities | <i>Business</i> ♦ Operating cash flows ♦ Investing cash flows | <i>Business</i> ♦ Operating income and expense ♦ Investment income and expense |
| <i>Financing</i> ♦ Financing assets ♦ Financing liabilities | <i>Financing</i> ♦ Financing asset cash flows ♦ Financing liability cash flows | <i>Financing</i> ♦ Financing asset income ♦ Financing liability expense |
| <i>Income Taxes</i> | <i>Income Taxes</i> | <i>Income Taxes</i> <i>(related to business and financing)</i> |
| <i>Discontinued Operations</i> | <i>Discontinued Operations</i> | <i>Discontinued Operations,</i> <i>Net of Tax</i> |
| <i>Equity</i> | <i>Equity</i> | <i>Other Comprehensive Income,</i> <i>Net of Tax</i> |

Cohesiveness of the Financial Statements

5. The overall goal of the working format is to present a cohesive financial picture of an entity such that the relationships between related items in the financial statements are clear (sometimes thought of in terms of articulation or linkage). To achieve that goal, an entity would (a) classify its assets, liabilities, and equity in one of the working format categories on the statement of financial position and (b) similarly classify changes in those assets, liabilities, and equity in the statement of comprehensive income and the statement of cash flows. Ideally, the financial statements should be cohesive at the line-item level, thus to the extent practical, an entity would label line items similarly across the financial statements and present categories and sections in the same order in each of the financial statements.

Management Approach to Classification

6. The working format would separate the different functional activities of an entity and apply to all business entities, including financial institutions. Because functional activities vary from entity to entity, an entity would choose the classification that best affects management's view of what constitutes its business (operating and investing)

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and financing activities. Thus, a manufacturing entity may classify the exact same asset (or liability) differently from a financial institution because of differences in the businesses in which those entities engage.

Classification Guidelines and Related Disclosures

7. Following the guidelines below, an entity would classify all of its assets, liabilities, and equity items into one of the categories or sections in the working format. An entity consisting of different businesses would apply the classification criteria to its assets and liabilities at the reportable segment level (as that term is defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and IFRS 8 *Operating Segments*).
8. An entity would be required to explain, as a matter of accounting policy, its basis (or bases) for classifying assets and liabilities in the financing categories, the investing category, and the operating category. The Boards anticipate that that disclosure would include a discussion of the type(s) of businesses in which the entity engages. Any change in the basis for classification would be viewed as a change in accounting policy and would be implemented through retrospective application to prior periods.
9. *The **Business section** would include all items related to assets and liabilities that management views as part of its continuing business activities. Business activities are those activities conducted with the intent of creating value, such as producing goods or providing services. The business section is composed of the **Operating category** and the **Investing category**.
 - a. The **Operating category** would include assets and liabilities that management views as related to the central purpose(s) for which the entity is in business (and changes in those assets and liabilities). An entity uses its operating assets and liabilities in its primary revenue and expense generating activities. If an entity cannot clearly identify a business asset or liability as relating to operating, investing, or financing activities, the entity should presume the asset or liability relates to its operating activities.
 - b. The **Investing category** would include all assets and liabilities that management views as unrelated to the central purpose for which the entity is in business (and any changes in those assets and liabilities). An entity would use its investing assets and liabilities to generate a return, but would not use them in its primary revenue and expense generating activities.
10. The **Financing section** would include only financial assets and financial liabilities that management views as part of the financing of the entity's business activities (referred to as *financing assets and liabilities*). Amounts relating to financing

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liabilities would be presented in the *financing liabilities category* and amounts relating to financing assets would be presented in the *financing assets category* in each of the financial statements.

- a. In determining whether a financial asset or liability should be included in the financing section, an entity should consider whether the item is interchangeable with other sources of financing and whether the item can be characterized as independent of specific business activities.
11. The **Equity section** in the statement of financial position would include all items that meet the definition of equity in U.S. GAAP and IFRSs. Changes in equity items would be presented in the equity section of the statement of cash flows and in the statement of changes in equity.
 12. *The **Income taxes** section in the statement of financial position would include current and deferred income tax assets and liabilities recognized pursuant to FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*. Cash flows related to those assets and liabilities would be presented in the income tax section of the statement of cash flows. In the statement of comprehensive income, income taxes would continue to be allocated among continuing operations, discontinued operations, items of other comprehensive income, and items charged or credited directly to equity using existing guidance on intraperiod tax allocation.
 13. *The **Discontinued operations** section would include all amounts related to a discontinued operation, as that term is defined in FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*..
 14. In a separate project, the Boards are discussing a converged definition of a discontinued operation and new disclosure requirements.
[\[http://www.fasb.org/project/discontinued_operations.shtml\]](http://www.fasb.org/project/discontinued_operations.shtml)
 15. **Extraordinary items** would not be presented as a separate section or category in the financial statements and the concept of extraordinary items would be eliminated (FASB only issue).

THE STATEMENT OF FINANCIAL POSITION

16. Assets or liabilities that are measured differently would be presented in separate line items on the statement of financial position (that is, an entity would not aggregate items with different measurement bases and present them in a single line item).

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17. An entity would present a classified statement of financial position (that is classify all assets and liabilities into short-term and long-term subcategories) except when a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is more relevant.
18. An asset or liability would be classified as short-term if the shorter of its (a) contractual maturity or (b) expected realization or settlement is within one year. Short term items would be clearly distinguished from long term items in a classified statement of financial position.

Totals and Subtotals

19. A total would be presented for each category and section, and operating assets would be clearly distinguished from operating liabilities. Other totals and subtotals may be presented when such presentation is relevant to understanding an entity's financial position.
20. Total short-term assets, total long-term assets, total assets, and similar totals for liabilities also could be disclosed in the notes to financial statements rather than on the statement of financial position.

THE STATEMENT OF COMPREHENSIVE INCOME

Disaggregation by Function and Nature

21. In the statement of comprehensive income, an entity would be required to present its revenue, expenses, gains, and losses in the operating, investing, and financing categories based on the primary activities (functions) in which it engages (for example, manufacturing, selling, and administrative). Each of those functions would be further disaggregated such that the entity's revenues and expenses are presented based on their nature (for example, materials, labor, and transportation), but only to the extent that that disaggregation enhances the usefulness of the statement of comprehensive income. An entity would present this by-nature information in the statement of comprehensive income unless that presentation is impractical, in which case it would present that information in the notes.
22. However, if in the opinion of management, presenting disaggregated information as described above would not provide relevant information (because, for example, the entity does not engage in a variety of functions, that is, it provides mainly services),

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an entity would disaggregate its revenues, expenses, gains, and losses by their nature within the operating, investing, and financing categories.

23. In addition, an entity would be required to present on a separate line any expense that is important in understanding its operating results that may not relate to a functional line item (for example, impairment of goodwill).

Presentation of OCI Items

24. The Boards decided that the financial statement presentation project should not seek to change existing standards relating to what items are recognized outside of profit or loss, thereby retaining existing guidance on presentation of other comprehensive income (OCI) items in a statement of comprehensive income and on the recycling mechanism. An entity should present a standalone statement of comprehensive income with OCI items presented in a separate section. Within that OCI section an entity should indicate (parenthetically or otherwise) which category (operating, investing, or financing) each OCI item relates.

THE STATEMENT OF CASH FLOWS

25. The notion of *cash equivalents* should not be retained in financial statement presentation. The current definition of *cash* would be retained and the statement of cash flows would present information on movements of cash only. Net amounts of receipts and payments related to items previously classified as cash equivalents should continue to be permitted for presentation in the statement of cash flows.
26. The initial discussion document will describe the Boards' conceptual preference for presenting cash flow information based on receipts and payments of cash (that is, an entity would be required to report cash flows using the direct method) . Both Boards agree that to the extent practical, an entity should use the same line items within the operating category on both the statement of comprehensive income and the statement of cash flows prepared under the direct method.
27. Consistent with existing guidance, an entity would disclose in the notes information about all significant activities of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period in the notes to financial statements.

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***THE STATEMENT OF CHANGES IN EQUITY**

28. The statement of changes in equity should include details of the change in the beginning and ending balance of each component of equity (including each component of other comprehensive income).

***NOTES TO FINANCIAL STATEMENTS**

Accounting Policy

29. An entity would be required to explain, as a matter of accounting policy, its basis (or bases) for classifying assets and liabilities in the financing categories, the investing category, and the operating category.

Liquidity Information

30. An entity that does not present a classified statement of financial position would present a detailed maturity schedule for short-term contractual assets and liabilities. An entity should use its judgment to determine the appropriate level of detail (such as on demand; less than one month; more than one month and not more than three months; and more than three months and not more than one year).

31. All entities would present a maturity schedule for long-term contractual assets and liabilities.

Disaggregation of Changes in Assets and Liabilities: Reconciling the Statement of Cash Flows to the Statement of Comprehensive Income

32. In order to provide information that will allow a user to distinguish between the various changes in assets and liabilities, an entity would present a schedule that reconciles the statement of cash flows to the statement of comprehensive income. The reconciliation schedule would include the line-item captions for both of those statements (except cash flows from equity transactions) and disaggregate the differences in amounts into components that have different predictive values. That is, the reconciling columns would disaggregate amounts that are sufficiently dissimilar in the context of predicting future cash flows to warrant separate presentation (as explained below).

33. At a minimum an entity would disaggregate the difference between cash flows (except cash flows from equity transactions) and amounts reported in comprehensive income into the following components:

- o Accruals, allocations and other changes not from remeasurements

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- Recurring [fair value changes (FASB)/valuation adjustments (IASB)]
- Remeasurements other than recurring fair value changes/valuation adjustments.

34. [FASB view only] An entity should present as part of that schedule information about amounts related to an unusual or infrequent event or transaction (as those concepts are used in APB Opinion No. 30, Reporting *the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*).