



LETTER OF COMMENT NO. 10

**From:** Muddassar Mehmood [md@racopk.com]  
**Sent:** Wednesday, February 11, 2009 6:31 AM  
**To:** commentletters@iasb.org  
**Cc:** Director - FASB; Director - FASB  
**Subject:** Comments on Discussion Paper: Preliminary views on Financial Statement Presentation  
**Attachments:** comments-mudasar.doc

Dear Sir

I have reviewed the "Discussion Paper: Preliminary views on Financial Statement Presentation".

My comments are attached for your reference.

**I would also appreciate if letter of acknowledgment be issued to me for record purposes.**

Regards,

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2/17/2009

## **DISCUSSION PAPER 'PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION'**

### **Chapter 2: Objectives and principles of financial statement presentation**

1. Would the **objectives of financial statement presentation** proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

**Yes, objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers and objectives are comprehensively mentioned in discussion paper. As cohesiveness objective would result in understanding the information, Disaggregation objective would make information useful for assessing future cash flows and Liquidity and financial flexibility objective would be helpful in assessing entity's ability with regard to financial commitments and future business opportunities.**

2. Would the **separation of business activities from financing activities** provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

**Yes, separation of business activities from financing activities would make information more decision useful as users to the financial statements can easily get their required information through this separation and would be able to make decisions quickly.**

3. Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

**Yes, equity be presented as a section separate from the financing section for provision of better information to shareholders.**

4. In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

**Yes, presenting discontinued operations in a separate section would make information more decision useful as in this way the users can ascertain information regarding the continued operations and assess future cash flows quickly/easily. Entity should not present information about its discontinued operations in the relevant categories but present it in separate section.**

5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

**Management approach provides the most useful view of an entity to users of its financial statements as long as major management decisions are appropriately described in notes to the financial statements.**

**Although there would be reduced comparability but the management approach to classify assets, liabilities etc would definitely outweigh this.**

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position**. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

**Yes, it would make calculation of financial ratios easier due to availability of required information to users.**

7. Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

**Yes, entities should classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level as it would result in better presentation and dissemination of information to users.**

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

**The board has to clarify which assets, liabilities etc has to be disclosed by segment.**

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

**Business Section and operating and investing categories within the business section have been appropriately defined.**

10 Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

**Financing section should be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed. Further, financing section and the financing assets and financing liabilities categories within that section defined have been appropriately**

### **Chapter 3: Implications of the objectives and principles for each financial statement**

11. Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect **not** to present a classified statement of financial position? Why?

(b) Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?

**Entities such as financial institutions would be expected not to present a classified statement of financial position. Further guidance is not required.**

12. Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

**Yes. Refer to IAS 7 and SFAS 95.**

13. Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

**Yes it would make information more decision useful and helps in achieving disaggregation objective of financial statement presentation.**

14. Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

**Entity should present comprehensive income and its components in a single statement of comprehensive income as proposed to eliminate differences between presentation formats used by the entities applying IFRS and US GAAP.**

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

**Yes in this way information would be decision useful as would result in segregating items between operating, investing and financing activities.**

16. Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses **by their function, by their nature, or both** if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

**Yes it would be helpful for better decision making and helps in achieving disaggregation objective of financial statement presentation.**

17. Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

**Entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements instead of allocating to sections.**

18. Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses**, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

**This provides more decision-useful information to users and to achieve the cohesiveness objective.**

19. Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

- (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?
- (b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
- (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

**Direct method of presenting operating cash flows would provide information that is decision-useful and would be more consistent with the proposed cohesiveness and disaggregation objectives. The information currently provided using an indirect method to present operating cash flows should not be provided in the proposed reconciliation schedule as it would result in excessive information.**

20. What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

**Costs might relate to changes in information systems.**

21. On the basis of the discussion in paragraphs 3.88–3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

**Effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness**

#### **Chapter 4: Notes to financial statements**

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

**Entity that presents assets and liabilities in order of liquidity in its statement of financial position should disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements and information about the information about the maturities of its short-term contractual assets and liabilities should be disclosed by all entities for more useful information to users.**

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed **reconciliation schedule** increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

**Proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows. Benefits would definitely outweigh the costs associated with it. Guidance is also sufficient to prepare the reconciliation schedule.**

24. Should the boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

**Yes as IFRSs and GAAP currently provide limited guidance.**

25. Should the boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

**Proposed format that reconciles cash flows to comprehensive income is appropriate rather than considering alternative reconciliation formats.**

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

(b) 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, contains definitions

of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

(c) Should an entity have the option of presenting the information in narrative format only?

**Information would be useful by presenting unusual or infrequent events or transactions as special item. Definitions of unusual and infrequent are appropriate in APB opinion no.30. Entity must have the option of presenting the information in any format.**

### **Question specific to the FASB**

27. As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to non-public entities**. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

**Application of the proposed presentation model to non-public entities should be deferred for time being by FASB.**