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To
The Chairman
International Accounting Standards Board
30 Canon Street
UK - London, EC4M 6XH



LETTER OF COMMENT NO. 91

Subject: Comments on the Discussion Paper "Preliminary Views on Financial Statements Presentation"

Dear Sir,

This letter is in response to your call for comments on the joint Discussion Paper titled "Preliminary Views on Financial Statement Presentation" file reference No. I630-100.

I would like to thank you for the opportunity to comment on the Discussion Paper (DP) on financial statements presentation.

It gives me an immense pleasure to see the proposed revisions in the presentation of the financial statements since as teacher of accounting at one of the well known Management Colleges of India, I have been explaining the financial statements using the business decisions model. I used to find it difficult in explaining why are the Financial Statements not presented as per the business decisions. With the present initiative of the Board I will not encounter such questions in future.

While in general I agree with the overall objectives as enumerated in the DP, I have some concerns on several issues. I would like to share those concerns in the form of answers to some of the questions given in the DP.

Following are my responses/comments/suggestions to some of the questions raised in the DP.

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.

My comments: Yes, it would. However, I feel that more importance has been given to the providers of capital. Being an independent regulatory body there is a need for IASB to give weightage to the expectations/needs of other stakeholders too. Now to some of the specific comments:

- **Cohesiveness:** Cohesiveness will be useful to all the stakeholders and it will make the income statement and the balance sheet to reflect the business decisions.
- **Disaggregation:** This objective seems to be saying more than what the financial statements can achieve. For example, it may be difficult to understand how can the financial statements help in reducing the uncertainty of future cash flows. I am not sure how will the disaggregation help in reducing the uncertainty. Moreover, too much of disaggregation may also lead to too much of information on the face of the financial statements. So I suggest the objective as follows: “ **An Entity should show the relevant information for each business decision (FD, ID, OD) to make the financial statements more useful.**”
- **Liquidity and financial flexibility:** This is one of the most important objectives of the financial statements. However, the present wording of the objective seems to be capturing only some aspects of the business performance. The performance of a company is a function of *liquidity, solvency, efficiency* in using the assets, and *profitability*. The words (Liquidity and financial flexibility) used in the DP captures the first two aspects. So there is a need to strengthen this objective. In fact, the stakeholders including the stockholders (provider of capital) are equally interested in the profitability of the organisation. So there is a need to include profitability in the objectives.

Profitability should reflect both: profit generating ability and profit distributing ability. So I suggest the objective as follows: “ An Entity should present information in its financial statements in a manner that helps users to assess the entity’s financial flexibility (liquidity and solvency) and profitability (profit generating and profit distributing) ability.”

- 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?*

My comments: Yes, it would be useful. In fact it make the financial statements to reflect the basic accounting relationship ie. $Assets = Equity + Liabilities$. It will provide the users clear understanding about how an entity is raising and using its resources.

- 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?*

My comments: The assets and operations of an entity can be financed by a combination of equity and debt (current or non-current). So the financial statements should consistently demonstrate : $Assets = Liabilities + Equity$. Equity is one form of financing . So I don’t see any reason for separating equity from financing section. By doing so we may be bringing in some semantic anomaly into the financial statements.

- 4 *Discontinued Operation:*

My comments: I agree that the entity should present its discontinued operations in a separate section as proposed by the boards.

- 5 *5.a: Would a management approach provide the most useful view of an entity to users of its financial statements?*

My comments: I agree that that preparing the financial statements as per the management approach would help the users to understand the business better. In my understanding management is under the obligation to share with all the stockholders the decisions taken by it

during a particular period. So the users can understand the business decisions properly if the financial statement are presented using the management approach.

However, I would like to bring to your notice the following (2.41): "*The changes in an equity classification policy should be implemented through retrospective application of the new classification policy to prior periods, as required by IFRS and US GAAP.*" In my view, one will encounter big changes in the equity once in a while due to such retrospective changes. Efforts should be made to disallow such retrospective changes in the policy.

5.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?

My comments: I believe that the financial statements prepared using the management approach will reduce comparability. In fact, it may become more useful for undertaking intra-industry comparison and also intra-company comparison. Of course, such classification may create some problem while comparing companies belonging to different industries. However, such problems can be addressed if the entities clearly show the accounting policies. In my opinion, the management approach of preparing the financial statement will make the financial statements more useful.

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?

My comments: This change will make it difficult for the users to understand the statements let alone calculation of key ratios. There is a possibility of creating some confusion in the minds of the users too. Please refer to the my answer under point 8 (page 5 of this note) and annexure-1 for the alternative ways of presentation.

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.

My comments: There is some ambiguity in these paragraphs. It is not clear whether the financial statements will show the segment level assets, liabilities, and equity. If yes, then there is a need to make the necessary changes in the presentation of financial statements itself. In that case one may think of preparing and presenting the financial statements for each segment and then of course one has to go for classification of the assets, liabilities and even equity at the segment level. If that is not the case, then this issue has been addressed by the standard for the segment reporting.

8 *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? its financial statements?*

My comments: The definitions are as per the management approach. Such definitions are expected to improve the relevance of the financial statements. However, the presentation as given in the paragraphs 3.2 to 3.13 make the statement of financial position difficult to understand and use it further for decision making. I would like use the proposed Statement of Financial Position format given in the Illustration (Too|Co) |A(in the DP) to explain further and provide one of the alternatives for presenting the statement of financial position.

- 'Net business assets' seems to be a very confusing item.
- Presentation of 'cash' under financing is misleading too. This cash might have come from some source (Debt or Equity)
- Showing 'financing liabilities' and 'equity' in different places adds to the confusion.

Please see the annexure-1 which shows the suggested Statement of Financial Position using the information for the year ending 31st December 2010. In my understanding, the suggested statement of financial position helps the user in getting a clear picture about the operating, investment and financing, investing of an entity. More over it also helps in determining the ratios too like Current Ratio, Working Capital etc.

9 *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?*

My comments: Yes. Such information will help in throwing some more light on the liquidity and financial flexibility of the entity.

10 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?

My comments: Yes. However, I would like to make the following suggestions to improve the presentation of the statement of comprehensive income.

- Show 'Cost of goods consumed' rather than purchase of material and the changes in the inventory.
- Interest income on the investments(the debt instruments) to be included under the investing activities. At present only dividend is shown
- Amortisations not shown
- Income tax not classified into 'Deferred Tax' and 'Current Tax'.
- The proposed format fails to show the Income before interest and tax (IBIT or EBIT). This is one of the important financial numbers to understand the financial liquidity and flexibility.
- Impairments and Provisions for bad debts etc. not shown.

11 Paragraph 3,75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

My comments: I always find it useful to explain the concept of CFO using both direct and indirect methods. Both have merits.

Direct method shows the actual flows of cash. But it fails to show the reasons for the difference between CFO and profit.

Indirect method answers the question why is the profit not same as CFO. But it does not show the actual receipts and payments from operations. One cannot observe the actual receipts from the debtors or payments to the creditors from the CFS.

So I find strengths in both methods. It will be useful if the companies are asked to show CFO using both methods.

12) *Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (separate paragraphs 4.19 and 4.45)? Why or why not?*

My comments: Yes. If the cash flow statement will be presented using the direct method, there is a need to present the reconciliation between profit and cash from operations. The users would be interested in understanding why the cash from operations different from the profits for the periods. Is it because of accruals (working capital changes), non cash items (depreciation etc.) or non-operating items.

General observations: DP is silent about the following issues:

- Contingent liabilities
- Explanation of the difference between the opening balances and closing balances
- Schedules to be attached to provide the details of the financial items
- Presentation of Non-GAAP information along with the financial statements.

I once again thank the Board for giving this opportunity.

Yours Sincerely,

D.V.Ramana

Enclosure: Annexure -1:Suggested Format for Statement of Financial Position

Annexure-I

Statement of Financial Position	
	Asa on 31st Dec2009
Operating Activities	
Total Short Term Assets	1,688,062
Total Short Term Liabilities	1,057,142
Net Current Assets	630,920
Total long-term assets	3,296,647
Total long-term liabilities	588,063
Net operating Non Current Assets	2,708,584
Investment Activities	
Total Investment Assts	520,350
Net Assets under Discontinued Operations	456,832
Cash in Hand	1,174,102
Net Assets	5,490,788
Financing Activities	
Long-term borrowings	2,050,000
Total short-term financing liabilities	722,401
Equity	2,690,132
Deferred Tax Liabilities	28,255
Net Sources	5,490,788