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Business School

LETTER OF COMMENT NO. 215

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Preliminary views on Financial Statement Presentation Feedback Comments

Dear Sir David and IASB Board Members

I would like to offer the following comments re Discussion Questions 23a (IASB FSP DP p. 99):

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows?

The IASB Discussion Paper proposes disaggregation of income statement items into their components, being cash, accruals, recurring remeasurements and other remeasurements. The aim of disaggregation is to improve the transparency of financial statement information and thus its usefulness for decision making. Although the idea of a matrix format for presentation of income statement items has been in the public domain for some years (see Barker, 2004) there is very little evidence about whether users may benefit from this style of presentation. An experiment by Tarca et al. (2008) provides relevant empirical evidence of interest to standard setters and those working with financial statements.

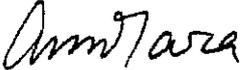
The experiment involved 477 subjects, including financial analysts and accountants (as being representative of sophisticated financial statement users) and MBA students (as being representative of less sophisticated financial statement users). Subjects were required to complete a financial analysis exercise using a set of financial statements that either included an income statement and a statement of changes in equity in the 2005 IAS 1 format or an income statement based on the matrix format. After controlling for subjects' competency levels, results show that the matrix format improves the accuracy with which users extract financial information for both sophisticated and less sophisticated financial statement users and that the relative impact of the matrix format is greatest for the less sophisticated users. The improvement in accuracy relates to below-the-line remeasurement items (i.e., items taken directly to equity). It may arise from greater transparency resulting from including the below-the-line items in the income statement, displaying the items in the columnar format, or both.

The policy implication of the results is that standard setters have little reason to fear users will make more errors when extracting information from a single statement of comprehensive income, compared to financial statements prepared according to IAS 1 (current in 2005). Furthermore, we find that despite users' unfamiliarity with the matrix format, they did not take longer in their analysis, they did not consider the matrix format more difficult to use and they did not have less

confidence in their answers. Moreover, we might reasonably expect significant improvements along these dimensions as well, as users gained more experience with the matrix format. The findings suggest that adopting the matrix format would not pose a major educational challenge, at least when it comes to financial analysts, accountants and managers.

I forward this information as part of the discussion process in relation to the Financial Statement Presentation Project. It is relevant to considerations of the benefits of providing a matrix format reconciliation within the financial statements. Should the Board find that a majority of constituents consider the matrix reconciliation as proposed in the Discussion Paper to be too complex, I recommend that a simplified version of the matrix format be considered because such a format appears to have many benefits for users. The matrix format appears to be an effective way of communicating additional information about income statement items when a mixed attribute measurement model is used (as is the case under present IASB standards).

Yours faithfully



Ann Tarca

30 April 2009

References

- Barker, R., "Reporting Financial Performance," *Accounting Horizons* Vol. 18 No. 2 (2004), pp. 157-172.
- Tarca, A. Brown, P.R., Hancock, P. Woodliff, D., Bradbury, M. and van Zijl, T. (2008) "Identifying decision useful information with the matrix format income statement" *Journal of International Financial Management and Accounting*, 19(2): 185-218.