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### The Reporting Entity

This Exposure Draft of a proposed Statement of Financial Accounting Concepts is issued by the Conceptual Framework for Financial Reporting:

Respondents are also invited to comment on the following questions.

1. Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

# COMMENT THE REPORTING ENTITY SHOULD ALWAYS BE A LEGAL ENTITY AND NOT PART OF AN ENTITY ANY STATEMENT PREPARDE FOR PART OF THE ENTITY BECOMES A SPECIAL PURPOSE STATEMENT

2. Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the ii

definition of control of an entity? (See paragraphs RE7–RE8 and BC18–BC23.) If not, why?

COMMENT CONSOLIDATED FINACIAL STATEMENT(CFS) IS EXCELL SPREADSHEET WITH ANY ACCOUNT BOOK BEING MAITAINED IT IS DISCLURE STATEMNT IMPORTANCE SHOULKD BE GIVEN FOR STANDALONE FINACIAL STATEMNT AND NOT FOR CFS. THE DEFINITION OF CONTROL WILL VARY FROM COUNTRY TO COUNTRY AND IT IS MORE GOVERNED BY LOCAL LAWS

3. Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

COMMENT PROVIDING REAOSUCES ALONE CANNOT BECOME A CRITERIA SUCH A STATEMNT AT BEST CAN ONLY BE A SPECIAL PURPOSE STATEMNT

4. The FASB and the IASB are working together to develop common standards on consolidation that would apply to

all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

COMMENT I AGREE THE PROJECT SHOULD NOT BE DELAYED . I DONOT FIND ANY VALUE ADDITION FOR THIS PROJECT ALSO AS REPORTING ENTITY IS DECIDED BY LOCAL LAWS

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# **Proposed Statement of Financial Accounting Concepts**

# **Conceptual Framework for Financial Reporting:**

**The Reporting Entity** 

March 11, 2010

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#### **PREFACE**

P1. In May 2008, the FASB and the IASB published for public comment a Discussion Paper, *Preliminary Views – Conceptual Framework for Financial Reporting: The Reporting Entity.*P2. The Boards received 84 comment letters on that Discussion

Paper. This Exposure Draft represents the FASB's views after considering respondents' comments and the views received through other outreach initiatives, including the FASB's reasons for modifying some of its preliminary views.

P3. Both Boards have published this common Exposure Draft for public comment. It relates to one part of the FASB's conceptual framework. The Boards share the ultimate goal of adopting the improved framework as a replacement of their present frameworks. P4. The Boards' Exposure Draft, Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information, explains why the Boards are reconsidering their conceptual frameworks. It also explains the process for developing the common conceptual framework. For convenience, some aspects of this process are also explained below.

### **Developing the Common Conceptual Framework**

P5. The Boards concluded that a comprehensive reconsideration of all concepts would not be an efficient use of their resources. Many aspects of their frameworks are consistent with each other and do not seem to need fundamental revision. Instead, the Boards adopted an approach that focuses mainly on the improvement and vi

convergence of their existing frameworks, giving priority to issues that are likely to yield standard-setting benefits in the near term. P6. The Boards decided to focus initially on concepts applicable to business entities in the private sector. Once concepts for those entities are developed, the Boards will consider the applicability of those concepts to financial reporting by other types of entities, such as not-for-profit entities in the private sector and, in some jurisdictions, business entities in the public (governmental) sector. P7. In this phase of the conceptual framework project the Boards are considering conceptual matters relating to the reporting entity. Other active phases are considering many conceptual matters, such as:

- (a) The objective of financial reporting and the qualitative characteristics of financial reporting information
- (b) The elements of financial statements
- (c) Measurement.

P8. The Boards will consider, in later phases, matters of presentation and disclosure and, as discussed above, the applicability of the concepts in earlier phases to other types of entities.

#### **Due Process**

P9. As part of their due process, the Boards plan to consult interested parties by publishing common Discussion Papers and

Exposure Drafts of the common and improved framework. The Boards may also publish other due process documents to seek views on particular issues before developing preliminary views on those issues. The Boards also expect to continue to consult in other ways, such as through discussions with the FASB's Financial Accounting Standards Advisory Council, the IFRS Advisory vii

Council, and in roundtable and other meetings with interested parties.

#### **Authoritative Status of the Framework**

P10. Neither FASB Concepts Statements nor the IASB's Framework for the Preparation and Presentation of Financial Statements overrides authoritative standards, even though some standards may be inconsistent with them.

P11. IAS 1, *Presentation of Financial Statements*, requires an entity preparing financial statements in accordance with International Financial Reporting Standards (IFRSs) to consider the IASB's *Framework* when there is no standard or interpretation that specifically applies to a transaction, other event, or condition that deals with a similar and related issue.

P12. Section 105-10-05 of the FASB Accounting Standards Codification<sup>TM</sup> states that FASB Concepts Statements are nonauthoritative.<sup>2</sup> If guidance for a transaction or event is not specified within a source of authoritative generally accepted accounting principles (GAAP) for that entity, an entity must first consider accounting principles for similar transactions or events within authoritative GAAP and then consider nonauthoritative guidance from other sources (including Concepts Statements). Although there is currently no firm plan, the FASB expects to reconsider the authoritative status of the FASB Concepts Statements at completion of the Conceptual Framework project, which could result in elevating its status to authoritative.

1IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 10 and 11.

<sup>2</sup>Paragraph 105-10-05-3 of the Accounting Standards Codification. viii

P13. In a separate project, the two Boards are reconsidering the existing requirements for preparing consolidated financial statements. The Boards believe that the reporting entity concept in this Exposure Draft is consistent with the approaches they are likely to pursue in the standards-level project.

P14. In preparing responses to this Exposure Draft, respondents should consider the differences in status of the Concepts Statements and the Accounting Standards Codification, as well as the possibility that the FASB Concepts Statements could be elevated to authoritative status in the future.

### **SUMMARY**

### The Reporting Entity

S1. A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.

COMMENT LEGAL ENTITY IS MORE IMPORTANT FOR A GENERAL PURPOSE FINANCIAL STATEMENT AND NOT ECONOMIC ACTIVITY ALONE SUCH A STATEMENT PREPARED BASED ON ECONOMIC ACTIVITY BECOMES A SPECIAL PURPOSE STATEMENT

S2. An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

# COMMENT THE GENERATION OF BENEFIT ALONE CANNOT BE A CRITERIA IT CAN AT BEST BE ONE OF THE CRITERIA

S3. A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity.

COMMENT SUCH A REPORT BECOMES A SPECIAL PURPOSE FINANCIAL STATEMNT

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# CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

# The Reporting Entity

### Introduction

RE1. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided. The reporting entity concept is intended to further this objective.

## COMMENT OTHER OBJECTIVES ALSO SHOULD BE CONSIODERED

#### **Description**

RE2. A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, and other

creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether management and the governing board of that entity have made efficient and effective use of the resources provided.

RE3. A reporting entity has three features:

- a. Economic activities of an entity are being conducted, have been conducted, or will be conducted
- b. Those economic activities can be objectively distinguished from those of other entities and from the economic environment in which the entity exists 2
- c. Financial information about the economic activities of that entity has the potential to be useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board have made efficient and effective use of the resources provided.

These features are necessary but not always sufficient to identify a reporting entity.

# COMMENT WHY ONLY ECONOMIC ACTIVITIES AND RESOURCE ALLOCATION ALONE THER IMPORTANT ITEMS SUCH LEGAL REQUIREMENT TAXATION ETC SHOULKD ALOS BE CONSIDERED

RE4. Identifying a reporting entity in a specific situation requires consideration of the boundary of the economic activities that are being conducted, have been conducted, or will be conducted. The existence of a legal entity is neither necessary nor sufficient to identify a reporting entity. A reporting entity can include more than one entity or it can be a portion of a single entity.

RE5. A single legal entity that conducts economic activities and does not control any other entity is likely to qualify as a reporting entity. Most, if not all, legal entities have the potential to be reporting entities. However, a single legal entity may not qualify as a reporting entity if, for example, its economic activities are commingled with the economic activities of another entity and there is no basis for objectively distinguishing their activities. In some jurisdictions, there may be questions about whether those entities are separate entities under the law.

RE6. A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity. For example, a potential equity investor could be considering a purchase of a branch or division of an entity.

# COMMENT SUCH A STATEMNT BECOMES A SPECIAL PURPOSE STATEMERNT

3

#### **Consolidated Financial Statements**

RE7. An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself.

RE8. If one entity controls another entity, the cash flows and other benefits flowing from the controlling entity to its equity investors, lenders, and other creditors often depend significantly on the cash flows and other benefits obtained from the entities it controls, which in turn depend on those entities' activities and the controlling entity's direction of those activities. Accordingly, if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. Consolidated financial statements are most likely to provide useful information to the greatest number of users.

RE9. Two or more entities may share the power to direct the activities of another entity to generate benefits for (or limit losses to) themselves. In this case, none of the entities that share the power to direct the activities of this other entity individually controls this other entity. Accordingly, none of these entities would present information about itself and this other entity on a consolidated basis.

RE10. If one entity has *significant influence* over another entity, it does not control that other entity. The entity's ability to influence the activities of another entity without actually being able to direct those activities does not constitute power over that other entity.

# COMMENT CFS IS A MORE DISCLURE STATEMNT

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# Other Types of Financial Statements

# Parent-Only Financial Statements

RE11. A controlling entity may present financial statements that provide information about its investments in the entities it controls, and the returns on those investments, rather than the economic resources and claims, and changes in those economic resources and claims, of those entities it controls. Such "parent-only" financial statements might provide useful information if they are presented together with consolidated financial statements.

# COMMENT THESE SHOULD BE CALLED SEPARATE FINANCIAL STATEMENT AND SHOULD BE GIVEN MORE IMPORTANCE

#### Combined Financial Statements

RE12. Combined financial statements include information about two or more commonly controlled entities. Combined financial statements do not include information about the controlling entity and are often prepared when the controlling entity does not prepare financial reports. Combined financial statements might provide useful information about the commonly controlled entities as a group.

COMMENT THIS IS ALSO A SPECIAL PURPOSE STATEMENT THIS MAY LEAD TO SELECTIVE COMBINATION THIS ALSO SHOULD BE CALLED A SPECIAL PURPOSE FINACIAL STATEMENT