

FINANCIAL STATEMENT PRESENTATION PROJECT
A Joint Project of the FASB and IASB
Phase B: Summary of Tentative Preliminary Views as of March 31, 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.

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business <ul style="list-style-type: none"> ◆ Operating assets and liabilities ◆ Investing assets and liabilities Financing <ul style="list-style-type: none"> ◆ Financing assets ◆ Financing liabilities <u>Foreign Currency Translation Adjustments</u>	Business <ul style="list-style-type: none"> ◆ Operating income ◆ Investment income Financing <ul style="list-style-type: none"> ◆ Financing income ◆ Financing expenses <u>Foreign Currency Translation Adjustments</u>	Business <ul style="list-style-type: none"> ◆ Operating cash flows ◆ Investing cash flows Financing <ul style="list-style-type: none"> ◆ Financing asset cash flows ◆ Financing liability cash flows
Discontinued operations	Discontinued operations	Discontinued operations
Equity	Statement of Changes in Equity	Equity

Note: The Boards have not addressed totals, subtotals, or the order in which sections would be presented; nor have they finalized the labels of the categories and sections.

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) and financing activities. Thus, a manufacturing entity may classify the exact same

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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** of the statement of financial position would include all assets and liabilities that management views as part of the entity's continuing business activities. This section is composed of ***Operating category*** and ***Investing category***.
 - a. The ***Operating category*** would include assets and liabilities that management views as integral to the business activities it is currently engaged in and unrelated to financing those activities. Operating assets and liabilities would be included in the same category; they would not be separated into operating assets and operating liabilities.
 - (1) Examples of items classified in the operating category of a *non-financial entity* are: accounts receivable, accounts payable, inventory, PP&E, intangible assets, and pension obligations.
 - (2) Examples of items classified in the operating category of a *financial institution* are: cash, commercial paper, money market funds, available-for-sale financial instruments, trading portfolio assets and liabilities, deposits, loans, property and equipment, intangible assets, insurance liabilities, and pension obligations, plus financial instruments held to hedge any of these items.
 - b. The ***Investing category*** would include assets and liabilities that management views as related to the entity's investing activities (referred to as investing

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assets and liabilities). The term *investing* is used in the economic sense—committing money or capital with the expectation of earning a financial return.

- (1) Examples of items classified in the investing category of a *non-financial entity* are: held-to-maturity financial instruments and financial instruments held to hedge items included in the investing category.
- (2) An example of an item classified in the investing category of a *financial institution* is: an investment in associates.

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 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.
- b. Examples of financial assets and financial liabilities that would generally be included in the financing section of a *non-financial entity* are: cash, commercial paper, money market funds, available-for-sale financial instruments, bank loans, and bonds, plus financial instruments held to hedge any of these items.
- c. Examples of financial assets and financial liabilities that would generally be included in the financing section of a *financial institution* are: certain debt instruments.

11. The **Equity section** in the statement of financial position would include all equity items. 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 Boards did not reach a preliminary view on whether income taxes should:

- a. Continue to be allocated to continuing operations, discontinued operations, and other comprehensive income (OCI) items or
- b. Not allocated and presented separately in an income taxes section. If not allocated, the notes to financial statements would include additional information to assist users in analyzing income tax information (see paragraph 43 of this Summary).

The initial discussion document will address both alternatives for presenting income taxes (allocation and non-allocation).

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13. The Boards also did not reach a preliminary view on whether income taxes on transactions with owners should continue to be charged or credited directly to equity or be presented in the income taxes section. The discussion document will address both alternatives.
14. Discontinued operations would be presented separately in the **Discontinued Operations section**.
- The IASB is of the view that the assets and liabilities of discontinued operations should be presented on a gross basis on the statement of financial position (that is, two amounts). The FASB is of the view that a single amount (net assets) should be presented on the statement of financial position.
 - Profit (loss) of the discontinued operation and any gain (loss) from measurement to fair value or disposal could be combined and presented on the face of the statement of comprehensive income as a single amount.
 - Total cash flows related to the discontinued operations could be combined and presented in the statements of cash flows as a single amount.
15. In a separate project, the Boards are discussing a converged definition of a discontinued operation and new disclosure requirements. They have tentatively agreed that
- A discontinued component of an entity would be reported in the discontinued operations section only if that component is an *operating segment*, as defined in Statement 131 and IFRS 8. (This is a change to the definition of a *discontinued operation* currently 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*.)
 - An entity would be required to disclose the following information in the notes to financial statements for both a component reported in the discontinued operation section and a discontinued component that was reported in the business section because it was not an operating segment.
 - Information currently required to be disclosed about discontinued components expanded to include information such as major classes of: revenues and expenses; cash flows; and assets and liabilities.
16. **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).
17. **Foreign currency translation adjustments (FCTA)** related to consolidated subsidiaries and proportionately consolidated joint ventures would be presented in a separate FCTA section. FCTAs related to equity method investments would be presented in the same category as the investment.

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THE STATEMENT OF FINANCIAL POSITION

18. 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).
19. 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 reliable and is more relevant.
20. An asset or liability would be classified as short-term if the shorter of its (a) contractual maturity and (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

21. 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.
22. Total short-term assets, total long-term assets, total assets, and similar totals for liabilities also would be disclosed in the notes to financial statements.

THE STATEMENT OF COMPREHENSIVE INCOME

Disaggregation by Function and Nature

23. In the statement of comprehensive income, an entity would be required to present its revenue, expenses, gains, and losses based on the primary activities (functions) in which it engages. Each of those functions would be further disaggregated such that the entity's revenues and expenses are presented based on their nature, 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.
24. However, if in the opinion of management, presenting disaggregated information as described above would not provide relevant information (because, for example, the

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entity does not engage in a variety of functions, that is, it provides mainly services), an entity would disaggregate its revenues, expenses, gains, and losses by their nature within the operating, investing, and financing categories.

25. In addition, an entity would be required to separately report 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

26. The Boards expressed their view that all current period changes in assets and liabilities should be presented in one of the functional categories on the statement of comprehensive income, thereby rendering OCI and the mechanism of recycling unnecessary. The Boards believe that achieving that view is a long-term goal. To achieve it, current standards that require recognition of amounts in OCI will need to be changed. The Boards acknowledged that, as an interim step, OCI items might need to be presented in a separate section of the statement of comprehensive income.

27. To achieve the Boards' long-term goal of presenting OCI items in the same manner as all other changes in assets and liabilities, both Boards decided to address the standards that give rise to other comprehensive income items individually and separately, rather than as part of the financial statement presentation project (because the scope of this project does not include recognition issues).

28. In further discussions of the interim step toward their long-term goal the Boards had different views on how OCI items should be presented in the statement of comprehensive income. Thus, the discussion document will include two alternatives for interim presentation:

- a. Under the first alternative, OCI items (except foreign currency translation adjustments (FCTA) related to consolidated subsidiaries and proportionately consolidated joint ventures) would be classified in the statement of comprehensive income consistent with the classification of the asset or liability that gives rise to those items.

A subcategory within each functional category would distinguish items of income and expense that are OCI components from those that are not. Accordingly, all current period changes in assets and liabilities would be recognized in one of the categories or sections on the statement of comprehensive income.

Foreign currency translation adjustments related to consolidated subsidiaries and proportionately consolidated joint ventures would be classified in a

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separate FCTA section in the statement of comprehensive income (not illustrated in the working format).

An OCI item should continue to be reclassified, as required by other standards, within the category or section in which the item was initially recognized.

- b. Under the second alternative, an entity would present OCI items in the statement of comprehensive income in a separate section (OCI section) that would be presented with the same prominence as the business, financing, income tax, and discontinued operations sections. Within the OCI section, OCI items would be classified in operating, investing, and financing categories consistent with the classification of the asset or liability that gives rise to those items. However, similar to the first alternative, FCTAs related to consolidated subsidiaries and proportionately consolidated joint ventures would be classified in a FCTA category within the OCI section.

An entity would reclassify (recycle) all OCI items, as required by other standards, from the OCI section to the corresponding category in the business, financing, or discontinued operations section.

29. Another alternative presentation will be included in the discussion document for achieving the Boards' long-term goal. That third alternative breaks away from the working format and requires an entity to group changes in assets and liabilities that are of a similar nature together and present them in different sections or columns. Under this third alternative, the statement of comprehensive income would segregate market-related changes in (a) assets and liabilities that arise outside the core earnings process and (b) intangible assets and long-term fixed assets from all other changes in assets and liabilities. Both a columnar format and a top/bottom format could be used for segregating 'other market-related changes' and all other changes in assets and liabilities.

30. The discussion document will include a fourth alternative presentation, also based on the Board's long-term goal. That fourth alternative is similar to the first alternative under the interim view except that there is no concept of recycling (consistent with the Boards' long-term goal) and all changes are classified in one of the functional categories—there is no subcategory for "former" OCI items.

Totals and Subtotals

31. A total would be presented for each category and section and a total would be presented for *Total comprehensive income*. Other totals and subtotals may be presented when such presentation is relevant to understanding changes in an entity's financial position.

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THE STATEMENT OF CASH FLOWS

32. 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.
33. 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) and explain a cost-effective way of collecting that information. 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. Similar to the existing requirements in FASB Statement No. 95, *Statement of Cash Flows*, an entity would also be required to provide a reconciliation of cash flows from operations to operating income (the indirect schedule) to supplement the statement of cash flows presented using the direct method.
34. 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.

Totals and Subtotals

35. A total would be presented for each category and section. A reconciliation from beginning to ending cash would also be presented. Other totals and subtotals may be presented when such presentation is relevant to understanding changes in an entity's financial position.

THE STATEMENT OF CHANGES IN EQUITY

36. The statement of changes in equity should include details of the change in the beginning and ending balance of each component of equity (except for accumulated OCI, which would be presented in the aggregate on the statement of changes in equity and the details for each OCI item in the notes to financial statements). In

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addition, proceeds from capital transactions should be presented in the aggregate on the statement of changes in equity.

NOTES TO FINANCIAL STATEMENTS

Accounting Policy

37. 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

38. 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).

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

40. An entity would disclose qualitative and quantitative capital management information.

Measurement Information

41. Information about the measurement basis (or bases) of the assets and liabilities presented on the statement of financial position would be disclosed in the summary of significant accounting policies. In deciding whether a particular accounting policy should be disclosed, management would consider whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the financial statements.

42. The notes to financial statements should include a description of any significant uncertainty in the current measure of assets and liabilities and an explanation of why the measured amount was selected. Individual accounting standards would include more specific disclosures about measurement uncertainty as appropriate.

Income Tax Disclosures

43. If income taxes are presented in a separate section, the Boards are of the view that supplemental disclosures would be provided in the notes to financial statements, such as the following:

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- a. An explanation of the relationship between income tax expense and comprehensive income in either or both of the following forms:
 - i. A numerical reconciliation between income tax expense and the product of comprehensive income multiplied by the statutory tax rate(s), and a numerical reconciliation between income tax expense and the current portion of income tax expense
 - ii. A numerical reconciliation between the effective income tax rate (income tax expense divided by pre-tax comprehensive income) and the statutory tax rate, and a numerical reconciliation between the effective income tax rate and the "current provision" effective tax rate (current portion of income tax expense divided by pre-tax comprehensive income).
- b. A qualitative discussion about each significant reconciling item in the reconciliation in (a) above. The focus of the disclosure should be on the effect of tax rates in different jurisdictions, and on the transactions or events that influenced effective tax rates and how those factors may affect effective rates in the future. If a reconciling item relates to other comprehensive income, that relationship should be evident.
- c. A qualitative discussion that explains the impact of income taxes on the operating, investing, financing, discontinued operations, and other comprehensive income categories/sections in the statement of comprehensive income, to the extent such information is not covered in (b) above. The focus of the disclosures should be on whether income taxes in each category differ from what a user would expect based on the entity's statutory tax rate. If major differences exist, the disclosure should provide information that allows a user to gauge whether each difference is likely to be maintained or reversed in future periods. If an entity disaggregates taxes by reportable segment for internal decision making, it would be encouraged to disclose each reportable segment's income tax expense or effective tax rate.

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

44. 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 each of those statements 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).

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45. At a minimum an entity would disaggregate the difference between cash flows and amounts reported in comprehensive income as follows:

Column B.	Cash flows not affecting income
Column C.	Accruals and systematic allocations
Column D.	Recurring valuation changes
Column E.	Remeasurements other than recurring valuation changes.

46. [FASB 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*).

Segment Reporting

47. The IASB is of the view that an entity that classifies similar assets and liabilities in different categories should disclose operating and financing category information by reportable segment for the statements of financial position, comprehensive income, and cash flows. That information can be combined for reportable segments that classify similar assets and liabilities similarly. (The IASB will address at a future meeting possible similar changes to segment disclosures that would apply to all entities.)

48. The FASB is of the view that in presenting segment reporting information pursuant to Statement 131, an entity would disclose reportable segment information comparable to that in the operating and financing categories (at a minimum) of the consolidated statement of financial position, statement of comprehensive income, and statement of cash flows. Assets and liabilities that are managed by a reportable segment would be allocated to that segment and measured on a basis consistent with the amounts reported in the consolidated financial statements.