



LETTER OF COMMENT NO. 73

From: Gabriel Donleavy [mailto:g.donleavy@cqu.edu.au]
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Cc: gd
Subject: Discussion Paper - Preliminary Views on Financial Statement Presentation - Comment

Paragraph 2.1(a) on page 28

Comment

Even capital providers do not have homogeneous information needs, as may be seen from the recent FASB statement in response to pressure from one section of those providers. If it is an impossible dream to satisfy the information needs of even the investor and loan creditor group for whom accounting reports have long been supposed to be designed, then is it not worth starting from the opposite direction. If a general purpose accounting report is the starting point, then the general user is the reader entailed. Investors, creditors, consumers and employees – all both actual and potential, have a stake. Government is not sui generic with that group because it can bilaterally require completion of any forms it cares to invent. Para 2.1(a) recognizes information compiled for capital providers may be useful to other users. the reverse applies a fortiori. General purpose information will certainly be especially useful to investors, both by equity and loan. Corporations in general, and financial corporations in particular, are only just surviving the current wave of public revulsion. We could serve both the economy and society if we extended the scope of the current reporting exercise and the scope of the accounting report to reduce the probability of public revulsion to the next downturn in the business cycle. The report that has been held to be able to help in that regard (for example by the long forgotten UK 1975 Corporate Report paper) is a report on Value Added. The mechanics of adapting the Comprehensive Income Statement to serve the purposes of a Value Added Report are easy.

Chapter 3 paragraph 3.75 proposes the direct method of presenting the Cash Flow Statement for reasons listed in paragraph 3.78 on page 76.

Comment

My PhD study on the decision usefulness of cash flow statements in 1991 to financial analysts in Hong Kong showed that only the direct method had consistent incremental information content. The indirect method was not seen as more useful than the funds flow statement that it replaced. The proposed reform is welcome if overdue.

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