



### Discussion Issue 1

Would the **objectives of financial statement presentation** described 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.

#### Comments:

Objectives of financial statements presentation described in paragraph 2.5 – 2.13 will improve the usefulness of the information provided in the entity's financial statements and help users make the better decisions in their capacity as capital providers in the following manner:

- Cohesiveness in the financial statements will enable the capital providers to better understand the relationships between various components of financial statements – Profit or Loss Account, Balance Sheet, Cash Flow Statements and Shareholders' equity. Uniform structuring of the Balance Sheet, Profit or Loss Account and Cash Flow Statement presentation by Operating, Investing and Financing activities will facilitate better evaluation of the financial statements by enabling capital providers to clearly draw out relationships between operating and investing activities and also focus on how the operating assets are being financed.
- However, there are times when the entities end up being invested in non-operative assets which may not necessarily be part of discontinuing operations. Disclosure of such non-operative assets should also be provided on the Balance Sheet. This will enable the providers of capital to calculate Return on Invested Capital correctly.
- Disaggregating of the information in the financial statements will facilitate better understanding of the components of the financial statements. It will also help understanding the drivers of the business and would enable qualitative projections of the financial statements of the entity and equity valuation of the entity.
- The Board should also consider the principles or rules to set in place for desegregations of information in the financial statements in order to ensure uniformity in disclosures. In India for instance Schedule VI to the Companies Act 1956 prescribes that expenses that amount to 1% of revenue or INR 5,000 should be disclosed separately in the financial statements.

### Discussion Issue 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?

#### Comments:

Separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today because separation of business activities and financing activities would facilitate better analysis since the capital providers will be able to focus on performance of the operating assets and the way the operating assets are financed, separately.

### Discussion Issue 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?

#### Comments:

Equity is a part of entity's overall financing and also users of the financial statements are often interested in the total capitalization or total financing of an entity. Therefore, equity should be included as a category in the financing section. This is also consistent with the cohesive approach to the financial statements presentation.

#### **Discussion Issue 4**

In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

#### **Comments:**

Presentation of information with respect to discontinued operations in a separate section is more appropriate because this facilitates to separate noise from the financial statements and capital providers can focus on all aspects of continuing business and discontinued business separately and arrive at an appropriate company valuation.

#### **Discussion Issue 5**

The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(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?

#### **Comments:**

Management approach provide the most useful view of an entity to users of its financial statements since management is responsible for managing the day to day operations of an entity and are therefore in the best position to ascertain appropriate assets and liabilities classifications into operating, investing and financing segments.

Management approach to classification also allows an entity's management to communicate the unique aspects of its business to users of its financial statements.

It is unlikely that adoption of management approach will result in estimates or judgments that will divergent with from the industry norms. If judgments made by the management are outliers, management will have to provide adequate reasoning to the Auditors and Analyst community.

#### **Discussion Issue 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?

#### **Comments:**

The change in presentation in the statement of financial position, statement of comprehensive income and cash flows will enable the capital providers to focus on the business section and financing section separately and therefore will enable better understanding of businesses. This will also help to reduce the complexity in the financial statements.

For example these days entities enter into derivative contracts with respect to their financing activities and operating activities. New presentation format will require the entity to report the financial assets or financial liabilities arising out of the derivative transactions under the respective sections. Therefore, financial statements presentation will become more meaningful.

#### Discussion Issue 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.

#### Comments:

Entities should classify assets and liabilities at the reportable segment level instead at the entity level because disclosure of the segmental information at the entity level may result in too of much of disclosure of information at entity level any may end up confusing the readers of financial statements. Disclosure of segmental information at segmental level is also consistent with the principle of desegregation of information.

#### Discussion Issue 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in the light of the proposed presentation model? Please explain.

#### Comments:

The Board should consider making segmental information disclosures to be in line with disclosures made at the entity level. Therefore, disclosures at segmental level should comprise of business and financing section. In case the *assets and liabilities cannot be assigned to a particular segment then those assets and liabilities should be included in the unallocated segments*. Section wise disclosure at segmental level will make the disclosures through out the financial statements consistent and also enable the capital providers to more meaningfully evaluate the performance of the business segments.

#### Discussion Issue 12

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?

#### Comments:

Cash equivalents should be presented and classified in a manner similar to the other short term investments because certain cash equivalents may not as liquid as cash in case sudden liquidity dry ups in the money markets as was witnessed in the recent financial crises. Also in certain cases entities hold restricted cash on the balance sheets. In such cases restricted cash should be disclosed in bold italics.

#### Discussion Issue 14

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?

#### Comments:

Comprehensive income and its components should be presented in a single statement of comprehensive income as proposed since this would be more consistent with the objective of making financial statements disclosure more cohesive.

#### Discussion Issue 16

Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses **by their function, by their nature or both** if doing so will enhance the usefulness of the information for predicting the entity's future cash flows. Would

this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

**Comments:**

Ideally financial statements should be disaggregated by their function and nature. However, disaggregating by both function and nature at the entity level may make statement of comprehensive income lengthy and may therefore decrease usefulness of the financial statements. Probably disaggregating by nature can be a part of segmental disclosures.

**Discussion Issue 19**

Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

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

**Comments:**

I am not too sure whether direct method of presenting cash flows in the statement of cash flow provide additional information the will be decision useful. Also, collection information from the financial statements in accordance with the direct method may be a very difficult task. For instance entities as a routine record hundreds of entities in the financial statements as a matter of routine which also reversed in case of errors. It may be very difficult to identify such reversal accounting entries in order to present correct information as per the direct method. This also means that the accounting systems of the entities will have to be tailor made to enable presentation of cash flows as per the direct method.

**Discussion Issue 22**

Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

**Comments:**

Assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed may be more useful in the case of financial companies and incremental usefulness of such information in case of non-financial companies may not be substantial.

**Discussion Issue 24**

Should the boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

**Comments:**

The Board should indeed consider further disaggregation of changes in the fair values in the future projects as this would facilitate more meaningful presentation of changes in fair value.

Thank you  
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