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Revised Standard on presentation of financial statements

On 6 September 2007, the International Accounting Standards Board (IASB) issued a revised IAS 1 **Presentation of Financial Statements**. The revisions to the Standard are relatively minor – but they represent the first step in the Board's comprehensive project on reporting financial information.

The principal changes affecting specific statements are addressed below. In addition, the Board has taken the opportunity to reorder the sections of the Standard to make it easier to read, and has made some non-substantive wording changes for consistency within the Standard and with other Standards.

The revised Standard is effective for annual periods beginning on or after 1 January 2009, with early application permitted.

New titles for the financial statements

The titles of some of the financial statements have been changed. A 'balance sheet' is now referred to as a 'statement of financial position', and a 'cash flow statement' is referred to as a 'statement of cash flows'. Where an entity elects to present income and expenses using a single statement (see below), that statement is referred to as a 'statement of comprehensive income'. Where an entity elects to present income and expenses using a two-statement approach, the title 'statement of recognised income and expense' has been replaced by 'statement of comprehensive income'.

Although these new titles will be used in all accounting standards from now on, they are not mandatory for use in financial statements.

Impact? Negligible. Entities can choose whether to use the new titles. Our general recommendation would be to change – in the interests of simplicity and comparability.

Statement of financial position

The revised Standard introduces a requirement to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

In those limited circumstances, an entity is required to present, as a minimum, three statements of financial position (and related notes), i.e. as at:

- the end of the current period;
- the end of the previous period (which is the same as the beginning of the current period); and
- the beginning of the earliest comparative period.

Impact? In the circumstances where an additional balance sheet is required, the new requirement simply presents a challenge from a word-processing perspective.
The opening balance sheet amounts will have been recalculated in any case. We welcome the fact that the Board has stepped back from the proposal in the Exposure Draft to require three statements of financial position in all circumstances – which would have added to the reporting burden with little benefit.

Statement of comprehensive income

The Board has revised the requirements regarding the presentation of income and expenses – but has allowed entities to retain a choice as to the format adopted.

The revised Standard requires that all items of income and expense (including those accounted for directly in equity) be presented either:

a) in a single statement (a 'statement of comprehensive income'); or

b) in two statements (a separate 'income statement' and 'statement of comprehensive income').

Where option (a) is selected, an entity will effectively combine the current content of the income statement and the statement of recognised income and expense. This is the Board's preferred presentation – principally because they believe that there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.

However, in the light of resistance to this one-statement approach, the Board has permitted entities to opt for (b) and to continue to present two statements. The statements will continue to present separately components of 'profit or loss' and 'other comprehensive income'.

Under the two-statement approach, other comprehensive income will continue to comprise those items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. These items (non-owner changes in equity) include:

- changes in revaluation surplus (under IAS 16 **Property, Plant and Equipment** and IAS 38 **Intangible Assets**);
- actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 **Employee Benefits**;
- gains and losses arising from translating the financial statements of a foreign operation (under IAS 21 **The Effects of Changes in Foreign Exchange Rates**);
- gains and losses on remeasuring available-for-sale financial assets (under IAS 39 **Financial Instruments: Recognition and Measurement**); and
- the effective portion of gains and losses on hedging instruments in a cash flow hedge (under IAS 39).

Under the previous version of IAS 1, entities could elect to present these items separately in the statement of changes in equity (thereby avoiding the requirement to present a statement of recognised income and expense). This option is no longer available. Non-owner movements in equity may not be presented as separate items in the statement of changes in equity. This revision has been made so as to clearly segregate changes in equity arising from transactions with owners in their capacity as owners from non-owner changes in equity.

Impact? Given the option that has been retained, the impact of these changes will vary. An entity that has previously presented an income statement and a statement of recognised income and expense can elect to make no change at all (but should consider changing the title of the second statement to a 'statement of comprehensive income'). Alternatively, it can elect to combine the statements as provided for under option (a) above.

The only circumstance where change is mandatory is where the items of other comprehensive income have previously been presented as separate items in the statement of changes in equity – that presentation is no longer permitted.

In addition to the general changes regarding layout – entities will also need to consider the impact of the detailed requirements regarding the presentation of the items of other comprehensive income – see **Matters of detail** below.

Statement of changes in equity

The principal change regarding the statement of changes in equity is, as discussed above, that entities will no longer have the option of presenting non-owner movements as separate items in a statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity.

In addition, entities are no longer permitted to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement.

Impact? Those entities that have previously elected not to present a statement of recognised income and expense will now be required to present non-owner movements in equity in a statement of comprehensive income.

For the majority of entities that have presented a separate statement of recognised income and expense in prior years, the impact of these changes will be the introduction of a new financial statement – the statement of changes in equity – which will present information that has previously been presented in the notes.

Matters of detail

Although there are many textual changes in the Standard, the majority of these are not substantive. New detailed requirements have, however, been introduced regarding the presentation of items of other comprehensive income.

Disclosure of income tax and reclassification adjustments in other comprehensive income

The revised Standard requires an entity to disclose income tax relating to each component of other comprehensive income. An entity may present components of other comprehensive income either:

- net of related tax effects ('net presentation'); or
- before related tax effects, with one amount shown for the aggregate amount of income tax relating to those components ('gross presentation').

The 'net presentation' facilitates the identification of other comprehensive income items in the equity section of the statement of financial position. The 'gross presentation' facilitates the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax.

Regardless of whether a pre-tax or post-tax display is used, disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income is required in the notes.

Reclassification adjustments

'Reclassification adjustments' is the term used when amounts previously recognised in other comprehensive income are reclassified to profit or loss (more commonly described as 'recycling' in the past). The revised Standard requires reclassification adjustments relating to components of other comprehensive income to be disclosed.

Entities may choose to present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income in the statement of comprehensive income after any related reclassification adjustments.

Illustrative examples

The Appendix to this newsletter illustrates the presentation of the statement of comprehensive income, and the statement of changes in equity.

Effective date and transition

The revised Standard is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. On adoption of the revised Standard, the presentation of comparative information should be amended in line with any revised presentation.

Entiites presenting interim financial reports in accordance with IAS 34 Interim Financial Reporting will be required to present interim information using the new formats for interim reports covering annual periods beginning on or after 1 January 2009.

Where the Standard is adopted for a period beginning before 1 January 2009, that fact should be disclosed.

Next steps

The publication of the revised IAS 1 completes the first phase of the IASB's joint initiative with the US Financial Accounting Standards Board (FASB) to review and harmonise the presentation of financial statements. The second phase (known as Segment B) examines more fundamental questions about the presentation of information in financial statements including:

- consistent principles for aggregating information in each financial statement;
- the totals and subtotals that should be reported in each financial statement;
- whether components of other recognised income and expense should be reclassified (recycled) to profit or loss and, if so, the characteristics of the transactions and events that should be reclassified and when reclassification should be made; and
- whether the direct or the indirect method of presenting operating cash flows provides more useful information.

The IASB expects to publish a discussion paper on the subject within the next six months.

Appendix: Illustrative examples

The following examples illustrate the alternatives for the presentation of the statement of comprehensive income, and also the presentation of the statement of changes in equity.

The Standard also includes some discussion of the presentation of the tax effects of items of other comprehensive income and of reclassification adjustments. Readers are referred to the guidance on implementing IAS 1 published with the Standard for illustrations of the options permitted for these items.

Statement of comprehensive income (single statement)[1]

	20X7	20X6
Revenue	390,000	355,000
Expenses	(250,000)	(275,000)
Profit before tax	140,000	80,000
Income tax expense	(25,000)	(15,000)
Profit for the year from continuing operations	115,000	65,000
Loss for the year from discontinued operations	(30,500)	–
Profit for the year	**84,500**	**65,000**
Other comprehensive income[2]:		
Exchange differences on translating foreign operations	5,000	10,000
Available-for-sale financial assets	2,400	3,500
Cash flow hedges	1,200	2,200
Gains on property revaluation	8,000	7,000
Actuarial (losses)/gains on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to components of other comprehensive income	(4,000)	(3,900)
Other comprehensive income for the year, net of tax	**12,333**	**19,433**
Total comprehensive income for the year	**96,833**	**84,433**
Profit attributable to:		
owners of the parent	76,271	58,890
minority interest	8,229	6,110
	84,500	65,000
Total comprehensive income attributable to:		
owners of the parent	86,604	75,123
minority interest	10,229	9,310
	96,833	84,433

[1] Note that these illustrations are condensed in order to focus attention on the changes resulting from IAS 1 (revised 2007) – they do not present all the items required to be presented on the face of the financial statements by IAS 1 and other Standards.

[2] Alternatively, each component of other comprehensive income could be presented in the statement of comprehensive income net of tax.

Presentation of comprehensive income in two statements

Where this option is selected, the income statement is required to be presented immediately before the statement of comprehensive income. The Standard does not specify whether the statements should be presented on the same or separate pages.

Income statement[1]

	20X7	20X6
Revenue	390,000	355,000
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Profit before tax	140,000	80,000
Income tax expense	(25,000)	(15,000)
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[2] Alternatively, each component of other comprehensive income could be presented in the statement of comprehensive income net of tax.

Statement of changes in equity[1]

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	Minority interest	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	198,425	916,125
Changes in accounting policy	–	400	–	–	–	–	400	–	400
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	198,425	916,525
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year	–	60,223*	10,000	300	2,200	2,400**	75,123	9,310	84,433
Balance at 31 December 20X6	600,000	168,723	6,000	1, 900	4,200	2,400	783,223	207,735	990,958
Changes in equity for 20X7									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year	–	75,604	5,000	400	1,200	4,400**	86,604	10,229	96,833
Balance at 31 December 20X7	650,000	229, 327	11,000	2,300	5,400	6,800	904,827	217,964	1,122,791

* Profit for the year attributable to owners of the parent + actuarial gains/losses on defined benefit pension plans

** Gains on property revaluation + share of other comprehensive income of associates + income tax relating to other components of other comprehensive income (all allocated to revaluation movement for simplicity in this example)

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