Staff Draft

of

Exposure Draft

IFRS X

FINANCIAL STATEMENT PRESENTATION

1 July 2010

This staff draft of an exposure draft has been prepared by the staff of the IASB and the US FASB for the boards' joint project to develop a standard on financial statement presentation. The draft reflects the cumulative, tentative decisions made by the boards concluding with their joint meeting in April 2010. However, work on the project is continuing, and the proposals are subject to change before the boards decide to publish an exposure draft for public comment.

The boards decided to engage in additional outreach activities before finalising and publishing an exposure draft. Those activities will focus primarily on two issues: (1) the perceived benefits and costs of the proposals and (2) the implications of the proposals for financial reporting by financial services entities. After completing those outreach activities, the boards will consider whether to change any of their tentative decisions in response to the input received.

The boards are not formally inviting comments on this staff draft; however, they welcome input from interested parties. The boards expect to publish an exposure draft for public comment in early 2011.

More information about the project and contact information is available on the boards' websites www.ifrs.org and. www.fasb.org

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Contents

[Draft] International Financial Reporting Standard X *Financial Statement Presentation* ([draft] IFRS X) is set out in paragraphs 1–270 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] IFRS. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. [Draft] IFRS X should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Note

In this [draft] exposure draft, text carried forward (some with modifications) from IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows* is identified after each relevant paragraph. Proposals that will be in the IASB exposure draft but not the FASB exposure draft are identified as [IASB only].

For ease of reference, paragraphs proposed by the FASB but not the IASB are *italicised* and included as boxed text.

[Draft] International Financial Reporting Standard X *Financial Statement Presentation*

Objective

1 This [draft] IFRS prescribes the basis for presentation of *general purpose financial statements* to ensure consistency with an entity's financial statements for previous periods and to promote comparability with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, requirements for the structure of financial statements and principles for classification and disaggregation of information in the statements. [IAS 1.1]

Scope

2 **An entity shall apply this [draft] IFRS in preparing and presenting general purpose financial statements in accordance with *International Financial Reporting Standards (IFRSs)*.** [IAS 1.2]

3 Other IFRSs set out the recognition, measurement and disclosure requirements for specific transactions and other events. [IAS 1.3]

4 This [draft] IFRS applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in IAS 27 *Consolidated and Separate Financial Statements*. However, this [draft] IFRS does not apply to financial statements prepared by a benefit plan within the scope of IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. [IAS 1.4 with modifications]

5 This [draft] IFRS does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.[1] However, paragraphs 19–32 and 51–56 apply to such financial statements. [IAS 1.4 with modifications]

6 This [draft] IFRS uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] IFRS, they may need to amend the

[1] The boards plan to consider whether and when to address the presentation of interim financial information before finalising this phase of the project.

descriptions used for particular line items in the financial statements and for the financial statements themselves. [IAS 1.5]

7 Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Presentation* (eg some mutual funds), and entities whose share capital is not equity (eg some co-operative entities), may need to adapt the financial statement presentation of members' or unitholders' interests. [IAS 1.6]

FASB version

2. ***An entity shall apply this proposed guidance in preparing and presenting general purpose financial statements in accordance with U.S. generally accepted accounting principles (GAAP).***

3. ***This proposed guidance applies equally to all entities except as noted in paragraphs 4–6.***

4. ***This proposed guidance does not apply to financial statements prepared by:***

- ***a.*** **A not-for-profit entity**
- ***b.*** ***A benefit plan within the scope of the*** **FASB Accounting Standards Codification™** ***Topics 960, Plan Accounting—Defined Benefit Pension Plans; 962, Plan Accounting—Defined Contribution Pension Plans; and 965, Plan Accounting—Health and Welfare Benefit Plans.***

5. *A* nonpublic entity *is not required to apply paragraphs 243–254 of this proposed guidance on disclosing analyses of changes in asset and liability line items. A subsidiary of a public entity that does not access the public capital markets is a nonpublic entity for purposes of their own financial statements.*

6. *Investment companies and other entities identified in Codification paragraph 230-10-15-4 are not required to present a statement of cash flows.*

7. *This proposed guidance does not change the accounting principles and reporting practices in Codification Topic 270, Interim Reporting.*

General features of financial statements

Purpose of financial statements

8 Financial statements are a structured representation of the financial position and financial performance of an entity. Financial statements provide information about an entity's:

(a) assets, liabilities and equity;

(b) income and expenses, including gains and losses;

(c) contributions by and distributions to *owners* in their capacity as owners; and

(d) cash flows.

This information is useful for assessing an entity's ability to generate net cash inflows and for assessing how well management has discharged its responsibilities to make efficient and effective use of the entity's resources. [IAS 1.9 with modifications]

Complete set of financial statements

9 **A complete set of financial statements comprises:**

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of cash flows for the period;

(d) a statement of changes in equity for the period;

(e) *notes*, comprising a summary of significant accounting policies and other explanatory information;

(f) comparative information as required by paragraphs 33–36; and

(g) a statement of financial position as at the beginning of the required comparative period if applicable (see paragraph 37). [IAS 1.10 with modification]

10 An entity may use titles for the statements other than those used above as long as the title appropriately describes the statement: for example, 'balance sheet,' 'cash flow statement,' 'statement of profit or loss and other comprehensive income' or

'statement of changes in shareholders' equity' may be used. [IAS 1.10 with modification]

11 **An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.** [IAS 1.11]

Identification of the financial statements [IASB only]

12 **An entity shall identify clearly the financial statements and distinguish them from other information in the same published document.** [IAS 1.49]

13 IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing or another document. Consequently, it is important that users of the financial statements can distinguish information that is prepared using IFRSs from other information that may be useful but is not the subject of those requirements. [IAS 1.50]

14 **An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when it is necessary to make the information presented understandable:**

(a) the name of the entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(b) whether the financial statements are of an individual entity or a group of entities;

(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;

(d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and

(e) the level of rounding used in presenting amounts in the financial statements. [IAS 1.51]

15 An entity will meet the requirements in paragraph 14 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always

used; it then presents the items in paragraph 14 to ensure that the information included in the financial statements can be understood. [IAS 1.52]

16 An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable if the entity discloses the level of rounding and does not omit *material* information. [IAS 1.53]

Frequency of reporting

17 **An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, it shall disclose the following in addition to the period covered by the financial statements:**

(a) the reason for using a longer or shorter period; and

(b) the fact that amounts presented in the financial statements are not entirely comparable. [IAS 1.36]

18 Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52/53-week period. This [draft] IFRS does not preclude that practice. [IAS 1.37 with modifications]

Fair presentation and compliance with IFRSs [IASB only]

19 **Financial statements shall present fairly an entity's financial position, financial performance and cash flows. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (the *Framework*).[2] The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.** [IAS 1.15]

[2] The boards are jointly working on a project to modify their respective conceptual frameworks. They published an exposure draft on the objective of financial reporting and the related qualitative characteristics in May 2008 (Framework exposure draft). The boards plan to finalise their work on those two chapters of the *Framework* in mid−2010.

20 **An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.** [IAS 1.16]

21 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant information that is a faithful representation of the economic phenomena that it purports to represent.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance. [IAS 1.17]

22 **An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.** [IAS 1.18]

23 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial reporting set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 24 if the relevant regulatory framework requires such a departure, or at least does not prohibit it.** [IAS 1.19 with modification]

24 **When an entity departs from a requirement of an IFRS in accordance with paragraph 23, it shall disclose:**

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;

(c) **the title of the IFRS from which the entity has departed, the nature of the departure, including the treatment that the IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial reporting set out in the *Framework* and the treatment adopted; and**

(d) **for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.** [IAS 1.20 with modification]

25 **When an entity has departed from a requirement of an IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 24(c) and (d).** [IAS 1.21]

26 Paragraph 25 applies, for example, when an entity departed in a prior period from a requirement in an IFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements. [IAS 1.22]

27 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial reporting set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **the title of the IFRS in question, the nature of the requirement and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial reporting set out in the *Framework*; and**

(b) **for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.** [IAS 1.23 with modification]

28 For the purpose of paragraphs 23–27, an item of information would conflict with the objective of financial reporting when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be

expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS would be so misleading that it would conflict with the objective of financial reporting set out in the *Framework*, management considers:

(a) why the objective of financial reporting is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other reporting entities that comply with the requirement. If other reporting entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial reporting set out in the *Framework*. [IAS 1.24 with modification]

Going concern [IASB only]

29 **When preparing financial statements, management shall assess the entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.** [IAS 1.25]

30 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, one year from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and it has ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential

sources of replacement financing before it can satisfy itself that the going concern basis is appropriate. [IAS 1.26]

Accrual basis of accounting [IASB only]

31 **An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.** [IAS 1.27]

32 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*. [IAS 1.28]

Comparative information

33 **Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the previous period (the required comparative period) for all line items presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.** [IAS 1.38 with modification]

34 In some cases, narrative information provided in the financial statements for the required comparative period continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the required comparative period and that is yet to be resolved. Users benefit from the information that the uncertainty existed at the end of the required comparative period and also from information about the steps that have been taken during the period to resolve the uncertainty. [IAS 1.40 with modification]

35 **Consistently with paragraph 9, an entity presenting comparative information shall provide, as a minimum, two statements of financial position, comprehensive income, cash flows and changes in equity, and related notes.** [IAS 1.39 with modification]

36 An entity may present additional comparative information for periods prior to the required comparative period as long as that information is prepared in accordance with IFRSs. An entity may present additional comparative information in one or more statements without presenting additional comparative information in other

statements. For example, an entity presents amounts for three periods (the current period, the required comparative period and one additional comparative period) in its statement of comprehensive income. The entity is not required to present amounts for that third (additional comparative) period in its statements of financial position, cash flows and changes in equity. However, the entity shall present additional comparative information in the notes to financial statements related to that additional statement of comprehensive income. [IAS 1.39 with modification]

Change in accounting policy, retrospective restatement or reclassification

37 **An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting principle retrospectively, restates its financial statements or reclassifies items in its financial statements.** [IAS 1.39 with modification]

38 In those circumstances an entity shall present, as a minimum, three statements of financial position and two of each of the other statements and related notes (except related note disclosures for the opening statement of financial position). An entity presents statements of financial position as at:

(a) the end of the current period;

(b) the end of the required comparative period; and

(c) the beginning of the required comparative period.

The date of that opening statement of financial position shall be as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods (as discussed in paragraph 36). [IAS 1.39 with modification]

39 **If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is *impracticable*. When an entity reclassifies comparative amounts, it shall disclose as at the beginning of the required comparative period:**

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification. [IAS 1.41 with modification]

40 **If it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) the reason for not reclassifying the amounts and

(b) qualitative information about the adjustments that would have been made if the amounts had been reclassified. [IAS 1.42]

41 Enhancing the inter-period comparability of information helps users in making economic decisions, especially by making possible the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information. [IAS 1.43]

42 IAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error. [IAS 1.44]

General features of financial statement presentation

Purpose of financial statement presentation

43 How an entity presents information in its financial statements is critical to effectively communicating that information to those outside the entity. Effective financial statement presentation provides disaggregated information organised in a manner that communicates clearly a cohesive financial picture of an entity.

Core principles of financial statement presentation

44 **An entity shall present information in its financial statements in a manner that:**

(a) disaggregates information to explain the components of its financial position and financial performance; and

(b) portrays a cohesive financial picture of the entity's activities.

45 **The disaggregation and cohesiveness principles work together to enhance the understandability of an entity's financial statement information.**

Disaggregation principle

46 An entity shall present information in its financial statements so that:

(a) the activities the entity engages in are clear;

(b) the cash flows of the entity are clear; and

(c) the relationships between an asset or a liability and the effects of a change in that asset or liability are faithfully represented across the statements of financial position, comprehensive income and cash flows.

47 **An entity shall use the following factors in determining the items to disaggregate and present in its financial statements:**

(a) the *function* of the item;

(b) the *nature* of the item; and

(c) the *measurement basis* of the item.

48 In this [draft] IFRS, 'function' refers to the primary activities (and assets and liabilities used in those activities) in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration.

49 In this [draft] IFRS, 'nature' refers to the economic characteristics or attributes that distinguish assets, liabilities, income and expense items[3] and cash flows that do not respond similarly to similar economic events, such as wholesale revenues and retail revenues; materials, labour, transport and energy costs; or fixed-income investments and equity investments.

50 In this [draft] IFRS, 'measurement basis' refers to the method or basis used to measure an asset or a liability, such as fair value or historical cost.

Materiality

51 **An entity shall present separately each material class of similar items. It shall disaggregate items of a dissimilar nature, function or measurement basis unless they are immaterial.** [IAS 1.29]

52 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their function, nature or measurement basis. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the

[3] This [draft] IFRS uses the term 'income' to encompass both revenues and gains, and it uses the term 'expense' to encompass both expenses and losses.

financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate disclosure in the notes. For the purpose of this [draft] IFRS, materiality depends both on the size (ie amount) and the relative importance of the item, as assessed in the context of the surrounding circumstances. The size or relative importance of the item, or a combination of both, could be the determining factor. [IASB only; IAS 1.30 with modification]

53 An entity need not provide a specific disclosure required by an IFRS if the information is not material. [IASB only; IAS 1.31]

Offsetting

54 **An entity shall not offset assets and liabilities, items of income and expense or cash inflows and cash outflows, unless an IFRS requires or permits offsetting.** [IAS 1.32 with modification]

55 An entity presents separately assets and liabilities, items of income and expense, and cash inflows and cash outflows. Offsetting in the financial statements, except when it reflects the substance of a particular transaction or other event, detracts from users' ability both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. [IAS 1.33 with modification]

56 An entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material. [IAS 1.35]

Cohesiveness principle

57 **An entity shall present information in its financial statements so that the relationship among items across the financial statements is clear.**

58 **To present a cohesive set of financial statements, an entity shall present disaggregated information in the sections, categories and subcategory in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements.**

59 For the purpose of this [draft] IFRS, a *section* is the largest group of items in the financial statements, a *category* is a group of items within a section and a *subcategory* is a group of items within a category.

60 Financial statements that are consistent with the cohesiveness principle complement each other as much as possible. To that end, an entity shall display and label line items in a way that clearly associates related information across the statements and helps a user understand those relationships. For example, an entity aligns the line item descriptions of information presented in the statements of financial position, comprehensive income and cash flows to help users find an asset or a liability, and the related effects of a change in that asset or liability, in the same place in each financial statement. For example, an entity with long-term debt presents interest expense and *cash* paid for interest in the same section and/or category as the long-term debt and labels the line items in such a way that a user of the financial statements can understand that the amounts are related.

61 If a change in an asset or a liability gives rise to one item of income, expense or cash flow, cohesiveness across the financial statements may be at the line item level. If a change in an asset or a liability gives rise to multiple items of income, expense or cash flows, cohesiveness across the financial statements may be at the category level. For example, a change in trade payables could result from various expenses that are presented on separate lines in the statement of comprehensive income, thus the statements would not align at the line item level, but they would align within the category.

Structure of the financial statements

Presenting information in sections, categories and a subcategory

62 **An entity shall present information in its financial statements about its assets, liabilities, equity, income, expenses and cash flows in sections, categories and a subcategory that are cohesive across the statements of financial position, comprehensive income and cash flows. An entity's financial statements shall include the following sections, categories and subcategory if applicable:**

(a) a business section, containing:

(i) an operating category;

(1) an operating finance subcategory; and

(ii) an investing category.

(b) a financing section, containing:

(i) a debt category; and

(ii) an equity category.

(c) an income tax section.

(d) a discontinued operation section.

(e) a multi-category transaction section.

63 An entity's financial statements may not include every section or category or the subcategory. A section, category or subcategory listed in paragraph 62 is included in the financial statements if an entity determines that its activities meet the criteria for segregation in that section, category or subcategory.

64 This [draft] IFRS does not prescribe the order in which an entity presents its sections or categories in the financial statements. In selecting the order in which to present sections and categories, an entity shall try to align the sections and categories across the statements. However, an entity shall choose an order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals.

Classifying information in sections, categories and a subcategory

65 **An entity shall classify items in its financial statements (assets, liabilities, equity, income, expenses and cash flows) into the sections, categories and subcategory on the basis of how those items relate to its activities (paragraphs 71–108).**

66 **An entity shall refer to the relevant IFRSs when classifying items in the equity category, the income tax section and the discontinued operation section.**

67 **An entity shall disclose in the notes to financial statements the basis for its classification of line items within the sections, categories and subcategory. In particular, an entity shall disclose the relation between the presentation of information in the financial statements and its activities.**

68 **An entity with more than one reportable segment shall classify items in its financial statements into the sections, categories and subcategory that reflect the**

functions of the items in its reportable segments (as defined in IFRS 8 *Operating Segments*).

69 For example, an entity may have three reportable segments: manufacturing, financial services and retail, each with a portfolio of financial instruments.

(a) In the manufacturing segment, the financial liabilities are borrowings incurred for the purpose of obtaining capital and, therefore, shall be classified in the debt category of the financing section.

(b) In the financial services segment, the day-to-day activities consist of using that segment's resources together to earn a higher return on financial assets than is paid on financial liabilities and, therefore, those financial assets and liabilities shall be classified in the operating category of the business section. However, if the financial services segment has also entered into some financial liabilities for the purpose of obtaining capital, those financial liabilities shall be classified in the debt category of the financing section.

(c) In the retail segment, the financial instruments provide a return that is unrelated to the synergies between the segment's resources. As a result, the financial instruments shall be classified in the investing category of the business section.

70 In the example above, the entity's financial statements present financial assets and liabilities in the debt category, operating category and investing category in a way that is consistent with how those financial assets and liabilities function in each reportable segment. Because an entity classifies its assets and liabilities at the reportable segment level, the classification principles in this [draft] IFRS that refer to 'an entity' also apply to a reportable segment.

Business section

71 **An entity's business section comprises its *operating activities* and its *investing activities*, which shall be presented separately.**

Operating category

72 **An entity shall classify in the operating category:**

(a) assets that are used as part of the entity's day-to-day business and all changes in those assets; and

(b) liabilities that arise from the entity's day-to-day business and all changes in those liabilities.

73 Operating activities generate revenue through a process that requires the interrelated use of the entity's resources. That process also requires the application of employee and management expertise. Examples of operating activities and related items that may be classified in the operating category include:

(a) the sale of services by a consulting firm;

(b) research, production and sale of pharmaceuticals by a pharmaceutical company;

(c) deposit-taking and loan-making activities of a bank;

(d) cash from customers;

(e) costs associated with producing goods and rendering services;

(f) cash paid for materials;

(g) trade accounts receivable and trade accounts payable;

(h) property, plant and equipment, intangibles and other long-term assets that are used as part of an entity's day-to-day business;

(i) depreciation and amortisation expense; and

(j) commodity-based contracts (eg a forward, option or swap contract) that are related to operating assets or operating liabilities.

Operating finance subcategory

74 **An entity's *operating finance activities* are those that are directly related to an entity's operating activities; however, they also provide a source of long-term financing for the entity.**

75 **A liability shall be presented separately in the operating finance subcategory if it meets all of the following criteria:**

(a) the liability is incurred in exchange for a service, a right of use or a good, or is incurred directly as a result of an operating activity (rather than a

capital-raising activity that funds general business activities, capital expenditures or acquisition activities);

(b) the liability is initially long-term; and

(c) the liability has a time value of money component that is evidenced by either interest or an accretion of the liability attributable to the passage of time (ie the accounting for the liability requires the calculation of an interest component).

76 Examples of liabilities that shall be classified in the operating finance subcategory include:

(a) a net post-employment benefit obligation;

(b) a lease obligation;

(c) vendor financing (see paragraph 89);

(d) a decommissioning liability;

(e) a deferred compensation arrangement other than a share-based payment (eg a bonus earned that is to be paid at a later date); and

(f) a structured settlement (eg a worker's compensation claim that has been settled and will be paid out over a period of time).

77 **Assets restricted for the specific purpose of eventually settling a liability described in paragraph 75, such as an asset that will settle a decommissioning liability, shall be classified in the operating finance subcategory. Similarly, for post-employment benefits, if the net defined benefit liability is negative (an asset) it shall be classified within the operating finance subcategory.**

78 Income and expenses related directly to the finance aspect of an asset or a liability classified in the operating finance subcategory, such as interest expense, accretion expense or the return on pension plan assets shall also be classified in that subcategory unless another IFRS requires the item to be presented in *other comprehensive income*.

79 The operating finance subcategory shall not include the asset or expense that the entity acquired or incurred as part of the transaction that resulted in the operating finance liability. That asset or expense shall be classified in the operating category.

For example, an entity classifies service cost related to a post-employment benefit plan in the operating category of the statement of comprehensive income.

80 **An entity shall present cash flows related directly to assets and liabilities classified in the operating finance subcategory of the statement of financial position and in the operating category of the statement of cash flows. The statement of cash flows shall not include an operating finance subcategory.**

Investing category

81 **An asset or a liability that an entity uses to generate a return and any change in that asset or liability shall be classified in the investing category. No significant synergies are created for the entity by combining an asset or a liability classified in the investing category with other resources of the entity. An asset or a liability classified in the investing category may yield a return for the entity in the form of, for example, interest, dividends, royalties, equity income, gains or losses.**

82 Examples of investing activities and related items that may be classified in the investing category include:

(a) the purchase and sale of investments, unless the transaction is part of the business in which the entity is engaged (eg financial services entities);

(b) dividends received on equity investments;

(c) interest earned on debt investments;

(d) the purchase and sale of non-financial assets, such as a real estate investment;

(e) distributions of non-financial investments such as rents, royalties, fees and commissions;

(f) investments in associates or joint ventures; and

(g) investments in fixed-income securities and equity securities.

Financing section

83 **The financing section shall include items that are part of an entity's activities to obtain (or repay) capital. The financing section provides transparency about an entity's capital structure and the *financing activities* in which the entity engages.**

84 **An entity shall make its capital structure transparent by grouping its financing activities in the statements of financial position and comprehensive income into two categories that reveal how related resources and claims are used to provide capital to the entity: debt and equity.**

85 **An entity shall present cash flows related to financing activities in the financing section of the statement of cash flows. The statement of cash flows shall not include separate categories for debt or equity.**

Debt category

86 **Liabilities that are borrowing arrangements entered into for the purpose of obtaining (or repaying) capital and the related income effects shall be classified in the debt category.**

87 Examples of *debt activities* and related items that may be classified in the debt category include:

(a) issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(b) obtaining a mortgage on a building;

(c) entering into a note payable;

(d) interest payable on a note;

(e) interest expense on debt;

(f) deferred costs of issuing debt; and

(g) overdrafts (see paragraph 90).

88 Any cash flows related to debt activities (eg cash repayments of amounts borrowed) shall be presented in the financing section in the statement of cash flows.

89 If an entity enters into a borrowing arrangement with its own suppliers primarily to acquire a specific good used in production or to procure a specific service, that borrowing arrangement, if initially long-term, is classified in the operating finance subcategory of the operating category (paragraph 75). If such a borrowing arrangement is not initially long-term it is classified in the operating category.

90 If an entity has overdrawn its cash account as at the reporting date (ie the recorded cash balance is negative), it shall present that amount in the debt category as a short-term borrowing.

91 An entity may have an offsetting balance arrangement whereby credit balances in cash accounts may be offset by debit balances in other cash accounts, thereby creating, in effect, one commingled account. If the sum of those accounts is a net positive cash balance, there is no overdraft.

92 If accounts outside of the entity are included in the offsetting balance arrangement, those accounts are excluded from the calculation used to determine whether the entity is in an overdraft position.

93 **Assets and liabilities and the related income effects that arise from transactions involving an entity's own equity shall be classified in the debt category and presented separately from borrowing arrangements within the debt category.**

94 Examples of assets and liabilities that arise from transactions involving an entity's own equity include:

(a) a dividend payable;

(b) a written put option on the entity's own shares; and

(c) a prepaid forward purchase contract for the entity's own shares.

Equity category

95 **An entity shall present:**

(a) all equity items as determined in IFRSs in the equity category of the statement of financial position;

(b) all changes in equity in the statement of changes in equity; and

(c) all cash flows related to equity transactions in the financing section of the statement of cash flows.

96 Examples of activities or items that may be classified in the equity category in the statement of financial position or the financing section in the statement of cash flows include:

(a) issuing shares or other equity instruments;

(b) ordinary, preference, and treasury shares;

(c) cash payments to owners to acquire or redeem the entity's shares; and

(d) distributions to owners.

Income tax section

97 **The income tax section of the statement of financial position shall include all current and deferred income tax assets and liabilities that are recognised in accordance with IFRSs and any other assets or liabilities related to income taxes. An entity shall present cash flows related to those assets and liabilities in the income tax section of the statement of cash flows.**

98 In the statement of comprehensive income, an entity shall allocate income tax expense or benefit in accordance with IFRSs. Consequently, an entity may be required to present amounts of income tax expense or benefit in the discontinued operation section and in the other comprehensive income part of the statement of comprehensive income rather than in the income tax section of the statement of comprehensive income.

Discontinued operation section

99 **All assets and liabilities related to a discontinued operation as determined in accordance with IFRSs shall be classified in the discontinued operation section of the statement of financial position. All changes in the assets and liabilities of a discontinued operation shall be presented in the discontinued operation section of the statements of comprehensive income and cash flows.**

Multi-category transaction section

100 **The net effects on comprehensive income and cash flows of an acquisition that results in the recognition of assets and liabilities in more than one section or category in the statement of financial position shall be classified in the multi-category transaction section of the statements of comprehensive income and cash flows. Similarly, the net effects of a disposal transaction (that is not a disposal of a discontinued operation) resulting in the derecognition of assets and liabilities in more than one section or category in the statement of financial position shall also be classified in the multi-category transaction section of the statements of comprehensive income and cash flows.**

101 An example of a multi-category transaction is a business combination in which the acquirer acquires 100 per cent of the equity instruments of the acquiree for cash; the acquiree's assets and liabilities are then consolidated with the existing assets and liabilities of the acquirer. The acquirer classifies and presents the assets and liabilities acquired in more than one section or category in its consolidated statement of financial position. Any net gain (eg for a bargain purchase) and the net cash outflow arising from the acquisition are classified in the multi-category transaction section of the statements of comprehensive income and cash flows.

102 The aggregate cash flows arising from obtaining or losing control of a subsidiary or other business are presented separately and classified in the statement of cash flows as multi-category transactions if the assets and liabilities that give rise to the cash flows are classified in multiple sections or categories in the statement of financial position.

Other classification guidance

Derivatives

103 Derivatives, and the flows associated with those derivatives, shall be presented in the same section, category or subcategory as the related asset or liability. For example, a derivative that hedges interest rates on long-term debt shall be presented in the debt category and a gain or loss on a derivative that hedges the price of raw materials used in an entity's manufacturing process shall be presented in the operating category. Whether a derivative is an asset or a liability has no effect on the section, category or subcategory in which a derivative is presented.

104 A gain or a loss on a cash flow hedge that relates to an asset or a liability yet to be recognised shall be classified in the same section, category or subcategory in which the related asset or liability will be classified when the transaction occurs. For example, if a cash flow hedge relates to a forecast purchase of inventory and the inventory will be classified as an operating asset when the transaction is made, the statement of comprehensive income shall indicate that a gain (or loss) on the hedging instrument presented in other comprehensive income relates to an operating activity.

105 An entity shall classify a derivative in the same section, category or subcategory as the asset or liability being hedged regardless of whether the derivative is designated as hedging a particular asset or liability for the purposes of hedge accounting.

Asset or liability with multiple functions

106 An entity may use an asset or a liability for more than one function. An entity shall classify an asset or a liability used for more than one function in the section or category of predominant use. For example, an entity's headquarters building might be used as part of the entity's operating activities and it might also be a real estate investment; the building shall be classified in the section or category of predominant use.

Interest

107 Interest expense and cash paid for interest shall be presented in the same section, category or subcategory as the liability giving rise to the interest.

108 An entity may have financial liabilities that are presented in both (a) the operating finance subcategory of the operating category within the business section and (b) the debt category within the financing section. The interest expense and the interest paid for financial liabilities shall be shown in the same category in the statements of comprehensive income and cash flows as the liability that gave rise to the expense and cash outflow. In this example, the entity presents some interest expense in the business section (operating finance subcategory of the operating category) and some interest expense in the financing section (debt category).

Consistency of presentation and classification

109 **An entity shall retain the presentation of the financial statements and the classification of assets and liabilities (and changes in those items) in the financial statements from one reporting period to the next unless:**

(a) a change is required by an IFRS; or

(b) it is apparent, following a change in the entity's activities or a review of its financial statements, that another presentation would be more appropriate, with regard to the criteria for the selection and application of accounting policies in IAS 8. [IAS 1.45 with modification]

110 An entity may change the presentation of its financial statements only if (a) the changed presentation provides information that is more relevant to users of its financial statements and (b) the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity

reclassifies its comparative information in accordance with paragraphs 39 and 40. [IAS 1.46 with modification]

111 **If a change in the classification of an asset or a liability (and related income and/or cash flow effects) in a section or category affects the current period's financial statements, an entity shall disclose:**

(a) the new function of the asset or liability;

(b) the reason for the new section or category classification; and

(c) the amount of the adjustment for each financial statement line item, category and section affected for the current period and the required comparative period.

Presenting meaningful subtotals and headings

112 **In the statements of financial position, comprehensive income and cash flows, an entity shall present subtotals and related headings for each section, category and subcategory. An entity may present additional subtotals and headings if such a presentation format is useful for understanding its financial position and financial performance. All headings shall be presented in each of the financial statements consistently and given the same prominence. Likewise, all subtotals shall be presented in each of the financial statements consistently and given the same prominence.** [IAS 1.85 with modification]

Statement of financial position

Presentation of a statement of financial position

113 **A statement of financial position shall provide information about an entity's assets, liabilities and equity and their relationships to each other at a point in time.**

114 **An entity shall classify its assets and liabilities into the sections, categories and subcategory that are consistent with the use of those assets and liabilities as described in paragraphs 65–108.**

115 **An entity shall present short-term assets, long-term assets, short-term liabilities and long-term liabilities separately in each category within its statement of financial position unless a presentation based on liquidity provides information that is more relevant. If that exception applies, an entity shall present all assets**

and liabilities within each category in order of liquidity. [IAS 1.60 with modification]

116 In applying paragraph 115, an entity may present some of its assets and liabilities using a short-term/long-term classification and others in order of liquidity if that presentation provides information that is relevant. The need for a mixed basis of presentation may arise when an entity has diverse operations. For example, an entity with a manufacturing business and a consumer finance business may present the short-term and long-term operating assets and liabilities associated with its manufacturing business separately in the operating category and the operating assets and liabilities associated with its consumer finance business in order of liquidity in the operating category. [IAS 1.64 with modification]

117 **Cash shall be classified in the operating category in the statement of financial position.**

118 Cash does not include short-term investments regardless of their liquidity or nearness to maturity.

Disaggregating assets and liabilities in the statement of financial position

119 **An entity shall disaggregate assets and liabilities and present them separately in the statement of financial position when the function, nature or measurement basis of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position.[4]**

120 An entity's total assets and total liabilities comprise individual assets and individual liabilities that may respond differently to similar economic events. Assets or liabilities that do not respond similarly to similar economic events shall be presented separately in the statement of financial position. For example, if an entity has investments in both fixed-income securities and equity securities, it disaggregates its investments by nature and presents the two types of investments separately in the statement of financial position. Although both assets are investments, they respond differently to economic events such as a change in interest rates.

[4] Appendix C of this [draft] IFRS includes a list of line item requirements throughout IFRSs for the statement of financial position. This [draft] IFRS removes the minimum line item requirements in IAS 1 *Presentation of Financial Statements* for the statement of financial position (paragraph 54). Some of these requirements are duplicated in other IFRSs. However, some IFRSs will be amended to reflect these changes when IFRS X *Financial Statement Presentation* is issued.

121 An entity shall also disaggregate assets or liabilities of a similar nature if those assets or liabilities are measured using different bases. For example, investments measured at historical cost and investments measured at fair value have different measurement bases and are disaggregated and presented separately in the statement of financial position. If an asset in a group of assets that are otherwise measured similarly (eg at historical cost) is impaired, that impaired asset is not considered to be measured on a different basis.

Classification in the statement of financial position

Short-term and long-term classification

122 **An asset or a liability shall be classified as short-term if either its contractual maturity or its expected date of realisation or settlement is within one year of the reporting date; if not, the asset or liability is classified as long-term unless specified otherwise in other IFRSs or in paragraphs 123–128.**

FASB version

122. ***An asset or a liability shall be classified as short term if either its contractual maturity or its expected date of realization or settlement is within one year of the reporting date; if not, the asset or liability is classified as long term unless specified otherwise in other Topics or Subtopics (for example, the classification of deferred taxes in Topic 740 and the classification of debt in Topic 470, Debt).***

123 **Deferred tax assets and liabilities shall be classified as short-term or long-term according to the classification of the related asset or liability.** *[IASB only]*

Classification of financial liabilities [IASB only]

124 An entity classifies its financial liabilities as short-term when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue. [IAS 1.72 with modification]

125 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as long-term, even if it would otherwise be due within a

shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as short-term. [IAS 1.73 with modification]

126 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as short-term, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as short-term because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date. [IAS 1.74 with modification]

127 However, an entity classifies the liability as long-term if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. [IAS 1.75 with modification]

128 In respect of loans classified as short-term liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period. [IAS 1.76 with modification]

Presenting subtotals and totals in the statement of financial position

129 **In addition to the subtotals and totals required to be presented in the financial statements (paragraph 112), an entity shall present in the statement of financial position an amount for total assets and an amount for total liabilities.**

130 **If an entity classifies and presents its assets and liabilities as short-term and long-term, it shall also present in the statement of financial position total**

amounts for short-term assets, short-term liabilities, long-term assets and long-term liabilities.

131 **An entity that classifies assets or liabilities in the operating finance subcategory shall present a subtotal in the statement of financial position of its operating assets and liabilities before that subcategory.**

Information to be presented in the statement of financial position, statement of changes in equity or the notes

132 **An entity shall disclose the following in the statement of financial position, the statement of changes in equity or the notes:**

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) shares in the entity held by the entity or by its subsidiaries or associates;

(vi) the rights, preferences and restrictions attaching to that class of share capital, including restrictions on the distribution of dividends and the repayment of capital; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity. [IAS 1.79] *[132(a)(vi), (a)(vii) and (b) IASB only]*

133 **An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 132, showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.** [IAS 1.80]

134 **If an entity has reclassified the following types of instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:** *[IASB only]*

(a) a puttable financial instrument classified as an equity instrument, or

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument. [IAS 1.80A]

Statement of comprehensive income

Presentation of a statement of comprehensive income

135 A statement of comprehensive income shall present information about the recognised changes in the net assets of an entity during the reporting period that result from sources other than changes arising from investment by, and distribution to, owners of the entity acting in their capacity as owners.

136 **An entity shall present all items of income and expense recognised in a reporting period in a statement of comprehensive income, segregated to distinguish between:**

(a) *profit or loss*; and

(b) other comprehensive income [consistent with the proposed amendment of IAS 1.81 in the IASB exposure draft *Presentation of Items of Other Comprehensive Income* published in May 2010].

137 **An entity shall classify items of income and expense that comprise profit or loss into the section, category and subcategory that are consistent with the classification of the related asset or liability in the statement of financial position and consistent with the related cash flows in the statement of cash flows. An item of income or expense that is not related to an asset or a liability in the statement of financial position shall be classified consistently with the activity generating the income, expense or cash flow.**

138 **An entity shall present foreign currency transaction gains and losses recognised in profit or loss in the same section and category as the assets and liabilities that gave rise to the gains and losses.**

139 **In the statement of comprehensive income, an entity shall indicate for each item of other comprehensive income, except for a foreign currency translation adjustment of a consolidated subsidiary or a proportionately consolidated joint venture, whether the item relates to an operating activity, investing activity, financing activity or a discontinued operation.**

Disaggregating income and expense items

140 **An entity shall disaggregate and present its income and expense items by function within each section and category in the statement of comprehensive income so that the information is useful in understanding the activities of the entity and in assessing the amount, timing and uncertainty of future cash flows (see paragraph 148).**

141 Disaggregation by function may include disaggregating income and expense items into those generated by selling goods, research and development, manufacturing, marketing, business development and administration. For an entity that engages in both manufacturing activities and providing services, disaggregation by function also may include disaggregating revenue and expenses between manufacturing and service activities.

142 **An entity shall disaggregate its income and expense items by their nature within the related functional grouping to the extent that the information is useful in assessing the amount, timing and uncertainty of future cash flows. As described in paragraph 146, income and expense items disaggregated by nature shall be presented in the statement of comprehensive income or disclosed in the notes.**

143 Disaggregation by nature within a functional grouping may include, for example, disaggregating total cost of sales into materials, labour, transport and energy costs. Disaggregation by nature within a functional grouping may also include, for example, disaggregating revenue from selling goods into wholesale and retail components.

144 ***An entity with more than one reportable segment that provides a segment disclosure in accordance with Topic 280 shall disclose its income and expense items for each segment disaggregated by nature in its segment note. An entity shall determine on a segment-by-segment basis the by-nature information that is useful in understanding the activities of the entity and in assessing the amount, timing, and uncertainty of future cash flows. Consequently, the by-nature information disclosed in the segment note may differ across reportable segments.*** *[FASB only]*

145 ***To present that by-nature information in context, an entity shall present its by-nature income and expense items grouped by function in the segment note if it disaggregates its income and expense items by function in the statement of comprehensive income.*** *[FASB only]*

146 An entity may disclose its income and expense items disaggregated by nature in the notes to financial statements rather than present that information in the statement of comprehensive income. An entity that discloses its information by nature in the notes shall present that information grouped by the same functions as those presented in the statement of comprehensive income.

FASB version

146 An entity that does not provide a segment disclosure in accordance with Topic 280 (either because it has only one reportable segment or is otherwise exempt from that Topic) may disclose its income and expense items disaggregated by nature in the notes to financial statements rather than present that information in the statement of comprehensive income. An entity that discloses its information by nature in the notes shall present that information grouped by the same functions presented in the statement of comprehensive income. [FASB only]

147 **An entity that disaggregates income and expense items both by function and by nature in a note shall, as a minimum, present its information by function in the statement of comprehensive income.**

148 **An entity may choose not to disaggregate its income and expense items by function if that disaggregation is not useful to users of financial statements in understanding the entity's activities and the amount, timing and uncertainty of future cash flows. In those circumstances, an entity shall disaggregate its income and expense items by nature and present that information in the statement of comprehensive income.**

149 Disaggregation of income and expense items by function is useful in understanding the various activities required to convert an entity's resources into cash. Understanding those activities is particularly useful in assessing the amount, timing and uncertainty of future cash flows for an entity that develops and produces tangible products. However, for entities that provide services rather than develop and produce tangible products, the conversion of resources into cash happens almost

simultaneously. Therefore, for those entities disaggregation of income and expense items by function often does not provide any incremental information about the amount, timing and uncertainty of future cash flows.

Information to be presented in the statement of comprehensive income

150 **In addition to the section, category and subcategory subtotals required by paragraph 112, the profit or loss part of the statement of comprehensive income shall include line items[5] that present the following amounts for the reporting period, if applicable:**

- **(a) revenue;**
- **(b) profit or loss from operating activities before operating finance activities;**
- **(c) profit or loss; and**
- **(d) profit or loss attributable to:**
  - **(i) non-controlling interests; and**
  - **(ii) owners of the parent.** [IAS 1.82 and 1.83 with modification]

151 **As a minimum, the other comprehensive income part of the statement of comprehensive income shall include line items that present the following amounts for the period:**

- **(a) items of other comprehensive income grouped into those that, in accordance with other IFRSs,**
  - **(i) will be reclassified subsequently to profit or loss when specific conditions are met, and**
  - **(ii) will not be reclassified subsequently to profit or loss; and**
- **(b) total other comprehensive income** [consistent with paragraph 82A from the proposed amendment to IAS 1 in the IASB exposure draft *Presentation of Items of Other Comprehensive Income*].

[5] Appendix C of this [draft] IFRS includes a list of line item requirements throughout IFRSs for the statement of comprehensive income. This [draft] IFRS removes the minimum line item requirements in IAS 1 for the statement of comprehensive income (paragraph 82). Some of these requirements are duplicated in other IFRSs; also, some requirements are no longer necessary because they will be replaced by the total and subtotal requirements within this [draft] IFRS. However, some IFRSs will be amended to reflect these changes when IFRS X *Financial Statement Presentation* is issued. *[IASB only]*

FASB version

151. ***The other comprehensive income part of the statement of comprehensive income shall include line items that present the following amounts for the period:***

a. ***Each item of other comprehensive income***

b. ***Total other comprehensive income.***

152 **An entity shall also present the following items in the statement of comprehensive income:**

(a) **total comprehensive income (the sum of the profit or loss and other comprehensive income subtotals); and**

(b) **total comprehensive income for the period attributable to:**

(i) **non-controlling interests, and**

(ii) **owners of the parent.** [IAS 1.83 with modification]

153 **An entity shall present additional line items, headings and subtotals in the statement of comprehensive income if such information is useful in understanding the entity's financial performance.** [IAS 1.85 with modification]

154 Although this [draft] IFRS uses the terms 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals if the meaning of those alternative terms is clear. For example, an entity may use the term 'net income' to describe 'profit or loss'.

155 **An entity shall present separately a material event or transaction that is *unusual* or occurs infrequently. An unusual or *infrequently occurring* event or transaction shall be presented separately in the appropriate section, category or subcategory in the statement of comprehensive income. A description of each unusual or infrequently occurring event or transaction and its financial effects shall be disclosed in the statement of comprehensive income or in the notes to financial statements.**

156 **An entity shall not describe any item of income or expense as an extraordinary item either in the statement of comprehensive income or in the notes.** [IAS 1.87 with modification]

The parts of comprehensive income

Profit or loss

157 **An entity shall recognise all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise.** [IAS 1.88]

158 Some IFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current reporting period. IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other IFRSs specify items of income or expense that are required to be presented in other comprehensive income rather than in profit or loss (see paragraph 159). [IAS 1.89 with modification]

Other comprehensive income

159 The items of other comprehensive income include but are not limited to:

(a) changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);

(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 *Employee Benefits*;[6]

(c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income (in accordance with paragraph 5.4.4 of IFRS 9 *Financial Instruments*); and

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39 *Financial Instruments: Recognition and Measurement*). [IAS 1.7 as amended]

[The FASB exposure draft includes a similar list that is consistent with US GAAP.]

160 **An entity shall disclose the amount of income tax related to each item of other comprehensive income, including *reclassification adjustments*, either in the statement of comprehensive income or in the notes.** [IAS 1.90]

[6] The April 2010 IASB exposure draft *Defined Benefit Plans* proposes replacing the reference to 'actuarial gains (losses) on defined benefit pension plans' with 'remeasurements of a net defined benefit liability (asset)'.

161 An entity may present items of other comprehensive income either:

(a) net of related tax effects, or

(b) before related tax effects, with one amount presented in the statement of comprehensive income for the aggregate amount of income tax relating to those items. [IAS 1.91]

162 If an entity elects to present items of other comprehensive income in accordance with paragraph 161(b), then it must allocate the tax between the items that might be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss [IASB only; consistent with the proposed amendment of IAS 1.91 in the IASB exposure draft *Presentation of Items of Other Comprehensive Income*].

163 **All items of other comprehensive income reclassified to profit or loss if and as required by IFRSs shall be reclassified into the same category as the asset or liability in the statement of financial position that gave rise to the item (see also paragraphs 104 and 138).**

164 **An entity shall disclose reclassification adjustments relating to each item of other comprehensive income.** [IAS 1.92]

165 Other IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this [draft] IFRS as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period in which the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income when the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice. [IASB only; IAS 1.93]

166 Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of IAS 39 relating to cash flow hedges). [IASB only; IAS 1.95 with modification]

167 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on actuarial gains and losses on

defined benefit plans recognised in accordance with paragraph 93A of IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). Actuarial gains and losses are included in retained earnings in the period in which they are recognised as other comprehensive income (see IAS 19). [IASB only; IAS 1.96]

Statement of cash flows

Presentation of a statement of cash flows

168 **A statement of cash flows shall present information about the change in cash during the reporting period in a manner that relates the cash receipts and cash payments to information presented in the statements of financial position and comprehensive income.**

169 The total amounts of cash shown at the beginning and end of the period in the statement of cash flows shall be the same as the amounts shown in the cash line item in the statement of financial position (see paragraphs 117 and 118).

Information to be presented in the statement of cash flows

170 **An entity shall present in the statement of cash flows its gross cash receipts and gross cash payments in sections and categories that are consistent with (a) the classification of the related asset, liability or equity in the statement of financial position and (b) the related item of income or expense in the statement of comprehensive income. Cash flows related to amounts in the operating finance subcategory in the statements of financial position and comprehensive income shall be presented in the operating category in the statement of cash flows.**

171 Generally, information about the gross amounts of cash receipts and cash payments during a reporting period is more relevant than information about the net amounts of those receipts and payments. However, the net amount of related cash receipts and payments provides sufficient information for some types of cash flows (see paragraphs 185–188).

172 **An entity shall present a reconciliation of profit or loss from operating activities to net cash flows from operating activities as an integral part of the statement of cash flows.**

173 The net cash flows from operating activities is reconciled by adjusting profit or loss from operating activities for the effects of:

(a) non-cash operating income items such as depreciation or share-based remuneration;

(b) changes during the period in operating assets or liabilities such as inventories, receivables and payables; and

(c) cash flows from the purchase, sale or settlement of operating assets or liabilities (such as capital expenditures or the settlement of a decommissioning liability for cash).

174 **An entity shall present transactions that do not require the use of cash as a supplement to the statement of cash flows in a way that provides all relevant information about those transactions including the following, if applicable:**

(a) the effect on the capital structure of the entity; and

(b) the effect on the asset structure of the entity.

175 Examples of non-cash transactions that shall be presented as a supplement to the statement of cash flows include:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

(b) the acquisition of an acquiree by means of an equity issue; and

(c) the conversion of debt to equity. [IAS 7.44 with modification]

176 Non-cash adjustments to profit or loss from operating activities are presented in the reconciliation of profit or loss from operating activities to net cash flows from operating activities.

Disaggregating cash flows

177 **An entity shall disaggregate cash flows in the statement of cash flows by classes of cash receipts and payments so that the statement of cash flows provides a meaningful depiction of how the entity generates and uses cash.**

178 A meaningful depiction of cash receipts and payments shall reflect the nature of the income or expense (or return on equity) to which the cash flow is related.

179 Examples of cash receipts and payments that reflect the nature of the income or expense include:

(a) operating activities: cash received from customers, cash paid for labour and cash paid for advertising;

(b) investing activities: cash received from dividends, cash received from interest and cash received from rents; and

(c) financing activities: cash paid for interest.

180 An entity may aggregate related cash flows in a single line in the statement of cash flows if the resulting level of disaggregation provides a meaningful depiction of how the entity generates and uses cash. In making that assessment, an entity shall take into account the magnitude and variability of non-cash items and timing differences between current period cash flows and related amounts recognised in the statement of comprehensive income.

181 A meaningful depiction of cash receipts and payments shall also reflect:

(a) the nature of assets purchased or sold;

(b) the nature of liabilities incurred, issued or settled; and

(c) the nature of equity issued or redeemed.

182 Examples of cash receipts and payments that incorporate the nature of the assets being purchased or sold or the nature of the liabilities being incurred, issued or settled include:

(a) operating activities: purchase of property, plant and equipment, sale of an intangible asset and payment of a decommissioning liability;

(b) investing activities: purchase of fixed-income securities, sales of investments in equity securities and purchase of rental property; and

(c) financing activities: proceeds from issue of ordinary shares, repayments of long-term debt and proceeds from issue of preference shares.

183 **An entity shall disaggregate cash flows that it does not expect to occur every reporting period.**

184 Examples of cash flows that may not be expected to occur every reporting period include:

(a) payment of a legal judgement;

(b) payment of termination benefits; and

(c) receipt of an insurance settlement.

Presenting some cash flows on a net basis

185 **Cash flows arising from the following activities may be presented in the statement of cash flows on a net basis:**

(a) cash receipts and payments on behalf of customers if the cash flows reflect the activities of the customer, rather than those of the entity; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short. [IAS 7.22 with modification]

186 Examples of cash receipts and payments referred to in paragraph 185(a) are:

(a) the acceptance and repayment of demand deposits of a bank;

(b) funds held for customers by an investment entity; and

(c) rents collected on behalf of, and paid over to, the owners of properties. [IAS 7.23 and 23A with modification]

187 Examples of cash receipts and payments referred to in paragraph 185(b) are:

(a) advances made for, and the repayment of, principal amounts relating to credit card customers;

(b) the purchase and sale of some short-term investments; and

(c) advances made for, and the repayment of, other short-term borrowings; for example, those that have a maturity period of three months or less. [IAS 7.23 and 23A with modification]

188 **In addition to the criteria in paragraph 185, a financial services entity may present cash flows arising from each of the following activities on a net basis in the statement of cash flows:**

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date; and

(b) the placement of deposits with, and withdrawal of deposits from, other financial services entities. [IAS 7.24 with modification]

Cash flows for taxes collected from customers and remitted to government authorities

189 Taxes or fees that an entity collects from customers on behalf of government authorities that are not part of the entity's revenue shall be presented separately in the statement of cash flows net of the amounts remitted to the government authority. However, if a tax or fee collected from the customer is included in the entity's revenue, the collection of that tax or fee shall be included as part of cash from customers and the remittance to the government authority shall be included as a gross cash outflow.

Cash flows for entities that have deposit activities

190 Transactions between an entity and its customers that involve amounts on deposit with the entity shall be presented as cash inflows or cash outflows of the entity in its statement of cash flows. Transactions between depositors and the entity that are presented as cash flows of the entity may include but are not limited to:

(a) the crediting of interest to a customer's account;

(b) the deduction of fees from a customer's account; and

(c) the transfer of amounts between depositors' accounts and the bank for payment on a loan.

191 For example, a commercial bank that credits a depositor's account for interest earned or deducts a fee from a depositor's account has cash flows that do not change the entity's cash balance. Even though the total cash balance of the bank does not change, a cash flow takes place between the bank and its customer. These amounts are included in the statement of cash flows as a cash outflow (the interest credited to a customer's account) and a cash inflow (the deduction of the fee). The offset to these transactions is the net change to the deposit accounts.

Preparing a direct method statement of cash flows

192 To present cash flows using a direct method, an entity may obtain information about gross cash receipts and gross cash payments either:

(a) directly from the accounting records of the entity; or

(b) indirectly by analysing the changes in assets and liabilities (eg the change in accounts receivable) attributable to:

(i) corresponding income and expense amounts (eg sales to customers);

(ii) non-cash items (eg write-downs and reclassifications);

(iii) cash transactions that change the amount of the asset or liability but are not related to income or expense (eg acquisitions or divestments); and

(iv) other items not relevant to identifying the gross operating cash receipt or payment (eg amounts not related to transactions with customers, such as vendor rebates that are classified as trade receivables).

Foreign currency cash flows

193 **Cash flows in a foreign currency shall be translated into the entity's presentation currency using the exchange rates at the dates of the cash flow.** [IAS 7.25 with modifications]

194 **The cash flows of a foreign subsidiary shall be translated into the presentation currency using the exchange rates at the dates of the cash flows.** [IAS 7.26 with modifications]

195 The use of an exchange rate that approximates the actual rate is permitted. For example, a weighted average exchange rate for a period may be used for presenting foreign currency transactions or for presenting the translation of the cash flows of a foreign subsidiary. [IAS 7.27 with modifications]

196 The effect of exchange rate changes on cash held in a foreign currency is separately presented in the statement of cash flows in order to reconcile cash at the beginning and end of the period. [IAS 7.28 with modifications]

Changes in ownership interests in subsidiaries and other businesses [IASB only]

197 **An entity also discloses, in aggregate, in respect of both obtaining and losing control of a subsidiary or other business during the period each of the following:**

(a) the total consideration paid or received;

(b) the portion of the consideration consisting of cash;

(c) the amount of cash in the subsidiary or other business over which control is obtained or lost; and

(d) **the amount of the assets and liabilities other than cash in the subsidiary or other business over which control is obtained or lost, summarised by each category.** [IAS 7.40 with modifications]

198 The separate presentation of the cash flow effects of obtaining or losing control of a subsidiary or other business as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other activities of an entity. The cash flow effects of losing control are not deducted from those of obtaining control. [IAS 7.41]

199 The aggregate amount of the cash paid or received as consideration for obtaining or losing control of a subsidiary or other business is reported in the statement of cash flows net of cash acquired or disposed of as part of such transactions, events or changes in circumstances. [IAS 7.42]

Statement of changes in equity

Presentation of a statement of changes in equity

200 **A statement of changes in equity shall present information about all changes in equity for the reporting period.**

201 **An entity shall include the following information in the statement of changes in equity:**

(a) **for each component of equity, an analysis of the changes in the carrying amount from the beginning to the end of the period, presenting separately changes resulting from:**

(i) **profit or loss;**

(ii) **other comprehensive income (see paragraph 202);**

(iii) **transactions with owners in their capacity as owners, presenting separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control;**

(b) **for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and**

(c) **total comprehensive income for the period, presenting separately the total amounts attributable to owners of the parent and those that are attributable to non-controlling interests.** [IAS 1.106]

202 The components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings. [IAS 1.108]

203 **An entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 201(a)(ii)).**

204 **An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period and the related amount of dividends per share.** [IAS 1.107]

205 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from retrospective adjustments or restatements, transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of comprehensive income generated by the entity's activities during that period. [IAS 1.109]

206 IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS require otherwise. IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are usually adjustments to the opening balance of retained earnings. However, the adjustment may be made to another component of equity (eg to comply with an IFRS). Paragraph 201(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period. [IASB only; IAS 1.110]

Notes to financial statements

Structure [IASB only]

207 **The notes shall:**

- **(a)** **present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 212–219;**
- **(b)** **disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and**
- **(c)** **provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.** [IAS 1.112]

208 **An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position, comprehensive income, cash flows and changes in equity to any related information in the notes.** [IAS 1.113]

209 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

- (a) statement of compliance with IFRSs (see paragraph 20);
- (b) summary of significant accounting policies applied (see paragraph 212);
- (c) supporting information for items presented in the statements of financial position, comprehensive income, cash flows and changes in equity, in the order in which each statement and each line item is presented; and
- (d) other disclosures, including:
  - (i) contingent liabilities (see IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) and unrecognised contractual commitments; and
  - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7 *Financial Instruments: Disclosures*). [IAS 1.114]

210 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable. [IAS 1.115]

211 An entity may present notes providing information about the basis of preparation of the financial statements and about specific accounting policies as a separate part of the financial statements. [IAS 1.116]

Disclosure of accounting policies

[IASB only except paragraphs 212 and 213]

212 **In the summary of significant accounting policies, an entity shall disclose:**

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements. [IAS 1.117]

FASB version

212. In the summary of significant accounting policies, an entity shall disclose the measurement basis (or bases) used in preparing the financial statements.

213 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. If an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied. [IAS 1.118]

214 Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies that they allow. [IAS 1.119 with modification]

215 Each reporting entity considers its business activities and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses. [IAS 1.120]

216 An accounting policy may be significant because of the entity's business activities even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs, but that the entity selects and applies in accordance with IAS 8. [IAS 1.121]

217 **In the summary of significant accounting policies or other notes, an entity shall disclose the judgements, apart from those involving estimations (see paragraph 218), that management has made in the process of applying the entity's accounting policies and the judgements that have the most significant effect on the amounts recognised in the financial statements.** [IAS 1.122]

218 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(c) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity. [IAS 1.123 with modifications]

219 Some of the disclosures made in accordance with paragraph 217 are required by other IFRSs. For example, IAS 27 *Consolidated and Separate Financial Statements* requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary, even though more than half of its voting or potential voting power is owned directly or indirectly

through subsidiaries. IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business when classification of the property is difficult. [IAS 1.124]

Sources of estimation uncertainty [IASB only]

220 **An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) their nature, and

(b) their carrying amount as at the end of the reporting period. [IAS 1.125]

221 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, liabilities subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs. [IAS 1.126]

222 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 220 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly. [IAS 1.127]

223 The disclosures in paragraph 220 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next

financial year if, at the end of the reporting period, they are measured at fair value on the basis of recently observed market prices. Such fair values might change materially within the next financial year, but those changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period. [IAS 1.128]

224 An entity presents the disclosures in paragraph 220 in a manner that helps users of financial statements to understand the judgements that management makes about the future, and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures that an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year, in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved. [IAS 1.129]

225 This [draft] IFRS does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 220. [IAS 1.130]

226 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption. [IAS 1.131]

227 The disclosures in paragraph 217 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 220. [IAS 1.132]

228 Other IFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 220. For example, IAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IFRS 7 requires disclosure of significant assumptions that the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. IAS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment. [IAS 1.133]

Capital [IASB only]

229 **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.** [IAS 1.134]

230 To comply with paragraph 229, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements, and how those requirements are incorporated into the management of capital; and

(iii) how the entity is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) whether, during the period, it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel. [IAS 1.135]

231 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject. [IAS 1.136]

Puttable financial instruments classified as equity instruments [IASB only]

232 **For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):**

(a) summary quantitative data about the amount classified as equity;

(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and

(d) information about how the expected cash outflow on redemption or repurchase was determined. [IAS 1.136A]

Information about remeasurements

233 **An entity shall disclose in a note information about *remeasurements* (in addition to the disclosures required by paragraphs 243 and 246). The note shall present separately the remeasurement component of items of income and expense presented in the statement of comprehensive income. The remeasurement information shall be presented using section, category and subcategory headings and line item descriptions that are consistent with those used in the statement of comprehensive income. Subtotals or totals are not required to be displayed in the note.**

234 **A remeasurement is an amount recognised in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of:**

(a) a change in (or realisation of) a current price or value;

(b) a change in an estimate of a current price or value; or

(c) a change in any estimate or method used to measure the carrying amount of an asset or a liability.

235 **Although the gross margin resulting from the sale of inventory meets the definition of a remeasurement, that gross margin shall not be presented as a remeasurement. Similarly, the realised income from the market-making activities of a broker-dealer shall not be presented as a remeasurement.**

236 The initial recognition of revenue or expense is not a remeasurement. However, adjustments to current period revenue or expense that arise from a reassessment of prior period performance are remeasurements and shall be disclosed in the remeasurement note. Similarly, a loss recognised on an onerous contract shall be disclosed as a remeasurement.

237 Some transactions or events result in a partial realisation or settlement of an asset or a liability but are not remeasurements. For example, a decline in the value of an equity security associated with the receipt of a dividend on that security is a partial realisation of that security's value. This decline in value would have no net effect on comprehensive income because it would be offset by the dividend income received. Therefore, this type of partial realisation is not a remeasurement. Similarly, the receipt (or payment) of interest related to debt securities and the receipt of rental income on investment property are also not remeasurements. In each of these examples, the value of the underlying asset or liability declines because some portion of the asset or liability has been realised or settled, not because of a remeasurement of the underlying asset or liability.

238 Examples of remeasurements include, but are not limited to:

(a) changes in fair value;

(b) asset impairments (including inventory impairments); and

(c) the realised gain or loss on a sale of property, plant and equipment.

[The example in paragraph 238(d) of the FASB exposure draft is not applicable to IFRSs and is not in the IASB exposure draft]

(d) Changes in the method of estimating the net realizable value of accounts receivable.

239 Remeasurements do not include items such as the following:

(a) a change in the carrying amount of an asset or a liability attributable to the passage of time (eg the accretion of a liability), and

(b) routine accounting allocations (eg depreciation and amortisation).

[The example in paragraph 239(c) of the FASB exposure draft is not applicable to IFRSs and is not in the IASB exposure draft]

(c) The initial recognition of an allowance if that allowance is recognized as part of the initial measurement of the underlying asset or liability (for example, the establishment of an allowance to reflect a newly originated or acquired loan).

240 When analysing the effect that changes in assets or liabilities have on comprehensive income, it may at times be impracticable to separate the effect of remeasurements from the effects of items (such as those in paragraph 239) that are not remeasurements. In those circumstances, an entity shall include the effect of these latter amounts as part of the remeasurement.

241 **An entity shall disclose comparative information for all amounts disclosed in the remeasurement note in accordance with paragraphs 33–36.**

242 **An entity shall include in its remeasurement note qualitative information that places the remeasurement information in context. However, if that qualitative information is included in the note or notes analysing changes in assets and liabilities (paragraph 251), that information need not be repeated in the remeasurement note.**

Analyses of changes in assets and liabilities

243 **An entity shall disclose analyses of changes between the opening and closing balances of those asset or liability line items (or group of line items) that management regards as important for understanding the current period change in the entity's financial position in accordance with paragraphs 244–247.**

244 **Management judges the relative importance of an asset or a liability line item (or group of line items) by comparing and evaluating:**

(a) the opening and closing balances of the line item in relation to total assets or total liabilities;

(b) the change in the balance of the line item in relation to revenues, expenses and cash flows;

(c) the activity flowing through the line item and its effect on revenues, expenses and cash flows;

(d) whether assumptions or judgements are used in measuring the asset or liability and the level of uncertainty in the measurement;

(e) the variability in the measurement resulting from exposure to risk and the nature of that exposure (eg credit risk, foreign exchange risk or interest rate risk); and

(f) any other economic event or transaction that could affect the decision-making of a user of the financial statements.

245 Some IFRSs require reconciliations of the opening and closing balances of specified assets and liabilities. The requirements herein related to disclosure of analyses of changes in assets and liabilities do not supersede the reconciliations required in other IFRSs. However, any reconciliation required by other IFRSs shall also comply with the requirements in paragraphs 246−255.

246 **To comply with paragraph 243, an entity shall identify and present separately each of the following, if applicable:**

(a) changes resulting from cash inflows and cash outflows (see paragraphs 249 and 250);

(b) changes resulting from non-cash transactions that are recurring and routine (eg credit sales and interest expense);

(c) changes resulting from non-cash transactions that are neither recurring nor routine (eg a business combination);

(d) changes resulting from accounting allocations (eg depreciation expense);

(e) changes resulting from write-downs or impairment losses; and

(f) **other changes resulting from remeasurements (eg fair value changes and foreign currency translations).**

[(e) and (f) in paragraph 246 of the FASB exposure draft are slightly different from (e) and (f) above because of underlying differences in IFRSs and US GAAP.]

247 **If a line item is affected by more than one change described in paragraph 246, each type of change shall be identified clearly and presented separately.**

248 For example, changes in different types of fixed assets that are aggregated in one line item may result from remeasurements such as an impairment or a disposal gain or loss. In that example, each remeasurement is disclosed separately in the analysis of changes.

249 It may be impracticable in some cases to include changes from cash inflows or outflows in an analysis of the changes in an asset or a liability line item. For example, an increase in the inventory account balance results from processing various inputs into a product. The cash paid for those inputs is likely to be disclosed in the analysis of the changes in the accounts payable or salaries payable account, not the inventory account. In that example, the change in the inventory account attributable to those cash flows likely would be explained as an increase in inventory through the production process; there would be no mention of cash flows.

250 The criteria for netting cash inflows and outflows in the statement of cash flows (paragraphs 185 and 188) may be applied to cash flow amounts disclosed in the analyses of changes.

251 **An entity shall also disclose qualitative information that is relevant to understanding the components of an analysis of changes in an asset or a liability line item.**

252 **An entity shall disclose comparative information with respect to the previous period for all amounts disclosed as part of the analyses of changes, in accordance with paragraphs 33–36.**

253 **The analysis of changes in a particular asset or liability line item may be disclosed in the relevant note specific to that asset or liability rather than in a separate note.**

254 For example, the analysis of changes in a post-employment benefit obligation line item may be included as part of an entity's note about its post-employment benefit plan.

255 **An entity shall provide an analysis of changes for the following line items in a single note and include a total for these items:**

(a) cash;

(b) short-term investments;

(c) finance leases; and

(d) each line item in the debt category. *[IASB only]*

Other disclosures

256 **An entity shall describe its operating cycle or cycles in the notes.**

257 **An entity shall disclose, together with a narrative explanation, the amount of cash and short-term investments held by the entity that are not available for general use by the entity and an explanation of why those amounts are not available.**

258 Examples of cash that is not available for general use by an entity include cash held by a subsidiary that operates in a country with exchange controls or with other legal restrictions (such as repatriation taxes). These controls and/or restrictions make the cash unavailable for general use by the parent or other subsidiaries.

259 **An entity shall disclose the amount of undrawn borrowing facilities that may be available for future business activities and to settle capital commitments, indicating any restrictions on the use of these facilities.** [IAS 7.50(a) with modification]

260 **An entity shall disclose in the notes:**

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share, and

(b) the amount of any cumulative preference dividends not recognised. [IASB only; IAS 1.137]

261 **An entity shall disclose the following if not disclosed elsewhere in information published with the financial statements:**

(a) **the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);**

(b) **a description of the entity's business activities;**

(c) **the name of the parent and the ultimate parent of the group; and**

(d) **if it is a limited-life entity, information regarding the length of its life.** [IASB only; IAS 1.138]

Changes to segment reporting requirements *[FASB only]*

262 ***As required by paragraph 144, an entity with more than one reportable segment that provides a segment note in accordance with Topic 280 shall disclose its income and expense information by nature for each reportable segment in its segment note. That income and expense information by nature shall be disclosed regardless of whether it is regularly reviewed by or provided to the chief operating decision maker.***

263 ***In addition to an overall measure of profit or loss, an entity shall report a measure of each of the following for each reportable segment regardless of whether that measure is regularly reviewed by or otherwise provided to the chief operating decision maker:***

a. ***Operating profit or loss***

b. ***Operating assets***

c. ***Operating liabilities***

d. ***Operating cash flows.***

264 ***An entity may present more than one measure of profit or loss, assets, liabilities, or cash flows for each reportable segment. Any additional measure can be presented with equal prominence but not greater prominence than the required measures of operating profit or loss, operating assets, operating liabilities, and operating cash flows by reportable segment.***

265 ***The total of the reportable segments' operating profit or loss, operating assets,***

operating liabilities, and operating cash flows shall be reconciled to the entity's corresponding consolidated totals.

266 ***An entity shall present information about operating segments that are not reportable separately from all other information in the segment note and shall not aggregate that information with information about corporate or central activities.***

267 ***An entity shall disclose a measure of segment liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker.***

Effective date, transition and withdrawal of IAS 1 and IAS 7

Effective date and transition [7]

268 An entity shall apply this [draft] IFRS for annual periods beginning on or after [date to be inserted after exposure].

269 The date of initial application is the beginning of the annual period for which an entity first applies the requirements in this [draft] IFRS. An entity shall apply this [draft] IFRS retrospectively, in accordance with IAS 8.

Withdrawal of IAS 1 and IAS 7

270 This [draft] IFRS supersedes the following IFRSs:

(a) IAS 1 *Presentation of Financial Statements*, and

(b) IAS 7 *Statement of Cash Flows*.

[7] The effective date for IFRS X will be no earlier than 1 January 2013. The time between the IFRS being issued and its effective date will be adequate to prepare for and implement the new financial reporting requirements.

The boards will consider collectively the effective date and transition (including whether to permit early adoption) for the standards—including financial statement presentation—that they have targeted to issue in 2011. To that end, the boards will publish a separate consultation paper to seek comments on those matters from interested parties.

Appendix A - Defined terms

This appendix is an integral part of the [draft] IFRS.

cash	Cash on hand and demand deposits. [IAS 1.7] *The definition in the FASB exposure draft is consistent with but not the same as the above definition.*
category	A group of items within a section.
debt activity	An activity related to (a) a borrowing arrangement entered into for the purpose of obtaining or repaying capital or (b) a transaction involving an entity's own equity that gives rise to the creation of a liability (or an asset).
financing activity	An activity to obtain or repay capital.
function	The primary activities in which an entity is engaged.
general purpose financial statements ('financial statements')	Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. [IASB only; IAS 1.7]
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. [IASB only; IAS 1.7]
infrequently occurring	Not reasonably expected to recur in the foreseeable future given the environment in which an entity operates.
International Financial Reporting Standards (IFRSs)	Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and

(c) Interpretations developed by the IFRS Interpretations Committee, formerly called the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC).
[IASB only; IAS 1.7]

investing activity
An activity related to an asset or a liability that (a) yields a return for the entity and (b) does not result in significant synergies for the entity.

material
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and relative importance of the omission or misstatement judged in the surrounding circumstances. The size or relative importance of the item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.
[IASB only; IAS 1.7 with modification]

measurement basis
The method or basis used to measure an asset or a liability.

nature	The economic characteristics or attributes that distinguish assets, liabilities and items of income, expense and cash flow that do not respond similarly to similar economic events.
notes	Information in addition to that presented in the statements of financial position, comprehensive income, cash flows and changes in equity. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements. [IAS 1.7 with modification]
operating activity	An activity that generates revenue through a process that requires the interrelated use of the resources of the entity. That process also includes the application of employee and management expertise.
operating finance activity	An activity that is directly related to an entity's operating activities and secondarily provides a source of long-term financing for the entity.
other comprehensive income (OCI)	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. [IAS 1.7] *The definition in the FASB exposure draft is consistent with but not the same as the above definition.*
owners	Holders of instruments classified as equity. [IAS 1.7] *The definition in the FASB exposure draft is consistent with but not the same as the above definition.*
profit or loss	The total of income less expenses, excluding the components of other comprehensive income. [IASB only; IAS 1.7]

reclassification adjustments Amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. [IAS 1.7]

The definition in the FASB exposure draft is consistent with but not the same as the above definition.

remeasurement An amount recognised in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of:

(a) a change in (or realisation of) a current price or value;

(b) a change in an estimate of a current price or value; or

(c) a change in any estimate or method used to measure the carrying amount of an asset or a liability.

section The largest group of items presented in the financial statements.

subcategory A group of items within a category.

unusual Highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which the entity operates.

Appendix B
[Draft] Amendments to other IFRSs

Except where otherwise stated, an entity shall apply the [draft] amendments in this appendix when it applies [draft] IFRS X Financial Statement Presentation*. Amended paragraphs are shown with new text underlined and deleted text struck through.*

Note: Consequential amendments regarding the statement of profit or loss and other comprehensive income are proposed in the exposure draft Presentation of Items of Other Comprehensive Income *published in May 2010.*

General amendments applicable to IFRSs

B1 In IFRSs and the introductions to IFRSs, except where otherwise stated in this appendix,

- references to 'IAS 1 *Presentation of Financial Statements*' are replaced with '[draft] IFRS X *Financial Statement Presentation*.'
- references to 'IAS 7 *Statement of Cash Flows'* are replaced with '[draft] IFRS X *Financial Statement Presentation*.'
- references to 'IAS 1 (as revised in 2007)' are replaced with '[draft] IFRS X.'
- references to 'IAS 7' are replaced with '[draft] IFRS X'.
- the title of IFRS 5 is amended from 'IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations'* to 'IFRS 5 *Long-term Assets Held for Sale and Discontinued Operations*.'

B2 In IFRSs and the introduction to IFRSs, the following terminology has been amended:

- 'current assets' is replaced with 'short-term assets'
- 'non-current assets' is replaced with 'long-term assets'
- 'current liabilities' is replaced with 'short-term liabilities'
- 'non-current liabilities' is replaced with 'long-term liabilities'.

B3 In IFRS 4 paragraph 41B, IFRS 5 paragraph 44A, IFRS 7 paragraph 44A, IFRS 8 paragraph 36A, IAS 12 paragraph 92, IAS 16 paragraph 81B, IAS 19 paragraph 161, IAS 20 paragraph 42, IAS 21 paragraph 60A, IAS 28 paragraph 41A, IAS 32 paragraphs 96A, 96C and 97A, IAS 33 paragraph 74A, IAS 34 paragraph 47, IAS 36 paragraph 140A, IAS 38 paragraph 130B, IAS 39 paragraph 103C, IAS 40 paragraph 85A, IFRIC 1 paragraph 9A, IFRIC 14 paragraph 27A, SIC-7 Effective Date section, SIC-25 Effective Date section, and SIC-32 Effective Date section, the first reference to 'IAS 1' or 'IAS 1 (as revised in 2007)' is footnoted as follows: 'IAS 1 has been superseded by [draft] IFRS X *Financial Statement Presentation*'.

B4 In IFRS 3 paragraph B5, the term 'cash equivalents' is deleted. In IFRS 5 Appendix A 'current assets' definition, the term 'or a cash equivalent' is deleted. In IAS 16 paragraph 6, IAS 18 paragraphs 5, 11 and 12, IAS 38 paragraph 8, IAS 39 paragraph 19(c), IAS 40 paragraph 5, the term 'or cash equivalents' is deleted. In IAS 36 paragraph 69, 'and cash equivalents' is deleted.

B5 Some IFRSs reference IAS 1 paragraphs within their respective standard. Therefore, the following references to IAS 1 have been changed to the [draft] IFRS X paragraphs:

Standard with reference	IAS 1 paragraph reference	[draft] IFRS X reference
IFRS 1 paragraph E2(d)	17(c)	21(c)
IFRS 1 paragraph 36E(d)	17(c)	21(c)
IFRS 7 paragraph 21	117	212
IFRS 7 paragraph 34	29-31	51-53

IFRS 7 paragraph B5	122	217
IFRS 4 paragraph IG32	125-131	220-226
IFRS 7 paragraph IG6	17(c)	21(c)

B6 [Draft] IFRS X removes the minimum line item requirements in IAS 1 *Presentation of Financial Statements* for the statement of financial position (paragraph 54) and for the statement of comprehensive income (paragraph 82). Some of these requirements are duplicated in other IFRSs; also, some requirements are no longer necessary because they will be replaced by the total and subtotal requirements within the [draft] IFRS. However, some IFRSs will be amended to reflect these changes, when IFRS X *Financial Statement Presentation* is issued.

Appendix C of the [draft] IFRS contains a list of line item requirements throughout IFRSs that should be included in the statement of financial position and in the statement of comprehensive income, as required by IAS 1 and by some other specific IFRSs.

B7 The following table includes minimum line item requirements for the statement of financial position currently in IAS 1 paragraph 54 that are duplicated in other IFRSs. These disclosure requirements already exist in other IFRSs.

IAS 1 reference	**Line item**	**Duplicate requirement reference**
1.54(b)	investment property	IAS 40.79(c)
1.54(c)	intangible assets	IAS 38.118(e)
1.54(e)	investments accounted for using the equity method	IFRS 28.38
1.54(f)	biological assets	IAS 41.50
1.54(g)	inventories	IAS 2.36(b)
1.54(j)	the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	IFRS 5.38
1.54(p)	liabilities included in disposal groups classified as held for sale in accordance with IFRS 5	IFRS 5.38
1.54(q)	non-controlling interests, presented within equity	IAS 27.27

B8 The following table includes minimum line item requirements for the statement of financial position currently in IAS 1 paragraph 54 that are not duplicated in other IFRSs and therefore the additional minimum line requirements will be added to the appropriate IFRS. Amendments are necessary to the IFRSs noted below.

IAS 1 reference	**Line item**	**IFRS to be amended with requirement**
1.54(a)	property, plant and equipment	IAS 16
1.54(d)	financial assets (excluding amounts shown under (e), (h) and (i))	FI*
1.54(h)	trade and other receivables	FI*
1.54(i)	cash ~~and cash equivalents~~	FI*
1.54(k)	trade and other payables	FI*
1.54(l)	provisions	IAS 37
1.54(m)	financial liabilities (excluding amounts shown under (k) and (l));	FI*
1.54(n)	liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*	IAS 12

1.54(o)	deferred tax liabilities and deferred tax assets, as defined in IAS 12	IAS 12
1.54(r)	issued capital and reserves attributable to owners of the parent	IFRS 3
* This requirement will be maintained and will be moved to the relevant IFRS on financial instruments.		

B9 The following table includes minimum line item requirements for the statement of comprehensive income currently in IAS 1 paragraph 82 that are duplicated in other IFRSs. These disclosure requirements already exist in other IFRSs. Please note that 1.82(b) 'finance costs' is not included below. The requirement to present information about finance costs within each relevant section is within the [draft] IFRS X.

IAS 1 reference	**Line item**	**Duplicate requirement reference**
1.82(d)	tax expense	IAS 12.77
1.82(e)	a single amount comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation	IFRS 5.33(a)

B10 The following table includes minimum line item requirements for the statement of comprehensive income currently in IAS 1 paragraph 82 that are not duplicated in other IFRSs and therefore the additional minimum line requirements will be added to the appropriate IFRSs. Amendments are necessary to the IFRSs noted below.

IAS 1 reference	**Line item**	**IFRSs to be amended with requirement**
1.82(c)	share of the profit or loss of associates and joint ventures accounted for using the equity method	IAS 28/31
1.82(h)	share of the other comprehensive income of associates and joint ventures accounted for using the equity method	IAS 28/31
1.82(aa)*	gains and losses arising from the derecognition of financial assets measured at amortised cost	FI**
1.82(bb)*	if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9)	FI**
* Line items added from IFRS 9 consequential amendments to IAS 1. ** This requirement will be moved to the relevant IFRS on financial instruments.		

B11 The following table includes minimum line item requirements for the statement of comprehensive income currently in IAS 1 paragraph 82 that have been addressed within the requirements of [draft] IFRS X. Therefore, no amendments are necessary to any IFRSs.

IAS 1 reference	**Line item**
1.82(a)	revenue

1.82(f)	profit or loss
1.82(g)	each component of other comprehensive income classified by nature (excluding amounts in (h))
1.82(b)	total comprehensive income

IFRS 5 *Long-term* ~~*Non-current*~~ *Assets Held for Sale and Discontinued Operations*

B12 The title of IFRS 5 is amended to *Long-term Assets Held for Sale and Discontinued Operations*. Paragraph 33 is amended as follows:

Presenting discontinued operations

33 An entity shall disclose:

…

(aa) whether an item included in other comprehensive income relates to a discontinued operation.

IFRS 8 *Operating Segments*

B13 Paragraph 23 is amended as follows:

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

…

(f) material items of income and expense disclosed in accordance with paragraph 51 ~~97~~ of [draft] IFRS X *Financial Statement Presentation* ~~IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~;

IAS 12 *Income Taxes*

B14 Paragraph IN11 is amended as follows:

Introduction

IN11 The original IAS 12 did not specify whether an entity should classify deferred tax balances as current assets and liabilities or as non-current assets and liabilities.** ~~IAS 12 (revised) requires that an entity which makes the current/non-current distinction should not classify deferred tax assets and liabilities as current assets and liabilities.*~~

~~*This requirement has been moved to paragraph 56 of IAS 1 *Presentation of Financial Statements* (as revised in 2007).~~

**The classification requirement is in paragraph 123 of [draft] IFRS X.

IAS 34 *Interim Financial Reporting*

B15 Paragraph 5 is amended as follows:

Content of an interim financial report

5 [Draft] IFRS X ~~IAS 1 (as revised in 2007)~~ defines a complete set of financial statements as including the following components:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; ~~and~~

(f) [deleted] ~~a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.~~

(g) comparative information as required in paragraphs 33-36; and

(h) a statement of financial position as at the beginning of the required comparative period if applicable (paragraph 37).

IFRIC 17 *Distributions of Non-cash Assets to Owners*

B16 Paragraph 2 is amended as follows:

Background

2 International Financial Reporting Standards (IFRSs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). [Draft] IFRS X ~~IAS 1~~ requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to ~~the~~ financial statements. Appendix A ~~Paragraph 7~~ of [draft] IFRS X ~~IAS 1~~ defines owners as holders of instruments classified as equity.

Appendix C
Line item requirements throughout IFRSs

This appendix includes a comprehensive list of all line item requirements throughout IFRSs.

C1 This appendix groups all line item requirements throughout IFRSs including those currently in IAS 1 and those included within other IFRSs. [Draft] IFRS X removes the minimum line item requirements on the statement of financial position from IAS 1 paragraph 54 (see * below) and from the statement of comprehensive income from IAS 1 paragraph 82 (see ** below) and includes them in this appendix. Some of the line items have duplicate requirements in their respective standards. Some IFRSs will be amended to reflect these changes when IFRS X *Financial Statement Presentation* is issued (see [1] below). Also, some line item requirements are no longer necessary because they have been superseded by the subtotal requirements within the [draft] IFRS X (see [3] below). For amendments required to financial instruments IFRSs, amendments will be made to one of those IFRSs (see [2] below).

Refer to paragraphs B6–B11 in Appendix B for further discussion.

Statement of financial position:

The following are requirements within all IFRSs of line items in the statement of financial position:

Assets:
Property, plant and equipment* (IAS 16)[1]
Investment property* (IAS 40.79c)
Goodwill (IFRS 3.B67 d)
Intangible assets other than goodwill* (IAS 38.118e)
Other financial assets* (FI)[2]
Other non-financial assets ([draft] IFRS X)[3]
Investments accounted for using equity method* (IFRS 28.38)
Investments in subsidiaries, joint ventures and associates (IAS 27.38)
Biological assets* (IAS 41.50)
Non-current assets or disposal groups classified as held for sale or as held for distribution to owners* (IFRS 5.38)
Inventories* (IAS 2.36b)
Current tax assets* (IAS 12)[1]
Deferred tax assets* (IAS 12)[1]
Trade and other receivables* (FI)[2]
Cash and cash equivalents* (FI)[2]
Total assets ([draft] IFRS X)[3]

Liabilities:
Trade and other payables* (FI)[2]
Provisions* (IAS 37)[1]
Other financial liabilities* (FI)[2]
Other non-financial liabilities ([draft] IFRS X)[3]
Deferred income from government grants (IAS 20.24)
Current tax liabilities* (IAS 12)[1]
Deferred tax liabilities* (IAS 12)[1]
Liabilities included in disposal groups classified as held for sale* (IFRS 5.38)
Total liabilities ([draft] IFRS X)[3]

Equity:

Issued capital (IFRS 3) [1]
Retained earnings ([draft] IFRS X) [3]
Share premium (IFRS 3) [1]
Other reserves ([draft] IFRS X) [3]
Cumulative income (expense) recognised in other comprehensive income relating to non-current assets or disposal group classified as held for sale (IFRS 5.38)
Equity attributable to owners of parent* (IFRS 3) [1]
Non-controlling interests* (IAS 27) [1]

Total equity ([draft] IFRS X) [3]

The following are requirements within all IFRSs to present either in the statement of financial position or in the notes to financial statements:

Assets:

Major classes of assets classified as held for sale (IFRS 5.38)
Financial assets at fair value through profit or loss, designated as upon initial recognition (IFRS 7.8a I)
Financial assets at fair value through profit or loss, classified as held for trading (IFRS 7.8a ii)
Financial assets at fair value through profit or loss, mandatorily measured at fair value (IFRS 7.8 a ii)
Total financial assets at fair value through profit or loss (IFRS 7.8a)
Financial assets available for sale (IFRS 7.8d)
Held-to-maturity investments (IFRS 7.8b)
Loans and receivables (IFRS 7.8c)
Financial assets at fair value through other comprehensive income (IFRS 7.8h)
Financial assets at amortised cost (IFRS 7.8f)

Liabilities:

Major classes of liabilities classified as held for sale (IFRS 5.38)
Financial liabilities at fair value through profit or loss, classified as held for trading (IFRS 7.8e ii)
Financial liabilities at fair value through profit or loss, designated as upon initial recognition (IFRS 7.8e I)
Total financial liabilities at fair value through profit or loss (IFRS 7.8e)
Financial liabilities at amortised cost (IFRS 7.8g)

Equity:

Treasury shares (IAS 32.34)
Other equity interests (IFRS 3) [1]
Number of shares authorised ([draft] IFRS X) [3]
Number of shares issued and fully paid, and issued but not fully paid ([draft] IFRS X) [3]
Par value per share, or that the shares have no par value ([draft] IFRS X) [3]
Reconciliation of the number of shares outstanding at the beginning and at the end of the period ([draft] IFRS X) [3]
Rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital ([draft] IFRS X) [3]
Shares in the entity held by the entity or by its subsidiaries or associates ([draft] IFRS X) [3]
Shares reserved for issue under options and contracts for the sale of shares, including terms and amounts ([draft] IFRS X) [3]
Description of the nature and purpose of each reserve within equity ([draft] IFRS X) [3]

Statement of comprehensive income

The following are requirements within all IFRSs of line items in the statement of comprehensive income:

Please note that IAS 1.82(b) 'finance costs' (see [4] below) will no longer be included as a minimum line item requirement on the statement of comprehensive income as the requirement to present finance costs within each relevant section is within the [draft] IFRS X.

Income and expense:

Revenue** ([draft] IFRS X)[3]
Gains/(losses) arising from derecognition of financial assets measured at amortised cost** (FI)[2]
Gains/(losses) on net monetary position (FI)[2]
Difference between carrying amount of assets distributed to owners of parent and carrying amount of dividend payable (IFRIC 17.15)
Income from government grants (IAS 20.29)
Share of profit (loss) of associates and joint ventures accounted for using equity method** (IAS 28/31)[1]
Gains (losses) arising from difference between previous carrying amount and fair value of financial assets reclassified as measured at fair value** (FI) 2
Finance costs[4]
Dividends classified as expense (IAS 32.40)

Tax:

Profit (loss) before tax ([draft] IFRS X)[3]
Income tax expense** (IAS 12.77)
Profit (loss) from continuing operations([draft] IFRS X)[3]

Discontinued operations:

Profit (loss) from discontinued operations** (IFRS 5.33a)

Profit/loss:

Profit (loss)** ([draft] IFRS X)[3]

Other comprehensive income:

Other comprehensive income, before tax, hedges of net investments in foreign operations** ([draft] IFRS X)[3]
Other comprehensive income, before tax, gains (losses) from investments in equity instruments** ([draft] IFRS X)[3]
Other comprehensive income, before tax, gains (losses) on revaluation** ([draft] IFRS X)[3]
Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans** ([draft] IFRS X)[3]
Other comprehensive income, before tax, cash flow hedges** ([draft] IFRS X)[3]
Other comprehensive income, before tax, available-for-sale financial assets** ([draft] IFRS X)[3]
Other comprehensive income, before tax, exchange differences on translation* ([draft] IFRS X)[3]
Share of other comprehensive income of associates and joint ventures accounted for using equity method** ([draft] IFRS X)[3]
Aggregated income tax relating to items of other comprehensive income** ([draft] IFRS X)[3]
Total comprehensive income** ([draft] IFRS X)[3]

Profit attributable to:

Profit (loss), attributable to owners of parent ([draft] IFRS X)[3]
Profit (loss), attributable to non-controlling interests ([draft] IFRS X)[3]

Total comprehensive income attributable to:

Comprehensive income, attributable to owners of parent ([draft] IFRS X)[3]
Comprehensive income, attributable to non-controlling interests ([draft] IFRS X)[3]

Earnings per share:

Basic earnings (loss) per share from continuing operations (IAS 33.66)
Basic earnings (loss) per share (IAS 33.66)
Diluted earnings (loss) per share from continuing operations (IAS 33.66)
Diluted earnings (loss) per share (IAS 33.66)

The following are requirements within all IFRSs to present either in the statement of comprehensive income or in the notes to financial statements:

Income and expense:

Gain (loss) in accordance with IFRIC 19.9 and IFRIC 19.10 (IFRIC 19.11)
Expense arising from equity-settled shared-based payment transactions (IFRS 2.51a)
Gain (loss) on measurement to fair value less costs to sell (IFRS 5.33b)
Gains (losses) on financial assets at fair value through profit or loss, designated as upon initial recognition (IFRS 7.30a I)
Gains (losses) on financial assets at fair value through profit or loss, classified as held for trading (IFRS 7.20a I)
Gains (losses) on financial assets at fair value through profit or loss, mandatorily measured at fair value (IFRS 7.20a I)
Total gains (losses) on financial assets at fair value through profit or loss (IFRS 7.20a)
Gains (losses) on financial liabilities at fair value through profit or loss, designated as upon initial recognition (IFRS 7.20a v)
Gains (losses) on financial liabilities at fair value through profit or loss, classified as held for trading (IFRS 7.20a v)
Total gains (losses) on financial liabilities at fair value through profit or loss (IFRS 7.20a)
Gains (losses) on held-to-maturity investments (IFRS 7.20a iii)
Gains (losses) on loans and receivables (IFRS 7.20a iv)
Gains (losses) on financial liabilities at amortised cost (IFRS 7.20a v)
Gains (losses) on financial assets at amortised cost (IFRS 7.20a vi)
Gains (losses) on financial assets at fair value through other comprehensive income (IFRS 7.20a viii)
Interest income for financial assets not at fair value through profit or loss (IFRS 7.20b)
Interest expense for financial liabilities not t fair value through profit or loss (IFRS 7.20b)
Interest income for financial assets measured at amortised cost (IFRS 7.20b)
Fee income (expense) arising from financial assets or financial liabilities not at fair value through profit or loss (IFRS 7.20 c I)
Fee income (expense) arising from trust and fiduciary activities (IFRS 7.20 c ii)
Fee income arising from financial assets measured at amortised cost (IFRS 7.20 c I)
Fee expense arising from financial liabilities not at fair value through profit or loss (IFRS 7.20c I)
Interest income on impaired financial assets accrued (IFRS 7.20 d)

Reclassification adjustments on exchange differences on translation, before tax ([draft] IFRS X) [3]
Reclassification adjustments on available-for-sale financial assets, before tax (IFRS 7.20 a ii)
Reclassification adjustments on cash flow hedges, before tax (IFRS 7.23d)
Reclassification adjustments on hedges of net investments in foreign operations, before tax ([draft] IFRS X) [3]

Other comprehensive income:

Income tax relating to exchange differences on translation of other comprehensive income ([draft] IFRS X) [3]
Income tax relating to investments in equity instruments of other comprehensive income ([draft] IFRS X) [3]
Income tax relating to available-for-sale financial assets of other comprehensive income ([draft] IFRS X) [3]
Income tax relating to cash flow hedges of other comprehensive income ([draft] IFRS X) [3]
Income tax relating to hedges of net investments in foreign operations of other comprehensive income (IAS 39.102)
Income tax relating to changes in revaluation surplus of other comprehensive income ([draft] IFRS X) [3]
Income tax relating to actuarial gains (losses) on defined benefit plans of other comprehensive income ([draft] IFRS X) [3]

Reclassification adjustments on income tax relating to items of other comprehensive income ([draft] IFRS X)[3]

Discontinued operations:

Analysis of profit or loss from discontinued operations (IFRS 5.33b)
Revenue from discontinued operations (IFRS 5.33b)
Expense from discontinued operations (IFRS 5.33b)
Profit (loss) before tax from discontinued operations (IFRS 5.33b)
Related income tax expense (IFRS 5.33b)
Gain/(loss) on measurement of fair value less costs to sell (IFRS 5.33b)
Related income tax expense (IFRS 5.33b)

Income attributable to:

Income from discontinued operations, attributable to owners of parent (IFRS 5.33d)
Income from continuing operations, attributable to owners of parent (IFRS 5.33d)

Earnings per share:

Basic earnings (loss) per share from discontinued operations (IAS 33.68)
Diluted earnings (loss) per share from discontinued operations (IAS 33.68)

[Draft] Basis for Conclusions on the exposure draft *Financial Statement Presentation*

This [draft] Basis for Conclusions accompanies, but is not part of, the draft IFRS.

Introduction

BC1 This [draft] Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) in developing the proposals in their exposure draft *Financial Statement Presentation*. Individual board members gave greater weight to some factors than to others.

BC2 The exposure draft carries forward without reconsideration the primary conclusions each board reached in phase A of the financial statement presentation project. Additionally, the IASB exposure draft carries forward without reconsideration some aspects of IAS 1 *Presentation of Financial Statements*. The conclusions carried forward are indicated by brackets in the draft IFRS and include the following topics, among others:

(a) complete set of financial statements;

(b) frequency of reporting;

(c) fair presentation and compliance with International Financial Reporting Standards (IFRSs);

(d) going concern;

(e) accrual basis of accounting; and

(f) consistency of presentation.

BC3 This [draft] Basis for Conclusions does not discuss requirements in IAS 1 that the IASB has not reconsidered. However, it does discuss decisions that the FASB reached in phase A that are similar to those IAS 1 requirements because the FASB is exposing those decisions for comment in its exposure draft.

Background

BC4 In September 2001 the IASB added to its agenda the performance reporting project (in March 2006 this was renamed the 'financial statement presentation project'). The objective of the project was to enhance the usefulness of information presented in the income statement. The IASB developed a possible new model for reporting income and expenses and conducted pilot tests and field visits on that model. Similarly, in the United States the FASB added a project on performance reporting to its agenda in October 2001, developed its model and conducted surveys and interviews with users about that model. Stakeholders raised concerns about both models and about the fact that they were different.

BC5 In April 2004 the IASB and the FASB decided to work on financial statement presentation as a joint project. They agreed that the project should address presentation and display, not only in the income statement but also in the other statements that would constitute a complete set of financial statements. The boards decided to approach the project in two phases. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. Phase B would address more fundamental issues relating to presentation and display of information in the financial statements, including:

(a) principles for disaggregating information in each financial statement;

(b) the totals and subtotals that should be presented in each financial statement; and

(c) whether to require a single method of presenting operating cash flow information.

BC6 In March 2006, as a result of its work in phase A, the IASB published an exposure draft of proposed amendments to IAS 1—*A Revised Presentation*. The IASB received 130 comment letters. The exposure draft proposed amendments that affected the presentation of comprehensive income, but it did not propose to change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. It also proposed to bring IAS 1 largely into line with Topic 220 Comprehensive Income in the *FASB Accounting Standards Codification*™ (the Codification). After considering the responses to the exposure draft, the IASB issued a revised version of IAS 1. The FASB decided to consider phases A and B issues together, and therefore it did not publish an exposure draft on phase A issues.

BC7 The boards began discussing phase B issues after completing their discussions on phase A issues. In October 2008 the boards published the discussion paper *Preliminary Views on Financial Statement Presentation* after completing their initial deliberations on phase B issues. The comment period ended on 14 April 2009. The boards received 227 comment letters. The boards deliberated from July 2009 to April 2010 on the presentation model proposed in the discussion paper.

BC8 In 2009 the boards decided to consider the presentation of other comprehensive income in a project separate from the financial statement presentation project. The boards are working together to issue separate but convergent guidance on reporting comprehensive income in an overall statement of comprehensive income as soon as practicable. The boards decided to give more urgency to this matter because of the increasing importance of other comprehensive income to other projects, particularly those on financial instruments and on post-employment benefits, for which components of other comprehensive income have been introduced or proposed. The boards also recognised the considerable public interest in the topic. In May 2010 the IASB published an exposure draft *Presentation of Items of Other Comprehensive Income* and the FASB published a proposed Accounting Standards Update of Topic 220 Comprehensive Income.

Benefits and costs

BC9 The IASB and the FASB have each established a set of principles to guide their standard-setting activities and one of those principles is to promulgate standards only when the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. In developing an exposure draft on a major topic, the IASB and the FASB strive to determine if a proposed standard will fill a significant need and if the costs imposed to comply with that standard, as compared with other alternatives, are justified in relation to the benefits of the resulting information. When developing a proposed financial reporting standard, the boards seek information from preparers and users of financial information, academics and others about the expected nature and quantity of the benefits and costs of that standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

BC10 Preparers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or estimate it.

BC11 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual investors, lenders and other creditors also receive benefits by making more informed decisions.

BC12 The costs and benefits of a standard are both direct and indirect, and immediate and deferred. They may be affected by a change in circumstances not foreseen when the standard was promulgated. There is a wide variation in the estimate that different users make about the expected benefits because of differences in how they would use the new information (a simple example—earnings per share information may be highly useful to an equity investor but of limited use and value to a creditor). There is also a wide variation in estimates made about the nature and extent of expected costs. Those differences arise because of real differences in circumstances (eg the estimates from a large multinational conglomerate will differ in both absolute and relative terms from that of a small company) and estimation methods.

BC13 Because of the inherent subjectivity in individuals' assessments of the costs and benefits of reporting particular items of financial information, the boards seek to consider all costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. The assessment of the expected benefits and costs of a financial reporting standard is integral to the decision-making process of the IASB and the FASB. Consideration of each individual issue includes the subjective weighing of the incremental improvement in financial reporting against the incremental cost of implementing the identified alternatives. At the end of that process, the boards consider the provisions in the aggregate and must conclude that issuing the standard is a sufficient improvement in financial reporting to justify the costs.

BC14 The boards' overall assessment of benefits and costs of the proposals in the exposure draft is described in paragraphs BC15–BC19. Within the constraints of practicability and resources, the boards will attempt to obtain as much information as possible on cost-benefit issues from as wide a range of stakeholders as possible. The boards undertook many steps to gather information about the benefits and costs and those are described in paragraphs BC20–BC34. Later paragraphs describe the various benefits and costs that the boards deemed significant in deciding whether and how to modify the proposals in the discussion paper.

Overall assessment of benefits and costs

BC15 The existing presentation requirements in both IFRSs and US generally accepted accounting principles (GAAP) permit a wide spectrum of presentation formats that vary in detail and comparability. This is counter to the needs of users of financial statements who want comparable reporting and sufficient detail for their analysis. To meet those needs, the boards focused on ways to improve the comparability and understandability of information presented in financial statements by imposing some degree of standardisation in the way information is presented in the financial statements, particularly regarding how information is classified and the degree to which it is disaggregated.

BC16 The boards decided to work together on this project because increased globalisation of capital markets and investment opportunities has led to a need for a common set of principles for presenting information in financial statements used by equity investors and lenders and other creditors around the world.

BC17 The boards believe that the changes proposed in the exposure draft would significantly improve the comparability, understandability and usefulness of an entity's financial statements. The boards understand that the costs to implement the proposed changes to financial statement presentation may be significant for many of the stakeholders in the financial reporting process, but there is evidence that the benefits of those changes would be significant and those benefits would be realised over many years to come.

BC18 The changes to financial statement presentation proposed in the exposure draft should benefit users of financial statements in the following ways:

(a) Users of financial statements would be better able to analyse an entity's performance independently of its capital structure because every reporting entity would segregate the effects of its financing decisions and related activities from all other activities.

(b) Users' analysis of and insight into an entity's financial position and performance would be greatly improved by additional disaggregated information presented in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the notes to financial statements. The additional detail should provide users of financial statements with a better basis upon which to make more informed investment decisions.

(c) Users of financial statements would spend less time each reporting period trying to understand the relationships between the numbers in the various financial statements. The establishment of a common structure for the statements of financial position, comprehensive income and cash flows would allow users to relate information more easily because entities would present related information in the same sections and categories in each statement.

(d) Users of financial statements would more readily understand the sources and uses of an entity's operating cash flows. As a result, their analysis would reflect a more complete picture of an entity's cash flows and the amount of time and resources necessary for analysing cash flow information would decrease.

(e) Users would better understand what gives rise to changes in assets and liabilities (eg accruals, cash flows, reclassifications, changes in fair value and other remeasurements) through the analyses of changes in asset and liability line items that would be provided in the notes. This information should help users of financial statements predict future cash flows as well as understand how estimates and judgements affect reported financial information.

BC19 Implementing the proposed changes would result in costs to all stakeholders in the financial reporting process—preparers, users and auditors of financial statements as well as regulatory bodies and those who train accountants. Some of the implementation costs described below would be one-off costs, others would be ongoing; all are important for the boards to consider in their cost-benefit evaluation.

(a) One of the most significant costs that preparers would incur to implement the proposed presentation model relates to modifying accounting information systems. To collect the appropriate data required to implement the proposals, in particular a direct method statement of cash flows, an entity may be required to invest in information technology system upgrades, redesigns or possibly a completely new accounting system. Users and auditors of financial statements also may incur systems-related costs. In implementing the proposed changes, entities (and possibly users of financial statements) would most likely have to maintain parallel systems for a transition period of possibly two or three years.

(b) In addition to systems changes, some stakeholders in the financial reporting process would incur costs to modify their processes and control procedures. For example, preparers would have to define and implement a classification policy and design processes to ensure that the additional transaction-level information is captured so that it can be consolidated in the reporting process.

(c) The one-off changes in systems and processes would most likely result in an increase in internal and external audit costs and, for some stakeholders, an increase in personnel costs.

(d) As with any change in financial reporting standards, all stakeholders in the financial reporting system would incur training and education-related costs associated with the proposed changes to financial statement presentation. Education institutions would need to update textbooks and teaching materials. Preparers, users and auditors of financial statements would incur training costs (for new systems and processes) as well as costs to update training materials. For example, financial services entities would have to retrain their personnel in accounting and credit risk analysis as well as in financial statement analysis.

Steps taken to learn about potential benefits and expected costs

BC20 The following paragraphs describe the various ways in which the boards received input on the costs and benefits of the presentation model proposed in the discussion paper and of the changes it made to that model during deliberations.

Field test

BC21 During the discussion paper's six-month comment period, the staff undertook a field test of the presentation model proposed in the discussion paper. The field test had a number of goals, including:

(a) determining whether the proposed presentation model improves the usefulness of the information in an entity's financial statements to users of those financial statements; and

(b) understanding the costs of implementing the proposed presentation model.

BC22 Thirty-one entities recast financial statements using the principles and guidance in the discussion paper without making any information systems changes to accommodate the field test. After finalising their recast financial statements, preparer participants completed a survey that included questions asking whether specific aspects of the model would enhance communication of their company's financial results to users of their financial statements. They were also asked to identify and estimate the costs of implementing the proposed presentation model.

BC23 Forty-three individual analysts with a variety of backgrounds took part in the analyst portion of the field test. They reviewed a set of recast and non-recast financial statements—either a set compiled from the financial statements provided by preparer participants or a set used to illustrate the proposals in the discussion paper. The analysts completed a survey about their review of the financial statements, which included questions about whether specific aspects of the proposed model would be useful in their analysis or would provide information that was more or less useful than the financial statements they usually analyse.

BC24 The survey used in the analyst portion of the field test duplicated some questions asked in the preparer survey in order to compare the perceptions of the two groups on particular aspects of the proposed presentation model. For example, the analyst survey asked whether the recast financial statements enhanced their understanding of specific aspects of an entity's financial results. Those results were compared with the responses provided by preparer participants about the aspects of the model that they thought would enhance communication of their company's financial results. Enhanced communication of financial information to those outside the entity is one potential benefit of the proposed presentation model.

BC25 Analyst participants in the field test indicated that the three most useful aspects of the presentation model proposed in the discussion paper were:

(a) increased disaggregation in the statement of comprehensive income and in the statement of cash flows;

(b) separation of the results of an entity's business activities from the results of its financing activities; and

(c) increased understanding of the sources and uses of an entity's cash flows provided by a direct method statement of cash flows.

BC26 Preparer and analyst participants in the field test questioned whether the costs would exceed the benefits obtained from providing the proposed reconciliation schedule and direct method statement of cash flows that aligned every line item in the statements of comprehensive income and cash flows. Participants that currently prepare direct method cash flow statements indicated that they could not provide the proposed level of disaggregation and alignment with the other statements without extensive information systems and business process redesign. In addition, the participants expressed concern about the potential loss of working capital information currently available in an indirect method statement of cash flows.

BC27 The boards used this information to develop alternatives for presenting cash flow information and to refine the proposed requirements. The boards envisage further testing as they continue to evaluate the benefits and costs of the proposed presentation requirements.

FASRI study

BC28 Also during the six-month comment period, a research effort by the FASB's Financial Accounting Standards Research Initiative (FASRI) tested the usefulness of specific proposals in the discussion paper (ie how the proposed changes affect users' judgements and decisions). Sixty experienced credit analysts took part in FASRI's experiment, which focused on the proposals (a) to classify the statements of financial position, comprehensive income and cash flows into operating, investing and other categories and (b) to disaggregate expense items in the statements of comprehensive income and cash flows by function and nature (paragraph BC147).

BC29 FASRI's experimental research is important because it complements the comment letters and the field test. Whereas comment letters and the field test responses reflect respondents' expectations of how financial statements prepared in accordance with the discussion paper's proposals might look, and how such statements might aid decision-making, the experimental research provides objective evidence on how the quality of decisions differs with alternative reporting formats. Although it remains difficult to quantify the benefits of proposed financial reporting changes, research of this type can demonstrate whether proposed reporting changes are likely to have the intended impact on decision-making.

BC30 FASRI's experimental research indicated a strong correlation between where information is presented in the financial statements and its usefulness for decision-making. In the experiment, expense information disaggregated by both function and nature was most useful to the analysts when the function and nature information were presented together—either in the statement of comprehensive income or in the notes to financial statements. The disaggregated expense information was less useful when the by-function information was in the statement of comprehensive income and the by-nature information was in the notes to financial statements or vice versa. The insights from this research resulted in the boards adopting a working assumption that by-nature information is most useful when presented in the context of an entity's functional activities and when related information is presented together in the statements or in the notes. This working assumption influenced the FASB's decision to require entities with more than one reportable segment to present disaggregated by-function and by-nature information together in their segment note.

BC31 In addition, analysts participating in the experiment found the classification of financial information into the proposed sections and categories and disaggregation by function and nature most useful in making credit decisions. In particular, those analysts said that the financial statements prepared using the proposed format were more transparent than financial statements prepared in a traditional format.

Gathering input from other stakeholders

BC32 The discussion paper asked about the benefits and the costs of the proposed changes. As noted throughout this [draft] Basis for Conclusions, respondents' comments about benefits and costs formed the basis for much of the boards' deliberations on the proposals in the discussion paper.

BC33 As described below, the boards sought input on benefits and costs in a variety of other ways during deliberations.

(a) Board members and staff held two meetings with members of the project's advisory working group, which comprised the Joint International Group and the Financial Institution Advisory Group. At the first meeting, working group members provided input on alternatives to the proposals in the discussion paper that would reduce the costs without reducing the benefits. At the second meeting, working group members provided input on other ways to assess the benefits and costs of the proposals to be included in the exposure draft. The staff also sought input from working group members on the costs and benefits of specific proposals on an ad hoc basis throughout the deliberation process.

(b) The boards also discussed the financial statement presentation project with their respective advisory councils (the IASB's Standards Advisory Council and the FASB's Financial Accounting Standards Advisory Council) and their analyst groups (the IASB's Analyst Representative Group (ARG) and the FASB's Investor Technical Advisory Committee (ITAC)). The focus of those discussions was primarily on gaining a better understanding of the benefits of the proposals in the light of the cost concerns. The staff also had ad hoc discussions with some ITAC and ARG members during the boards' deliberations.

(c) The boards held discussions similar to those held with their formal advisory groups in informal meetings with various stakeholders, including preparers and representative groups of preparers, throughout deliberations.

(d) The staff engaged in discussions with various accounting software providers to educate them on the proposals in the exposure draft and solicit their initial views about the costs of implementing those proposals. Those discussions confirmed that the less integrated and uniform an entity's accounting and reporting systems are, the more difficult and costly it could be for an entity to implement the proposed requirements. The accounting software providers suggested that as an overall cost containment strategy, the boards should co-ordinate the effective dates of the joint projects that will result in major changes to financial reporting (eg revenue recognition and leasing in addition to financial statement presentation).

Gathering input specific to a direct method statement of cash flows

BC34 Feedback from preparer participants in the field test and some advisory group members indicated that the proposal to require a direct method statement of cash flows that had the same line item disaggregation as the statement of comprehensive income could result in significant implementation costs. The boards engaged in a number of additional activities focused on developing alternative cash flow presentations that would reduce the costs of providing cash flow information without reducing the expected benefits of the resulting information.

(a) To understand the benefits of a direct method statement of cash flows as well as an indirect method statement of cash flows, the staff sent an informal survey to ARG members following a discussion of cash flows at one of their regular meetings. Ten members responded to that survey. Feedback from this group indicated that the direct method of presenting cash flows was more intuitive, but survey respondents were evenly split on whether the direct method of presentation would provide more useful cash flow information.

(b) To get input from a greater number of users of financial statements about the benefits of both a direct method and an indirect method statement of cash flows, the staff sought assistance from the CFA Institute. With the assistance of the staff, the

CFA Institute sent a survey to 12,000 of its members that included eight questions. A total of 540 responses were received (see also paragraph BC176). Respondents to the CFA Institute survey indicated that they would be better able to predict future cash flows and assess the quality of earnings with the information provided in a direct method statement of cash flows than with the information provided in a current indirect method statement of cash flows. However, they agreed that there was too much detail provided in the direct method statement of cash flows illustrated in the discussion paper.

(c) To understand the academic research from various sources on the statement of cash flows, the staff sought the assistance of a representative from the academic community who summarised and presented the main findings from academic research at a public board meeting. At that same board meeting, a representative of the user community discussed the benefits of direct method cash flow information when presented along with the information currently provided in an indirect method statement of cash flows. The academic research indicates that users of financial statements make errors in deriving operating cash flow changes from indirect method cash flow statements and other information available in the financial statements. Those errors result in investment decisions that are potentially more costly in terms of misallocated resources than the costs preparers would incur to present direct cash flow information. The research also indicates that users make investment decisions that correlate better with future earnings and future cash flows when their analyses include direct cash flow information than when they do not.

(d) After the boards confirmed their support for a direct method statement of cash flows that would have much less disaggregation than that proposed in the discussion paper and would not align as closely with the by-function and by-nature income and expense information, the staff continued to consult both preparers and users on the major impediments to producing a direct method statement of cash flows, the operationality of various alternative direct method formats and the cost differences between those alternative formats. The cash flow presentation proposed in the exposure draft is the result of those efforts to balance an acceptable level of disaggregation and cohesiveness in the statement of cash flows with the costs to provide that information.

Future steps to learn more about benefits and costs

BC35 The publication of this exposure draft is another important step to the evaluation of the benefits and costs of changing the way information is presented in the financial statements. The comment period provides users of financial statements with the opportunity to evaluate how the proposed changes to the organisation of and information presented in financial statements would benefit their analysis and resource allocation decisions. Similarly, the comment period provides preparers of financial statements with the opportunity to evaluate the effort and cost involved in adopting these proposals in their unique circumstances. Accordingly, the information about benefits and costs provided through comment letters is an important part of the boards' cost-benefit evaluation. In addition, during and after the comment period, the boards will continue to gather information about benefits and costs by doing more field work on the proposals in the exposure draft, including additional field testing and/or experimental research.

Conclusions on financial statement presentation

BC36 The following sections summarise the boards' considerations in reaching their conclusions as part of phase B of the financial statement presentation project:

(a) *Objective* and *scope* (paragraphs BC37−BC45)

(b) *General features of financial statements* (paragraphs BC46−BC50); (paragraphs BC51−BC55 summarise the FASB's considerations in reaching its conclusions as part of phase A of the financial statement presentation project)

(c) *General features of financial statement presentation* (paragraphs BC57−BC118)

(d) *Statement of financial position* (paragraphs BC119−BC146)

(e) *Statement of comprehensive income* (paragraphs BC147−BC170)

(f) *Statement of cash flows* (paragraphs BC171−BC196)

(g) *Statement of changes in equity* (paragraphs BC197−BC199)

(h) *Notes to financial statements* (paragraphs BC200−BC234)

(i) *Effective date and transition* (paragraphs BC235–BC238).

Objective (paragraph 1)

BC37 As described in paragraph 1, the exposure draft prescribes the basis for presentation of general purpose financial statements to ensure consistency with the entity's financial statements of previous periods and promotes comparability with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, requirements for their structure and principles for classification and disaggregation of information in the statements.

XBRL

BC38 The development of eXtensible Business Reporting Language (XBRL), and the possibility that entities that file financial information will be required by securities regulators to file that information as tagged XBRL data, raises questions in relation to financial statement presentation. The boards think that the changes to the presentation of financial statements proposed in the exposure draft would enhance the usefulness of XBRL-based reporting. Although XBRL is an electronic reporting standard that allows software tools to analyse an entity's financial information, XBRL-based reporting is only as useful as the data reported in an entity's financial statements. XBRL does not increase the amount of data available to analysts; it makes the information more accessible to software tools. The boards think that the proposed disaggregation and improved reporting that would result from the exposure draft would enhance the underlying data that a user of financial statements can analyse using XBRL.

Scope (paragraphs 2–7)

BC39 The boards propose that the financial statement presentation standard should apply equally to all business entities.

Nonpublic business entities (FASB)

BC40 US respondents to the discussion paper had mixed views on whether the presentation model proposed by the FASB should apply to nonpublic business entities as well as to public entities. Some respondents maintained that the existence of two presentation models (one for public business entities and another for nonpublic business entities) would cause undue confusion and a lack of comparability. Other respondents asserted that the proposed presentation model would be disproportionately difficult and costly for nonpublic business entities to apply, and that the benefits to users of nonpublic business entity financial statements would not justify the additional cost.

BC41 FASB members agree that having different reporting formats for public and nonpublic business entities could be confusing and reduce comparability of reported information. Board members also think that the concerns expressed by respondents do not outweigh the importance of maintaining one overall method of presenting information in the financial statements. Consequently, the FASB proposes that nonpublic business entities should be included in the scope of the proposed guidance and that all business entities should use the same financial statement format.

BC42 The FASB considered whether all aspects of the proposed presentation model should apply to nonpublic business entities. Board members observed that a number of the changes to the presentation model proposed in the discussion paper that are also included in the exposure draft address the concerns expressed by nonpublic and public business entities alike. However, the FASB noted that users of nonpublic business entity financial statements can often obtain much of the information that would be disclosed in the proposed analyses of changes in asset and liability line items through other means, if desired, because they have more and better access to management. The FASB therefore proposes that a nonpublic business entity should be exempt from the requirement to disclose analyses of changes in asset and liability line items.

BC43 The exposure draft will include questions for US respondents about how nonpublic business entities would apply specific aspects of the proposed presentation model and whether users of nonpublic business entity financial statements would benefit from the resulting information. After considering the comments received on those questions, the FASB will reconsider whether nonpublic business entities should apply all or some of the proposed presentation requirements.

BC44 The FASB did not address whether to defer the effective date for nonpublic business entities. The FASB will address that issue after considering comments received on the exposure draft.

BC45 In 2010 the American Institute of Certified Public Accountants, the Financial Accounting Foundation, and the National Association of State Boards of Accountancy established a special panel to address how US accounting standards can best meet the needs of users of private company financial statements. The panel will provide recommendations on the future of standard-setting for private companies, including whether separate or stand-alone accounting standards for private companies are needed. The FASB will consider the panel's recommendations (if available) before finalising this phase of the financial statement presentation project.

General features of financial statements (paragraphs 8−42)

Purpose of financial statements

BC46 The IASB's *Framework* and the FASB's Conceptual Framework provide each board's objective for financial reporting.[1] Financial statements are an essential part of financial reporting and, thus, the objectives of the exposure draft are consistent with, and directed at, fulfilling the objective set out in each board's conceptual framework. The exposure draft focuses on how to present information about an entity's financial position (its economic

[1] The boards are jointly working on a project to improve their respective conceptual frameworks. They published an exposure draft on the objective of financial reporting and the related qualitative characteristics in May 2008 (Framework exposure draft). The boards plan to finalise their work on those two chapters of their joint conceptual framework for financial reporting in 2010.

resources and claims to those resources) and the effects of transactions and other events that change its financial position so that the information is useful to existing and potential equity investors, lenders and other creditors for making decisions.

BC47 In determining what and how information should be presented in the financial statements, the boards kept in mind that information is useful to users of financial statements if it helps them in assessing an entity's ability to generate net cash inflows and whether management has made efficient or effective use of the resources provided.

BC48 Financial statements are a principal means of communicating financial information about an entity to those outside the entity. Entities are required to present several financial statements because of the amount and variety of information that financial reporting should provide about an entity. As discussed by the boards in phase A of the financial statement presentation project, and as specified in the revision of IAS 1 in 2007, a complete set of financial statements includes the statements of financial position, comprehensive income, cash flows and changes in equity, and the accompanying notes, as well as comparative information for the previous period.

BC49 Each financial statement focuses on presenting different types of information—for example, economic resources and claims at a point in time, changes in net resources for a period of time and changes in cash for a period of time. However, the statements are derived from the same underlying data, and they therefore relate to one another and complement each other. Although each statement has a particular focus, the statements provide information that is generally useful for more than one purpose. Nonetheless, no single statement can provide all the financial information that is useful for decision-making.

BC50 How an entity organises and displays information in its financial statements is of the utmost importance in communicating financial information to those who use that information to make decisions on resource allocation. The boards' conclusions on organisation and display (financial statement presentation) are presented in paragraphs BC57–BC118, *General features of financial statement presentation*. Paragraphs BC119–BC234 address application of the core financial statement presentation principles for each financial statement and related notes.

Complete set of financial statements [FASB only]

BC51 The FASB proposes that an entity should present a complete set of financial statements. Currently, a complete (or full) set of financial statements is defined only in the FASB Concepts Statements. Accordingly, the definition of a complete set of financial statements is not prescribed in the Codification. The FASB proposes including the definition of and the requirements for a complete set of financial statements in the proposed guidance to make it authoritative. In addition, convergence with the IASB on the form and labelling of financial statements would enhance comparability among entities from different jurisdictions.

BC52 The FASB proposes requiring an entity to present comparative information consisting of, at a minimum, a complete set of financial statements for two periods (the current period and the previous period). Currently, US GAAP encourages an entity to present comparative information but does not require it. The FASB decided to require presentation of comparative information for all entities in the context of a complete set of financial statements. The FASB's decision is consistent with IAS 1. However, it differs from SEC Regulation S-X[2], which requires two statements of financial position as at the close of the two most recent years and three statements of income and cash flows for the three years preceding the most recent statement of financial position.

Beginning of the period statement of financial position

BC53 The FASB proposes that a beginning of the period statement of financial position should be part of a complete set of financial statements only when an entity applies an accounting principle retrospectively, restates its financial statements or reclassifies items in the financial statements. A beginning of the period statement of financial position is most useful in those circumstances because the amounts presented in the statement of financial position at the beginning of the period may differ from the amounts presented at the end of the previous period. This is consistent with a change that the IASB made to IAS 1 in 2007.

Equal prominence

BC54 The FASB noted that a user of the financial statements does not assess the financial performance of an entity through a single financial statement or a single measure within a financial statement. The financial performance of an entity can be assessed only after various aspects of the financial statements are taken into account and understood in the context of a complete set of financial statements. Accordingly, the FASB proposes that in order for readers of the financial statements to understand completely the financial performance of an entity, the entity should present its financial statements with equal prominence. This is consistent with a change that the IASB made to IAS 1 in 2007.

Frequency of reporting [FASB only]

BC55 The FASB proposes that if the end of the reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose (a) the reason for using a longer or shorter period and (b) the fact that comparative amounts

[2] Regulation S-X sets out the form and content of and requirements for financial statements that are required to be filed by the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940.

are not entirely comparable. The FASB noted that such disclosure would assist users in assessing how the entity's results were affected by the longer or shorter period of activity within the comparative periods. Accordingly, the FASB decided to make its proposal consistent with IAS 1.

Comparative information

BC56 The boards considered whether an entity should be required to present a complete set of financial statements when it chooses to present financial statement information for periods beyond the minimum requirements (ie for more than two periods). Because the information would be presented voluntarily, the boards decided that this additional financial statement information need not be presented in the form of a complete set of financial statements.

General features of financial statement presentation (paragraphs 43−112)

BC57 The exposure draft addresses how to present information in financial statements. It does not address which information is to be recognised and measured in financial statements. Other IFRSs and US GAAP address requirements for recognition and measurement of relevant information in financial statements.

BC58 The boards' conclusions about how to present information in financial statements draw upon the conclusions reached in their joint conceptual framework project, particularly the objective of financial reporting (as discussed in paragraphs BC46–BC50) and the qualities and characteristics of information that make it useful. In that project, the boards concluded that, to be useful, information must be 'relevant' and 'faithfully represented', and that its usefulness is increased to the degree that it also possesses each of four enhancing qualitative characteristics: 'comparability', 'verifiability', 'timeliness' and 'understandability'.

BC59 The boards observed that, in present practice, each financial statement has a focus and, to some degree, the information in one statement complements information in other statements. However, the boards also observed that presentation practices are divergent among entities and that the relationships between and among the statements are not clear. The boards concluded that these problems are impediments to gaining a higher and desired degree of both comparability and understandability.

BC60 As a result, the boards decided to focus on ways to improve the comparability and understandability of information presented in financial statements by imposing some degree of standardisation for the way information is presented in the financial statements, particularly regarding how information is classified and the degree to which it is disaggregated. The boards realise, however, that financial reporting standards, by their nature, impose limits on an entity's flexibility to select from a vast number of ways to present information. In the exposure draft, the boards have sought to strike the right balance, so that in return for some sacrifice in reporting flexibility, there is a greater gain in the comparability and understandability of information.

BC61 Paragraphs BC62−BC71 discuss two core financial statement presentation principles—'cohesiveness' and 'disaggregation'—that provide the foundation for the boards' conclusions on financial statement presentation. The boards believe the application of these principles will result in significant improvements in the comparability, understandability and usefulness of information presented in financial statements.

Core principles of financial statement presentation

Cohesiveness principle

BC62 The aim of the cohesiveness principle is to clarify the relationship between items across financial statements and to have an entity's financial statements complement each other as much as possible. Financial statements that are consistent with the cohesiveness principle will display data in a way that clearly associates related information across the statements. The cohesiveness principle responds to the existing lack of consistency in the way that information is presented in an entity's financial statements. For example, cash flows from operating activities are separated in the statement of cash flows, but there is no similar separation of operating activities in the statements of comprehensive income and financial position. This makes it difficult for a user of the financial statements to compare operating income with operating cash flows—a comparison often made in assessing the degree to which an entity's earnings are likely to recur and reflect the underlying cash flows. Similarly, segregating an entity's operating assets and liabilities in the statement of financial position, and presenting them separately from the entity's other assets and liabilities, would provide users with more complete data for calculating some important financial ratios, such as return on net operating assets.

BC63 The cohesiveness objective proposed in the discussion paper presumed that there are relationships between components of the statements of financial position, comprehensive income and cash flows, and that those relationships can be made transparent on a line-by-line basis. In theory, that concept makes sense. However, the change in an element in the statement of financial position may generate effects (either an activity or a flow) that relate to multiple lines in the statements of comprehensive income and cash flows. The converse is also true.

BC64 Respondents to the discussion paper agreed with the boards that presenting financial information in a manner that clarifies the linkage of that information across the financial statements is a worthwhile goal. Users of financial statements observed that they spend a lot of time trying to determine the relationships between the numbers in the various financial statements; consequently, providing clarity on the interactions between the statements would be beneficial. However, many respondents suggested that the cohesiveness objective should be applied in a more pragmatic way, with quite a few specifying that the cohesiveness principle should not be applied at the line item level. The boards agree, and propose that the financial statements need not be cohesive (ie aligned) at the line item level. The boards determined that, in practice, the shared nature of many assets and liabilities makes it impracticable to expect a consolidated statement of financial position to reveal (at the line item level) the precise relation between all of the financial statements.

BC65 The boards think that the cohesiveness principle would be best achieved if related information in the statements of financial position, comprehensive income and cash flows is presented similarly. Consequently, the exposure draft proposes that those three statements should be structured in a manner that presents related information in the same sections, categories or subcategory.

Disaggregation principle

BC66 Financial statement analysis aimed at objectives such as assessing the amount, timing and uncertainty of future cash flows requires financial information that is segregated into reasonably homogeneous groups of items. If items differ economically, users of financial statements may wish to take that difference into account in predicting future cash flows. The boards reasoned that the additional information provided by disaggregating information according to function, nature and measurement basis can assist users in understanding an entity's financial position and performance, and in predicting future cash flows.

BC67 The disaggregation objective in the discussion paper proposed that an entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing and uncertainty of future cash flows. Application of that objective was addressed on an individual statement basis. The discussion paper proposed that an entity should disaggregate its income and expenses in the statement of comprehensive income by both function and nature. Additionally, the discussion paper proposed that in the statement of financial position an entity should disaggregate otherwise similar assets and similar liabilities by measurement bases.

BC68 The boards decided that the three disaggregation attributes used in the discussion paper (function, nature and measurement basis) should not be limited to individual financial statements. Rather, the proposed core financial statement presentation principle of disaggregation should include those three attributes. The boards think that applying those attributes to the financial statements both individually and in concert with each other would provide the best representation of how an entity uses its resources to generate income and cash flows.

BC69 In responding to the discussion paper, users of financial statements noted that enhanced disaggregation could provide them with additional information that would permit improved analysis of and insight into an entity's financial position and performance. The additional detail also could improve their understanding of an entity and provide a better basis upon which to make more informed investment decisions.

BC70 However, some respondents noted that the level of disaggregation proposed in the discussion paper had the potential to distract users from an overall view of an entity's financial position and financial performance. Respondents asked that appropriate consideration should be given to materiality and clarity in the financial statements, and that disaggregation should be balanced against understandability. To improve the usefulness of the individual statements, respondents suggested that some of the disaggregated information should be presented in the notes to financial statements.

BC71 The boards acknowledge that there is a delicate balance between having too much information and having too little information. Thus, it is important that application of the disaggregation principle should lead to sufficient, but not excessive, disaggregation. To address respondents' concerns, the boards decided to permit much of the disaggregated information that respondents were concerned about (eg disaggregation by nature of income and expense items) to be presented in the notes to financial statements.

Proposed liquidity and financial flexibility objective

BC72 The discussion paper proposed a liquidity and financial flexibility objective that would have required an entity to present information in its financial statements in a manner that helps users to assess the entity's ability to meet its financial commitments as they become due and to invest in business opportunities. Some respondents to the discussion paper commented that Chapter 1 of the Framework exposure draft discussed notions that were similar to the liquidity and financial flexibility objective. For that reason, they suggested that the objective should not be included in a financial statement presentation standard. Respondents also observed that the proposed liquidity and financial flexibility objective duplicated the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* regarding liquidity risk.

BC73 The boards decided that the core financial statement presentation principles should flow from, and not repeat, the objectives and qualitative characteristics in their forthcoming joint conceptual framework. Consequently, they decided that the liquidity and financial flexibility objective should not be one of the core financial statement presentation principles.

Structure of the financial statements

BC74 The statements of financial position, comprehensive income and cash flows evolved over time to address particular user needs and were not specifically designed to work together. Application of the core financial statement presentation principles should enhance the relationships among the statements and, as a result, the financial information in each statement should tell a unified story. As described in the paragraphs that follow, the boards' proposals achieve that by:

(a) defining sections, categories within sections and a subcategory that produce relevant and useful groupings of disaggregated information in each of the financial statements; and

(b) linking each statement through the alignment of the sections, categories and subcategory as well as subtotals and line item descriptions.

BC75 In determining the basic structure of the financial statements, the boards began with the notion that users of financial statements commonly analyse an entity's performance independently of its capital structure. Consequently, the boards propose that an entity should separate items in its financial statements that relate to how it obtains capital from all other items in the financial statements. Those items would be presented in what is referred to as the financing section (paragraphs BC90–BC98).

BC76 The boards propose that an item unrelated to obtaining or raising capital should be presented in another section on the basis of whether it relates to day-to-day or other income-generating activities (business section), a discontinued operation (discontinued operation section), income taxes (income tax section) or is an effect of a transaction that recognises or derecognises assets and liabilities classified in more than one section or category (multi-category transaction section).

BC77 A statement of changes in equity presents information about all changes in equity for the reporting period. The boards decided not to structure the statement of changes in equity in the same manner as the other statements that constitute a complete set of financial statements. This is because the statement of changes in equity presents information solely about changes in items classified in the equity category in the statement of financial position. Thus the boards' proposed structure is not relevant to that statement.

Classifying information into sections, categories and a subcategory

BC78 The structure of the financial statements separates the different functional activities of an entity. The boards propose that the functional activity in which an asset or liability is used should determine the section, category or subcategory in which it is classified.

BC79 An entity would use the proposed definitions of the sections, categories and subcategory to determine the classification of assets, liabilities, equity, income, expenses and cash flows. To ensure that related items are classified consistently, an entity determines the appropriate classification for its assets and liabilities by considering how they relate to the activities of the entity and then similarly classifies the related income, expenses and cash flows in the same sections, categories or subcategory in the statements of comprehensive income and cash flows. For example, a piece of machinery used in the production of goods sold by the entity would be classified as an operating asset; the related depreciation expense would be classified in the operating category in the statement of comprehensive income; and the cash outflow to purchase the machinery would be classified in the operating category in the statement of cash flows.

BC80 The discussion paper described the boards' preliminary view that the statement of financial position should be the starting point for classification. Some respondents to the discussion paper asserted that classification in this manner places undue importance on assets and liabilities and the statement of financial position. These respondents suggested that classification should be based on the statement of comprehensive income because management evaluates and manages an entity by operating income, and not by assets and liabilities.

BC81 For the boards, the basis for beginning the classification process with the statement of financial position is foundational: assets, liabilities and equity are fundamental and are logically prior to the concept of income and expense—ie changes in one normally give rise to the other. However, in determining the section, category or subcategory in which to classify an asset or liability, an entity must consider the activity in which the asset or liability is used; consequently, the functional activities depicted in the statements of comprehensive income and cash flows are part of the classification process.

BC82 The boards think a classification approach that incorporates how an entity organises its activities into functions should help users of the financial statements to understand an entity's activities. Users have consistently told the boards that information about an entity's business activities is essential for effective use of the financial statements.

BC83 The discussion paper proposed a management approach to classifying assets and liabilities. That approach required management to classify the entity's assets and liabilities into sections and categories on the basis of how management uses those assets or liabilities in its business or businesses. The definitions of the sections and categories in the discussion paper were much more subjective than the definitions that the boards are now proposing. Consequently, the management approach to classification proposed in the discussion paper involved a large measure of judgement.

BC84 Although the boards propose that management should classify assets and liabilities on the basis of the functions in which they are used by the entity, there is much less discretion involved in the classification process. The boards therefore decided not to use the term 'management approach' to describe the proposed classification process. Also, the term management approach was often misinterpreted by those who responded to the discussion paper, partly because the same term was used with a meaning different from (and stricter than) that described in IFRS 8 *Operating Segments* and Topic 280 Segment Reporting.

BC85 In their responses to the discussion paper, preparers of financial statements supported the management approach to classification, and they indicated that classifying assets and liabilities in a manner that best reflects the way the asset or liability is used within an entity should produce relevant information for users of the financial statements. They also said that the classification approach should help illustrate the differences between entities and provide users with a better foundation on which to make comparisons between entities and assessments of their relative performance.

BC86 However, users of financial statements that responded to the discussion paper and analysts who took part in the field test expressed concern about the subjective nature of the management approach to classification described in the discussion paper. They asserted that it would reduce comparability between entities, including those that are in the same industry. Their preference is a classification approach that results in consistent and uniform classification of assets, liabilities and items of income and expense across entities that use them similarly.

BC87 The boards acknowledge the tension between the principle underpinning a management approach to classification and respondents' requests for robust section and category definitions, particularly with regard to the financing section definition. Analysts who participated in the field test of the discussion paper expressed similar concerns. In response to the concerns raised, the exposure draft proposes that the financing section and the investing category should be defined in a more specific manner to promote consistent application.

Classification policy

BC88 The discussion paper proposed that an entity should disclose, as a matter of accounting policy, its bases for classifying assets and liabilities in the operating, investing and financing categories, and any change in its bases for classification. The disclosure would have included a description of the type(s) of businesses in which an entity engages and would have provided a user with the necessary information to understand management's approach to the business.

That disclosure was a crucial factor in the boards' support for the management approach to classification proposed in the discussion paper which, as described in paragraph BC83, allowed management flexibility in classification.

BC89 Because the definitions of the operating, investing and debt categories proposed in the exposure draft are less subjective than those in the discussion paper, the boards decided that classification need not be an accounting policy or principle. However, the boards decided that an entity should explain in the notes to financial statements its basis for classifying items within the sections, categories and subcategory, especially how classification relates to the entity's activities.

Financing section

BC90 The discussion paper proposed that the financing section should include a financing asset category and a financing liability category. The discussion paper defined financing assets and financing liabilities as 'financial assets' and 'financial liabilities' (as those terms are defined in IFRSs and US GAAP) that management views as part of the financing of the entity's business and other activities. Classification in the financing section would be based initially on the characteristic of the asset or liability (it must be a 'financial asset' or a 'financial liability'); however, the discussion paper provided flexibility in allowing management to determine which financial assets and financial liabilities serve the financing function. This meant that an entity could exclude a financial asset or a financial liability from the financing section, but the entity could not include a non-financial asset or a non-financial liability in that section.

BC91 No clear consensus emerged from the respondents to the discussion paper on which items should be considered financing. For some, financing refers to the capital structure of an entity. From that perspective, the financing section should include only debt and equity. Others view all liabilities as a form of financing.

BC92 In the light of respondents' comments, the boards concluded that the discussion paper's definition of the financing section was too ambiguous to be applied consistently and uniformly in practice. The boards think that consistency of classification is important to users of financial statements in establishing a common starting point for making comparisons between entities. The boards therefore decided that the exposure draft should provide a more specific definition of the financing section than that proposed in the discussion paper and that there should be a clear distinction between items that belong in the financing section and items that belong in the business section.

BC93 The exposure draft proposes that the financing section should include only items commonly equated with the capital structure of an entity—debt and equity. In a departure from the discussion paper, the boards decided that assets should not be classified in the financing section. The only exception would be an asset directly related to debt or equity (eg a derivative). The boards were concerned that many users of financial statements attach an availability notion to cash presented in the statement of financial position, which may not be valid. Displaying cash and other short-term investments with debt in the statement of financial position could further support the availability notion and mislead rather than inform users of financial statements. The boards were also concerned that readers of the financial statements would interpret the inclusion of assets such as cash and marketable securities in the financing section as a move toward equating the financing section with a notion of net debt. In separate discussions about whether the financial statements should include information about net debt, the boards observed that there is no common definition of net debt, and they decided not to create or impose a standard definition of net debt. However, the IASB exposure draft proposes disclosure of items that normally constitute net debt as part of the analyses of changes in asset and liability line items (see paragraphs BC214–BC217).

Debt category

BC94 Consistently with their decision to be more specific in defining the financing section, the boards propose that the debt category should include borrowing arrangements entered into for the purpose of raising (or repaying) capital. Examples include revolving credit facilities, bond issues and syndicate borrowings.

BC95 The boards propose that the debt category should also include assets and liabilities that arise from transactions involving an entity's own equity that are part of the entity's capital-raising activities. Examples include a dividend payable and a written put option on an entity's own shares. The boards observed that these items and their related flows clearly meet the definition of financing and, therefore, belong in the financing section. However, they did not think that it was necessary to create a separate category within the financing section or a subcategory within equity for those items. They therefore decided to expand the debt category definition to include these non-equity items.

BC96 The boards propose that the financing section in the statement of cash flows should not include separate debt and equity categories because there will be cash flows that settle liabilities classified in the debt category that relate to equity financing, such as dividends paid. Furthermore, users of the financial statements should be able to distinguish easily the cash paid or received for these items, even if the financing section does not have debt and equity categories.

Equity category

BC97 In the light of their decision that the financing section definition should be more specific than that proposed in the discussion paper, the boards propose that equity should be a separate category in the financing section. Even though many users of financial statements analyse debt and equity as interchangeable sources of capital of an entity, users also recognise important differences between these sources of capital that justify their separation in the financing section of the statement of financial position.

BC98 The boards observed that unlike classification in the operating, investing and debt categories, classification of an item in the equity category is solely dependent on whether the item is equity as determined in IFRSs and US GAAP.

Business section

BC99 The business section should include assets and liabilities that relate to an entity's income-generating activities. The boards propose that an entity should segregate its business activities into those that generate revenue through a process that includes the interrelated use of its resources and those that generate a return from individual assets. These different business activities would be presented in two categories—the operating category and the investing category, respectively.

BC100 In the discussion paper, the operating and investing categories were based on a notion of core and non-core activities, respectively. An entity would have to classify its business assets and liabilities into those categories according to what management viewed as the central operations of an entity. At the time, the boards reasoned that a core/non-core distinction would provide more useful information than would a narrow or prescriptive definition of operating and investing. However, respondents to the discussion paper asked for more guidance and clarity about which items an entity should classify in the investing category.

BC101 The boards think that segregating business assets and liabilities on the basis of whether they (a) work together to generate revenue (such as from the sale of goods or delivery of services) or (b) individually yield a return (such as interest or dividend income for a manufacturing entity) will achieve a result similar to the core/non-core segregation proposed in the discussion paper. In addition, the definitions of operating and investing proposed in the exposure draft align more closely with the concept of operating and investing that many respondents and field test participants suggested. The advantage of the proposed definitions is that they are less subjective than the definitions in the discussion paper and should result in more comparability between entities.

BC102 The boards considered eliminating the defined operating and investing categories and allowing an entity to decide whether and how the business section should be further segregated. However, the boards reasoned that financial statement analysis is best served if entities apply a common discipline in determining the items that belong in different categories within the business section. The boards were also concerned that, without a consistently defined operating category, the usefulness of the information in the statement of cash flows might be impaired.

BC103 In a change from the discussion paper, the boards propose that an entity should not be permitted to classify cash in more than one category in its statement of financial position. Because of the fungibility of cash, the boards reasoned that it might be difficult, if not impossible, for an entity to identify some of its cash as having one function and some as having another function. Furthermore, the boards think that allowing cash to be classified on the basis of how management intends to use that cash in the future could result in the presentation of misleading, rather than useful, information.

Operating finance subcategory

BC104 In discussing which liabilities should be included in the financing section, the boards noted that some liabilities are viewed by many users of financial statements as an alternative source of financing; however, those liabilities are not part of an entity's capital-raising transactions. Examples include a net post-employment benefit liability and a decommissioning liability. Although those liabilities can be viewed as having a financing component, the boards concluded that they should not be classified in the debt category or the financing section. That is because those liabilities are entered into in exchange for a service, a right of use or a good, or are incurred directly as a result of an operating activity, whereas capital-raising activities fund an entity's general business activities, capital expenditures and acquisition activities.

BC105 The boards concluded that liabilities such as post-employment benefit or decommissioning liabilities are first and foremost related to the operating activities of an entity. However, because they are long-term in nature, they have a significant financing component. Consequently, the boards propose to segregate liabilities within the operating category that (a) are directly related to an entity's operating activities, (b) are entered into as an exchange for a service, a right of use or a good, or are incurred directly as a result of an operating activity and (c) have a financing component. The exposure draft proposes a category within the operating category for those liabilities—a subcategory labelled 'operating finance'.

BC106 Consistently with the cohesiveness principle, all related effects from those liabilities would be classified in a similar subcategory in the statement of comprehensive income. However, related cash flows would be presented in the operating category in the statement of cash flows which, as described in paragraph BC107, does not include an operating finance subcategory. The three financial statements would therefore be cohesive at the operating category level, and the statements of comprehensive income and financial position would be cohesive at the operating finance subcategory level.

BC107 The statement of cash flows does not have a subcategory for operating finance because the cash flows related to some liabilities (eg pension plans) include both operating and financing components that are not separable. The boards recognise that cash flows related to other items in the subcategory are more readily identifiable (eg one can attribute the cash paid on a lease to the principal and interest component of that lease). However, there is not a common view among users of financial statements on whether, for example, that cash payment relates to the cash realisation of the expense (operating) or the settlement of the liability (operating finance).

BC108 In reaching the decision to segregate items in the operating finance subcategory, the boards observed that users of financial statements who view liabilities classified in that subcategory as debt-like could easily make adjustments to their leverage ratios because those items would be segregated and disaggregated in the statement of financial position. To aid those users in their analysis, the exposure draft proposes that an entity should include a subtotal in the statements of financial position and comprehensive income, both before the subcategory and after the subcategory.

Discontinued operation section

BC109 The boards decided to retain the current requirement that an entity must present information about its discontinued operations separately from information about its continuing activities. The boards believe that presenting discontinued operations separately provides useful information because it allows a user of those financial statements to make a better assessment of an entity's ongoing activities.

BC110 In assessing the amount, timing and uncertainty of future cash flows, users of financial statements are likely to treat information about the results of discontinued operations differently from information about the results of activities that will continue because each will have different implications for future cash flows.

Income tax section

BC111 The boards propose that an entity should present all income tax assets and liabilities, and all income tax cash flows, in a separate income tax section in the statements of financial position and cash flows. However, an entity should not present all of its income tax expense or benefit in a separate income tax section in the statement of comprehensive income. That is because current standards require an entity to allocate income taxes in the statement of comprehensive income to continuing operations, discontinued operations and components of other comprehensive income. The boards think that allocating income taxes in the statement of comprehensive income is important in helping users to assess an entity's financial performance as well as the amount, timing and uncertainty of future cash flows. In addition, the boards recognise that income taxes must be allocated to other comprehensive income to maintain the profit or loss or net income subtotal. The boards therefore propose that an entity should present income taxes in the statement of comprehensive income consistently with the sections to which income taxes are required to be allocated. Consequently, an entity could present some of its income tax expense or benefit in the discontinued operation section and in other comprehensive income as well as in the income tax section.

BC112 As a result, the presentation of income taxes in the statement of comprehensive income would not align with the presentation of income tax assets, liabilities and cash flows in the statements of financial position and cash flows. The boards considered requiring an entity to present income tax assets, liabilities and cash flows in the same sections and categories that contain income tax expense (benefit), so that the statements would be aligned completely at the category level. However, the boards decided that doing so would require complex and arbitrary allocations that would be unlikely to provide useful information.

Multi-category transaction section

BC113 The boards propose that an entity should classify in a distinct section in the statements of comprehensive income and cash flows the net effects on comprehensive income or cash flows of a single acquisition (or disposal) transaction that recognises (or derecognises) assets and liabilities that are classified in more than one section or category. The boards considered requiring an entity to allocate the comprehensive income or cash flow effects of a multi-category (or multi-section) transaction to the sections or categories in which the related assets and liabilities are classified because this would be consistent with the cohesiveness principle. However, the boards reasoned that the allocation would be arbitrary, and that it would not provide meaningful information to users of financial statements.

BC114 The boards also considered classifying the comprehensive income or cash flow effects of a multi-category transaction in the section or category that reflects the predominant use of the assets and liabilities that the entity acquired or disposed of. The boards acknowledged that this alternative would avoid arbitrary allocations; however, they thought that it would be difficult for an entity to determine the predominant use of the related assets and liabilities.

BC115 The boards think that an entity should not be required to make any determination about where the comprehensive income and cash flow effects of a multi-category transaction are best presented in the financial statements. Instead, an entity should classify the effects in a section separate from all others, resulting in consistent treatment. Classification in a distinct section also presents the exception to the cohesiveness principle in a prominent manner.

Consistency of presentation [FASB only]

BC116 The FASB proposes that the format for presenting information in the financial statements and the accompanying notes should be retained from one period to the next, unless another presentation or classification would be more appropriate or an accounting standard requires a change in presentation. The FASB decided to converge with the IASB regarding the requirements related to consistency of presentation, noting that the requirements in IAS 1 are similar to those in US GAAP.

Subtotals and headings

BC117 The boards propose that an entity should present subtotals for each section, category and subcategory included in its financial statements because that would allow users of financial statements to relate subtotals across the statements.

BC118 The discussion paper proposed that an entity should present the sections and categories in the same order in the statements of financial position, comprehensive income and cash flows. The boards decided not to propose that requirement in the exposure draft because there are instances in which it may be more understandable to present the sections and categories in a different order. Understandability was considered more important than strict alignment. Consequently, the exposure draft would require an entity to align the sections and categories as closely as possible, but it would provide for flexibility in presentation.

Statement of financial position (paragraphs 113−134)

Presentation of a statement of financial position

BC119 Presenting assets and liabilities together in the sections, categories and subcategory would result in a significant change in the format of the statement of financial position. Because the statement of financial position would no longer be classified on the basis of elements (assets, liabilities and equity), the proposed format would challenge the way many have traditionally viewed the statement of financial position.

BC120 The discussion paper noted that one of the benefits of presenting assets and liabilities together in the sections and categories is that it should make it easier for users of financial statements to calculate some important financial ratios. Some respondents agreed that the proposed section and category format would make more information available in the financial statements, thereby making it easier for users to find the information. Other respondents said that users should have an easier time calculating some ratios, such as return on net operating assets, but may have a more difficult time calculating others, such as those that include items from working capital, because working capital items may not all be presented in the same category.

BC121 The boards think that presentation of assets and liabilities in sections, categories and a subcategory is necessary to achieve the core financial statement presentation principle of cohesiveness. If the statement of financial position includes the same sections, categories and subcategory as the statements of comprehensive income and cash flows, the relationship between assets and liabilities that work together to generate items of income, expense and cash flows will be clear, and the financial statements will be complementary.

BC122 The boards think that providing clarity about the assets and liabilities that are part of an entity's capital-raising activities should be an overall benefit to users. The boards also think that commonly used financial ratios would be of a higher quality because users could more readily assess the operating activities of an entity than is possible with existing financial statements.

BC123 The boards observed that even though the statements of financial position illustrated in the discussion paper presented the sections and categories in a single column with subtotals for assets (and liabilities) for each category, an entity would not be required to present that information in a single column. Alternatively, an entity could choose to display~~s~~ the sections, categories and subcategories in the statement of financial position using a multi-column approach that displays all the assets in one column and all the liabilities in another column, which is more consistent with the traditional format for that statement (see Example 12 in the proposed implementation guidance).

Presenting totals and subtotals

BC124 The discussion paper proposed that an entity could disclose total assets, total liabilities, and short-term and long-term subtotals either in the statement of financial position or in the notes to financial statements. Some respondents to the discussion paper perceived a decrease in the utility of the statement of financial position because the subtotals and totals that they are accustomed to seeing might not be readily available in the statement of financial position. Respondents said that giving management the choice to disclose those subtotals and totals either in the statement of financial position or in the notes would not be helpful.

BC125 In the exposure draft, the boards propose that an entity should be required to present total assets, total liabilities and subtotals for short-term and long-term assets and liabilities in the statement of financial position, which would present related information in the same place (ie within the context of the statement of financial position) and make it easier to calculate ratios.

Presentation of cash equivalents

BC126 As in the discussion paper, the boards propose eliminating the concept of cash equivalents from both IFRSs and US GAAP. The boards observed that cash equivalents do not possess the same characteristics as cash and have different risks from cash. Thus, presenting cash equivalents separately from cash avoids grouping dissimilar assets in the same line item. Additionally, that presentation better reflects liquidity in the statement of financial position.

BC127 Some respondents to the discussion paper disagreed with the proposal to present cash and cash equivalents separately, noting that an entity usually manages those items together because cash equivalents can be a critical component of an entity's cash management function. In reaching their conclusion, the boards observed that although cash and cash equivalents may be managed similarly, they are different assets. The boards noted that the proposal to classify assets and liabilities on the basis of their use was not meant to provide management with flexibility to aggregate items that do not have the same economic characteristics.

Presentation as short-term and long-term or in order of liquidity

BC128 As in the discussion paper, the boards propose that an entity should further classify its assets and liabilities as either short-term or long-term within the categories in its statement of financial position, unless a presentation in order of liquidity provides more relevant information.

BC129 The boards think that classifying and presenting short-term assets and liabilities separately from long-term assets and liabilities should help to achieve the disaggregation principle because:

(a) information about which assets and liabilities are short-term and which are long-term is pertinent to users' assessments of the amount, timing and uncertainty of future cash flows.

(b) separate presentation of short-term and long-term assets and liabilities provides the information that users need to compare the assets expected to be realised or otherwise converted into cash in the near term with the liabilities expected to be paid or otherwise settled in the near term.

Short-term and long-term presentation

BC130 In IFRSs and US GAAP, a classified presentation of the statement of financial position is linked to the operating cycle of an entity. That operating cycle is often denoted by the use of current and non-current categories. The discussion paper proposed that classification of an asset or a liability as short-term or long-term should be based on a one-year distinction rather than on the length of an entity's operating cycle. The boards reasoned that a one-year distinction is simpler and easier to understand than a distinction based on an entity's operating cycle. For example, some entities produce a variety of products or services that have various operating cycles, which can make implementing an operating-cycle distinction complex and difficult for users to understand without an extensive explanation.

BC131 Most respondents to the discussion paper agreed that a short-term/long-term distinction would increase comparability for entities presenting a classified statement of financial position. The one-year benchmark would help users of financial statements to compare information across entities, and could make it easier to assess the liquidity of an entity. However, some respondents asserted that the use of 'longer than one year' to denote long-term is not useful for entities in industries that have extended operating cycles (eg the aircraft manufacturing industry).

BC132 The boards propose that classification of an asset or a liability as short-term should be based on a one-year period rather than on an entity's operating cycle. To enhance that information, the boards propose that an entity with an operating cycle (or cycles) longer than one year should describe its operating cycle(s) in the notes to financial statements.

BC133 The boards propose that an entity should classify an asset or a liability as short-term if either its contractual maturity or its expected date of realisation or settlement is within one year of the reporting date. The boards think that a distinction based on expected realisation (settlement) provides more relevant information about liquidity than a distinction based entirely on contractual maturities. However, basing the distinction on expected realisation or settlement, with no consideration of contractual maturity, might not provide adequate information about the liquidity and cash consequences of assets and liabilities. For example, if an entity has a note payable with a contractual maturity of six months but expects to refinance the note and not make a payment on the refinanced note for 18 months, it might interpret a distinction based solely on expected realisation or settlement as requiring the note to be classified as long-term. Because users need to know that the entity must either settle or refinance the note within one year, the boards decided that the one-year time frame should be based on the shorter of (a) the contractual maturity of an asset or a liability or (b) its expected realisation or settlement.

BC134 The discussion paper proposed that an entity should classify deferred tax assets and liabilities as short-term or long-term according to the classification of the related asset or liability, consistently with US GAAP. That classification would be a change in practice for an entity that applies IFRSs because IAS 1 prohibits classifying a deferred tax asset or liability as current. The IASB concluded that this change in practice is consistent with the boards' goal of aligning not only their presentation standards, but also their income tax standards. The IASB therefore proposes changing the classification requirements for deferred tax assets and liabilities.

BC135 IAS 1 and US GAAP include different guidance for the classification of financial liabilities as current or non-current. The boards will consider addressing those differences in a separate project. Consequently, the IASB's exposure draft retains the guidance in IAS 1 on classification of financial liabilities and the FASB's exposure draft retains the classification guidance in Topic 470 Debt. The boards noted that they would incorporate into the standard on financial statement presentation any change to their existing guidance on classification of financial liabilities resulting from a potential separate project.

Order of liquidity presentation

BC136 The boards acknowledge that classifying and presenting assets and liabilities as short-term and long-term may not provide useful information for some entities. For example, a financial services entity typically has financial assets and financial liabilities with a wide range of maturity dates within a short time period. For financial services entities, the proposed short-term and long-term classifications are often too broad to provide useful information to users of their financial statements. Moreover, for these entities, providing information in order of liquidity is often more important than displaying a split between short-term and long-term.

BC137 For these reasons, the boards think that, in some cases, users would derive more benefit from a presentation of assets or liabilities in order of liquidity. The boards therefore propose that assets and liabilities should be presented in order of liquidity if that presentation provides more relevant information than a short-term/long-term presentation.

BC138 The boards think that it is unnecessary to provide guidance on how to determine order of liquidity (ie the characteristics that an entity should consider when deciding whether one asset is nearer to cash than another asset). Determination of the relative liquidity of individual assets in a group of assets is dependent upon the unique features of those assets. Consequently, the boards concluded that management is best positioned to make that judgement.

Disclosure of contractual maturity information

BC139 The discussion paper proposed that if an entity decided to adopt a presentation based on liquidity, it also would disclose information in the notes to financial statements about the maturities of its short-term contractual assets and liabilities. Most respondents agreed with that proposal because it may help a financial statement user to assess an entity's liquidity, how an entity manages its risk, and the nature, timing and uncertainty of future cash flows. Respondents also thought that all entities should be required to disclose information about short-term contractual assets and liabilities. However, respondents noted that the proposed disclosure overlaps with requirements found in IFRSs and US GAAP.

BC140 The boards decided that disclosures about the maturities of short-term contractual assets and liabilities should not be included as part of the financial statement presentation project. Instead, the boards concluded they should address the disclosure of that information in their other active projects, including financial instruments, leases and insurance contracts.

BC141 The boards also concluded that the financial statement presentation project need not address disclosure of information about the maturities of long-term contractual assets and liabilities because IFRSs and US GAAP already require disclosure of similar information.

Disaggregation in the statement of financial position

BC142 The boards decided to retain the discussion paper proposal that an entity should disaggregate similar assets and similar liabilities that are measured on different bases and present them on separate lines in the statement of financial position. For example, an entity should not aggregate investments in debt securities measured at amortised cost with investments in debt securities measured at fair value and then present the total in a single line item. The boards reasoned that disaggregating items in an entity's statement of financial position according to their measurement basis will help users of financial statements in assessing the amount, timing and uncertainty of future cash flows.

BC143 Many respondents to the discussion paper suggested that the information about measurement bases should be presented in the notes to financial statements rather than in the statement of financial position. Respondents were concerned that the proposal would result in too much information in the statement of financial position and might thereby reduce the usefulness of that statement.

BC144 The boards reasoned that separately presenting disaggregated measurement bases information in the statement of financial position would place that information in the proper context. In addition, the disaggregation of assets and liabilities by measurement basis should help users of financial statements to identify whether a change in the value of an asset or a liability from one period to the next relates to external market effects, changes in management's assumptions or internal activities of the entity. The boards were not convinced that additional line items in the statement of financial position would reduce the utility of that statement.

Minimum line items in the statement of financial position

BC145 IAS 1 includes minimum line item requirements for the statement of financial position. The boards considered whether those requirements should be included in the exposure draft. The IASB decided to remove from IAS 1 the minimum line item requirements for the statements of financial position and comprehensive income and keep them in specific standards. This decision was made to avoid duplication of requirements, because some of the line items are already covered by other IFRSs. In some other cases, specifically for the statement of comprehensive income, some line items are no longer necessary given the subtotals the exposure draft proposes should be required. Some IFRSs will be amended to reflect these changes when IFRS X *Financial Statement Presentation* is issued. Appendix C of the IASB exposure draft contains a list of line item requirements for the statement of financial position and the statement of comprehensive income, as required by IAS 1 and by other specific IFRSs.

BC146 The FASB decided that a list of minimum line items for the statement of financial position is not necessary because the disaggregation principle provides guidance on how an entity should determine the line items to present in that statement. The FASB expects that this difference in requirements would result in little difference in the line items presented in the statement of financial position. The FASB noted that SEC Regulation S-X includes requirements for various line items to be presented in the statement of financial position or in the notes, when applicable.

Statement of comprehensive income (paragraphs 135−167)

Disaggregation by function and nature

BC147 The boards think that the disaggregation of income and expenses by function will provide users with insight about the activities that an entity performs in pursuit of profit. However, each functional grouping may be composed of items that respond differently to the same market or economic events, for example, labour and raw materials. Consequently, the boards propose that an entity should disaggregate the income and expense items within each functional grouping by their nature.

BC148 The discussion paper proposed requiring disaggregation of information by function and by nature in the statement of comprehensive income. However, respondents to the discussion paper and field test participants were concerned that that requirement would result in so many line items in the statement of comprehensive income that it would adversely affect the usefulness of that statement. Respondents also said that presenting that disaggregated information in a consolidated statement of comprehensive income may not reflect the true differences in the nature of income and expense items because income and expense items often respond to changes in market conditions or economic events differently depending upon the geographical location or the reportable segment in which they occur.

BC149 The FASB proposes that an entity with more than one reportable segment should disclose information by nature in its segment note because it provides the most useful context for that information. The need for by-nature information to be in context is most important for an entity that is composed of unrelated businesses, such as a manufacturing segment and a financial services segment. The FASB views an entity's segment note as the most efficient and effective means of presenting this information because each reportable segment is composed of operating segments that have similar economic characteristics.

BC150 The FASB proposes that an entity with only one reportable segment may present some or all of its by-nature information in a separate note, rather than present it in the statement of comprehensive income. An entity also would be required to present by-function information in this note (and the segment note) to provide an organising mechanism for the by-nature information.

BC151 The IASB proposes that all entities should disclose by-nature income and expense information in a note separate from the segment note. The IASB observed that IFRS 8 is scheduled for a post-implementation review in 2011. As part of that review, the IASB committed itself to considering whether existing requirements for segment reporting should be aligned with the amendments to Topic 280 that the FASB will make as part of the financial statement presentation project (see paragraphs BC232–BC234).

BC152 Results from experimental research conducted by the FASRI found that by-function and by-nature information was most useful when presented together in one location, either on the face of the financial statements or in the notes to financial statements. Additionally, when the face of the financial statements had information both classified in sections and categories and disaggregated by function and nature, analysts rated the financial statements as more transparent than when some or all of that information was presented in the notes.

BC153 The boards decided that an entity should not be required to disaggregate income and expenses by function if that information is not relevant to the analysis of the performance of its business. For some entities that provide services instead of developing and producing products, disaggregation and presentation of items by their nature may be sufficient to provide useful information consistent with the disaggregation principle. Although these entities may have groups of activities that support the delivery of their service, disaggregation into functional areas does not necessarily provide additional useful information. Consequently, the boards propose that if information disaggregated by function—beyond the classification into sections, categories and subcategory—is not useful, an entity should not have to provide it.

Elimination of alternative presentation formats

BC154 A goal of the financial statement presentation project is to develop a standard for the presentation of financial information and, in the process, to eliminate the differences between the presentation formats used by entities that apply IFRSs and those used by entities that apply US GAAP. The discussion paper therefore proposed eliminating the alternative presentation formats for the statement of comprehensive income permitted by IFRSs and US GAAP and requiring all components of comprehensive income to be presented in a statement of comprehensive income. Consequently, the alternative presentation formats in which other comprehensive income is presented in a statement separate from the income statement (IFRSs and US GAAP) or in the statement of changes in equity (US GAAP) would no longer be permitted.

BC155 Respondents to the discussion paper who supported a move to a statement of comprehensive income said that it should result in greater transparency, consistency and comparability. Furthermore, the process of calculating financial ratios would be made easier.

BC156 Respondents who disagreed with the proposal indicated that the boards should defer any changes to the guidance on the statement of comprehensive income until they complete a project to revise the guidance on which items should be presented in other comprehensive income. Respondents also suggested that a move to a statement of comprehensive income would undermine the importance of the profit or loss or net income total by making it a subtotal and that presenting total comprehensive income as the last number in the statement would confuse users.

BC157 The boards considered the comments received and decided to require a statement of comprehensive income that maintains a clear distinction between profit or loss or net income and other comprehensive income. The boards have no plans to eliminate profit or loss or net income as a measure of performance.

BC158 There was overwhelming support from users for presenting profit or loss or net income and other comprehensive income in the same statement. Users did not think that presenting total comprehensive income as the last number in the statement would be confusing.

BC159 The boards decided that a conceptual review of the components of other comprehensive income is outside the scope of this phase of the financial statement presentation project.

The boards think that any systematic review of other comprehensive income should be undertaken after the current phase of the financial statement presentation project has been completed. This is because that review would encompass recognition and measurement issues for a variety of dissimilar items (eg foreign currency translation gains and losses, post-employment benefit gains and losses and cash flow hedges) that are beyond the scope of a project on financial statement presentation and might require changes to existing standards. In addition, the boards have active projects in a number of these areas and have reaffirmed the use of other comprehensive income in some of them. Consequently, the boards decided that the current phase of the financial statement presentation project should focus on presenting items of other comprehensive income in a manner that is consistent with existing standards. Nevertheless, the boards believe that requiring presentation of all items of income and expense in a statement of comprehensive income is an important precursor to a conceptual review of other comprehensive income.

Separate project on presentation of other comprehensive income

BC160 In 2009 the boards decided to consider the presentation of other comprehensive income in a project separate from the financial statement presentation project. The boards are working together to issue separate but convergent guidance on the presentation of other comprehensive income. The IASB and FASB exposure drafts for that project were published in May 2010. Consequently, the proposals in the exposure drafts on other comprehensive income are incorporated in the exposure drafts on financial statement presentation, including the illustrative statements of comprehensive income.

BC161 As part of the separate project on the presentation of other comprehensive income, the IASB proposes distinguishing between the components of other comprehensive income that will never be reclassified to profit or loss and those that are subject to subsequent reclassification (recycling). That improvement would enhance the understanding of items presented in other comprehensive income and make it easier for users of financial statements to compare financial statements prepared in accordance with IFRSs with financial statements prepared in accordance with US GAAP. Users would be able to identify easily the amounts in other comprehensive income that are not reclassified. In US GAAP, all components of other comprehensive income are reclassified to net income; therefore, a similar distinction is not necessary.

Categories within other comprehensive income

BC162 The boards propose that an entity should indicate in its statement of comprehensive income the category to which each component of other comprehensive income relates. The boards think that this information would help users of financial statements understand the section, category or subcategory in which potential future reclassification adjustments would be presented in profit or loss, or in net income, in future statements of comprehensive income. In addition, the information would help users of financial statements better understand the relationship between amounts in the statement of comprehensive income and the statement of financial position. The only component of other comprehensive income that an entity would not need to identify with a section, category or subcategory in the statement of financial position would be the foreign currency translation adjustment on a consolidated subsidiary (and a proportionately consolidated joint venture [IFRSs]). This is because the translation adjustment may relate to more than one category of assets and liabilities in the statement of financial position.

Allocation of income taxes

BC163 The boards propose retaining the current guidance in IFRSs and US GAAP that requires an entity to present components of other comprehensive income either net of related income tax effects or before income tax effects with disclosure of the income taxes allocated to each component. Respondents to the discussion paper generally supported the proposal to continue to permit existing reporting alternatives. However, some respondents disagreed with the requirement to allocate income tax expense separately to each component of other comprehensive income because of a perceived additional cost of providing such information. The boards decided to continue to require income tax allocations to each component of other comprehensive income as well as continue to permit existing alternatives for presentation of those effects. Allocating taxes to each component of other comprehensive income would help improve the clarity and transparency of information related to these components, particularly when the components are taxed at rates different from those applied to profit or loss.

BC164 For similar reasons, the boards also propose retaining the current requirements to allocate income taxes to discontinued operations and to present the results of discontinued operations net of tax in the statement of comprehensive income.

Presentation of foreign currency transaction gains and losses

BC165 The boards propose requiring an entity to present foreign currency transaction gains and losses, including components of any net gain or loss arising on remeasurement into its functional currency, in the same section, category or subcategory as the assets and liabilities that gave rise to the gains or losses. The discussion paper proposed the same presentation, which is consistent with the cohesiveness principle.

BC166 Some respondents to the discussion paper expressed concern that there would be a mismatch between related foreign currency transaction gains and losses that would be presented in different sections in the statement of comprehensive income. Respondents asserted that application of the proposed requirements would lead to a higher perceived volatility when there is only a presentation mismatch. The boards reasoned that any presentation mismatch of operating and financing foreign exchange transaction gains and losses might provide useful information about the economic exposures of an entity. The boards think it would be useful to know that an entity has or has not been able to offset its foreign exchange risk effectively in this way.

BC167 The boards noted that a user of financial statements who wants to see the overall effect of foreign exchange transactions would be able to aggregate the various foreign exchange transaction gains and losses if presented separately in the statement of comprehensive income.

Extraordinary items

BC168 The FASB proposes that the effects of events and transactions that are both unusual and occur infrequently should not be presented as extraordinary items in the statement of comprehensive income, as currently required by Subtopic 225-20 Income Statement—Extraordinary and Unusual Items (originally issued as APB Opinion No. 30). The FASB thinks that separate classification of extraordinary items is not necessary to provide useful information because the disclosure and discussion surrounding the event lends the greatest value to a financial statement user. Furthermore, although some transactions and events can be considered extraordinary, it is impossible to define such items in a way that (a) clearly isolates the effect of the extraordinary transaction or event and (b) sufficiently limits the scope of items captured by the definition. The FASB noted that its decision is consistent with IAS 1, which prohibits the presentation of items of income and expense as extraordinary items in the financial statements. As described in paragraphs BC169 and BC170, the boards considered the separate presentation of the effects of events and transactions that are unusual or occur infrequently.

Unusual or infrequently occurring items

BC169 US GAAP currently requires separate presentation of unusual or infrequently occurring items in the statement of comprehensive income and disclosure of related information in the notes to financial statements. The discussion paper included the FASB's preliminary view that an entity should present information about unusual or infrequently occurring events or transactions in a memo column on the proposed reconciliation schedule. The boards revisited this issue in the light of their decision not to require a reconciliation schedule as proposed in the discussion paper.

BC170 The boards think that separate presentation of unusual or infrequently occurring items draws attention to items that may need separate or additional consideration by a user in assessing an entity's performance and future cash flows. However, application of the disaggregation principle would not necessarily result in the separate presentation of these items because an entity may view the item as economically similar in nature to other items during the period and therefore may not disaggregate the item. Consequently, the boards decided that an entity should be required to present information about unusual or infrequently occurring events or transactions. The income or expense related to an unusual or infrequently occurring event or transaction would be presented in the statement of comprehensive income in the appropriate section, category or subcategory. A description of the event or transaction and its financial effects (eg a reduction in sales or the effect on raw materials or inventory) would be disclosed in the notes.

Statement of cash flows (paragraphs 168−199)

A direct method of presentation

BC171 The boards propose requiring an entity to present all cash inflows and outflows in the statement of cash flows (a direct method statement of cash flows). Prior to this proposal, an entity had a choice of presenting operating cash flows using either a direct method or an indirect method. Investing and financing cash flows are currently presented using a direct method. In an indirect method statement of cash flows, operating cash inflows and outflows are not presented; instead, profit or loss or net income (or other profit measures in IFRSs) is reconciled to total operating cash flows.

BC172 The discussion paper included the boards' preliminary view that a direct method statement of cash flows should be required in all cases. In their deliberations, the boards affirmed that preliminary view on the basis of input received from users of financial statements and academic research and in the light of the proposed changes to the amount of information to be presented in the statement of cash flows (compared with the discussion paper proposal). The boards think that operating cash receipts and payments (as well as investing and financing cash receipts and payments) should be presented in the statement of cash flows because that presentation:

(a) is more intuitive and understandable to a broad range of users of financial statements;

(b) improves the ability to predict future cash flows;

(c) improves insight into an entity's cash conversion cycle and the relationship between revenues and expenses presented in the statements of comprehensive income and cash flows;

(d) when accompanied by a reconciliation of operating cash flows to operating income, links the statement of financial position and the statement of cash flows;

(e) provides information that academic research has shown leads to better decision-making and results in information that is superior to any derivations at which even the most skilled analyst would arrive; and

(f) provides the ability to develop trends and comparisons not currently achievable.

BC173 Preparer respondents to the discussion paper generally opposed the proposal to require all cash flows to be presented using a direct method in the statement of cash flows. In their view, the benefits provided by the direct method statement of cash flows proposed in the discussion paper do not outweigh the costs to prepare that type of statement. The one-off preparation costs include major entity-wide systems modifications or replacements that would also require business process analysis and redesign, validation testing and staff training, documentation of systems and processes for internal control purposes, and audit fees associated with any new processes or systems. Ongoing costs related to the direct method statement of cash flows proposed in the discussion paper would include costs for increased data storage and management, increased personnel costs because of additional upfront transaction processing and additional internal and external audit costs because there would be a need for more transaction testing.

BC174 Users of financial statements responding to the discussion paper indicated that a direct presentation of all cash flows can be used:

(a) to compare similar types of cash receipts and payments across entities;

(b) to develop questions about how the amount, timing and uncertainty of cash flows differ from income and expense items in the statement of comprehensive income;

(c) to perform a more meaningful cash flow variance analysis; and

(d) to analyse the sensitivity of different types of cash flows to changes in production volume.

BC175 Most of the 43 analysts who took part in the discussion paper field test found a direct method statement of cash flows more useful than an indirect method statement of cash flows. Several analyst participants said that a direct method presentation of cash flows is more intuitive and makes it easier for users of financial statements to grasp the sources and uses of cash.

BC176 A majority of the 540 analysts who took part in a survey conducted by the CFA Institute either strongly agreed or agreed that information about operating cash flows presented using a direct method would better enable them to forecast future cash flows of an entity than using an indirect method. A majority of the same participant group also strongly agreed or agreed that a direct method presentation would be more useful in assessing the degree to which an entity's earnings are likely to recur than an indirect method.

BC177 The academic research related to this topic that was presented to the boards indicated that a direct method statement of cash flows provides information that has better predictive value and results in fewer analytical and processing errors than does an indirect method.

BC178 The discussion paper described and illustrated a direct method statement of cash flows that was aligned with the disaggregated by-nature and by-function income and expense information presented in the statement of comprehensive income. The discussion paper's proposal to require the same level of disaggregation in the statement of cash flows as in the statement of comprehensive income would have resulted in extensive changes to accounting systems, as well as significant ongoing costs such as data storage and processing. Some users of financial statements indicated that this level of disaggregation might exceed the level needed to be useful.

BC179 A small group of preparers assisted the boards in understanding which aspects of the proposed direct method statement of cash flows gave rise to the extensive costs that had been identified in the comment letters and field tests. Some preparers were concerned about the proposal to present cash flow information by function and said that without that proposed level of disaggregation, a direct method statement of cash flows might not be as costly to prepare. The preparers in that group explained that when an entity purchases an item, the entity does not necessarily know what the function of that item will be. To compile cash flow information by function, an entity would, for example, have to link its payables systematically to the corresponding by-function expense—something that is not done today.

BC180 The boards decided that the information in the statement of cash flows need not align with the information in the statement of comprehensive income at the line item level by function and nature. Instead, they propose that cash flows should be disaggregated by nature and that the standard should include guidance on when it would be appropriate to aggregate cash flows. By eliminating the complexity inherent in tracking cash flows by function and by requiring less disaggregation, the proposed requirements may enable an entity to use a derived (indirect-direct) approach to prepare the statement of cash flows. Preparers indicate that that approach is less costly than compiling transaction-level data about cash paid or received (a direct-direct approach).

BC181 The boards acknowledge that requiring less disaggregation in the statement of cash flows would not entirely mitigate the preparation costs that arise from doing business in many different countries, which may involve different currencies and diverse accounting and reporting systems. The boards observe that these costs would arise to some extent whenever there is a substantial change in the way an entity prepares or presents its financial information, but believe that in this case the benefits would outweigh the costs.

Reconciliation between operating income and operating cash flows

BC182 Users of financial statements stated that the reconciliation of income to operating cash flows currently provided in an indirect method statement of cash flows provides useful information that they would like to retain. Users explained that a direct method statement of cash flows would be best understood when accompanied by a similar indirect reconciliation because it helps to explain the changes in the statement of financial position.

BC183 In response to user interest in the working capital information included in an indirect method statement of cash flows, the boards propose requiring an entity to present a reconciliation of operating income to operating cash flows as a supplement to the statement of cash flows. That reconciliation differs from what is currently provided in an indirect method statement of cash flows because it begins with income from operating activities as defined in the exposure draft rather than with profit or loss or net income (or another measure of income in IFRSs). Starting the reconciliation with profit or loss or net income necessitates including in the reconciliation items such as interest, taxes and the income, expense, gains and losses of investing activities. However, if the reconciliation starts with income from operating activities (the subtotal of the operating category), those items (and their effects on the changes in asset and liability line items) are not part of the reconciliation. Consequently, the reported operating cash flows are exclusive of cash flows from non-operating assets and liabilities.

BC184 The boards propose retaining existing requirements to include information about non-cash transactions in the financial statements because information about those transactions is essential to understanding the totality of an entity's transactions and the impact of non-cash transactions on an entity's asset and capital structure.

BC185 The exposure draft proposes that the presentation of non-cash transaction information and the reconciliation of operating income to operating cash flows should be an integral part of the statement of cash flows. Users of financial statements observed that having this information as part of the statement it supplements is most useful because an analysis of the statement of cash flows would be incomplete without it. The boards thus decided, in a change from the discussion paper, that an entity should not be permitted to present the reconciliation and non-cash information in the notes to financial statements.

Other cash flow presentations considered

BC186 In response to the criticisms of the direct method statement of cash flows proposed in the discussion paper, the boards considered whether modifications to the indirect method statement of cash flows that most entities present today could provide the information that users of financial statements believe is missing. The boards explored the following modifications for improving the indirect method of presenting operating cash flows:

(a) require the reconciliation of income to operating cash flows to begin with the operating income subtotal from the statement of comprehensive income, rather than with profit or loss or net income.

(b) require an entity to disaggregate the net change items in the operating category in the statement of cash flows to correspond with the line items presented in the statement of financial position. A net change item is the change in a deferral of past operating receipts and payments, or the change in accruals of operating cash receipts and disbursements (eg the change in accounts receivable or the change in deferred revenue).

(c) require an entity to present cash receipts and payments related to the purchase, sale and settlement of operating assets or liabilities (eg purchase of fixed assets).

BC187 Starting an indirect method statement of cash flows with operating income and disaggregating the net change items to align with the presentation in the statement of financial position should clarify the relationships of the changes in operating assets and liabilities. For example, the change in receivables and other assets may be presented on a single line in an indirect method statement of cash flows today. This single line might be the sum of several items, such as accounts receivable, interest receivable, other short-term assets, other long-term assets and tax refunds. If the amounts of the net change items reconcile only operating assets and liabilities and are disaggregated as set out above, a user of the financial statements would have a better view into the cash and non-cash changes of each line in the statement of financial position. For instance, if the change in deferred revenues was disaggregated, then cash collected in advance from customers would be more discernible, thus enabling assumptions to be made about cash and revenues in future periods.

BC188 The possible improvements to the statement of cash flows described above do not address all of the shortcomings that are present in today's indirect method statement of cash flows. Consequently, the boards considered supplemental disclosures, such as cash from customers and the reconciliation of differences between the net change items presented in the statement of cash flows and the changes in the statement of financial position.

BC189 Users of financial statements have indicated they are especially interested in cash from customers. Disclosure of that amount may provide additional information about an entity's ability to convert revenues to cash.

BC190 The boards think that a summary of differences between the change in the statement of financial position and the net change items presented in the statement of cash flows would enable a user to understand better the relationships between the financial statements.

BC191 Although these possible improvements to an indirect method statement of cash flows address some of the needs expressed by users, the exposure draft proposes that all entities should present a direct method statement of cash flows rather than an improved indirect method statement of cash flows, because an indirect method statement of cash flows:

(a) is not intuitive;

(b) does not help a user to analyse trends of cash inflows and outflows;

(c) leads to processing errors, according to academic research; and

(d) requires analysts to continue to use indirect cash flow information to derive direct cash flow amounts.

Cash flows of an entity with deposit activities

BC192 Respondents to the discussion paper stated that neither an indirect method nor a direct method statement of cash flows would be useful in analysing the results of a financial services entity. The boards considered how a direct method statement of cash flows could be made more useful for those entities. Users of financial statements indicated that direct cash flow information would be useful in analysing the financial statements of a financial services entity if transactions between the entity and its deposit accounts were incorporated into the entity's statement of cash flows. For example, when a bank credits a customer's account for interest earned, the transaction does not result in a change in the entity's cash balance, but a cash flow has occurred.

BC193 The cash inflows to and outflows from an entity that takes deposits do not necessarily correspond with amounts presented in the statement of comprehensive income or the statement of financial position, because these amounts in some part are settled through deposit accounts. This settlement does not result in a net change in cash to the entity, and therefore the entity may not present it as a cash flow in a direct method statement of cash flows.

BC194 Users of financial statements said that a statement of cash flows that incorporates cash flows as described in paragraphs BC192 and BC193 and information about gross loan originations and loan principal receipts would be useful in their decision-making. Furthermore, users think that the categorisation changes proposed for the statement of cash flows should result in more meaningful subtotals (eg cash flows from operating activities, from investing activities and from financing activities). Therefore, the boards propose that entities with deposit activities should incorporate cash flows that occur between the entity and its deposit accounts as if these amounts were settled by external funds. Furthermore, financial services entities should be required to present a direct method statement of cash flows.

Netting cash flow amounts

BC195 The boards considered whether existing guidance on netting cash flow amounts in the statement of cash flows is sufficient and results in useful information. Users of financial statements of financial services entities indicated that amounts paid on loan originations and received on loan repayments would be most useful if presented gross (on separate lines) in the statement of cash flows. These users indicated that they are interested in cash repayment of loans as a measure of cash flows. That cash flow amount, as well as cash income items, would provide users of financial statements with a measure of cash that is available to or needed by an entity to maintain its capital levels, to invest or to pay dividends.

BC196 Consequently, the boards propose revising the cash flow netting guidance in IFRSs and US GAAP to prohibit an entity from reporting loan originations and repayments net unless the loan meets the criteria set out for netting cash flows (ie turnover is quick, the amounts are large and the maturities are short).

Statement of changes in equity (paragraphs 200−206)

Information to be presented in the statement of changes in equity

BC197 There is guidance on presenting information about changes in shareholders' equity in Rule 3-04 of SEC Regulation S-X. That guidance permits an entity to provide information about changes in shareholders' equity in a separate statement or in the notes to financial statements. Before its revision in 2007, IAS 1 also permitted presentation of information about changes in equity in the notes.

BC198 IAS 1 requires a statement of changes in equity to be part of a complete set of financial statements. The FASB also decided that a statement of changes in equity should be part of a complete set of financial statements and to include that proposal in the exposure draft.

BC199 As part of its deliberations in the financial statement presentation project, the IASB decided to retain the existing requirements in IAS 1 for information to be presented in the statement of changes in equity and not to consider any further changes to the statement of changes in equity in this project. However, as part of the *Improvements to IFRSs* released in May 2010, the IASB amended IAS 1 to clarify that a reconciliation between the opening and closing accumulated balances of each class of other comprehensive income can be presented either in the statement of changes in equity or in the notes to financial statements. The boards carried forward that change in the exposure draft. The FASB decided to converge with the information requirements in IAS 1 for the statement of changes in equity. The form and content of that statement should be similar to what many entities in the United States provide in their financial statements today about changes in shareholders' equity.

Notes to financial statements (paragraphs 207−267)

Measurement basis [FASB only]

BC200 The FASB proposes that an entity should be required to disclose the measurement basis (or bases) used in preparing the financial statements in the summary of significant accounting policies. IAS 1 already includes that disclosure requirement. The FASB decided to converge with the IASB on this requirement; it noted that although there is no similar general guidance in US GAAP, various topics within the Codification recommend or require disclosure of information about the methods used to measure select assets and liabilities.

Analyses of changes in assets and liabilities

BC201 The boards propose requiring an entity to present in the notes to financial statements an analysis of the changes in the balances of asset and liability line items in the statement of financial position. In each analysis, an entity would explain the nature of the transactions and other events that gave rise to a change in the balance and separately distinguish changes related to the following components: cash inflows and outflows, transactions that are recurring and routine, transactions that are not recurring and routine, accounting allocations, and impairments and other remeasurements.

BC202 The boards decided that an entity should not be required to analyse the change in every line item in the statement of financial position. Rather, management should use its judgement in determining the asset and liability line items that are important to understanding the entity's financial position to include in the analyses of changes. The boards developed principles to guide an entity in that decision-making process, and they think that an entity that follows those principles will disclose the most relevant and useful information.

BC203 This proposed disclosure is meant to provide information similar to what would have been presented in the reconciliation schedule proposed in the discussion paper. That proposed schedule reconciled cash flows to comprehensive income and disaggregated comprehensive income into the following components: cash received or paid other than in transactions with owners, accruals other than remeasurements, remeasurements that are recurring fair value changes or valuation adjustments and remeasurements that are not recurring fair value changes or valuation adjustments. A 'remeasurement' was defined in the discussion paper as a change in the carrying amount of an asset or a liability attributable to a change in a price or an estimate.

BC204 Most respondents to the discussion paper did not support the proposed reconciliation schedule. As described in the paragraphs below, respondents thought that there could be other ways to disaggregate components of comprehensive income that differ in terms of persistence or measurement subjectivity and provide more transparency about the use of fair value.

BC205 Some respondents noted that a line-by-line reconciliation schedule was cumbersome and lacked readability. These respondents recommended that the reconciliation schedule should not reconcile every line in the statements of comprehensive income and cash flows. Rather, it should reconcile only the lines for which the disaggregated information increased a user's understanding of an entity's cash flows or earnings potential.

BC206 Respondents observed that it was not possible to reconcile each line in the statement of cash flows to one line in the statement of comprehensive income. This is because one cash flow line might relate to more than one income or expense line; similarly, one income or expense line might relate to multiple cash flow lines. In addition, respondents noted that most changes would be aggregated in the accruals column, and this would reduce the usefulness of the schedule because dissimilar items would be aggregated into one amount.

BC207 Some users of financial statements advocated an alternative reconciliation that was described, but not proposed, in the discussion paper. These users preferred a schedule that reconciled the opening and closing balances of each line item in the statement of financial position. Respondents said that a reconciliation of the statement of financial position would, among other things, allow users to have information that they sometimes struggle to extract from financial statements. They cited the reconciliation of working capital items and net debt (the latter provides information about an entity's ability to service its debts and other obligations).

BC208 The boards concluded that a note disclosure that analyses the changes in the balances of asset and liability line items could achieve the same objectives that they had in mind when they proposed the reconciliation schedule. That note disclosure could also significantly increase the transparency of an entity's financial information by providing information about the relationship between financial statements and changes in assets and liabilities rather than information solely reconciling cash flow line items to income or expense line items. That information could increase financial statement users' understanding of an entity's cash flows and earnings potential while providing additional clarity about and insight into the changes in line item amounts presented in the statement of financial position.

BC209 The proposed analyses of changes should enable an entity to provide information about the components of its financial results that are most relevant to users of its financial statements.

The boards viewed the flexibility and adaptability of the analyses of changes as an improvement over the reconciliation schedule, which included four defined columns and no differentiation between the items aggregated in those columns. The analyses of changes also move away from what some perceived to be a compliance exercise of reconciling all line items in a schedule.

BC210 The boards observed that the analyses of changes retain the most important elements of the proposed reconciliation schedule, and do so in a cost-effective way. The boards noted that most of the information disclosed in the analyses of changes should be incremental to information provided elsewhere in the financial reports, and thus the preparation costs should be less than the costs to prepare the reconciliation schedule proposed in the discussion paper.

BC211 The FASB noted that the analyses of changes would be similar to one aspect of the disclosure framework proposed by the Investors Technical Advisory Committee (ITAC) in December 2007. ITAC's proposed disclosure framework included a requirement to present the composition of significant line items in the financial statements. Composition in the context of the ITAC proposal referred to the gross (not netted) by-nature amounts included in a significant line item.

BC212 The boards decided that the analyses of changes should be presented within the context of other related information included in the notes. The boards do not propose presenting all analyses of changes in one single location, because that might duplicate some information already presented in the notes to financial statements.

BC213 There are currently disclosure requirements to reconcile in the notes some asset and liability line items in the statement of financial position. If an existing standard includes guidance about the specific components to be included in a reconciliation, the boards decided to retain that guidance. An entity would have to follow that guidance in addition to the analyses of changes requirements.

Net debt information

BC214 A number of European users of financial statements who responded to the discussion paper asked the boards to include a reconciliation or an analysis of net debt as part of the financial statement presentation project. Those respondents think that disclosure of net debt information will provide a broader measure of a business's liquidity, solvency and financial flexibility than that provided solely by the changes in cash balances in the statement of cash flows. They find net debt disclosures insightful because they show additional liabilities that an entity manages as part of its debt, derivatives that may relate to debt or other items, and cash and other liquid resources that management views as available to pay down debt. Having a clear picture of an entity's debt position would help a user of the financial statements to determine the entity's credit risk profile. The IASB noted that many entities currently provide a net debt reconciliation on a voluntary basis.

BC215 The IASB decided that it would be arbitrary and subjective to define net debt explicitly and, therefore, decided not to require a net debt reconciliation or a statement of net debt. However, the IASB thought that information about net debt should be apparent in the financial statements. Because many of the line items that normally constitute net debt would be analysed as part of the requirement to analyse changes in asset and liability line items, the IASB thinks that a separate and distinct net debt disclosure is not necessary. Instead, all entities should be required to analyse the changes in line items that normally constitute net debt and to present those analyses in the same note disclosure, thereby making information about net debt available in the financial statements.

BC216 Consequently, the IASB proposes that an entity should be required to analyse in a single note disclosure the changes in all line items in the debt category—cash, any short-term investments and finance leases. The IASB decided that information about net debt should be readily available for users in the financial statements and that this was the best way to provide that information.

BC217 The FASB does not support requiring disclosure of net debt information because users of US GAAP financial statements have not requested that information. When asked, users suggested that the FASB should not attempt to develop requirements for consistent disclosure of net debt information because there is a variety of ways to calculate net debt and it is relatively easy for users to obtain the information used in net debt calculations. Furthermore, users asserted that disclosure of net debt information could be misleading because it might give the impression that an entity has allocated its capital to the settlement of its debt, which might not be the case. In addition, the FASB does not think that a net debt measurement should be defined as part of the financial statement presentation project.

Presentation of remeasurement information

BC218 The boards propose that an entity should disclose separately changes in the carrying amounts of assets and liabilities recognised in the statement of comprehensive income that are the result of a remeasurement (as defined in the exposure draft). In that disclosure, remeasurements would be presented by sections, categories and subcategory (operating, operating finance, investing, debt, discontinued operations and income taxes) and for other comprehensive income. Narrative and descriptive information would also be presented.

BC219 The boards decided to define a remeasurement solely in terms of those changes that affect comprehensive income in the period of remeasurement. The purpose of presenting information about remeasurements is to help users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future. Changes in assets and liabilities that do not affect comprehensive income, such as the acquisition of property, plant and equipment, are not considered remeasurements.

BC220 The definition of a remeasurement that the boards propose in the exposure draft captures the income effects that arise from three sources: changes in current prices or values, changes in an estimate of a current price or value, and changes in estimates or methods used to measure the carrying amount of an asset or a liability.

BC221 The boards debated whether changes in an estimate or a method used to measure the carrying amount of an asset or liability should be included in the scope of remeasurements for presentation purposes. Users of financial statements told the boards that changes in estimates and other assessments that management has previously made about the measure of an asset or a liability should be included in any segregation of remeasurements for presentation purposes. The boards think that users can better analyse an entity's performance when they understand how changes in estimates and methods have affected the carrying amounts of the entity's assets and liabilities from one period to the next.

BC222 The boards reasoned that there is little conceptual basis for explaining why changes in market expectations would somehow have different implications for the future from changes in management expectations. Both provide new information, and unbiased changes in either should have a relatively low correlation with the changes in those same prices or estimates in future periods.

BC223 Although the gross margin resulting from the sale of inventory meets the proposed definition of a remeasurement, the boards decided that it should not be disclosed as a remeasurement because the underlying source of the income effects are different from other remeasurements. In contrast to an unbiased change in market or management expectations, which (by definition) is unlikely to recur in the future, the realised margin on the sale of inventory is quite likely to recur in the future. In addition, current reporting practices already require the income effect of the sale of inventory to be disaggregated into its inflows (sales revenue) and outflows (cost of goods sold). The boards think that disclosing an entity's gross profit as a remeasurement would provide little additional informational benefit.

BC224 The boards considered whether a decrease in the value of inventory attributable to factors such as breakage, shrinkage, spoilage or obsolescence should be disclosed with other remeasurements. Entities that manufacture or otherwise produce inventories on a large scale, repetitive basis will probably experience predictable amounts of breakage, shrinkage, spoilage and/or obsolescence in each period. This raises the question of whether disclosing these write-downs as remeasurements offers enough informational benefit to warrant the cost of so doing. Similar arguments can be made about the cost of bad debts arising from trade receivables (in US GAAP). The boards think that even though these remeasurements are likely to be highly predictable for some entities, disclosing these amounts can provide useful information to users about how entities manage their inventory and collections processes. In addition, being aware of variation in these amounts (either between entities or for the same entity across time) can help users to better assess whether an entity will achieve similar levels of performance in the future. Consequently, the boards propose that a change in the value of inventory that is the result of a remeasurement (other than a sale of inventory) should be disclosed in the remeasurement note.

BC225 The proposed analyses of changes in asset and liability line items segregates remeasurements from changes related to other factors, but that information would be scattered throughout the notes. The boards decided that all remeasurements recognised in the statement of comprehensive income should be presented together in a single note so that a user of the financial statements can understand the remeasurements in the context of an entity's financial performance, not just in the context of a specific account. A benefit of disclosing these changes all in one place is that information about remeasurements will be transparent and more readily available to users of financial statements.

BC226 Remeasurement information will assist users of financial statements in identifying components of comprehensive income that are not persistent (ie not indicative of future amounts of income). This information should help users of financial statements to assess the degree to which an entity's earnings are likely to recur and the amount, timing and uncertainty of future cash flows. One of the main inputs in analysts' forecasting and valuation models is earnings; consequently, analysts' perceptions of the likelihood that earnings will recur and the amounts and timing of the cash that will ultimately be realised are relevant to their analyses.

BC227 Disclosing remeasurements should help users to separate those portions of current period income that are the result of routine allocations from those portions of current period income that are, instead, the result of changes in market prices, revisions in management's estimates, or the realisation of amounts that are different from the previously reported carrying amount of an asset or a liability. This information is important because recognised changes in prices and estimates, if unbiased, should have a relatively low correlation with the changes in those same prices or estimates in future periods. In addition, this information is likely to provide meaningful insight to users of financial statements about how management and market expectations have evolved during the period.

BC228 The FASB considered presenting remeasurements in a separate column in the statement of comprehensive income, rather than in the notes to financial statements. Segregating remeasurements in the statement of comprehensive income would make information about remeasurements readily visible to users of financial statements. Presenting remeasurements in the context of the statement of comprehensive income would also be consistent with the presentation of remeasurements in the reconciliation schedule proposed in the discussion paper.

BC229 The boards decided not to require an entity to segregate remeasurements in the statement of comprehensive income because they were concerned that the extra information might complicate that statement and that the remeasurement amounts would not be readily understood without accompanying explanation. Consequently, they decided that an entity should disclose remeasurements in the notes to financial statements.

Other disclosures

BC230 The boards propose that information about limitations and restrictions on the availability of cash and short-term investments should be disclosed in the notes to financial statements. The boards think that users' understanding of an entity's limitations on distributing its cash to shareholders, servicing debt or investing in other jurisdictions outside where the cash is generated would provide useful information.

BC231 IAS 7 *Statement of Cash Flows* encourages disclosure of the amount of undrawn borrowing facilities that may be available for future business activities and to settle capital commitments. The boards agree with the assessment in IAS 7 that this information may be relevant to a user in understanding the financial position and liquidity of an entity. Consequently, the boards decided to require disclosure of that information in the notes to financial statements.

Segment reporting

BC232 The FASB decided to make some amendments to the segment reporting requirements in US GAAP to preserve the usefulness of the information disaggregated by function and by nature that it proposes including in the segment note. The FASB also needed to make amendments to those requirements because it did not want to eliminate the management approach and chief operating decision maker concepts in Topic 280.

BC233 To bridge the presentation differences between the proposed structure of the statements of financial position, comprehensive income and cash flows and an entity's segment note, the FASB proposes requiring an entity to add to its segment note a measure of operating profit or loss, operating assets, operating liabilities and operating cash flows by reportable segment. An entity would be required to reconcile those measures to the corresponding consolidated amount presented in the financial statements. In addition, an entity would present the activities of all operating segments, including activities of operating segments that do not meet the criteria for presentation as a reportable segment, separate from all other information in the segment note.

BC234 Neither the IASB nor the FASB wanted to require disclosure of a measure of liabilities by reportable segment because an entity may manage many of its liabilities centrally. However, the FASB decided to converge with the requirements of IFRS 8 to disclose liabilities by reportable segment if the chief operating decision maker uses that measure in assessing performance or in allocating resources to the segments.

Effective date and transition (paragraphs 268−270)

BC235 The boards decided that the exposure draft should indicate their preference for requiring an entity to adopt the financial statement presentation provisions on a full retrospective basis. Accordingly, an entity would apply the financial statement presentation requirements to previously issued financial statements. This would entail, for each prior period presented, reclassifications, new groupings and disaggregation of comparative information presented and disclosed as if the new presentation provisions had always been applied. Retrospective application of the financial statement presentation standard would ensure the comparability of financial statements with those of previous periods, thereby allowing users of financial statements to compare the financial statements of an entity to identify trends in its financial position and performance for predictive purposes. Because the proposed standard would fundamentally change the presentation of information in the financial statements, the boards think it is imperative for comparative information to be presented using the new format.

BC236 The boards will consider collectively the effective dates and transition for standards they have targeted to issue in 2011 and, as part of that consideration, will publish a separate consultation paper to seek comments from interested parties. Hence, the boards may modify their previously stated preferences in the case of some individual standards. As part of that consideration, the boards will also address whether early adoption of the standard on financial statement presentation should be permitted.

BC237 Consequently, the exposure draft does not indicate a possible effective date or whether the proposed requirements could be adopted early, but the boards intend to provide entities with enough time to implement the proposed changes.

BC238 The IASB considered the related implications for IFRS 1 *First-time Adoption of International Financial Reporting Standards* and decided that IFRS 1 should not provide any exceptions to, or exemptions from, the proposed IFRS on financial statement presentation for first-time adopters of IFRSs. The IASB proposes that first-time adopters should be permitted to adopt the proposed IFRS early, to avoid requiring two changes in a short period.

CONTENTS

Guidance on implementing [Draft] IFRS X *Financial Statement Presentation*

This guidance accompanies, but is not part of, [draft] IFRS X.

Introduction

IG1 This guidance suggests possible ways to apply some of the presentation requirements in [draft] IFRS X. The guidance does not create additional classification or disaggregation requirements. The guidance is provided in two sections:

(a) paragraphs IG2–IG24 provide guidance on applying specific requirements in the [draft] IFRS, including illustrative examples

(b) paragraphs IG25–IG32 provide financial statements illustrating application of the proposed presentation model for a manufacturing entity and a financial services entity. Those statements are based on simplified data and may not result in meaningful ratios.

Application of the cohesiveness principle (paragraphs 57 and 58)

IG2 The cohesiveness principle requires a reporting entity to present information in its financial statements so that the relationship between items across the financial statements is clear. Examples 1 and 2 illustrate the application of the cohesiveness principle.

Example 1 – Business section

IG3 The following is an example of assets and liabilities, income and expenses and cash inflows and outflows classified in the business section consistent with the cohesiveness principle.

[Note: The statement of cash flows has no subcategory for operating finance.]

Assets and liabilities	**Income and expenses**	**Cash flows**
BUSINESS	BUSINESS	BUSINESS
Operating	*Operating*	*Operating*
Cash		
Accounts receivable	Revenue	Cash collected from customers
Inventory	Cost of sales	Cash paid to suppliers
		Cash paid to employees
Property, plant and equipment	Depreciation	Purchase of property, plant and equipment
Accounts payable	Operating expenses	Cash paid for operating expenses
	Post-employment benefits service cost	
Operating finance	*Operating finance*	
Net pension liability	Expected return on plan assets	Cash contribution to pension plan
	Post-employment benefits interest costs	
Lease liability	Interest expense on leases	Cash paid for leases
Investing	*Investing*	*Investing*
Short-term investments	Interest income	Interest received
		Net cash from short-term investments
Investment in securities	Interest and dividends	Purchase of securities
	Gains/losses	Sale of securities
		Interest and dividends received
Investment in associates	Share of profit of associates	Cash invested in associates

Example 2 – Financing section

IG4 The following is an example of liabilities, expenses and cash inflows and outflows classified in the financing section consistent with the cohesiveness principle.

[Note: The statement of comprehensive income does not have an equity category and the statement of cash flows does not have separate categories for debt and equity.]

Assets, liabilities and equity	**Expenses**	**Cash flows**
FINANCING	FINANCING	FINANCING
Debt	*Debt*	
Short-term debt		Proceeds from issuance of debt
Long-term debt		
		Repayment of debt
Interest payable	Interest expense	Interest paid
Dividends payable		Dividends paid
Equity		
Share capital		Cash received from issue of shares

Disaggregation in the statement of comprehensive income and notes (paragraphs 140–149)

Example 3 – Disaggregation of a single segment entity

IG5 The following illustrates how an entity might disaggregate information to explain the components of its financial position and financial performance.

IG6 Entity X is a single segment entity. The following is an excerpt from the operating category in Entity X's statement of comprehensive income presented by function as well as the corresponding disclosure of its by-nature information:

BUSINESS	
Operating	
Revenue	3,487,600
Cost of sales	(1,956,629)
Gross profit	1,530,971
Selling expenses	(153,268)
General and administrative expenses	(469,754)
Other operating income	17,663
Operating profit before operating finance costs	925,612
Operating finance costs	(33,235)
Total operating profit	892,377

IG7 The following illustrates disaggregated by-nature income and expense information disclosed by a single reportable segment entity:

	For the year ended 31 December 20X1
Wholesale sales	2,790,080
Retail sales	697,520
Total revenue	3,487,600
Cost of sales	
Materials	(1,039,104)
Labour	(405,000)
Post-employment benefits service cost	(43,175)
Overhead – depreciation	(219,300)
Transport and other	(160,800)
Change in inventory	(60,250)
Loss on obsolete and damaged inventory	(29,000)
Total cost of sales	(1,956,629)
Selling expenses	
Advertising expense	(60,000)
Labour	(56,700)
Impairment loss on accounts receivable	(23,068)
Other selling	(13,500)
Total selling expenses	(153,268)
General and administrative expenses	
Labour	(321,300)
Post-employment benefits service cost	(43,175)
Depreciation	(59,820)
Share-based remuneration	(22,023)
Other general and administrative	(23,436)
Total general and administrative expenses	(469,754)
Other operating	
Gain on disposal of property, plant and equipment	22,650
Loss on sale of receivables	(4,987)
Total other operating income	17,663
Operating income before operating finance costs	925,612
Operating finance costs	
Interest cost – post-employment benefits	(30,800)
Expected return on pension plan assets	13,200
Interest expense on lease liability	(14,825)
Accretion expense on decommissioning liability	(810)
Total operating finance costs	(33,235)
Total operating profit	892,377

Example 4 – Disaggregation of a multi-segment entity

IG8 Entity Z is a multi-segment entity. The following is an excerpt from the operating category in Entity Z's statement of comprehensive income presented by function as well as the corresponding disclosure of its by-nature information in a single note:

[Note: The FASB exposure draft proposes a different presentation of by-nature information for a multi-segment entity, see paragraph IG10.]

BUSINESS	
Operating	
Revenue	3,195,400
Cost of sales	(1,907,730)
Gross profit	1,287,670
Selling expense	(204,900)
Research and development expense	(232,200)
Administration expense	(324,800)
Operating income before operating finance costs	525,770
Operating finance	
Total operating finance costs	(23,050)
Total operating profit	502,720

IG9 Entity Z chooses to disclose its income and expense items disaggregated by nature in a note rather than in the statement of comprehensive income. The following illustrates that note disclosure.

BUSINESS	For the year ended 31 December 20X1
Operating	
Retail revenue	2,545,400
Fabrication revenue	650,000
Total revenue	3,195,400
Cost of sales	
Materials	(1,528,000)
Labour	(180,000)
Rent	(87,000)
Depreciation	(81,500)
Other	(31,230)
Total cost of sales	(1,907,730)
Selling	
Labour	(86,500)
Advertising	(81,900)
Other expense	(36,500)
Total selling	(204,900)
Research and development	
Labour	(143,200)
Rent	(53,000)
Other	(36,000)
Total research and development	(232,200)
Administration	
Labour	(184,000)
Audit	(30,000)
Legal	(35,000)
Other	(63,400)
Impairment loss on accounts receivable	(12,400)
Total administration	(324,800)
Operating finance	
Expected return on plan assets	650
Interest on lease expense	(2,500)
Other interest costs	(3,000)
Pension interest costs	(18,200)
Total operating finance costs	(23,050)
Total operating profit	502,720

IG10 The FASB exposure draft proposes that a multi-segment entity should disaggregate its by-nature information for each reportable segment and disclose that information in its segment note as well as additional segment information. To make information more decision useful, by nature disaggregation may vary across segments. The following illustrates that segment disclosure (this proposal is not included in the IASB exposure draft). **Bold** line items denote segment reporting requirements proposed in the FASB exposure draft in addition to the proposed by-nature information.

	For the year ended 31 December, 20X1			
	Retail	**Fabrication**	**Corporate**	**Total**
BUSINESS				
Operating				
Revenue	2,545,400	650,000	-	3,195,400
Cost of goods sold				
Materials[(a)]	(1,167,000)	(181,000)	-	(1,348,000)
Labor	(130,000)	(50,000)	-	(180,000)
Rent	(62,000)	(25,000)	-	(87,000)
Depreciation	(67,500)	(14,000)	-	(81,500)
Other	(23,000)	(8,230)	-	(31,230)
Total cost of goods sold	(1,449,500)	(278,230)	-	(1,727,730)
Selling				
Labor	(86,500)	-	-	(86,500)
Advertising	(75,000)	(6,900)	-	(81,900)
Other expense	(36,500)	-	-	(36,500)
Total selling	(198,000)	(6,900)	-	(204,900)
Research and development				
Labor	(143,200)	-	-	(143,200)
Rent	(53,000)	-	-	(53,000)
Other	(36,000)	-	-	(36,000)
Total research and development	(232,200)	-	-	(232,200)
Administration				
Labor	(114,000)	(10,000)	(60,000)	(184,000)
Audit	-	-	(30,000)	(30,000)
Legal	-	-	(35,000)	(35,000)
Other	(39,900)	(5,900)	(30,000)	(75,800)
Total administration	(153,900)	(15,900)	(155,000)	(324,800)
Operating finance				
Expected return on plan assets	-	-	650	650
Interest on lease expense	-	-	(2,500)	(2,500)
Other interest costs	-	-	(3,000)	(3,000)
Pension interest costs	-	-	(18,200)	(18,200)
Total operating finance costs	-	-	(23,050)	(23,050)
Total operating income[(a)]	511,800	348,970	(178,050)	682,720
Total operating cash flow by segment	**(3,000)**	**142,202**	**(135,000)**	**4,202**
Capital expenditures	50,000	-	-	50,000
Non-operating interest expense	-	-	(93,450)	(93,450)
As of 31 December, 20X1				
Total assets	4,772,852	1,906,434	-	6,679,286
Total operating assets	**3,958,160**	**1,744,784**	**-**	**5,702,944**
Total operating liabilities	**(1,109,130)**	**(612,859)**	**-**	**(1,721,989)**

(a) Differences between segment information presented and consolidated statements are the result of internal accounting for inventory on a FIFO basis that amounts to lower materials cost of 180,000 for the year ended 31 December, 20X1.

Preparing a direct method statement of cash flows (paragraph 192)

Example 5 – Deriving direct cash flows

IG11 A reporting entity may arrive at the operating cash flows it presents in its statement of cash flows by compiling transaction level data or it may derive that operating cash flow information by adjusting the change in asset or liability balances for amounts of income and expense and other adjustments. The following accounts receivable detail illustrates how an entity would use either method to arrive at the line item 'cash from customers' presented in a direct method statement of cash flows.

Accounts receivable detail

	Opening balance	Sales	Receivable from acquisition	Cash collections	Other entries	**Closing balance**
A Co	**1,000**	2,500	-	(2,600)*	-	**900**
B Corp	**2,500**	4,000	-	(4,500)*	-	**2,000**
C Inc	**1,800**	-	-	(1,700)*	-	**100**
D Co	**-**	-	10,000	-	-	**10,000**
HIJ Suppliers	**2,200**	-	-	(2,200)	4,000[(a)]	**4,000**
PQR Factoring	**-**	-	-	(5,000)	5,000[(b)]	**-**
W Corp	**8,000**	23,000	-	-	-	**31,000**
X Partners	**10,000**	8,000	-	-	-	**18,000**
Y Corp	**6,400**	-	-	-	(6,400)[(c)]	**-**
Z Co	**250**	50,000	-	(49,000)*	-	**1,250**
	32,150	87,500	10,000	(65,000)	2,600	**67,250**

* Cash receipts from customer accounts

Direct method cash from customers - transactions-level data

Cash from customers (via system query of customer account cash receipts)	57,800

Direct method cash from customers - derived by changes in balances

Opening balance	32,150
Less: Closing balance	(67,250)
Sales	87,500
	52,400
Transactions with those other than customers	
Acquisition	10,000
Change in non-customer receivables (HIJ Suppliers)	1,800
Account reduction from factoring	(6,400)
Cash from customers	57,800

(a) Receivable for vendor volume incentives included with trade receivables
(b) Amount received from factoring company from sale of Y Corp receivables
(c) Sale of Y Corp receivable to PQR factoring

Information about remeasurements (paragraphs 233–242)

IG12 An entity is required to disclose information about *remeasurements* in a single note. The note presents separately the remeasurement component of items of income and expense recognised in the statement of comprehensive income. A *remeasurement* is defined as an amount recognised in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of (a) a change in (or realisation at) a current price or value; (b) a change in an estimate of a current price or value; or (c) a change in any estimate or method used to measure the carrying amount of an asset or liability.

Example 6 – Different types of remeasurements

IG13 The following table provides examples of income and expense items that are remeasurements and those that are not. Paragraphs IG14–IG19 provide additional guidance on determining remeasurements.

[Note: The following table differs from the corresponding table in the FASB exposure draft because of differences between IFRSs and US GAAP.]

	Meet the definition of a remeasurement?	
Item	**Yes**	**No**
Revenue and related items	• Gains/losses on derivatives entered into to fix the sales price of anticipated sales • Losses on onerous contracts	• Gross margin earned on sale of goods • Spread earned by broker dealers for market-making activity
Costs of sales	• Write-down of inventory to lower of cost or market • Changes in the market price of inventories measured at estimated market value • Gains/losses on derivatives hedging the purchase price of inventory • Adjustments to methods of estimating inventory value and cost of sales	• Cost of sales
Impairment loss	• Revision of an asset's recoverable amount	
Accrued liabilities	• Reassessment of the amount owed for a previously accrued contingent liability • Other income/expense arising from changes in the method of estimating a warranty obligation	• Reduction in an accrued liability for the passage of time • Reduction in accrued warranty obligation for expenditures incurred
Post-employment benefits expense/ liability adjustment	• Difference between the return on plan assets and the expected return on plan assets • Settlements • Actuarial gain/loss on obligations	• Expected return on plan assets • Service cost • Interest cost • Past service costs
		continued...

...continued

	Meet the definition of a remeasurement?	
Item	**Yes**	**No**
Depreciation and other gains/losses related to fixed assets	• Revaluation • Impairment • Disposal gains/losses • Change in depreciation estimates	• Depreciation expense as determined using initial depreciation method
Amortisation and other gains/losses related to intangible assets	• Impairment • Disposal gains/losses • Change in amortisation estimates	• Amortisation expense as determined using initial amortisation scheme
Income/ expense and other gains/ losses related to financial assets	• Impairment • Holding gains/losses • Realised gains/losses	• Interest income • Dividend income
Income/ expense and other gains/ losses related to financial liabilities	• Holding gains/losses • Realised gain/loss on retirement	• Interest expense
Investment property	• Changes in property values	• Rent
Income taxes	• Changes in tax rates	• Current tax expense • Deferred tax expense arising from temporary differences originating or reversing in the current period
Foreign currency gain/ loss	• Foreign currency translations adjustment (including components of other comprehensive income) • Other income/expense	

Additional guidance

IG14 The definition of a remeasurement recognises that, while some items are explicitly remeasured during a reporting period, other items are remeasured implicitly through the sale of an asset or by settling or transferring a liability. In such cases, the remeasurement arises as a result of the transaction. Accordingly, the remeasurement definition includes both types of remeasurements, realised and unrealised.

IG15 The remeasurement of a non financial asset or liability measured at fair value is either the realised gain or loss on the asset or liability that is derecognised during the current period or the unrealised change in the fair value of the asset or liability since the prior reporting period (or since initial recognition of the asset or the liability).

Financial assets and liabilities

IG16 The remeasurement related to a financial instrument measured at fair value is generally the effect on comprehensive income arising from recognising a change in the carrying value of the asset or liability. However, because some financial instruments (such as long-term receivables or payables) bear interest and thus include a time value of money component, any change in the carrying amount attributable to the time value of money should be excluded from the remeasurement. In other words, a remeasurement related to a financial instrument is the gain or loss in a period that is incremental to the interest income or expense generated by holding the financial instrument for the period.

IG17 Some financial instruments (such as ordinary or preference shares) pay dividends. Although dividends may cause share values to decline on the ex-dividend date, such declines often reflect a partial realisation of a share's value, ie an exchange of one asset (share value) for another (cash), not an economic loss. Therefore, a remeasurement related to an asset that pays dividends should exclude any change in the carrying amount that is solely attributable to dividends.

IG18 For example, consider an ordinary share that is acquired for 10 currency units (CU10) at the beginning of the period. A CU2 dividend per share is declared with an ex-dividend date that falls within the current period. There are no other changes during the period and the value of that share is CU8 at the end of the period. Although the value of the share declined by CU2, the entity received a CU2 increase in cash or in a receivable because of the dividend, and there is no net effect on the entity's comprehensive income arising from a remeasurement of the share. If, however, the fair value was CU11 at the end of the period, the remeasurement for the period would be CU3 [11 − (10 − 2) = 3].

Losses on onerous contracts

IG19 The remeasurement related to losses on onerous contracts (for example, a loss recognised from applying percentage of completion accounting) is the effect on current period comprehensive income attributable to revised expectations. For example, an entity that uses percentage of completion accounting is expecting a loss of CU150,000 on a contract on which it recognised contract profit in prior periods (ignoring taxes). At the end of the prior reporting period, the entity estimated that the project was 60 per cent complete and expected to generate CU1,000,000 total profit on the contract. Thus, the entity would have recognised CU600,000 cumulative gross profit over the life of the contract to that point. If the project is 90 per cent finished at the end of the current period and the entity now expects to lose CU150,000 on the contract, it must recognise a total loss of CU750,000 in the current period (in order to recognise 100 per cent of the expected loss). That entire amount reflects a remeasurement in the current period because, under percentage of completion accounting, an entity does not retrospectively restate prior periods but, rather, recognises the entire income effect in the current period.

Example 7 – Presentation of remeasurements

IG20 The following illustrates the presentation of remeasurements in a single note:

	20X1	20X0
Operating		
Gain on disposal of property, plant and equipment	22,650	-
Gain on futures contracts[(a)]	5,821	5,390
Loss on sale of receivables	(4,987)	(2,025)
Change in estimate for impairment of accounts receivable	-	15,034
Loss on inventory	(29,000)	(9,500)
Impairment of goodwill	-	(35,033)
Change in share-based remuneration liability	(6,250)	(5,000)
Revaluation surplus	5,620	-
Change in litigation accural	(1,998)	(1,850)
Investing		
Fair value change of securities[(b)]	98,700	81,000
Fair value in private equity investment	7,500	3,250
Foreign currency translation adjustment – associate	(2,160)	(2,000)
Other		
Foreign currency translation adjustment – consolidated subsidiary	3,222	(2,295)

(a) Gains on futures contracts include realised gains included within costs of sales as well as unrealised amounts included in other comprehensive income.

(b) Fair value changes in securities include adjustments for dividends earned.

Analyses of changes in assets and liabilities (paragraphs 243–255)

IG21 An entity is required to disclose an analysis of the change between the opening and closing balances of asset or liability line items (or group of line items) that management regards as important for understanding the change in the entity's financial position.

Example 8 – Analyses of changes

IG22 The following is an example of an analysis of changes in debt and liquid asset line items and an analysis of revenue related assets and liability line items disclosed in Entity X's notes. This disclosure would be prepared for the statement of financial position line items as set out in paragraphs 243–255. Paragraph 244 provides guidance on determining which line items should be considered for the analyses of changes disclosures.

	Balance 31 Dec 20X0	Net cash flow	Other non-cash changes	Foreign exchange	Other remeasure -ments	Balance 31 Dec 20X1
Long-term debt	(2,050,000)	-	-	-	-	(2,050,000)
Short-term debt	(400,000)*	(162,000)	-	-	-	(562,000)
Interest payable on debt	(112,563)	83,514	(111,352)	-	-	(140,401)
Interest portion of lease payable	(16,500)	16,500	(14,825)	-	-	(14,825)
Principal portion of lease payable	(330,000)	33,500	-	-	-	(296,500)
Total	(2,909,063)	(28,486)	(126,177)	-	-	(3,063,726)
Cash	61,941	8,951	-	3,210	-	74,102
Short-term investments	800,000	300,000	-	-	-	1,100,000
Financial assets at fair value	485,000	(110,100)	-	-	98,700	473,600
Total	1,346,941	198,851	-	3,210	98,700	1,647,702
	(1,562,122)	170,365	(126,177)	3,210	98,700	(1,416,024)

	Balance 1 Jan 20X0	Net cash flow	Other non-cash changes	Foreign exchange	Other remeasure -ments	Balance 31 Dec 20X0
Long-term debt	(1,950,000)	(250,000)	150,000	-	-	(2,050,000)
Short-term debt	(250,000)*	(150,000)	-	-	-	(400,000)
Interest payable on debt	(85,001)	82,688	(110,250)	-	-	(112,563)
Interest portion of lease payable	-	-	(16,500)	-	-	(16,500)
Principal portion of lease payable	-	-	(330,000)	-	-	(330,000)
Total	(2,285,001)	(317,312)	(306,750)	-	-	(2,909,063)
Cash	550,000	(489,086)	-	1,027	-	61,941
Short-term investments	-	800,000	-	-	-	800,000
Financial assets at fair value	375,000	29,000	-	-	81,000	485,000
Total	925,000	339,914	-	1,027	81,000	1,346,941
	(1,360,001)	22,602	(306,750)	1,027	81,000	(1,562,122)

*Increases in short-term debt consist of amounts drawn on short-term credit facility.

	Accounts receivable, net	**Customer advances**
Opening balance, 1 January 20X0	339,500	(650,000)
Cash collections[a]	(2,282,073)	(300,000)
Revenue accrual	2,714,250	525,000
Remeasurement – loss on sale of receivables	(2,025)	-
Impairment of accounts receivable	(15,034)	-
Amounts reclassified to discontinued operations	(225,000)	-
Remeasurement – foreign exchange adjustment	(1,777)	-
Closing balance, 31 December 20X0	527,841	(425,000)
Cash collection[a]	(2,496,741)	(324,000)
Revenue accrual	2,920,600	567,000
Remeasurement – loss on sale of receivables	(4,987)	-
Impairment of accounts receivable	(23,068)	-
Remeasurement – foreign exchange adjustment	(1,609)	-
Closing balance, 31 December 20X1	922,036	(182,000)

(a) Cash collections include both amounts collected from customers as well as cash collected from the sale of receivable balances.

Non-controlling interests

Example 9 – Presentation of a non-controlling interest in the statement of comprehensive income and the statement of financial position

IG23 Entity Z has non-controlling interests. The following is an excerpt from Entity Z's statement of comprehensive income to illustrate how a non-controlling interest would be presented:

NET PROFIT	281,120	52,093
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that will never be reclassified subsequently to profit or loss		
Actuarial losses on defined benefit pension plans (operating)	(1,073)	(2,730)
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	(1,073)	(2,730)
TOTAL COMPREHENSIVE INCOME	280,047	49,363
Net profit attributable to:		
Owners of the parent	265,370	32,331
Non-controlling interests	15,750	19,762
Total comprehensive income attributable to:		
Owners of the parent	264,297	29,601
Non-controlling interests	15,750	19,762
Net profit per share (in currency units)		
Basic and diluted	0.11	0.02

IG24 The following illustrates the presentation of a non-controlling interest in Entity Z's statement of financial position:

Equity		
Shareholders' equity		
Share capital	(1,020,900)	(910,900)
Retained earnings	(2,080,250)	(1,821,903)
Total shareholders' equity	(3,101,150)	(2,732,803)
Non-controlling interests	(117,540)	(101,790)
Total equity	(3,218,690)	(2,834,593)
TOTAL FINANCING	(4,641,690)	(4,169,593)

Illustrative financial statements

IG25 Examples 10 and 11 are illustrative financial statements for a manufacturing company (Entity X, Example 10) and a financial services entity (Entity Y, Example 11). These financial statements are intended to illustrate the proposed financial statement formats. The financial statements for Entities X and Y include the required sections, categories, subcategory, headings and subtotals. Required subtotals are presented in **bold**. In preparing the illustrative financial statements, numerous simplifying assumptions were made. The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a summary of significant accounting policies and other notes to financial statements and explanatory information.

[Note: The illustrations use the term 'comprehensive income' to label the total of all components of comprehensive income, including profit or loss. The illustrations use the term 'other comprehensive income' to label income and expenses that are included in comprehensive income but excluded from profit or loss. An entity would not be required to use those terms in its financial statements.]

Example 10 – Illustrative financial statements for a manufacturing entity (Entity X)

IG26 Paragraphs IG27 and IG28 provide general information about Entity X that might be obtained by reading a complete set of financial statements and accompanying information, such as a management commentary.

IG27 Entity X is a global manufacturer and marketer of power tools and accessories, hardware and home improvement products and is based in the United Kingdom. Entity X is a single segment entity with two product lines—Wholesale and Retail. Entity X's financial statements are prepared in accordance with International Financial Reporting Standards and its reporting currency is currency units (CU). **Entity X adopted IFRS 9 early.** Accordingly, financial assets (equity securities) have been accounted for at fair value recognised in profit or loss. For the purpose of these examples, disclosures associated with the adoption of IFRS 9 are not incorporated.

IG28 The illustrative financial statements of Entity X contain the following items affecting its performance during 20X1 and 20X0:

(a) sale of property for a gain

(b) a goodwill impairment charge

(c) investing income arising from interest and dividends

(d) share of profit of associates

(e) fair value measurement of a private equity investment

(f) gains on securities

(g) futures contracts on the purchase of materials

(h) losses from inventory write-downs

(i) changes in the carrying amount of liabilities for share-based payments (cash-settled warrants)

(j) sale of receivables

(k) revaluation of building.

STATEMENT OF COMPREHENSIVE INCOME

	For the years ended 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Revenue	3,487,600	3,239,250
Cost of sales	(1,956,629)	(1,816,903)
Gross profit	1,530,971	1,422,347
Selling expenses	(153,268)	(130,034)
General and administrative expenses	(469,754)	(433,950)
Other operating income (expense)	17,663	(2,025)
Impairment loss on goodwill	-	(35,033)
Operating profit before operating finance costs	**925,612**	**821,305**
Operating finance costs	(33,235)	(33,250)
Total operating profit	**892,377**	**788,055**
Investing		
Dividend and interest income	62,619	55,500
Share of profit of associates	23,760	22,000
Fair value change in private equity investment	7,500	3,250
Fair value changes on financial assets	44,700	31,000
Total investing profit	**138,579**	**111,750**
TOTAL BUSINESS PROFIT	**1,030,956**	**899,805**
FINANCING		
Debt		
Interest expense	(111,352)	(110,250)
TOTAL FINANCING EXPENSE	**(111,352)**	**(110,250)**
Profit from continuing operations before taxes	919,604	789,555
INCOME TAX		
Total income tax expense	(342,882)	(303,491)
Profit from continuing operations	576,722	486,064
DISCONTINUED OPERATION		
Loss on discontinued operation	(32,400)	(35,000)
Tax benefit	11,340	12,250
NET LOSS ON DISCONTINUED OPERATION	**(21,060)**	**(22,750)**
NET PROFIT	**555,662**	**463,314**
OTHER COMPREHENSIVE INCOME (net of tax)		
Items that will never be reclassified subsequently to profit or loss		
Revaluation surplus on building (operating)	3,653	-
Items that may be reclassified subsequently to profit or loss		
Gains on futures contracts arising during the year	3,784	3,503
Amounts reclassified into profit or loss	(1,959)	(1,813)
Unrealised gain on futures contracts (operating)	1,825	1,690
Foreign currency translation adjustment on associate (investing)	(1,404)	(1,300)
Foreign currency translation adjustment – consolidated subsidiary	2,094	(1,492)
TOTAL OTHER COMPREHENSIVE INCOME	**6,168**	**(1,102)**
TOTAL COMPREHENSIVE INCOME	**561,830**	**462,212**
Net profit per share – basic	7.29	6.34
Net profit per share – diluted	7.06	6.09

STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Cash (see Note 6)	74,102	61,941
Accounts receivable, trade	922,036	527,841
Inventory	679,474	767,102
Prepaid advertising and other	86,552	78,150
Total short-term operating assets	**1,762,164**	**1,435,034**
Property, plant and equipment	2,267,460	2,441,500
Building	577,620	623,500
Goodwill and other intangible assets	189,967	189,967
Total long-term operating assets	**3,035,047**	**3,254,967**
Advances from customers	(182,000)	(425,000)
Accounts payable, trade	(612,556)	(505,000)
Wages, salaries and benefits payable, and share-based remuneration liability	(212,586)	(221,165)
Total short-term operating liabilities	**(1,007,142)**	**(1,151,165)**
Total long-term operating liabilities	**(3,848)**	**(1,850)**
Net operating assets before operating finance	**3,786,221**	**3,536,986**
Operating finance		
Short-term portion of lease liability and interest payable on lease liability (see Note 6)	(50,000)	(50,000)
Total short-term operating finance liabilities	**(50,000)**	**(50,000)**
Accrued pension liability	(293,250)	(529,500)
Long-term portion of lease liability (see Note 6)	(261,325)	(296,500)
Decommissioning liability	(29,640)	(14,250)
Total long-term operating finance liabilities	**(584,215)**	**(840,250)**
Total operating finance liabilities	**(634,215)**	**(890,250)**
Net operating assets	**3,152,006**	**2,646,736**
Investing		
Short-term investments (see Note 6)	1,100,000	800,000
Financial assets at fair value through profit and loss (see Note 6)	473,600	485,000
Total short-term investing assets	**1,573,600**	**1,285,000**
Investment in associates	261,600	240,000
Private equity investment at fair value	46,750	39,250
Total long-term investing assets	**308,350**	**279,250**
Total investing assets	**1,881,950**	**1,564,250**
NET BUSINESS ASSETS	**5,033,956**	**4,210,986**

...continued

STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	20X1	**20X0**
FINANCING		
Debt		
Short-term debt and interest payable (see Note 6)	(702,401)	(512,563)
Dividends payable	(20,000)	(20,000)
Total short-term debt	**(722,401)**	**(532,563)**
Total long-term debt (see Note 6)	**(2,050,000)**	**(2,050,000)**
Total debt	**(2,772,401)**	**(2,582,563)**
Equity		
Share capital	(1,427,240)	(1,343,000)
Retained earnings	(1,138,826)	(669,564)
Accumulated other comprehensive income	(124,066)	(117,898)
Total equity	**(2,690,132)**	**(2,130,462)**
TOTAL FINANCING	**(5,462,533)**	**(4,713,025)**
INCOME TAX		
Current taxes payable	(72,514)	(63,678)
Deferred tax asset	44,259	89,067
NET INCOME TAX (LIABILITY) ASSET	**(28,255)**	**25,389**
DISCONTINUED OPERATION		
Assets of discontinued operation	856,832	876,650
Liabilities of discontinued operation	(400,000)	(400,000)
NET ASSETS OF DISCONTINUED OPERATION	**456,832**	**476,650**
Total short-term assets	**4,192,596**	**3,596,684**
Total long-term assets	**3,387,656**	**3,623,284**
TOTAL ASSETS	**7,580,252**	**7,219,968**
Total short-term liabilities	**(2,252,057)**	**(2,197,406)**
Total long-term liabilities	**(2,638,063)**	**(2,892,100)**
TOTAL LIABILITIES	**(4,890,120)**	**(5,089,506)**

STATEMENT OF CASH FLOWS

	For the years ended 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Cash collected from customers	2,812,741	2,572,073
Cash paid for labour	(810,000)	(845,000)
Cash paid for materials	(935,554)	(785,000)
Cash contribution to pension plan	(340,200)	(315,000)
Other operating cash outflows	(260,928)	(242,535)
Cash paid for lease	(50,000)	-
Capital expenditures	(54,000)	(50,000)
Disposal of property, plant and equipment	37,650	-
Sale of receivables	8,000	10,000
Net cash flows from operating activities	**407,709**	**344,538**
Investing		
Net change in short-term investments	(300,000)	(800,000)
Investment in associates	-	(120,000)
Dividends and interest received	62,619	55,500
Purchase of securities	-	(130,000)
Sale of securities	56,100	51,000
Net cash flows for investing activities	**(181,281)**	**(943,500)**
NET CASH FLOWS FROM BUSINESS ACTIVITIES	**226,428**	**(598,962)**
FINANCING		
Dividends paid	(86,400)	(80,000)
Interest paid	(83,514)	(82,688)
Proceeds from reissue of treasury shares	84,240	78,000
Proceeds from issue of short-term debt	162,000	150,000
Proceeds from issue of long-term debt	-	250,000
NET CASH FLOW FROM FINANCING ACTIVITIES	**76,326**	**315,312**
Net cash flows from continuing operations before taxes	302,754	(283,650)
INCOME TAX		
Total cash paid for income tax	**(281,221)**	**(193,786)**
Change in cash before discontinued operation and effect of foreign exchange	**21,533**	**(477,436)**
DISCONTINUED OPERATION		
Net cash outflows from discontinued operation	(12,582)	(11,650)
Effect of foreign exchange	3,210	1,027
Change in cash	**12,161**	**(488,059)**
Opening cash	61,941	550,000
Closing cash	**74,102**	**61,941**

SUPPLEMENTAL CASH FLOW INFORMATION

	For the years ended 31 December	
	20X1	**20X0**
Operating profit	**892,377**	**788,055**
Adjustment to reconcile operating profit to net cash flows from operating activities:		
Gain on disposal of property, plant and equipment	(22,650)	-
Depreciation and amortisation	279,120	273,500
Loss on sale of receivable	4,987	2,025
Impairment loss on accounts receivable	23,068	15,034
Loss on obsolete and damaged inventory	29,000	9,500
Share-based remuneration	22,023	17,000
Impairment loss on goodwill	-	35,033
Other noncash items	(1,189)	(1,100)
Net change in asset and liability accounts		
Accounts receivable, trade	(422,250)	(431,663)
Inventory	58,628	48,398
Advances from customers	(243,000)	(225,000)
Accounts and salaries payable	76,954	91,665
Other assets and liabilities	(3,259)	(7,409)
Net pension liability	(236,250)	(220,500)
Cash inflows and outflows from other operating activities		
Sale of property, plant and equipment	37,650	-
Capital expenditure	(54,000)	(50,000)
Cash paid on lease principal	(33,500)	-
Net cash flows from operating activities	**407,709**	**344,538**
Supplemental information about non-cash activities		
Capitalisation of equipment in exchange for lease	-	330,000

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Accumulated other comprehensive income[a]	Total equity
Balance at 1 January 20X0	**1,265,000**	**286,250**	**119,000**	**1,670,250**
Comprehensive income				
Net profit		463,314	-	463,314
Other comprehensive income		-	(1,102)	(1,102)
Total comprehensive income		463,314	(1,102)	462,212
Transactions with owners				
Issue of share capital	78,000	-	-	78,000
Dividends	-	(80,000)	-	(80,000)
Balance at 31 December 20X0	**1,343,000**	**669,564**	**117,898**	**2,130,462**
Comprehensive income				
Net profit		555,662	-	555,662
Other comprehensive income		-	6,168	6,168
Total comprehensive income		555,662	6,168	561,830
Transactions with owners				
Issue of share capital	84,240	-	-	84,240
Dividends	-	(86,400)	-	(86,400)
Balance at 31 December 20X1	**1,427,240**	**1,138,826**	**124,066**	**2,690,132**

(a) See note 5 for the details of accumulated other comprehensive income

Notes to Financial Statements

Note 1. Significant accounting policies

[Note: This illustration includes only notes that would be in addition to or different from what IFRSs currently require.]

Basis for classification

Assets and liabilities that are associated directly with Entity X's operation of producing and selling hand and power tools are included in the operating category. This includes costs associated with materials, labour, overheads, maintaining production facilities, and performing selling, administrative and executive activities. However, some items are not classified as part of a functional subcategory because management does not believe that presenting those items in one of the functional categories enhances the usefulness of the information in predicting future cash flows.

Entity X classifies its amounts related to post-retirement benefits, decommissioning liabilities and leases within the operating finance subcategory of the operating category.

Entity X also invests its resources in short-term investments, equity securities, private equity investments and investments in associates. Assets associated with those activities are classified in the investing category.

Liabilities and equity associated with capital-raising activities are classified in the financing section.

Assets and liabilities with different measurement bases are disaggregated in the statement of financial position. Property that is revalued is presented separately from other property, plant and equipment.

Measurement basis

Entity X's financial statements have been prepared using an historical cost convention except for a building that has been revalued; financial assets and liabilities, including derivative financial instruments; a private equity investment and financial assets, which are all measured at fair value.

Note 2. Disaggregation of income and expense by nature

The following table provides additional information about the nature of some income and expenses that appear in the statement of comprehensive income for the years ended 31 December:

	20X1	20X0
Wholesale sales	2,790,080	2,591,400
Retail sales	697,520	647,850
Total revenue	3,487,600	3,239,250
Cost of sales		
Materials	(1,039,104)	(921,300)
Labour	(405,000)	(450,000)
Post-employment benefits service cost	(43,175)	(39,250)
Overhead—depreciation	(219,300)	(215,000)
Transport and other	(160,800)	(135,000)
Change in inventory	(60,250)	(46,853)
Loss on obsolete and damaged inventory	(29,000)	(9,500)
Total cost of sales	(1,956,629)	(1,816,903)
Selling expenses		
Advertising	(60,000)	(50,000)
Labour	(56,700)	(52,500)
Impairment loss on accounts receivable	(23,068)	(15,034)
Other selling	(13,500)	(12,500)
Total selling expenses	(153,268)	(130,034)
General and administrative expenses		
Labour	(321,300)	(297,500)
Post-employment benefits service cost	(43,175)	(39,250)
Depreciation	(59,820)	(58,500)
Share-based remuneration	(22,023)	(17,000)
Other general and administrative	(23,436)	(21,700)
Total general and administrative expenses	(469,754)	(433,950)
Other operating		
Gain on disposal of property, plant and equipment	22,650	-
Loss on sale of receivables	(4,987)	(2,025)
Impairment loss on goodwill	-	(35,033)
Total other operating income (expenses)	17,663	(37,058)
Operating income before operating finance costs	925,612	821,305
Operating finance costs		
Interest cost–post-employment benefits	(30,800)	(28,000)
Expected return on pension plan assets	13,200	12,000
Interest expense on lease liability	(14,825)	(16,500)
Accretion expense on decommissioning liability	(810)	(750)
Total operating finance costs	(33,235)	(33,250)
Total operating profit	892,377	788,055

Note 3. Restrictions on cash and short-term investments

Entity X has CU200,000 of short-term investments in a foreign jurisdiction for which it would incur a tax in the range between 15–25 per cent if repatriated.

Note 4. Remeasurements

Remeasurements are amounts in comprehensive income that represent changes in prices and changes in estimates of assets and liabilities. Entity X recognised the following remeasurements during the years ended 31 December
[see Example 7, paragraph IG20].

Note 5. Accumulated other comprehensive income

The following represents the breakdown in the statement of changes in equity of items included in accumulated other comprehensive income:

	Foreign currency translation adjustment—consolidated subsidiary	Foreign currency translation adjustment—associate A	Revaluation surplus	Unrealised gain on futures contract	Total other comprehensive income
Balance at 1 January 20X0	50,200	37,000	800	31,000	119,000
Other comprehensive income	(1,492)	(1,300)	-	1,690	(1,102)
Balance at 31 December 20X0	48,708	35,700	800	32,690	117,898
Other comprehensive income	2,094	(1,404)	3,653	1,825	6,168
Balance at 31 December 20X1	50,802	34,296	4,453	34,515	124,066

Note 6. Analyses of changes in asset and liability line items

Note: An analysis of changes will be provided for statement of financial position line items that management regards as important *to understanding the change in the entity's financial position. Paragraph IG22 provides a few examples of what Entity Y would disclose in its notes to financial statements.*

Example 11 – Illustrative financial statements for a financial services entity (Entity Y)

IG29 Paragraphs IG30–IG32 provide general information about Entity Y that might be obtained by reading a complete set of financial statements and accompanying information, such as a management commentary.

IG30 Entity Y is a financial holding company that conducts its business operations primarily through its commercial bank subsidiary. In addition, Entity Y has several non-bank subsidiaries that offer financial services products. Entity Y is a single segment entity and its reporting currency is currency units (CU). Entity Y's financial statements are prepared in accordance with IFRSs.

IG31 **Entity Y adopted IFRS 9 early.** The securities portfolio comprises (a) financial assets at amortised cost, which primarily consist of fixed income securities purchased at par and (b) other financial assets at fair value through profit or loss including those presented as trading securities, primarily consisting of equities. For the purpose of these examples disclosures associated with the adoption of IFRS 9 are not incorporated.

IG32 The illustrative financial statements of Entity Y contain the following items affecting its performance during 20X1 and 20X0:

(a) categorisation of various financial assets and financial liabilities within the operating category

(b) deposit taking and lending activities

(c) central bank borrowings

(d) share of profit of associates

(e) fair value measurement of a private equity investment

(f) gains and losses on securities

(g) futures contracts primarily consisting of cash flow hedges of business loans

(h) changes in the carrying amount of liabilities for share-based payments (cash-settled warrants).

STATEMENT OF COMPREHENSIVE INCOME

	For the years ended 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Interest income		
Loans and leases, including fees	220,320	204,000
Trading securities	1,399	1,295
Securities	23,539	21,795
Central bank funds sold	3,672	3,400
Interest expense		
Interest checking deposits	(564)	(414)
Savings deposits	(21,644)	(20,290)
Central bank funds purchased	(19,224)	(17,800)
Time deposits	(46,296)	(41,170)
Net interest income	161,202	150,816
Write-down of loan balances for credit losses	(12,853)	(11,922)
Net interest income after provision for credit losses	148,349	138,894
Non-interest operating income (expense)		
Mortgage banking revenue	7,907	8,931
Service charges on deposits	32,079	31,033
Wages, salaries and benefits expense	(38,000)	(35,000)
Occupancy expense	(6,860)	(7,000)
Share-based remuneration expense	(36,172)	(17,000)
Depreciation expense	(6,400)	(5,850)
Fair value changes of financial assets	(50,007)	47,260
Impairment loss on goodwill	-	(9,000)
Amortisation of core deposit intangibles	(2,658)	(3,544)
Transaction processing expense and other	(23,298)	(25,049)
Total operating profit	**24,940**	**123,675**
Investing		
Share of profits in associates	3,780	3,500
Fair value change in private equity investment	(7,500)	3,250
Dividend income from associates	2,700	2,500
Total investing profit	**(1,020)**	**9,250**
TOTAL BUSINESS PROFIT	**23,920**	**132,925**
FINANCING		
Debt		
Interest expense on debt	(47,127)	(44,457)
TOTAL FINANCING EXPENSE	**(47,127)**	**(44,457)**
Profit before tax	(23,207)	88,468
INCOME TAX		
Total income tax expense	**8,198**	**(34,187)**
NET (LOSS) PROFIT	**(15,009)**	**54,281**
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that may be reclassified subsequently to profit or loss		
Gains on futures contract arising during the year	443	410
Amounts reclassified into profit or loss	(260)	(241)
Unrealised gain on futures contract (operating)	183	169
Foreign currency translation adjustment on associate (investing)	(540)	(500)
Total other comprehensive loss	**(357)**	**(331)**
TOTAL COMPREHENSIVE (LOSS) INCOME	**(15,366)**	**53,950**
Net (loss) profit per share - basic	(0.12)	0.53
Net (loss) profit per share - basic	(0.11)	0.49

STATEMENT OF FINANCIAL POSITION

	As of 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Assets		
Cash	22,871	25,993
Central bank funds sold	45,800	35,000
Advances and loans to banks	15,203	10,279
Trading securities at fair value	34,022	32,685
Financial assets at amortised cost	496,000	507,000
Financial asset at fair value through profit or loss	157,636	237,812
Derivatives at fair value	655	315
Interest receivables on loans and leases (see Note 3)	180,570	79,000
Loans and leases, net (see Note 3)	3,836,442	3,844,975
Premises and equipment, net	195,250	176,650
Goodwill, core deposit and other intangible assets	84,165	86,824
Total operating assets	5,068,614	5,036,533
Liabilities		
Non-interest bearing deposits	(670,717)	(646,217)
Interest checking deposits	(78,846)	(72,156)
Savings deposits	(1,352,372)	(1,292,728)
Time deposits	(1,236,335)	(1,154,039)
Total deposits	(3,338,270)	(3,165,140)
Central bank funds purchased	(404,704)	(376,300)
Wages payable and share-based remuneration liability	(106,172)	(67,000)
Litigation provision	(3,846)	(1,850)
Total operating liabilities	(3,852,992)	(3,610,290)
Net operating assets	**1,215,622**	**1,426,243**
Investing		
Investment in associates	53,240	50,000
Private investment at fair value	31,750	39,250
Total investing assets	**84,990**	**89,250**
NET BUSINESS ASSETS	**1,300,612**	**1,515,493**
INCOME TAXES		
Deferred tax assets	34,391	17,945
Income tax payable	(2,087)	(4,306)
NET INCOME TAX ASSET	**32,304**	**13,639**
FINANCING		
Debt		
Interest payable	(93,360)	(89,446)
Dividends payable	(20,000)	(20,000)
Long-term debt	(727,313)	(834,101)
Total debt	**(840,673)**	**(943,547)**
Equity		
Share capital	(74,724)	(66,300)
Retained earnings	(414,507)	(515,916)
Accumulated other comprehensive income	(3,012)	(3,369)
Total equity	**(492,243)**	**(585,585)**
TOTAL FINANCING	**(1,332,916)**	**(1,529,132)**
Total assets	**5,187,995**	**5,143,728**
Total liabilities	**(4,695,752)**	**(4,558,143)**

STATEMENT OF CASH FLOWS

	For the years ended 31 December	
	20X1	**20X0**
BUSINESS		
Operating		
Interest received from loans	118,750	125,000
Cash interest received from investments	11,875	12,500
Cash interest received from central bank funds sold	3,672	3,400
Cash interest paid from central bank funds purchased	(19,224)	(17,800)
Interest paid—deposits	(61,220)	(68,150)
Total interest collected, net of interest paid	53,853	54,950
Mortgage banking revenue	7,907	8,931
Service charges on deposits	32,079	31,033
Wages, salaries and benefits	(35,000)	(30,000)
Other net cash outflows	(28,159)	(30,200)
Cash received for interest and fees, net of cash paid for expenses	30,680	34,714
Cash flows related to operating assets and liabilities		
Principal collected on loans	86,400	80,000
Cash paid for loan originations	(103,680)	(96,000)
Cash received from trading securities	2,375	2,500
Cash received from deposits, net		
Interest checking deposits	6,545	6,170
Savings deposits	58,300	61,500
Time deposits	76,500	76,100
Non interest-bearing deposits	24,500	25,000
Cash from central bank funds purchased, net of central bank funds sold	17,604	16,300
Cash paid for advances and loans to banks, net	(4,924)	(406)
Purchase of equipment	(25,000)	(25,000)
Sale of loans	8,000	10,000
Purchase of financial assets	-	(130,000)
Sale of financial assets	55,080	51,000
Received from settlement of derivatives	340	315
Net cash flows from operating activities	**232,720**	**112,193**
Investing		
Investment in associate	-	(12,000)
Dividends received from associate	2,700	2,500
Net cash from investing activities	**2,700**	**(9,500)**
NET CASH FROM BUSINESS ACTIVITIES	**235,420**	**102,693**
INCOME TAX		
Total cash paid for income taxes	**(10,566)**	**(15,667)**
FINANCING		
Cash dividends paid	(86,400)	(80,000)
Proceeds from issuance of long-term debt	-	135,780
Debt repayments	(109,989)	(106,788)
Interest paid	(40,011)	(43,212)
Proceeds from reissuance of treasury shares	8,424	7,800
NET CASH USED BY FINANCING ACTIVITIES	**(227,976)**	**(86,420)**
Change in cash	**(3,122)**	**606**
Opening cash	25,993	25,387
Closing cash	**22,871**	**25,993**

Supplemental cash flow information

	For the years ended 31 December	
	20X1	**20X0**
Operating profit	**24,940**	**123,675**
Adjustments to reconcile operating profit to cash flow from operating activities		
Provision for credit losses	12,853	11,922
Share-based remuneration	36,172	17,000
Depreciation and amortisation	9,058	9,394
Fair value changes of financial assets	45,047	(49,260)
Loss on sale of loans	4,960	2,000
Impairment loss on goodwill	-	9,000
Other non-cash items	1,997	1,850
Change in operating assets and liabilities		
Change in interest receivable	(112,257)	(87,090)
Change in advances and loans to banks	(4,924)	(406)
Net increase in deposits	173,130	162,493
Cash received from central bank funds purchased, net	17,604	16,300
Other	3,000	5,000
Sale (purchase) of operating assets and liabilities		
Purchase of financial assets	-	(130,000)
Sale of financial assets	55,080	51,000
Sale of loans	8,000	10,000
Loan repayment	86,400	80,000
Loan origination	(103,680)	(96,000)
Purchase of equipment	(25,000)	(25,000)
Proceeds from settlement of derivatives	340	315
Net cash flows from operating activities	**232,720**	**112,193**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Foreign currency translation adjustment	Unrealised gain on futures contract	Total Equity
Balance at 1 January 20X0	**58,500**	**541,635**	**1,000**	**2,700**	**603,835**
Comprehensive income					
Net profit		54,281	-	-	54,281
Other comprehensive income		-	(500)	169	(331)
Total comprehensive income		54,281	(500)	169	53,950
Transactions with owners					
Issue of share capital	7,800	-	-	-	7,800
Dividends	-	(80,000)	-	-	(80,000)
Balance at 31 December 20X0	**66,300**	**515,916**	**500**	**2,869**	**585,585**
Comprehensive income					
Net profit		(15,009)	-	-	(15,009)
Other comprehensive income		-	(540)	183	(357)
Total comprehensive income		(15,009)	(540)	183	(15,366)
Transactions with owners					
Issue of share capital	8,424	-	-	-	8,424
Dividends	-	(86,400)	-	-	(86,400)
Balance at 31 December 20X1	**74,724**	**414,507**	**(40)**	**3,052**	**492,243**

Notes to financial statements

Note: This illustration includes only notes that would be in addition to or different from what IFRSs currently require.

Note 1. Significant accounting policies

Basis for classification

Assets and liabilities that directly relate to Entity Y's business of commercial and consumer lending are classified in the operating category in the business section. Operating assets include loans, as well as financial assets that, in management's view, optimise business profitability. Derivatives that are entered into to hedge the variability in the cash flows of fixed rate loans receivable are also classified in the operating category. Operating liabilities are primarily comprised of customer deposit accounts and accrued remuneration for the employees of Entity Y.

Entity Y classifies its investment in associate and private equity investment as investing. Assets and liabilities associated with the capital structure of Entity Y, including long-term debt and dividends payable, are classified as financing.

Entity Y presents similar assets separately in the statement of financial position if those assets are measured using different bases. Entity Y has investments measured both at amortised cost as well as at fair value through profit or loss.

Measurement basis

Entity Y's financial statements have been prepared using a historical cost convention except for financial assets and liabilities (including derivative financial instruments); securities that are measured at fair value; and a private equity investment.

Note 2. Remeasurements

Entity Y had amounts reported in comprehensive income related to the change in prices, values or assumptions about values. Entity Y had the following remeasurements during the years ended 31 December:

	20X1	20X0
Operating		
Write-down of loan balances for credit losses	(12,853)	(11,922)
Loss on sale of loans	(4,960)	(2,000)
Change in fair value—futures contract	682	630
Impairment loss on goodwill	-	(9,000)
Change in fair value—securities at fair value	(42,747)	51,390
Change in fair value of share-based remuneration awards	(6,250)	(5,000)
Change in litigation accrual	(1,997)	(1,850)
Investing		
Change in fair value of private equity investment	(7,500)	3,250
Foreign currency translation adjustment on associate	(830)	(769)

Note 3. Loans – Analyses of changes

The following illustrates an analysis of the changes in the balances of loans, write-downs for credit losses, and interest on the loans (this analysis would be incorporated with any existing disclosures related to loans).

Note: An analysis of changes will be provided for statement of financial position line items that management regards as important to understanding the change in the entity's financial position. This illustration provides one such example.

	Loans and leases, net of unearned interest and write-downs	Interest receivables on loans and leases
Opening balance, 1 January 20X0	3,852,897	-
Cash received	(90,000)	(125,000)
Issue of loans	96,000	-
Interest accrued	-	204,000
Remeasurement - loss on sale of loan*	(2,000)	-
Remeasurement - write-down of loan balances for credit losses	(11,922)	-
Write-off of loan balances	-	-
Closing balance, 31 December 20X0	3,844,975	79,000
Cash received	(94,400)	(118,750)
Issue of loans	103,680	-
Interest accrued	-	220,320
Remeasurement - loss on sale of loan*	(4,960)	-
Remeasurement - write-down of loan balances for credit losses	(12,853)	-
Write-off of loan balances	-	-
Closing balance, 31 December 20X1	3,836,442	180,570

* Remeasurements on loan losses arose from changes in assumptions about the collectibility of the portfolio.

Example 12—Alternative presentation of the statement of financial position

IG33 The following illustrates an alternative presentation for the statement of financial position for Entity X. The [draft] IFRS does not require a specific format for the statement of financial position (or other statements) as long as the information is classified in the appropriate sections, categories and subcategory and the required totals, subtotals and headings are presented.

STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 31 December	
	20X1	20X0		20X1	20X0
BUSINESS					
Operating					
Cash	74,102	61,941	Advances from customers	(182,000)	(425,000)
Accounts receivable, trade	922,036	527,841	Accounts payable, trade	(612,556)	(505,000)
Inventory	679,474	767,102			
Prepaid advertising and other	86,552	78,150	Wages, salaries and benefits payable, and share-based remuneration liability	(212,586)	(221,165)
Total short-term operating assets	**1,762,164**	**1,435,034**	**Total short-term operating liabilities**	**(1,007,142)**	**(1,151,165)**
			Total long-term operating liabilities	**(3,848)**	**(1,850)**
Property, plant and equipment	2,267,460	2,441,500			
Building	577,620	623,500			
Goodwill and other intangible assets	189,967	189,967			
Total long-term operating assets	**3,035,047**	**3,254,967**			
Net operating assets before operating finance	**3,786,221**	**3,536,986**			
			Operating finance		
			Short-term portion of lease liability and interest payable on lease liability	(50,000)	(50,000)
			Total short-term operating finance liabilities	**(50,000)**	**(50,000)**
			Accrued pension liability	(293,250)	(529,500)
			Long-term portion of lease liability	(261,325)	(296,500)
			Decommissioning liability	(29,640)	(14,250)
			Total long-term operating finance liabilities	**(584,215)**	**(840,250)**
			Total operating finance liabilities	**(634,215)**	**(890,250)**
Net operating assets	**3,152,006**	**2,646,736**			

Investing					
Short-term investments	1,100,000	800,000			
Financial assets at fair value through profit and loss	473,600	485,000			
Total short-term investing assets	**1,573,600**	**1,285,000**			
Investment in associates	261,600	240,000			
Private investment at fair value	46,750	39,250			
Total long-term investing assets	**308,350**	**279,250**			
Total investing assets	**1,881,950**	**1,564,250**			
NET BUSINESS ASSETS	**5,033,956**	**4,210,986**			
DISCONTINUED OPERATION					
Assets of discontinued operation	856,832	876,650	Liabilities of discontinued operation	(400,000)	(400,000)
NET ASSETS OF DISCONTINUED OPERATION	**456,832**	**476,650**			
INCOME TAX					
Deferred tax asset	44,259	89,067	Current taxes payable	(72,514)	(63,678)
NET INCOME TAX ASSET (LIABILITY)		**25,389**		**(28,255)**	
			FINANCING		
			Debt		
			Short-term debt and interest payable	(702,401)	(512,563)
			Dividends payable	(20,000)	(20,000)
			Total short-term debt	**(722,401)**	**(532,563)**
			Long-term debt	**(2,050,000)**	**(2,050,000)**
			Total debt	**(2,772,401)**	**(2,582,563)**
			Equity		
			Share capital	(1,427,240)	(1,343,000)
			Retained earnings	(1,138,826)	(669,564)
			Accumulated other comprehensive income	(124,066)	(117,898)
			Total equity	**(2,690,132)**	**(2,130,462)**
			TOTAL FINANCING	**(5,462,533)**	**(4,713,025)**
Total short-term assets	**4,192,596**	**3,596,684**	**Total short-term liabilities**	**(2,252,057)**	**(2,197,406)**
Total long-term assets	**3,387,656**	**3,623,284**	**Total long-term liabilities**	**(2,638,063)**	**(2,892,100)**
TOTAL ASSETS	**7,580,252**	**7,219,968**	**TOTAL LIABILITIES**	**(4,890,120)**	**(5,089,506)**

[Draft] Amendments to guidance on other IFRSs

The following amendments to guidance on IFRSs are necessary in order to ensure consistency with [draft] IFRS X Financial Statement Presentation *and the related amendments to other IFRSs.*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IGA1 In IG Example 11, in the reconciliation of equity at 1 January 20X4 (date of transition to IFRSs) 'Cash and cash equivalents' is amended to 'Cash'.

IFRS 7 *Financial Instruments: Disclosures*

IGA2 The heading above paragraph IG13, the footnote and paragraph IG13 are deleted.

Table of Concordance IAS 1 to [draft] IFRS X

This table shows how the contents of IAS 1 and the [draft] IFRS X correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

IAS 1 paragraph	[draft] IFRS X paragraph
1	1
2, 3	2, 3
4 (with modification)	4, 5
5, 6	6, 7
7 (with modification)	159
8–8A	None
9 (with modification)	8
10 (with modification)	9, 10
11	11
12–14	None
15–18	19–22
19 (with modification)	23
20 (with modification)	24
21, 22	25, 26
23 (with modification)	27
24 (with modification)	28
25, 26	29, 30

IAS 1 paragraph	[draft] IFRS X paragraph
27, 28	31, 32
None	43
None	44–50
29	51
30 (with modification)	52
31	53
32 (with modification)	54
33 (with modification)	55
34	None
35	56
None	57–61
None	62–108
36	17
37 (with modification)	18
38 (with modification)	33
39 (with modification)	35–38
40 (with modification)	34

IAS 1 paragraph	[draft] IFRS X paragraph	IAS 1 paragraph	[draft] IFRS X paragraph
41(with modification)	39	None	129–131
42–44	40–42	77, 78	None
45 (with modification)	109	79–80A	132–134
46 (with modification)	110	81	None
None	111	None	135–139
47, 48	None	None	140–149
49–53	12–16	82 (with modification)	150
54–59	None	None	151
None	113, 114	83 (with modification)	150, 152
60 (with modification)	115	84	None
61–63	None	85 (with modification)	112, 153
64 (with modification)	116	86	None
None	117, 118	None	154, 155
None	119–121	87 (with modification)	156
65–71	None	88	157
None	122, 123	89 (with modification)	158
72 (with modification)	124	90, 91	160, 161
73 (with modification)	125	None	162, 163
74 (with modification)	126	92, 93	164, 165
75 (with modification)	127	94	None
76 (with modification)	128	95 (with modification)	166

IAS 1 paragraph	[draft] IFRS X paragraph
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97–105	None
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111	None
112–116	207–211
117, 1118	212, 213
119 (with modification)	214
120–122	215–217
123 (with modification)	218
124	219

IAS 1 paragraph	[draft] IFRS X paragraph
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134–136	229–231
136A	232
None	233–242
None	243–255
None	256–258
137, 138	260, 261
None	268, 269
None	270
139, 140	None

Table of Concordance IAS 7 to [draft] IFRS X

This table shows how the contents of IAS 7 and the [draft] IFRS X correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

IAS 7 paragraph	[draft] IFRS X paragraph
1–21	None
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None	170–174
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24 (with modification)	188
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40 (with modification)	197
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44 (with modification)	175
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