

**Accounting impact:** Proposes:

- changes to the titles of the financial statements,
- changes to the content of the Income Statement, Statement of Recognised Income and Expense and the Statement of Changes in Equity, and
- the inclusion of an opening Balance Sheet for all periods.

Does not propose changes in recognition, measurement or disclosure of transactions or other events.

# International Financial Reporting Bulletin

## Proposed Amendments to IAS 1 *Presentation of Financial Statements*

### Background

The exposure draft (ED) of amendments to IAS 1 is the first phase (segment A) of the International Accounting Standard Board's (IASB's) performance reporting project.

The proposed amendments in the ED would largely bring IAS 1 into line with the US standard – SFAS No. 130 *Reporting Comprehensive Income*. The US Financial Accounting Standard Board (FASB) is undertaking a performance reporting project but has not split it into two phases and will therefore not be publishing an exposure draft on segment A.

The second phase of the project (segment B) will address more fundamental issues including consistency for aggregation of information, totals and subtotals, reclassification of other income and expenses and direct versus indirect presentation of operating cash flows.

### Proposals

#### Changes to the titles of the financial statements

The ED proposes that a complete set of financial statements would include the following:

- Statement of Financial Position. This would be the same as the existing Balance Sheet.
- Statement of Recognised Income and Expense (SORIE). This would be comprised of the content of the existing Income Statement and the existing Statement of Recognised Income and Expense. The proposed new statement could also be split into two separate statements titled the Statement of Profit or Loss and the Statement of Other Recognised Income and Expense as described below.
- Statement of Changes in Equity. While there would be no change in title, the ED proposes a change in content which is described below.
- Statement of Cash Flows. This would be the same as the existing Cash Flow Statement.

- Notes. There would be no change from current requirements with the notes comprising a summary of significant accounting policies and other explanatory information.

#### Content of the new SORIE

The ED proposes that the new SORIE will include the content of the existing Income Statement as well as the content of the existing Statement of Recognised Income And Expense. That is, the new SORIE includes all income and expenses recognised in the period, both profit and loss items and non-owner changes in equity.

The ED further proposes that the new SORIE could be split into two separate statements. These two separate statements would be a Statement of Profit or Loss and a Statement of Other Recognised Income or Expense. The new Statement of Other Recognised Income and Expense would commence with the profit or loss for the period and include any other recognised income and expense items.

The ED proposes a definition of Total Recognised Income and Expense being: “the change in equity of an entity during a period from transactions and events other than those resulting from contributions by and distributions to equity holders in their capacity as equity holders”. This total would appear at the bottom of the new SORIE, or, in the case where the entity has elected to prepare the two separate statements, at the bottom of the new Statement of Other Recognised Income and Expense.

The ED lists items that would be presented as other recognised income and expense as:

- changes in revaluation surpluses;
- gains and losses arising from translating the financial statements of a foreign operation;
- gains and losses arising on re-measuring available-for-sale financial assets;
- the effective portion of gains or losses on hedging financial instruments in a cash flow hedge; and
- actuarial gains or losses on defined benefit plans.

#### Content of the new Statement of Changes in Equity

IAS 1 currently gives two options relating to changes in equity:

- a Statement of Recognised Income and Expense which includes changes in non-owner equity (that is other recognised income and expense) with a note giving changes in owner equity; or
- a Statement of Changes in Equity which includes all changes, both owner and non-owner.

**Other recognised income and expense – separate disclosure of any reclassification adjustments**

The ED proposes that the new Statement of Changes in Equity will include only changes in owner (i.e. shareholder) equity.

The ED defines a reclassification adjustment as amounts reclassified to profit and loss for the period that were previously recognised in other recognised income and expense in prior periods.

Examples of reclassification adjustments include the recycling of foreign exchange gains and losses on the disposal of a foreign operation and the recycling of accumulated gains or losses previously taken directly to reserves on derecognition of an available-for-sale financial asset. Reclassifications do not arise on changes in revaluation surpluses arising on intangible and tangible assets or actuarial gains or losses on valuations of defined benefit plans.

The ED proposes that any reclassification adjustment should be disclosed separately on the face of the relevant primary financial statement or in the notes.

**Other recognised income and expense – related tax effects**

The ED proposes that amounts disclosed as other recognised income and expense may be stated either:

- net of related tax effects; or
- before related tax effects with one amount shown for the aggregate amount of related tax.

In both cases the related tax amount for each line item should be disclosed separately either on the face of the relevant primary financial statement or in the notes.

**Presentation of dividends**

Under the current IAS 1, dividends and the per share amount of dividends may be disclosed as a footnote to the existing Income Statement, in the existing Statement of Changes in Equity or in the notes. The ED proposes that dividends and the per share amount of dividends may be disclosed in the new Statement of Changes in Equity or the notes but not in the new SORIE (whether or not this is split into two separate statements).

**Presentation of per share measures**

The ED does not propose to change the requirements of IAS 33 *Earnings per Share*. Therefore, earnings and diluted earnings per share will be the only per share amounts disclosed on the face of the new SORIE. If an entity discloses any other per share measures, IAS 33 requires that they are presented in the notes.

The Board will discuss changes and improvements in per share measures as part of segment B.

**Inclusion of an opening statement of financial position**

The ED proposes that an entity's financial statements include a Statement of Financial Position (Balance Sheet) at the beginning of the earliest period presented in the financial statements. Therefore, an entity's financial statements would include three Statements of Financial Position (Balance Sheets) and two of each

of the other statements (Recognised Income and Expense, Changes in Equity and Cash Flows). Any notes that provide additional breakdown of items disclosed on the face of the Statement of Financial Position (Balance Sheet) would also need to include all three periods' information.

For first time adopters of IFRS it is proposed that the exemption from presenting an opening IFRS statement of financial position (balance sheet) at the date of transition to IFRS in its first IFRS financial statements will be withdrawn (previously under IFRS 1 first time adopters were required to prepare an opening statement of financial position but not present it in their financial statements).

### **Actions required**

Entities that report, or plan to report in future, in accordance with IFRS or a GAAP that may converge with IFRS may wish to review the proposals further and send any comments to the IASB.

The deadline for comments is 17 July 2006.

Copies of the ED may be downloaded from the IASB's website at:

<http://www.iasb.org/current/ed.asp>



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