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

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

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