

WORLD'S END DO NOT CROSS

In September 2001 the International Accounting Standards Board (IASB) added to its agenda the performance reporting project (later renamed the financial statements presentation project) with the aim of enhancing the usefulness of information presented in the income statement. In April 2004 the US Financial Accounting Standards Board (FASB) joined the IASB in working on this project to further the goal of converging International Accounting Standards (IASs) and US GAAP. At this stage the two parties agreed that presentation of a complete set of financial statements should be reviewed and not only the income statement. This project was broken down into the following three phases: (IASB, 2007)

- Phase A: addressing what constitutes a complete set of financial statements and requirements to present comparative information;
- Phase B: addressing fundamental issues such as principles for aggregating information, the usefulness of the direct and indirect cash flow reporting and whether, and if so exactly how, comprehensive income should be reclassified to profit and loss etc.; and
- Phase C: addressing interim financial reporting.

Phase A was completed on 6 September 2007 when the IASB issued a revised IAS 1, *Presentation of Financial Statements* (2007).

Objective of revision of IAS 1, *Presentation of Financial Statements*

The main objective of the IASB revision of IAS 1 is to aggregate information in the financial statements on a basis of common characteristics (IAS 1.IN1, 2007). This resulted, *inter alia*, in the changes in the equity of an entity during a period now being separated between those changes resulting from transactions with equity participants (owners), in their capacity as owners, and other 'non-owner' equity transactions. In this respect, the IASB referred to FASB Statement No. 130, *Reporting Comprehensive Income* (IAS 1.IN3, 2007).

The secondary objective of the IASB was to reword and reorder existing sections of IAS 1 (2004) to facilitate easier reading (IAS 1.IN4, 2007).

New definitions

The understanding of two of the new definitions introduced into IAS 1 (2007), is vital to understanding the amendments made to the standard.

Other Comprehensive Income, is defined as "items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by IFRSs. Examples of other comprehensive income include: (IAS 1.7, 2007)

- changes in revaluation surplus;
- actuarial gains and losses on defined benefit plans;
- gains or losses arising from translating the financial statements of foreign operations;
- gains or losses on remeasuring available-for-sale financial assets; and

- the effective portion of gains and losses on hedging instruments in a cash flow hedge."

These items included in other comprehensive income are those 'non-owner' related items previously recognised directly in equity (in the statement of changes in equity).

Reclassification Adjustments, is defined as "amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous period." (IAS 1.7, 2007). In terms of Para 95 of IAS 1 (2007) reclassification adjustments arise, for example, when an available-for-sale financial asset is derecognised or when a hedged forecast transaction affects profit or loss. In other words these are amounts that have been 'recycled' from other comprehensive income to profit and loss in the statement of comprehensive income.

A change in a revaluation surplus in terms of IAS 16 (AC 123), *Property, Plant and Equipment*, is not a reclassification adjustment, nor are actuarial gains or losses on defined pension plans recognised in accordance with Para 93A of IAS 19 (AC 116), *Employee Benefits*.

From the illustrative example included in IAS 1 (2007) it can be concluded that a revaluation surplus transferred to retained earnings as the asset is used or when the asset is derecognised in terms of IAS 16 (AC 123) *Property, Plant and Equipment*, is still presented in statement of changes in equity.

Presentation changes

Statement of comprehensive income

The current income statement is replaced with a **Statement of comprehensive income**. Comprehensive income consists of profit and loss (which is the current income statement) and other comprehensive income.

Those transactions that result in changes in equity, other than those with equity participants (owners), (**comprehensive income**) are shown in the **statement of comprehensive income** and no longer on the face of the statement of changes in equity. The illustrative guidance suggests that these comprehensive items be shown below the 'profit and loss' section of the statement, which has remained unchanged from the previous version of IAS 1 (2004). Classification of the 'profit and loss' section continues to be performed either by nature or by function (IAS 1.99, 2007).

The standard does allow the alternative of retaining the current income statement in its current format with the addition of a second statement beginning with profit or loss for the year and displaying the comprehensive income items. This second statement will then be referred to as the **Statement of comprehensive income**. (IAS 1.81, 2007). The standard prescribes that in these circumstances the income statement must be displayed immediately before the statement of

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comprehensive income in a complete set of financial statements (IAS 1.12, 2007).

The items of comprehensive income may be reported net of related tax effects or before the related tax effects with one amount shown for the aggregate amount of income tax relating to the all the components presented (IAS 1.91, 2007).

Additional disclosure is also required of the allocation of the total comprehensive income attributable to the minority interest and the owners of the parent (IAS 1.83(b), 2007). This is included below the allocation of profit or loss to the minority interest and to the owners of the parent. ☒

Illustration 1 Statement of comprehensive income (Source: IAS 1, *Presentation of Financial Statements*, IASB, 2007)

XYZ Group Statement of comprehensive income for the year ended 31 December 20X7

<i>(classification of expense by function)</i>	Notes	20X7 R'000	20X6 R'000
Revenue		390 000	355 000
Cost of sales		(245 000)	(230 000)
Gross profit		145 000	125 000
Other income		20 667	11 300
Distribution costs		(9 000)	(9 000)
Administrative expenses		(20 000)	(21 000)
Other expenses		(2 100)	(1 200)
Finance costs		(8 000)	(7 500)
Share of profits of associates		35 100	30 100
Profit before tax		161 667	128 000
Income tax expense		(40 417)	(32 000)
Profit for the year from continuing operations		121 250	96 000
Loss for the year from discontinued operations		-	(30 500)
PROFIT FOR THE YEAR		121 250	65 500
Other comprehensive income (Can be shown in a separate statement and amounts can also be shown net of tax)			
Exchange differences on translating foreign operations		5 334	10 667
Available-for-sale financial assets		(24 000)	(26 667)
Cash flow hedges		(667)	(4 000)
Gains on property revaluation		933	3 367
Actuarial gains (losses) on defined benefit pension plans		(667)	1 333
Share of other comprehensive income of associates		400	(700)
Income tax relating to components of other comprehensive income	10	4 667	(9 334)
Other comprehensive income for the year, net of tax	11	(14 000)	28 000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		107 250	93 500
Profit attributable to:			
Owners of the parent		97 000	52 400
Minority interest		24 250	13 100
		121 250	65 500
Total comprehensive income attributable to:			
Owners of the parent		85 800	74 800
Minority interest		21 450	18 700
		107 250	93 500
Earnings per share		R	R
Basic and diluted		0,46	0,30

Statement of changes in equity

The statement of changes in equity currently contains a line item "total recognised income and expenses for the period", which consists of profit or loss (transferred from the current income statement) and "net income recognised directly in equity" (IAS 1, 2004). This net income recognised directly in equity has now been moved to the statement of comprehensive income as "other comprehensive income".

The statement of changes in equity will now show transactions with equity participants (owners) such as share issues and dividends distributed.

The presentation requirements in respect of IAS 8 (AC 103), *Accounting Policies, Changes in Accounting Estimates and Errors* remain unchanged.

Dividends recognised and the related amount per share must be presented either in the statement of changes in equity or in a note (IAS 1.107, 2007). The option to disclose this in the statement of comprehensive income (income statement) has been removed.

An unusual omission from the statement of changes in equity, as contained in the illustrative guidance to IAS 1 (2007) (see below) is the heading 'attributable to equity holders of the parent' (IAS 1, 2004) above the share capital and reserves columns attributable to these owners.

Illustration 2 Statement of changes in equity (Source: IAS 1, *Presentation of Financial Statements*, IASB, 2007)

XYZ Group Statement of changes in equity for the year ended 31 December 20X7

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	Minority interest	Total equity
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 January 20X6	600 000	118 100	(4 000)	1 600	2 000	-	717 700	29 800	747 500
Changes in accounting policy	-	400	-	-	-	-	400	100	500
Restated balance	600 000	118 500	(4 000)	1 600	2 000	-	718 100	29 900	748 000
Changes in equity for 20X6									
Dividends	-	(10 000)	-	-	-	-	(10 000)	-	(10 000)
Total comprehensive income for the year	-	53 200	6 400	16 000	(2 400)	1 600	74 800	18 700	93 500
Balance at 31 December 20X6	600 000	161 700	2 400	17 600	(400)	1 600	782 900	48 600	831 500
Changes in equity for 20X7									
Issue of share capital	50 000	-	-	-	-	-	50 000	-	50 000
Dividends	-	(15 000)	-	-	-	-	(15 000)	-	(15 000)
Total comprehensive income for the year	-	96 600	3 200	(14 400)	(400)	800	85 800	21 450	107 250
Transfer to retained earnings	-	200	-	-	-	(200)	-	-	-
Balance at 31 December 20X7	650 000	243 500	5 600	3 200	(800)	2 200	903 700	70 050	973 750

Reclassification adjustments and tax effects

Any reclassification adjustments must be disclosed either on the face of the statement of comprehensive income or in the notes (in which case the net amount will be in the statement of comprehensive income).

The tax effect of each component of other comprehensive income must also be disclosed either on the face of the statement of comprehensive income or in the notes.

Interestingly IAS 1 (2007) does not require detailed disclosure of the minority interest in each of the comprehensive income items. Practically this makes it difficult for the users to reconcile the line items in the statement of comprehensive income and/or the notes

to each of the columns representing those items in the statement of changes in equity. *see illustration 3 opposite.*

The illustrative example of the note 'Other comprehensive income' in IAS 1 (2007), as shown above, includes all items of comprehensive income, whether they include a reclassification adjustment or not. It may however be possible to comply with the requirements of the standard by only disclosing those items that actually contain such an adjustment.

Comparative figures

An entity is still required to disclose comparative information for the previous period for all amounts and narrative and descriptive

information (IAS 1.38, 2007). However, when

- an accounting policy is applied retrospectively;
- items are restated retrospectively; or
- items are reclassified in the financial statements,

an entity shall present, in addition to the abovementioned requirements, at very least a statement of financial position (balance sheet) as at:

- the end of the current year;
- the end of the previous year; and
- the beginning of the earliest comparative period (IAS 1.39, 2007).

The question that needs to be asked is whether it is the intention of the IASB that the meaning of 'reclassification in the financial statements' referred to above be the same as 'reclassification adjustment' as defined. The answer to this question can have a significant effect on the number of comparative periods presented.

Other cosmetic changes


In terms of the IASB Framework, the financial statements should disclose the financial position (previously reflected in the balance sheet), financial performance and the cash flows (previously reflected in the cash flow statement), of an entity. In line with these underlying principles, the names of the balance sheet and 

Illustration 3 Reclassification adjustments and tax effects (Source: IAS 1, *Presentation of financial statements*, IASB, 2007)

XYZ Group Notes Year ended 31 December 20X7

10. Tax effects relating to each component of other comprehensive income

	Before tax	20X7 Tax (expense) / benefit	Net-of-tax	Before tax	20X6 Tax (expense) / benefit	Net-of-tax
	R'000	R'000	R'000	R'000	R'000	R'000
Exchange differences on translating foreign operations	5 334	(1 334)	4 000	10 667	(2 667)	8 000
Available-for-sale financial assets	(24 000)	6 000	(18 000)	26 667	(6 667)	20 000
Cash flow hedges	(667)	167	(500)	(4 000)	1 000	(3 000)
Gains on property revaluation	933	(333)	600	3 367	(667)	2 700
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)	1 333	(333)	1 000
Share of comprehensive income of associates	400	-	400	(700)	-	(700)
Other comprehensive income	18 667	4 667	(14 000)	37 334	(9 334)	28 000

	20X7	20X6
	R'000	R'000
11. Other comprehensive income		
Exchange differences on translating foreign operations	5 334	10 667
Available-for-sale financial assets		
Gains arising during the year	1 333	30 667
Less: Reclassification adjustment for gains included in profit and loss	(25 333)	(4 000)
Cash flow hedges:		
Gains (losses) arising during the year	(4 667)	(4 000)
Less: Reclassification adjustment for gains included in profit and loss	3 333	-
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(4 000)
Gains on property revaluation	993	3 367
Actuarial gains (losses) on defined benefit pension plans	(667)	1 333
Share of comprehensive income of associates	400	(700)
Other comprehensive income	(18 667)	37 334
Income tax relating to components of other comprehensive income (refer note 10)	4 667	(9 334)
Other comprehensive income for the year	(14 000)	28 000

cash flow statement have been changed to **Statement of financial position** and **Statement of cash flows**, respectively. The standard does however allow other titles to be used for example "balance sheet" (IAS 1.10, 2007).

Conclusion

A complete set of financial statements (including comparative figures) now includes the following, presented with equal prominence:

- a statement of financial position (balance sheet);
- a statement of comprehensive income (incorporating the income statement) (*or separate income statement and statement of comprehensive income*);
- a statement of changes in equity;
- a statement of cash flows (cash flow statement);
- notes; and
- a statement of financial position (balance sheet) at the beginning of the earliest comparative period in specific circumstance. (IAS 1.10/11, 2007).

The remainder of IAS 1 (2007) has remained largely unchanged. So it may be argued that this is not yet 'the end of the world as we know it'. However, with the significant revisions of the IASB Framework underway, along with Phases B and C of the financial statements presentation project the words of TS Elliot come to mind:

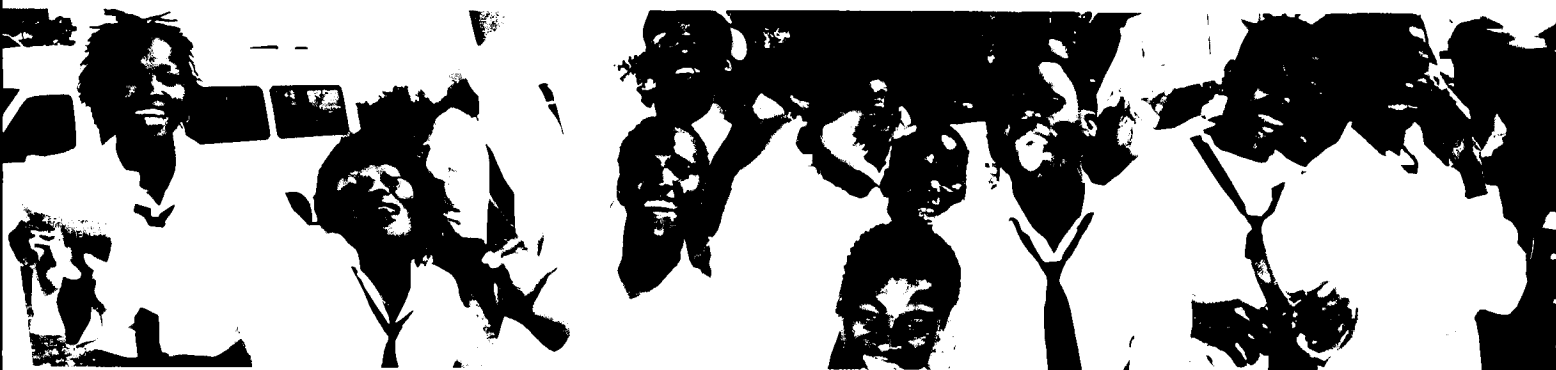
*"What we call the beginning is often the end.
And to make an end is to make a beginning.
The end is where we start from."*

The revised IAS 1 (2007) will be effective for years commencing on or after 1 January 2009.

References

- International Accounting Standards Board (2004). IAS 1, *Presentation of financial statements*. London: IASCF.
- International Accounting Standards Board (2007). IAS 1, *Presentation of financial statements*. London: IASCF.
- International Accounting Standards Board (2004). IAS 8 (AC 103), *Accounting policies, changes in accounting estimates and errors*. London: IASCF.
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- International Accounting Standards Board* (2007). IASB Projects, *Financial Statement Presentation*. [WWW-document, www.iasb.org](http://www.iasb.org). Accessed: 7 September 2007 ~~2007~~
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Incentive? Cash grant.



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In addition to the Fasset grant there are further tax incentives offered by SARS: R30000 tax incentive for each previously unemployed learner signed onto a learnership; 30000 tax incentive on completion of each learnership contract. Full details, including qualifying criteria, are now available on the Fasset website or phone our Call Centre for assistance.

Deadline for submissions: 31 March 2008

