



# Technical e-Newsletter

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## PROPOSED AMENDMENTS TO IAS 1 *Presentation of Financial Statements* *A Revised Presentation*



## *From the Editors ~ Fast Forward ...*

An IT magnate has once said that the development in the IT world in the next 10 years would far exceed all those that have taken place in the last 30 years. Well, the very same can actually be said of the accounting world! Just imagine this, barely 3 months after we've adopted the FRS 101 *Presentation of Financial Statements*, major changes to IAS 1 *Presentation of Financial Statements* are already imminent.

This is certainly the speed of new standards being evolved in coping with the increasingly complex business environment in the *e*-age. And this is certainly the speed required of us to stay abreast and remain competitive.

In this supplementary issue of our AXP Technical *e*-newsletter, we shall be looking into the key areas of the Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements* published by the International Accounting Standards Board (IASB).

As Malaysian FRS is converging with International FRS, it is important that we give our views on the proposed amendments at this consultation stage rather than after the proposal is approved and adopted. Our views on the same have been included. We certainly hope to hear from you as well!

**Editors**  
**AXP Technical *e*-Newsletter**  
May 2006

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## Proposed Amendments to *IAS 1 Presentation of Financial Statements:* *A Revised Presentation*

### BACKGROUND OF THE PROPOSED AMENDMENTS

The Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements* is published by the International Accounting Standards Board (IASB) as part of its project on performance reporting. The objective of the project is to enhance the usefulness, presentation and display of information in the financial statements.

The Exposure Draft proposes amendments that would require:

- (a) the presentation of a statement of financial position as at the beginning of the period in a complete set of financial statements
- (b) all owner changes in equity to be presented separately from non-owner changes in equity in a statement of changes in equity
- (c) all non-owner changes in equity (ie recognized income and expense) to be presented in one or two statements of recognized income and expense. Components of recognized income and expense are not permitted to be presented in the statement of changes in equity.
- (d) the disclosure of reclassification adjustments and income tax relating to each component of other recognized income and expense
- (e) the presentation of dividends and related per-share amounts on the face of the statement of changes in equity or in the notes.

IASB has invited comments on the proposed amendments.

As all comments on the proposed amendments should reach MASB by **26 June 2006**, you may want to furnish your comments to us latest by **10 June 2006** for our onward submission to MASB and IASB.

Alternatively, you may send your comments directly to the following address:

Malaysian Accounting Standards Board  
Suites 5.01 - 5.03, 5th Floor  
338, Jalan Tuanku Abdul Rahman  
50100 Kuala Lumpur.

**PROPOSED MAIN CHANGES (EXTRACTED FROM THE EXPOSURE DRAFT)**

| <b><u>PROPOSED MAIN CHANGES</u></b>  | <b><u>PURPOSE OF THE CHANGES</u></b>   |
|--|--|
| <b>A complete set of financial statements</b>  |  |
| <p>To replace “balance sheet” and “cash flow statement” with “statement of financial position” and “statement of cash flows”.</p> <p><i>Therefore, a complete set of financial statements should be as follows:</i></p> <ul style="list-style-type: none"> <li>● Statement of financial position;</li> <li>● Statement of recognized income and expense;</li> <li>● Statement of changes in equity; and</li> <li>● Statement of cash flows.</li> </ul> | <p>To reflect the function of the statements more closely.</p>   |
| <p>To include a statement of financial position as at the beginning of the period in a complete set of financial statements.</p> <p><i>Therefore, in addition to notes, an entity would be required to present three statements of financial position, two of each of the other statements that form part of a complete set of financial statements.</i></p>   | <p>To provide information that is useful to users in analyzing an entity’s financial statements.</p>         |
| <b>Reporting owner changes in equity and recognized income and expenses</b>  |  |
| <p><u>Existing IAS 1</u></p> <ol style="list-style-type: none"> <li>1. Income statement → includes income and expenses recognized in profit or loss.</li> <li>2. Other components of income and expense not recognized in profit or loss → may be presented in the statement of changes in equity, together with owner changes in equity.</li> </ol>   | <p>To provide better information to users by requiring aggregation of items with shared characteristics.</p> |

Proposed IAS 1

1. All changes in equity arising from transactions with owners in their capacity as owners (i.e., owner changes in equity) → should be presented separately from non-owner changes in equity. Components of income and expense (i.e., non-owner changes in equity) → not permitted to be presented in the statement of changes in equity.
2. Income and expenses → should be presented in one or two statements, separately from owner changes in equity.
3. Profit or loss and total recognized income and expenses → should be presented in the financial statements.

*Therefore, non-owner changes in equity would be presented in either:*

- (a) A single statement of recognized income and expense, or*
- (b) Two statements: a statement displaying components of profit or loss, and a second statement beginning with profit or loss and displaying components of other recognized income and expense.*

**Other recognized income and expense – reclassification adjustments and related tax effects**

Entities should disclose reclassification adjustments relating to each component of other recognized income and expense.

*Reclassification adjustments → amounts reclassified to profit or loss in the current period that were recognized in other recognized income and expense in previous periods.*

To provide users with information to assess the effect of reclassifications on profit or loss.

Entities should disclose income tax relating to each component of other recognized income and expense.

To provide users with tax information relating to these components because they often have tax rates different from those applied to profit or loss.

## Presentation of dividends

### Existing IAS 1

Permits disclosure of the amount of dividends recognized as distributions to equity holders and the related amount per share on:

1. the face of the income statement,
2. the face of statement of changes in equity, or
3. in the note.

### Proposed IAS 1

Dividends recognized as distributions to owners and related per-share amounts → to be presented on the face of the statement of changes in equity or in the notes.

Presentation on the face of the statement of recognized income and expense would not be permitted.

To ensure that owner changes in equity are presented separately from non-equity changes in equity.

## QUESTIONS FOR COMMENTS (AND OUR COMMENTS)

### A Complete Set of Financial Statements

#### Question 1

Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

#### Our Comments:

Yes, except that of 'Statement of recognized income and expense'. We are of the view that the "Statement of recognized income and expense" should be rephrased to "Statement of income and expense" as the word "recognized" is redundant. All items of income and expense that are not to be recognized under any accounting standards would not have been included in the Statement in the first place, and vice-versa.

In addition, we are of the view that the adoption of the changes in nomenclature be made mandatory. An option to use different titles for the very same financial statements would only serve to confuse and increase the risk of misunderstanding among users.

#### Question 2

Do you agree that a statement of financial position at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

#### Our Comments:

No. While the purpose of the proposal is to provide information that is useful to users in analyzing an entity's financial statements, the presentation of an additional statement of financial position may not be sufficient at all as far as serious analysis of financial data is concerned. The latter would usually require financial data in excess of the three years'. These additional data would normally be presented, outside the general purpose financial statements, such as a financial review by management that describes and explains the relevant statistics for the past 5 years or more in the annual reports.

As such, the proposal may only result in overloading the general purpose financial statements with unnecessary information instead of enhancing them.

## Reporting Owner Changes in Equity and Recognized Income and Expenses

### **Question 3**

Do you agree that non-owner changes in equity should be referred to as 'recognized income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognized income and expense'?

### **Our Comments:**

Yes, non-owner changes in equity should be referred to as 'recognized income and expense'.

The terminology used in the Standard is important in eliminating ambiguity while fostering a common understanding of the terms. Nevertheless, if entities are permitted to use other terms in their financial statements, it would defeat the said purpose and would be detrimental to the comparability of financial statements.

We are of the view that "recognized income and expense" should be rephrased to "income and expense" as the word "recognized" is redundant. All items of income and expense that are not recognized under any accounting standards would not have been accounted for in the first place.

### **Question 4**

Do you agree that all non-owner changes in equity (ie components of recognized income and expense) should be presented separately from owner changes in equity? If not, why?

### **Our Comments:**

Yes, as it would enhance the quality of the financial statements by presenting the changes in equity based on their nature and characteristics.

### **Question 5**

Do you agree that entities should be permitted to present components of recognized income and expense either in a single statement or in two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognized income and expense that are not included in profit or loss?

Our Comments:

Yes, entities should be permitted to present components of recognized income and expense either in a single statement or in two statements.

The presentation of two statements would:

1. provide a clearer presentation and understanding of the components of the income and expense,
2. draw a distinction between the profit or loss from normal operating activities and changes in other income and expense;
3. mitigate undue focus on the bottom line of the single statement; and
4. enhance the comparability of the financial information both with the entity's financial statements of previous years and with the financial statements of other entities.

Nevertheless, a conceptual distinction must be developed to determine whether any items should be reported in profit or loss or elsewhere.

**Other Recognized Income and Expense—Reclassification Adjustments and Related Tax Effects**

**Question 6**

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognized income and expense. Do you agree with this proposal? If not, why?

Our Comments:

Yes, the disclosure would enhance the users' understanding on the impact of the profit or loss reclassified from the other recognized income and expense.

**Question 7**

The Exposure Draft requires the disclosure of income tax relating to each component of other recognized income and expense. Do you agree with this proposal? If not, why?

Our Comments:

No. To enable the users to understand the impact of income tax on the other recognized income and expense, we are of the view that an entity should present the reconciliation of the income tax

elements of the other recognized income and expense in accordance with the IAS 12. This is to ensure that the information in the financial statements is presented in a consistent manner. Differences in tax rates are, therefore, shown in the reconciliation statements.

## **Presentation of Per-share Measures**

### **Question 8**

Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognized income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

### **Our Comments:**

We are of the view that an entity should also present the per-share measure for total recognized income and expense as the changes in the other recognized income and expense may also affect the valuation of an entity.