

# Financial INSIGHT

July 2011

## IASB's amendments to *IAS 1 Presentation of Financial Statements*

### 1. Background

On 16 June 2011, the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1")).

The inclusion of a statement of comprehensive income in a complete set of financial statements from 1 January 2009 was only the first phase of a much larger project of the IASB and FASB concerning presentation of financial statements. This most recent amendment is a part of the financial statement presentation project to improve and align the presentation of other comprehensive income ("OCI") in financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") and those prepared in accordance with US generally accepted accounting principles ("GAAP").

Up to the date of this Financial INSIGHT, the AASB has not yet issued an Australian equivalent of IAS 1. However, the AASB are expected to issue an Australian equivalent in the near future.

This Financial INSIGHT provides an overview of the main changes to IAS 1.

### 2. Main changes to IAS 1 *Presentation of Financial Statements*

The main changes to IAS 1 are as follows:

#### **Change of title**

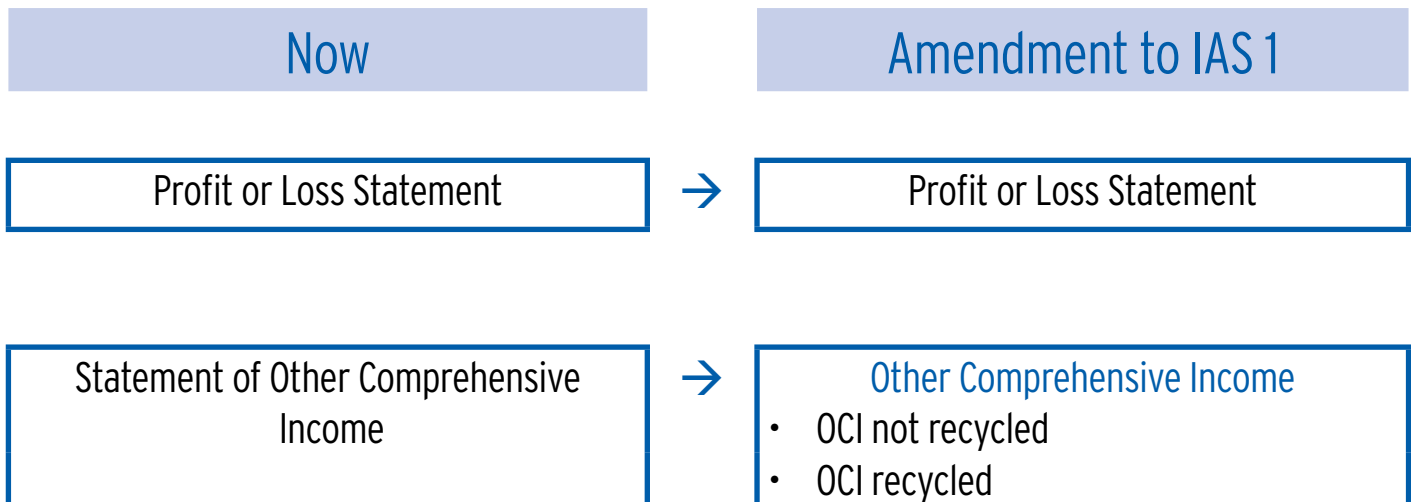
The amendments to the Standard change the title of the current statement of comprehensive income to 'statement of profit or loss and other comprehensive income', although, as is the case for other financial statement titles, this is not mandatory. An entity may still use titles for the statements other than those used in the Standard, such as 'statement of comprehensive income'.

#### **Grouping of items presented in OCI**

The main change to IAS 1 is that it requires entities preparing financial statements in accordance with IFRSs to group together items within OCI that will eventually be reclassified to the profit or loss section of the statement.

In other words, the amendments require entities to:

- present a statement showing, as two separate sections:
  - i. profit or loss; and
  - ii. all items of 'other comprehensive income'; and
- present separately:
  - i. those items of OCI that might be recycled subsequently; and
  - ii. those items of OCI that will not be recycled subsequently.



This amendment is intended to group items presented in OCI on the basis of whether they might at some point be reclassified ('recycled') from OCI to profit. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer.

Note that the amendments do not change which items should be presented in OCI or which and when items should be recycled through profit or loss. Below are some examples of items that IFRSs require to be presented in OCI:

- Foreign currency translation adjustments;
- Actuarial gains and losses arising on defined benefit plans;
- Revaluations of property, plant and equipment; and
- Changes in fair value of financial instruments in a cash flow hedge.

In addition, the amendment **does not** change the following:

- Profit or loss as a key performance measurement;
- The earnings per share (EPS) calculation; and
- The option to present items of OCI either before tax or net of tax. However, if these items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately.

In accordance with Section 82A of IAS 1, an entity is required to present separately the items of OCI that would be reclassified to profit or loss in the future, if certain conditions are met from those that would never be reclassified to profit or loss. Some examples of OCI items that may be reclassified subsequently to profit or loss are foreign currency differences on disposal of a foreign operation, and realised gains or losses on available-for-sale financial assets or cash flow hedges.

Examples of OCI items that would never be reclassified to profit or loss are changes in revaluation surplus recognised in accordance with IAS 16 *Property, Plant and Equipment* and actuarial gains and losses on defined benefit pension plans recognised in accordance with IAS 19 *Employee Benefits*.

Please refer to the table below for an illustrative example of OCI sections under the new requirement. Note that entities are still allowed to use titles for their statement other than that used in the example. Entities are also allowed to present additional line items, headings and subtotals in the statement when it is relevant to understanding the entity's financial performance.

Other Comprehensive Income	30 June 2011	30 June 2010
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Gains (loss) on strategic equity securities	5,200	(6,544)
Gain (loss) on property revaluation	8,874	-
Actuarial gains (losses) on defined benefit pension plans	(49,587)	31,305
Income tax	<u>10,654</u>	<u>(7,428)</u>
<i>Total items never reclassified to profit or loss</i>	(24,859)	(17,333)
<b>Items reclassified subsequently to net income upon derecognition</b>		
Exchange differences arising on translating foreign operations	15,467	(18,458)
Cash flow hedges		
Gains (losses) arising during the period	(4,965)	8,055
Reclassification of gains included in profit or loss	3,100	1,406
Share of other comprehensive income of associates	4,105	(2,499)
Income tax	<u>(4,081)</u>	<u>2,699</u>
Total items that may be reclassified to profit or loss subsequently	13,626	(8,797)
<b>Other Comprehensive Income</b>	<b><u>(11,233)</u></b>	<b><u>8,536</u></b>

### 3. Effective date

This standard applies to annual reporting periods beginning on or after 1 July 2012.

### 4. Actions

Given the increased importance of the presentation of items of OCI in the financial statements, entities will need to start planning for the new disclosure requirements for OCI.

**If you wish to discuss any of the issues raised in this publication contact your local RSM Bird Cameron advisor.**



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