What The CPA's Think About The Proposed Financial Statement Presentation

Stuart Shough, University of South Carolina Upstate, USA

ABSTRACT

The Financial Accounting Standards Board and the International Accounting Standards Board jointly issued a Discussion Paper soliciting comments on a proposed financial statement presentation. This paper presents the results from 605 CPA's responses to selected questions asked in the Discussion Paper.

Keywords: FASB proposed financial statement presentation

INTRODUCTION

Many users have expressed concerns that too many alternative types of presentations are allowed for financial statement presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between the financial statements and the financial results of an entity.

In response, the Financial Accounting Standards Board and the International Accounting Standards Board jointly developed three objectives for financial statement presentation that state that information should be presented in the financial statements in a manner that portrays a cohesive financial picture of an entity's activities, disaggregates information so that it is useful in predicting an entity's future cash flows, and helps users assess an entity's liquidity and financial flexibility.

On October 16, 2008, the Boards jointly issued a Discussion Paper titled Preliminary Views on Financial Statement Presentation. The purpose of the Discussion Paper was to solicit comments on whether the proposed financial statement presentation would improve the usefulness of the information provided by the entity and help users in making decisions. Specific questions were included in the Discussion Paper for respondents to submit their comments in writing by April 14, 2009.

Subsequent to that, a survey of their opinions was made of CPAs. This paper presents the responses of 605 CPA's to selected questions drawn from the Discussion Paper.

CLASSIFICATION SCHEME

Exhibit 1 illustrates the proposed classification scheme for the financial statements.

Exhibit 1

Statement of Financial Position	**Statement of Comprehensive Income**	**Statement of Cash Flows**
Business • Operating assets and liabilities • Investing assets and liabilities	***Business*** • Operating income and expenses • Investing income and expenses	***Business*** • Operating cash flows • Investing cash flows
Financing • Financing assets • Financing liabilities	***Financing*** • Financing asset income • Financing liability expenses	***Financing*** • Financing asset cash flows • Financing liability cash flows
Income taxes	***Income taxes* on continuing** operations (business and financing)	***Income taxes***
Discontinued operations	***Discontinued operations***, net of tax	***Discontinued operations***
Equity	***Other comprehensive income**, net of tax*	***Equity***

What Do The CPA's Think			
Would the objectives of financial statement presentation proposed above improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers?			
Yes	38%	No	62%

STATEMENT OF FINANCIAL POSITION

As can be observed in Exhibit 2, the Statement of Financial Position (Balance Sheet) would group data by major activities (operating, investing, and financing) not by assets, liabilities, and equity as at present.

The business activities section presents information about the way the entity creates value and the financing activities section presents information about the way it funds or finances those business activities.

What Do The CPA's Think			
Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today?			
Yes	48%	No	52%

The Boards concluded that information about the financing of business activities should be shown according to the source. The financing section would include nonowner sources of financing and the equity section would display information from owner sources.

What Do The CPA's Think			
Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section?			
Yes	64%	No	36%

In the Statement of Financial Position, information about discontinued operations would be shown separately from its continuing business and financing activities.

What Do The CPA's Think			
In the proposed presentation model, an entity would present its discontinued operations in a separate section. Does this presentation provide decision-useful information?			
Yes	80%	No	20%
Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)?			
Yes	23%	No	77%

Management would classify its assets and liabilities into the sections and categories in the statement of financial position based upon how management thinks the asset or liability is used within the entity. This classification by management would determine the classification in the statements of comprehensive income and cash flows.

What Do The CPA's Think			
The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items In the sections and categories in order to reflect the way an item is used within the entity or its reportable segment. Would a management approach provide the most useful view of an entity to users of its financial statements?			
Yes	37%	No	63%
Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach?			
Yes	61%	No	39%

What Do The CPA's Think			
The paper proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities?			
Yes	36%	No	64%

The Discussion Paper states that the business section should include assets and liabilities that management views as part of its continuing business activities of producing goods or providing services with customers, suppliers, and employees.

The operating category should include assets and liabilities that management views as related to the central purpose for which the entity is in business and the investing category should include assets and liabilities that management views as unrelated to the central purpose for which the entity is in business.

What Do The CPA's Think			
Are the business section and the operating and investing categories within that section defined appropriately?			
Yes	47%	No	53%

The financing section should include financial assets and financial liabilities that management views as part of the financing of the entity's business and other activities. The liabilities would normally result from capital-raising activities to fund business activities.

What Do The CPA's Think			
Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately?			
Yes	45%	No	55%
Should the financing section be restricted financial liabilities as defined in IFRSs and U.S. GAAP as proposed?			
Yes	64%	No	36%

The Discussion Paper proposes the elimination of cash equivalents. These types of securities should be shown as short-term investments and not presented as part of cash in the statement of financial position.

What Do The CPA's Think			
The Discussion Paper proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree?			
Yes	54%	No	46%

The Boards required disaggregation of assets and liabilities according to their measurement bases and present them on separate lines in the statement of financial position. For example, securities measured at amortized cost and securities measured at fair value should be shown on separate lines.

What Do The CPA's Think			
An entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases?			
Yes	50%	No	50%

STATEMENT OF COMPREHENSIVE INCOME

There is to be only a single Statement of Comprehensive Income (Exhibit 3) of which net income or loss would be a subtotal. Comprehensive income and other comprehensive income would no longer be allowed to be shown in the statement of changes in stockholder's equity.

What Do The CPA's Think			
Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed?			
Yes	64%	No	36%

STATEMENT OF CASH FLOWS

There are two major changes in the proposed format of the Statement of Cash Flows (Exhibit 4). Firstly, the elimination of cash equivalents and secondly, the entity would use the direct method to present its cash receipts and cash payments. The use of the indirect method would no longer be allowed for the operating activities section of the statement of cash flows.

What Do The CPA's Think			
The Paper proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows. Would a direct method of presenting operating cash flows provide information that is decision useful?			
Yes	59%	No	41%
Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives than an indirect method?			
Yes	58%	No	42%
Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule?			
Yes	52%	No	48%

NEW: A RECONCILIATION SCHEDULE

A new Reconciliation Schedule, (Exhibit 5), will be presented in the notes to the financial statements. This schedule reconciles cash flows to comprehensive income.

What Do The CPA's Think			
The Paper proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, c)remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments. Would the proposed reconciliation schedule increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows?			
Yes	51%	No	49%

The proposed financial statements presentation would apply to all entities except not-for-profit entities and nonpublic entities. The Discussion Paper states that the FASB has not considered explicitly whether this model should apply to nonpublic entities.

What Do The CPA's Think			
Do you think the FASB should consider the proposed presentation model to nonpublic entities?			
Yes	23%	No	77%

CONCLUSION

The survey clearly shows that the CPA's do not think the objectives of the proposed financial statement presentation would improve the usefulness of the information provided in an entity's financial statements and help users make better decisions.

Exhibit 2

Long Company
Statement of Financial Position
Proposed Format

	As at December 31	
	2009	2008
BUSINESS		
Operating		
Accounts receivable, trade	943,050	805,550
Less allowance for doubtful accounts	(67,680)	(69,180)
Accounts receivable, net	875,370	736,370
Inventory	57,250	73,250
Prepaid rent	42,000	36,000
Total short-term assets	*974,620*	*845,620*
Property, plant and equipment	2,378,000	2,258,000
Less accumulated depreciation	(1,929,694)	(1,349,847)
Property, plant and equipment net	448,306	908,153
Investment in ABC Co.	424,800	424,000
Total long-term assets	*873,106*	*1,332,153*
Accounts payable, trade	(49,400)	(43,900)
Wages payable	(35,200)	(17,200)
Warranties payable	(35,000)	(30,000)
Current portion of lease liability	(75,131)	(68,301)
Total short-term liabilities	*(194,731)*	*(159,401)*
Lease liability	(173,555)	(248,686)
Other long-term liabilities	(50,000)	(50,000)
Total long-term liabilities	*(223,555)*	*(298,686)*
Net operating assets	**1,429,440**	**1,719,686**
Investing		
Available-for-sale securities (short-term)	62,000	54,000
Investment in XYZ Co. (long-term)	685,500	683,000
Total investing assets	**747,500**	**737,000**
NET BUSINESS ASSETS	**2,176,940**	**2,456,686**
FINANCING		
Financing assets		
Cash	2,170,080	1,258,480
Total financing assets	**2,170,080**	**1,258,480**
Financing liabilities		
Short-term borrowings	(400,000)	(400,000)
Interest payable	(17,000)	(9,000)
Total short-term financing liabilities	*(417,000)*	*(409,000)*
Long-term borrowings	(619,000)	(545,000)
Total financing liabilities	**(1,036,000)**	**(954,000)**
NET FINANCING ASSETS	**1,134,080**	**304,480**
INCOME TAXES		
Short-term		
Deferred tax asset	15,200	10,400
Income taxes payable	(45,828)	(26,686)
Long-term		
Deferred tax liability	(136,000)	(216,000)
NET INCOME TAX LIABILITY	**(166,628)**	**(232,286)**
DISCONTINUED OPERATIONS		
Assets held for sale	162,000	162,000
Liabilities related to assets held for sale	(80,000)	(89,000)
NET ASSETS HELD FOR SALE	**82,000**	**73,000**
NET ASSETS	*3,226,392*	*2,601,880*
EQUITY		
Share capital	(1,552,000)	(1,437,000)
Retained earnings	(1,761,192)	(1,162,480)
Accumulated other comprehensive income	1,800	(2,400)
Treasury Stock	85,000	
TOTAL EQUITY	**(3,226,392)**	**(2,601,880)**
Total short-term assets	**3,383,900**	**2,330,500**
Total long-term assets	**1,558,606**	**2,015,153**
Total assets	**4,942,506**	**4,345,653**
Total short-term liabilities	**(737,559)**	**(684,087)**
Total long-term liabilities	**(978,555)**	**(1,059,686)**
Total liabilities	**(1,716,114)**	**(1,743,773)**

Exhibit 3

Long Company
Statement of Comprehensive Income
Proposed Format

	As at December 31	
	2009	2008
BUSINESS		
Operating		
Sales		
Wholesale	2,640,000	2,480,000
Retail	660,000	620,000
Total revenue	*3,300,000*	*3,100,000*
Cost of goods sold		
Materials	(467,500)	(425,000)
Labor	(704,000)	(640,000)
Overhead-depreciation	(454,847)	(454,847)
Overhead-other	(101,200)	(91,200)
Total cost of goods sold	*(1,727,547)*	*(1,611,047)*
Gross profit	*1,572,453*	*1,488,953*
Selling expenses		
Wages and salaries	(64,000)	(60,000)
Warranty expense	(35,000)	(30,000)
Bad debt	(42,000)	(45,330)
Total selling expenses	*(141,000)*	*(135,330)*
General and adminstrative expenses		
Rent	(78,000)	(72,000)
Wages and salaries	(76,000)	(75,000)
Depreciation	(165,000)	(175,000)
Interest on lease liability	(31,699)	(37,908)
Total general and administrative	*(350,699)*	*(359,908)*
Income before other operating items	*1,080,754*	*993,715*
Other operating income		
Share of profit--ABC Co.	14,600	16,000
Gain on disposal of equipment	28,000	
Total other operating income	*42,600*	*16,000*
Total operating income	**1,123,354**	**1,009,715**
Investing		
Dividend income	11,000	9,000
Realized gain on available-for-sale securities	6,000	
Share of profit--XYZ Co.	15,500	14,000
Total investing income	**32,500**	**23,000**
TOTAL BUSINESS INCOME	**1,155,854**	**1,032,715**
FINANCING		
Interest income on cash	14,000	12,000
Total financing asset income	**14,000**	**12,000**
Interest expense	(92,000)	(89,000)
Total financing liability expense	**(92,000)**	**(89,000)**
TOTAL FINANCING EXPENSE	**(78,000)**	**(77,000)**
Profit from continuing operations before taxes and other comprehensive income	*1,077,854*	*955,715*
INCOME TAXES		
Income tax expense	(431,142)	(382,286)
Net profit from continuing operations	*646,712*	*573,429*
DISCONTINUED OPERATIONS		
Loss on discontinued operations	(10,000)	(14,000)
Tax benefit	4,000	5,600
NET LOSS FROM DISCONTINUED OPERATIONS	**(6,000)**	**(8,400)**
NET INCOME	**640,712**	**565,029**
OTHER COMPREHENSIVE INCOME (after tax)		
Unrealized gain on available-for-sale securities (investing)	(4,200)	2,400
TOTAL OTHER COMPREHENSIVE INCOME	**(4,200)**	**2,400**
TOTAL COMPREHENSIVE INCOME	**636,512**	**567,429**
Basic earnings per share	7.14	6.89
Diluted earnings per share	6.78	5.92

Exhibit 4

Long Company Statement of Cash Flows Proposed Format	As at December 31	
	2009	2008
BUSINESS		
Operating		
Cash received from customers		
Wholesale	2,496,000	2,356,000
Retail	624,000	589,000
Total cash collected from customers	*3,120,000*	*2,945,000*
Cash paid for goods		
Material purchases	(446,000)	(435,000)
Labor	(690,000)	(642,000)
Overhead-other	(101,200)	(91,200)
Total cash paid for goods	*(1,237,200)*	*(1,168,200)*
Cash paid for selling activities		
Wages and salaries	(64,000)	(60,000)
Warranty	(30,000)	(25,000)
Total cash paid for selling activities	(94,000)	(85,000)
Cash paid for general and administrative activities		
Rent	(84,000)	(72,000)
Wages and salaries	(72,000)	(70,000)
Lease payments	(68,301)	(62,092)
Interest on lease liability	(31,699)	(37,908)
Total cash paid for general and administrative activities	*(256,000)*	*(242,000)*
Cash flow before other operating activities	*1,532,800*	*1,449,800*
Cash from other operating activities		
Dividend income	13,800	12,000
Purchase of equipment	(160,000)	(200,000)
Disposal of equipment	28,000	
Total cash received for other operating activities	*(118,200)*	*(188,000)*
Net cash from operating activities	**1,414,600**	**1,261,800**
Investing		
Dividends received	24,000	19,000
Sale of available-for-sale financial assets	36,000	
Purchase of available-for-sale financial assets	(45,000)	(50,000)
Net cash from investing activities	**15,000**	**(31,000)**
NET CASH FROM BUSINESS ACTIVITIES	**1,429,600**	**1,230,800**
FINANCING		
Interest received on cash	14,000	12,000
Total cash from financing assets	**14,000**	**12,000**
Pay long-term liabilities	(46,000)	
Interest paid	(84,000)	(80,000)
Dividends paid	(42,000)	(56,000)
Proceeds from long-term liabilities	120,000	
Total cash from financing liabilities	**(52,000)**	**(136,000)**
NET CASH FROM FINANCING ACTIVITIES	**(38,000)**	**(124,000)**
Change in cash from continuing operations before taxes and equity	*1,391,600*	*1,106,800*
INCOME TAXES		
Cash taxes paid	(490,000)	(256,000)
Change in cash before discontinued operations and equity	*901,600*	*850,800*
DISCONTINUED OPERATIONS		
Cash paid from discontinued operations	(20,000)	(17,000)
NET CASH FROM DISCONTINUED OPERATIONS	**(20,000)**	**(17,000)**
Change in cash before equity	*881,600*	*833,800*
EQUITY		
Proceeds from issue of common stock	115,000	
Proceeds from reissue of treasury stock	(85,000)	
NET CASH FROM EQUITY	**30,000**	-
CHANGE IN CASH	**911,600**	**833,800**
Beginning cash	**1,258,480**	**424,680**
Ending cash	**2,170,080**	**1,258,480**

Exhibit 5

Long Company
Reconciliation pf Cash Flows to Comprehensive Income
For The Year Ended December 31, 2009

		Noncash Items Affecting Income				
		Not From Remeasurements	From Remeasurements			Statement of Comprehensive Income
Caption in Statement of Cash Flows	Cash Flows	Accruals Allocations, and Other	Recurring Fair Value Adjustments	Other Than Recurring FV Adjustments	Comprehensive Income	Caption in Statement of Comprehensive Income
BUSINESS						**BUSINESS**
Operating						**Operating**
Cash received from wholesale customers	2,496,000	144,000			2,640,000	Sales—wholesale
Cash received from retail customers	624,000	36,000			660,000	Sales—retail
Total cash collected from customers	*3,120,000*	*180,000*			*3,300,000*	*Total revenue*
Cash paid for goods						Cost of goods sold
Materials	(446,000)	(21,500)			(467,500)	Materials
Labor	(690,000)	(14,000)			(704,000)	Labor
		(454,847)			(454,847)	Overhead-depreciation
Overhead-other	(101,200)	-			(101,200)	Overhead-other
Total cash paid for goods	*(1,237,200)*	*(490,347)*			*(1,727,547)*	*Total cost of goods sold*
						Gross profit
Cash paid for selling activies						Selling expenses
Wages and salaries	(64,000)	-			(64,000)	Wages and salaries
Warranty expense	(30,000)	(5,000)			(35,000)	Warranty expense
		(42,000)			(42,000)	Bad debt
Total cash paid for selling activies	*(94,000)*	*(47,000)*			*(141,000)*	*Total selling expenses*
Cash paid for geneal and adminstrative activities						General and administrative expenses
Rent	(84,000)	6,000			(78,000)	Rent
Wages and salaries	(72,000)	(4,000)			(76,000)	Wages and salaries
		(165,000)			(165,000)	Depreciation
Capital expenditures	(68,301)	68,301				
Interest on lease liability	(31,699)	-			(31,699)	Interest on lease liability
Total cash paid for general and administrative	*(256,000)*	*(94,699)*			*(350,699)*	*Total general and administrative expenses*
Cash flow before other operating activities	**1,532,800**	**(452,046)**			**1,080,754**	*Income before other operating items*
Cash from other operating activities						Other operating income (expense)
Dividend income	13,800	800			14,600	Share of profit--ABC Co.
Purchase of equipment	(160,000)	160,000				
Disposal of property, plant and equipment	28,000				28,000	Gain on disposal of equipment
Total cash received from other operating activies	*(118,200)*	*160,800*			*42,600*	*Total other operating income*
Net cash from operating activities	**1,414,600**	**(291,246)**			**1,123,354**	**Total operating income**
Investing						**Investing**
Dividend income	13,000	(2,000)			11,000	Dividend income
Realized gain on available-for-sale securities		6,000			6,000	Realized gain on available-for-sale securities
Dividend income	11,000	4,500			15,500	Share of profit--XYZ Co.
Sale of available-for-sale financial assets	36,000	(36,000)				
Purchase of available-for-sale financial assets	(45,000)	45,000				Purchase of available-for-sale financial assets
Net cash from investing activities	**15,000**	**17,500**			**32,500**	**Total investing income**
NET CASH FROM BUSINESS ACTIVITIES	**1,429,600**	**(273,746)**			**1,155,854**	TOTAL BUSINESS INCOME
FINANCING						**FINANCING**
Interest income on cash	14,000				14,000	Interest income on cash
Total cash from financing assets	**14,000**				**14,000**	**Total financing asset income**
Proceeds from issue of short-term debt	(46,000)	46,000				
Interest paid	(84,000)	(8,000)			(92,000)	Interest expense
Dividends paid	(42,000)	42,000				
Total cash from financing liabilities	**(172,000)**	**80,000**			**(92,000)**	**Total financing liability expense**
NET CASH FROM FINANCING ACTIVITIES	**(158,000)**	**80,000**			**(78,000)**	TOTAL NET FINANCING EXPENSE
Change in cash from continuing operations before taxes and equity	*1,271,600*	*(193,746)*			*1,077,854*	*Profit from continuing operations before taxes and other comprehensive income*
INCOME TAXES						INCOME TAXES
Cash taxes paid	(490,000)	58,858			(431,142)	Cash taxes paid
Change in cash before discontinued operations and equity	781,600	(134,888)			646,712	*Net profit from continuing operations*
DISCONTINUED OPERATIONS						DISCONTINUED OPERATIONS
Cash paid from discontinued operations	(20,000)	10,000			(10,000)	Loss on discontinued operations
		4,000			4,000	Tax benefit
NET CASH FROM DISCONTINUED OPERATIONS	(20,000)	14,000			(6,000)	NET LOSS FROM DISCONTINUED OPERATIONS
Change in cash before equity	761,600	(120,888)			640,712	NET INCOME
						OTHER COMPREHENSIVE INCOME (after tax)
			(4,200)		(4,200)	Unrealized gain on available-for-sale securities
					(4,200)	TOTAL OTHER COMPREHENSIVE INCOME
Change in cash before equity	761,600	(120,888)	(4,200)		636,512	TOTAL COMPREHENSIVE INCOME

AUTHOR INFORMATION

Stuart Shough has worked in the private sector for 12 years and has taught accounting for 26 years. He is currently Senior Instructor at the George Dean Johnson, Jr. College of Business and Economics at the University of South Carolina Upstate.

REFERENCES

Available from author.

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