

Alena Kucková

REACTION OF SLOVAK AND CZECH PUBLIC TO THE PROPOSED FINANCIAL STATEMENT PRESENTATION MODEL

Abstract: *The IASB and FASB are currently working on a joint project about financial statement presentation. Recent outcome of the cooperation was the publishing of the staff draft of exposure draft IFRS X – Financial statement presentation in July 2010. To receive as much feedback as possible on the proposed model and the most significant changes there were prepared questionnaires by the IASB and EFRAG, as well as organized other outreach activities. The paper presents the feedback and comments on the proposals from the side of Slovak and Czech public, for which a similar questionnaire was prepared to participate in this discussion even though they were omitted from direct involvement on the EFARG's event. The results could contribute to the general debate about the topic and bring the ideas from Slovak and Czech national standard setters, analysts and future users. The new standard for financial statement presentation is going to be accepted worldwide and it is necessary for the IASB and FASB to respond to all relevant opinions.*

Keywords: *financial statement presentation, staff draft, disaggregation and cohesiveness principles, structure of financial statements, direct method of cash-flow statement presentation, remeasurements, analysis of changes in assets and liabilities*

JEL: M 41, M 48

Introduction

Nowadays in the world of international accounting standards, a number of public discussions are held due to the new model of financial statement presentation designed in the staff draft of planned future common standard of the IASB – *International Accounting Standards Board* and FASB – *Financial Accounting Standards Board*. The boards have jointly worked on the financial statement presentation project since 2001 and the recently published staff draft (July 2010) is the result of cooperation as well as the forerunner of the global standard (planned in 2013). The issuing of staff draft even before exposure draft should bring much more comments and feedback from the public mostly professionals, analysts and national standard setters, because the new proposals significantly differ from the former requirements.

After issuing the staff draft IASB and FASB seek the opinions from respondents about the most important changes by own questionnaires. EFRAG – *European Financial Reporting Advisory Group* also joined the investigation with publishing its own paper and questionnaire and organizing the outreach meetings in various European countries since the end of October till the beginning of December. The most frequently discussed matters are the brand new principles of financial statement presentation – disaggregation and cohesiveness then the structure of each statement to sections and categories based upon the business activities and the new requirements to disclose remeasurements and analysis of changes in assets and liabilities in the notes. However, the most controversial change is the requirement to present cash-flow using the direct format. EFRAG in itself is not persuaded about the sufficiency of the compelling arguments from the side of IASB about the necessity of this change. Also the companies as the standard users would rather keep the current indirect version. The outcomes of the outreach meetings and questionnaires will aid to the improving of the new standard exposure draft and by that the new standard as well.

The recent outreach activities of the boards and EFRAG led into the idea to discover the attitude of Slovak and Czech public about the proposals in the staff draft. Consequently, there was prepared the questionnaire in Slovak language¹ based on those published by the IASB and EFRAG and addressed to the professional public and the companies using standards. The paper presents the gained results and explains the lack of interest about the topic from the respondents. Hopefully it could contribute to the general running discussion.

The remainder of the paper is organized as follows. The part on the Institutional background contains a summary of the information about financial statement presentation project, the target of the published staff draft as well as the brief information about IASB and EFRAG questionnaires. Next part Methodology describes the way the Slovak questionnaire was prepared and distributed to the respondents in Slovakia and in the Czech Republic. Part Results brings the analysis of answers to the questionnaire; Discussion and conclusion outline the summary and implications.

Institutional background

Financial Statements Presentation Project

In 2001, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) added to their respective agendas a project on reporting financial performance and conducted those projects independently of one another. In 2004, the boards agreed that they should conduct a project of this nature jointly to promote the convergence of accounting standards used internationally. The FASB and IASB share staff resources and research for this joint project. The joint

¹ Generally understandable for Czechs (common state till 1993).

project team consists of staff from the FASB, the IASB, and the ASBJ (Accounting Standards Board of Japan). In agreeing to pursue in their similar projects jointly, the boards agreed to take a fresh look at the presentation of financial statements information. The joint project scope goes beyond presentation and display of items of income and expense; it addresses presentation and display on the face of the financial statement that constitute a complete set of financial statements.

The objective of the financial statement presentation project is to establish a global standard that will guide the organization and presentation of information in the financial statements. The standard would directly affect how the management of an entity communicates financial statement information to the users of its financial statements, such as existing and potential equity investors, lenders and other creditors. The boards' goal is to improve the usefulness of the information provided in an entity's financial statements to help those users in their decision-making.

In April 2004, the boards decided to approach the project in three phases. **Phase A** would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. The boards completed their deliberations on **Phase A** in December 2005. On March 16, 2006, the IASB published its Phase A exposure draft, Proposed Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation. The FASB decided to consider phases A and B issues together and, therefore, did not publish an exposure draft on phase A. After considering the responses to its exposure draft, the IASB issued a revised version of the IAS 1 in September 2007. The revisions to IAS 1 affected the presentation of changes in equity and the presentation of comprehensive income, bringing the IAS 1 largely into line with FASB Statement No. 130, Reporting Comprehensive Income (Statement 130). The FASB's tentative decisions on Phase A issues are included in the FASB July 2010 staff draft.

Phase B is being still in process and it would address more fundamental issues relating to presentation and display of information in the financial statements, including aggregating and disaggregating information in each primary financial statement, defining totals and subtotals, and reconsidering the use of a direct or an indirect method of presenting operating cash flows.

In **Phase B** discussions, the Boards developed two core principles for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed principles state that information should be presented in the financial statements in a manner that:

- Disaggregates information so that it is useful in predicting an entity's future cash flows. Disaggregation means separating resources by the activity in which they are used and by their economic characteristics.
- Portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible.

The disaggregation and cohesiveness principles work together, to enhance the understandability of an entity's financial statement information.

Phase C (not yet started) would address the presentation and display of interim financial information in U.S. generally accepted accounting principles (GAAP). The IASB also may reconsider the requirements in IAS 34, Interim Financial Reporting.

On October 16, 2008, both boards published for public comment a discussion paper, **Preliminary Views on Financial Statement Presentation**. The discussion paper contained an analysis of the current issues in financial statement presentation and presented the boards' initial thinking on how those issues could be addressed in a possible future format. The discussion paper was open for comments until 14 April 2009.

Staff Draft of the Exposure Draft Financial Statement Presentation

The staff of the FASB and IASB is being engaged in a focused and targeted outreach programme on the boards' joint Financial Statement Presentation (FSP) Project before finalizing and publishing an exposure draft. To facilitate their outreach efforts, the boards decided that a draft of the proposed standards would be an effective way of communicating their tentative decisions reached to date, which is referred to as a "**staff draft**" and was published on 1 July 2010. This staff draft of proposed standards 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, the 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 staff draft has not been approved by either the FASB or the IASB.

How an entity presents information in its financial statements is vitally important because financial statements are a principal means of communicating financial information to those outside the entity. The IASB and the FASB initiated the joint project on financial statement presentation to address users' concerns that existing requirements permit too many alternative types of presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between an entity's financial statements and its financial results.

- *The project's main proposals finally are:* cohesive financial statements that share a common structure, separately presenting operating, investing and financing activities as well as income tax and discontinued operations;
- disaggregation in each financial statement, considering its function, nature and measurement basis, with some disaggregation included in the notes;
- more disaggregation of operating cash receipts and payments, and reconciliation of profit or loss from operating activities to cash flows from operating activities;

- analyses of changes in asset and liability line items (including net debt – IASB only);
- and disclosure of remeasurement information.

The proposals in this staff draft are intended to improve the comparability and understandability of information presented in financial statements by imposing some degree of standardisation, particularly regarding how information is classified and the degree to which it is disaggregated.

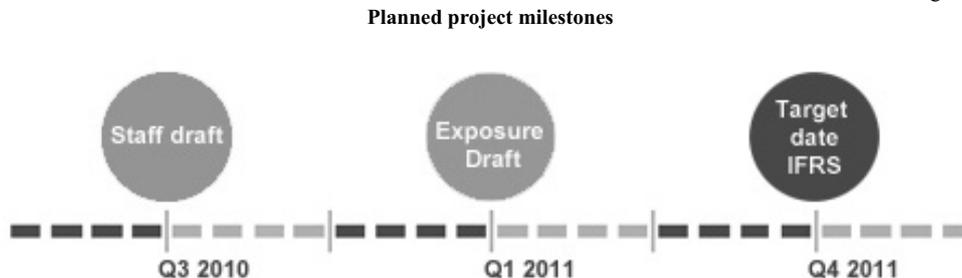
Expected benefits of the staff draft on Financial Statement Presentation as stated by the IASB and FASB are following:

- (a) Separation of business activities from financing activities on each of the financial statements. It should be easier for users to analyse an entity's performance independent of its capital structure.
- (b) The proposed financial statement structure has common sections, categories, and subcategories in each financial statement. The belief is that this will provide a greater comparability in financial reporting across entities.
- (c) Presenting net income and other comprehensive income in the same statement would improve the understandability of changes in the balance sheet, statement of comprehensive income, and what is reported as net income.
- (d) The statement of comprehensive income and related notes would include more line items than is required today because of the required reporting of dissimilar items (that is, income and expense items by *function* – the activity – and by *nature* – the input). This additional detail should provide a better basis for users to make informed investment decisions.
- (e) Disaggregating operating cash inflows and outflows on the statement of cash flows (that is, presenting actual cash flows) is believed to make the statement of cash flows more intuitive and understandable, improve the ability to predict future cash flows and provide insight into an entity's cash conversion cycle.
- (f) A roll forward of the changes between the beginning and ending balances of important assets and liabilities showing the various components of change and disclosure of amounts recognized in income from remeasurement (for example, fair value changes) should result in a better understanding of the likelihood that earnings levels are sustainable or likely to recur.
- (g) The [FASB only] requirement to disclose by-nature information in the segment note (for an entity with more than one reportable segment) along with other key operating measures (e.g. assets, liabilities, cash flows) will help users analyze and forecast segment level results.

Before finalising and publishing the exposure draft, the boards will engage in further outreach and analysis. These 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 institutions.

The boards are not formally inviting comments on this staff draft; however, they welcome input from interested parties. The boards expected to publish an exposure draft for public comment in early 2011 as seen on the planed milestones.

Figure 1



Source: <http://www.ifrs.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Phase+B/Phase+B+-+Replacement+of+IAS+1+and+IAS+7.htm>

After completing and carefully considering the results of the outreach activities, the Boards will deliberate and make changes as appropriate to their tentative decisions as reflected in the staff draft. At their October 2010 joint meeting, the Boards acknowledged that they did not have the capacity currently to devote the time necessary to consider the information learned during outreach activities and modify their tentative decisions. Consequently, the Boards decided *to not issue an Exposure Draft in the first quarter 2011* as originally planned.

Board members and staff meet with the project working group in December 2010 to discuss the cost and benefit information received during outreach activities and possible ways to move forward. The Boards expected return to this project is to be after June 2011.

IASB Questionnaire

The FASB and IASB recently have obtained feedback through the questionnaire from their constituents (including investors and analysts) on the draft of the proposals in staff draft (the responses were accepted till October, 15). This questionnaire asks 15 questions about how the proposals will affect one's analysis². The target audience for this questionnaire is financial statement users (including investors and analysts). Other outreach efforts are being conducted to consult with different groups of constituents. Comments are requested from those who agree with the proposals as well as from those who do not. Reasoned responses will be most helpful to the development of the Exposure Draft.

The questions are focused on the most significant changes which new standard should bring into practice. First of all what the IASB wants to know is if the new suggested structure of financial statement presentation, which uses common

² Could be found between "Related information" on the following link: <http://www.ifrs.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Phase+B/Phase+B+-+Replacement+of+IAS+1+and+IAS+7.htm>

sections, categories and a subcategory to organise information across each of the financial statements *based on the underlying activities* (operating, investing and financing) an entity engages, would be helpful for the analysis. The important change is also the request to present only one *statement of comprehensive income* (the current possibility of presenting two statements – single income statement and statement of other comprehensive income is lost), which contains of two different sections – profit or loss/net income and items of other comprehensive income. This should improve the comparability, transparency, and understandability of financial statements. The Board seeks also the opinion about the suggested presenting of items of comprehensive income based on both their *function and nature*.

The proposal of the standard requires the presentation of gross operating cash receipts and gross operating cash payments (e.g. Cash from customers, Cash paid for materials, Cash paid for labour). This is commonly referred to as “direct cash flows”, so by that *direct method of presenting cash-flow* becomes superior. The boards’ proposal will also continue to include a *reconciliation of income to cash flows*. However, it is proposed that only the income from operating activities (not net income) will be reconciled to cash flows from operating activities. This will eliminate many of the non-operating adjustments that are often made to net income in the current reconciliation requirements. This topic has already raised a lot of discussions in the professional public, predominantly about the use of direct method, doing reconciliation and as well about the presentation of gross cash inflows and outflows. The question from the IASB’s side is about the possible overloading of information for users after doing all the mentioned as required now in the proposal.

Other important and notable changes are the disclosure of the *remeasurement and the analysis of changes in assets and liabilities* in the notes of financial statements. The Board i wants to find out if such information is going to be helpful for the analysis of financial statement or not. Considering all the proposed changes, namely: classification of financial information into the required sections, categories, and subcategories, increased disaggregation by nature for income and expense items, disaggregation of operating cash flows, disclosure of analyses of changes in asset and liability line items, disclosure of remeasurements; the IASB wants to find out if the benefits anticipated from them will outweigh the necessary costs for changing the style of financial statement presentation.

EFRAG Questionnaire

To assist the IASB in its efforts to gather views from European constituents, as well as to inform itself of whether, and to what extent, EFRAG preliminary views are representative of European views, the EFRAG decided to organise outreach events throughout Europe from September to November 2010, in partnership with European National Standard Setters. To avoid any duplication of effort, EFRAG decided to invite the IASB to participate in these events, the objective of which was to:

- present the IASB's tentative decisions to constituents;
- present EFRAG's tentative views, highlighting areas of support and focusing on areas of concern;
- seek views from constituents in Europe on the proposals; and
- seek views from constituents in Europe on possible improvements to those proposals.

The outreach meetings were already organised jointly with National Standard Setters in their jurisdictions, inviting European constituents, including issuer and investor representatives. Prior to the outreach events, participants were asked to express their views on the issues in a questionnaire. Altogether 10 outreach meetings were organised at the following locations and dates: Amsterdam (26 October), Helsinki (15 November), Warsaw (26 November), Stockholm (22 November), Oslo (19 November), Madrid (24 November), Rome (26 November), Frankfurt/Main (30 November), London (1 December), Paris (2 December). The constituents who were unable to attend one of the above events could make their voice heard by completing a short questionnaire by 2 December 2010³.

As part of the outreach activities, EFRAG published a paper, which is intended to stimulate the debate by European constituents on the proposals included in the staff draft and serve as a basis for the outreach events in Europe. This paper based on the EFRAG's preliminary views was published before the end of September 2010. The comments are expected till 30 April 2011.

In the published paper EFRAG presents its standpoint to the proposals set in the staff draft of the planned new standard. It reflects its agreement and disagreement with particular issues and asks for more persuasive arguments from the IASB. EFRAG believes that fundamental issues related to *performance reporting* should be given a higher priority by the IASB in the notion of performance and its relationship with business models and in the content of performance statements. EFRAG is generally supportive of *cohesiveness and disaggregation as core principles* of financial statement presentation, but has concerns about the proposed application of these principles. It is necessary to set out more detailed guidance how and to which level the disaggregation is required to avoid primary financial statements becoming overly detailed and also to consider possible exceptions for the cohesiveness principle in particular situations (post-employment benefits).

The staff draft clarifies that the overall *classification approach* based on functional activities is a requirement that is not at management's discretion. EFRAG supports the principles underlying the classification of items into sections, categories and subcategories, but suggests some changes, for example that equity should be a separate section rather than part of the financing section, or that cash should be classified with all other assets and liabilities used in the financing activities not in the operating category.

The biggest space for discussion is focused on the *cash-flow statement* and the changes required. EFRAG disagrees with the requirement of using the direct method

³ The questionnaire was accessed on the following internet address: <http://www.surveymonkey.com/s/JD3KHC7>.

for presenting operating cash flows accompanied with an indirect reconciliation of operating profit to operating cash flows, because the IASB has not provided compelling arguments explaining why such a change is needed. The IASB argues that the direct method for presenting operating cash flows is more intuitive and understandable to a broad range of users of financial statements, and it improves the ability of users to predict future cash flows. However, the Board does not specify how that ability would be improved and why the indirect cash flow statement does not provide information of the same quality. It is very needful to give more persuasive arguments for using the direct method because it is the fundamental change on the grounds that a large majority of the companies currently use the acceptable indirect method of cash-flows presentation. Neither EFRAG supports the necessity of disaggregation of operating cash-flow according the nature, because it could end in overloading of information presented (when considering the disclosure of remeasurements and changes in assets and liabilities). The other question is about the cash-flow statement and its value for the financial services and insurance companies financial statements. The idea is to make special guidance for them.

EFRAG agrees with the overall objective of the disclosure on remeasurements, which should help the users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future. The standard, however, should clearly state the requirement, i. e. what should be done, and the explanation as to why this should be done could be included in the Basis for Conclusions. EFRAG also agrees with the disclosing the analysis of changes in assets and liabilities, but is afraid that the requirement leads to disclosures of almost all items displayed on the face of the statement of financial position which would generally again overload the amount of information presented. EFRAG will publish a report summarising the views expressed by constituents during the outreach events and in response to the paper. This report will also be communicated to the IASB for its consideration and will be taken into account by EFRAG in preparing its draft comment letter on the exposure draft, once the final exposure draft has been issued.

Methodology

The hot debate about the new proposals set out in the staff draft of exposure draft “Financial statement presentation” drew attention also due to the information about the general attitude to the changes planned in Slovakia and in the Czech Republic. For Slovak and Czech participants there was prepared the online questionnaire with the title “Questionnaire about the implementation of new IFRS – Financial statement presentation”⁴. It seeks the feedback and reactions about the planned changes that new IFRS X – Financial statement presentation is bringing from the side of Slovak and Czech accounting professionals and the companies using the standards in those

⁴ Available at the following link: <https://spreadsheets.google.com/viewform?formkey=dFpKNURhTm5jUVcxVURmME5qY0hDNmc6MQ>

countries. It consists of 10 questions based on the most significant changes and most frequently discussed issues of the proposed standard, and it reacts to the running public discussion about the topic held by the IASB itself as well as by EFRAG. The results were processed separately and compared, and they should be used also in the dissertation "Accrual principle and its role by presentation of financial performance" as the opinion on the new model of presenting financial performance suggested by new standard.

According the information from KPMG in Slovakia in the year 2010 round 250 companies is preparing financial statements (individual as well consolidated) according to the IFRS and a few hundred others prepare their consolidated package based on the IFRS requirements for mother companies⁵. Unfortunately, it was not possible to gain the contacts on all companies applying the IFRS in Slovakia. The tax office cannot provide such information because it is the subject of tax secret and any other sources of contacts have not been found. In the Czech Republic only the listed companies shall prepare the financial statements (individual as well as consolidated) according to the IFRS⁶. There is also possibility to use the IFRS for mother companies, while in Slovakia this is required in the preparation of consolidated financial statements. The information about the number of companies using the standards in the Czech Republic has not been ascertained.

The questionnaire was eventually addressed to 236 in Slovakia and 211 recipients in the Czech Republic (together 447). In Slovakia 15 of those asked were the professionals from the Ministry of Finance, tax office, the accounting departments of universities and big audit companies. The other 56 were financial institutions, banks and insurance companies, which use the IFRS and the other 165 questionnaires were addressed to the top and biggest companies in Slovakia. In the Czech Republic 37 of the addressed were professionals, and as for companies there were 21 listed on the Czech stock exchange, 59 offering financial services and 94 belonging to the top 100 in the Czech Republic. None of them answered that they did not use the IFRS, so it is concluded they use them. It was really difficult to search for the correct email contacts for the companies and financial institutions, that is why from the total 18 emails in Slovakia and 11 in the Czech Republic were not delivered (together 29).

Finally, the sample to be considered consists of 418 recipients, representing 218 in Slovakia and 200 in the Czech Republic. The total number of received answers is 42. It is surprising is that in each country there were altogether 21 answers, from which in both countries 11 were negative containing the explanations why they cannot participate in the review. Most of their reasons were the disabilities to join it due to the lack of information about the brand new proposal or the shortage of time and lack of interest in the topic or the negative standpoint to questionnaires in general. The other was, for example, conflict of interests and specific moment in the life-cycle of company such as start or sale. Also more than a half of addressees were those of the first contact, that is why it is assumed respondents did not react adequately.

⁵ <http://www.kpmg.sk/index.thtml/sk/about/seminars2010/IFRS2010/index.html>

⁶ Comp. <http://www.pwc.com/cz/cs/ucetnictvi/ifrs-publikace/index.jhtml>

The following table illustrates the above mentioned data about the participation in the research.

Table 1

Data about the questionnaire respondents

	Slovakia	Czech Republic	Together
Total addressed	236	211	447
▪ professionals	15	37	52
▪ listed companies	-	21	21
▪ financial services	56	59	115
▪ top companies	165	94	259
Not delivered	18	11	29
Final recipients	218	200	418
Received answers	21	21	42
▪ Negative	11	11	22
▪ Participants of questionnaire	10	10	20

The number of received answers (21 in both countries) creates approximately 10% of all asked in Slovakia and in the Czech Republic, while 5% of all of them represents the responses to the questionnaire (10 in both countries).

Admitting the very low level of feedback, deeply relevant results cannot be stated. Nevertheless, they are informative particularly for the Slovak and Czech professional public about the attitude of companies and their interest to influence the standard setting process. The obvious fact is that they have never been directly asked to participate in public discussions. Other thing is that they often have mother companies abroad, who take care of accounting systems in all daughter companies. Likewise the language barrier is a problem, which makes them unable to take part in online questionnaires of the IASB or EFRAG, as well as to react and give their comments in the period before endorsement of the new standard. They simply do not care what is happening at the time they could somehow influence the situation, and then they only apply what is already accepted. Beside their own business they do not have time to care about new standard process setting; unfortunately, not realizing that after it will quite deeply affect the way of presenting their financial information to the public.

Results

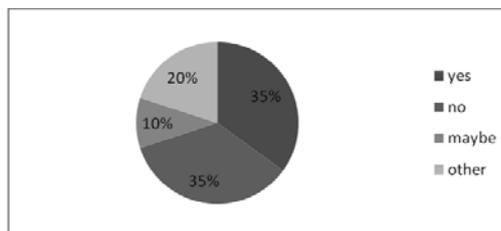
The questions in the questionnaire for Slovak and Czech participants were based on those set in the IASB's and EFRAG's questionnaires considering the most significant changes that the new standard should bring to the financial statement presentation according to the staff draft published. The questions were briefly explained, assuming not everyone could be well informed about all the issues. The other area of interest was getting to know the expectations of participants about the improvement of presenting the financial performance thanks to the new proposed changes in financial statements presentation.

The proposed standards set out brand new principles of financial statement presentation. They are suggested to cooperate in achieving understandability and relevancy of information for the users of financial statements. *Disaggregation principle* requires dividing particular items according to the function, character and measurement base for better understanding of financial situation and performance of the company, and *cohesiveness principle* provides a complex financial picture about the activities of the company through the presentation of information divided in the identical sections, categories and subcategories.

In the Czech Republic 50% of respondents think that suggested model of financial statements presentation based upon those principles significantly contributes to the higher quality of information for decision-making process of users, and 30% do not agree with this. In Slovakia only 20% of respondents believe in the contribution of proposed model to the higher quality of presented information for users and 40% of them not. The diagram below shows that considering the responses altogether, general opinion of participants in both countries is neutral. The 35% think that brand new principles of financial statements presentation improve the information provided for users as well as the same percentage (35%) do not think so.

Chart 1

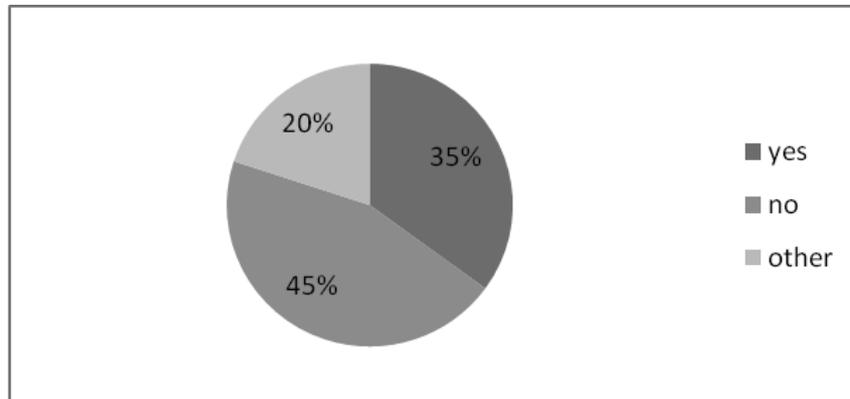
Respondents' opinion on the improvement of information quality provided by financial statements based upon disaggregation and cohesiveness principles



The proposed structure of financial statements categorises the items in the statements into common *sections, categories and subcategories* due to systematical structure of information, based on underlying business activities = operating, investing and financing. For example, equipment used in production will be presented in the statement of financial position as the operating asset, its depreciation expenses in the operating category of the statement of comprehensive income and the related cash-flows as well as the operating cash-flow.

The respondents in Slovakia consider the identical classification into sections, categories and subcategories in the statements of financial statements based on the business activities of the company rather neutral rather than helpful in better understanding of the company's business and its financial situation and performance. In the Czech Republic 60% of respondents think that the identical classification through the financial statements will definitely help to understand the company's activities better, while 30% do not think so. Jointly 40% agree with this proposed classification and 30% do not (see in the diagram below).

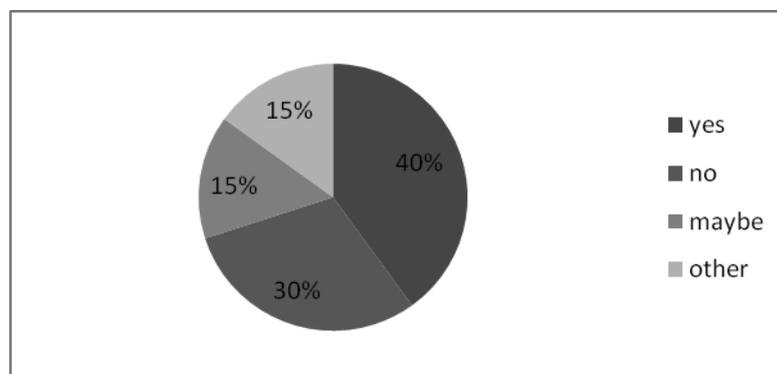
Chart 2

Respondents' reaction to identical classification based on business activities in the statements of financial statements

In the *statement of comprehensive income* the new standard brings a clear requirement to present only one statement of comprehensive income. The possibility of composing two statements – income statement and statement of other comprehensive income that exists in current standard version is cancelled. The company presents revenues and expenses for the period in the statement of comprehensive income separately with the distinction for the income and other comprehensive income.

Surprisingly more respondents – in the Czech Republic 50% and in Slovakia 40%, do not agree with the expectation of the IASB and FASB that with the clear requirement to present only one single statement of comprehensive income there will be achieved better comparability, consistency and transparency of financial statements. Common results with higher disagreement are seen in the following chart.

Chart 3

Respondents' opinions of achieving better comparability, consistency and transparency of financial statements through presenting only one statement of comprehensive income

With the new standard which deals completely with the topic of cash-flow statement the individual standard for cash-flow IAS 7 is defeated. Significant change is the proposal for using *only the direct method of cash-flow presentation, supplemented with indirect reconciliation of operating income to operating cash-flow*. This requirement has already now raised a lot of discussions between professionals (EFRAG's research) as well as in practice, where the indirect method is largely used, which requires to present persuasive arguments about the necessity of this change.

The IASB set out that direct information about cash-flow is more understandable for users, as it enables to obtain the clearer view of the cash-flow cycle of the company and of the relation between cash-flows and revenues and expenses presented in the statement of comprehensive income. EFRAG, on the other hand, claims that the use of the indirect method brings more useful information about the relation of comprehensive income and cash-flow items. The questionnaire seeks opinions from respondents about the required direct presentation of cash-flow. It asks if the arguments used by the IASB are sufficient for the agreement with the direct method or if it is preferred to keep current version of presenting it.

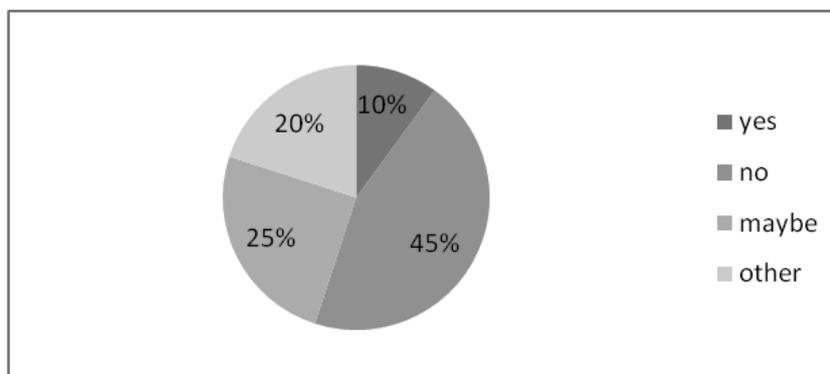
The results show that according to some that the direct method is better and more transparent for users of financial statements, and they agree with the arguments of the IASB; however, they not consider them really sufficient. Some companies are already using only the direct method of presenting cash-flows, and from their own experience it is obvious that particularly operating cash-flows are more understandable, transparent and their relation to the revenues and expenses is clearly identifiable; thus they expressly support this proposal. Others support the indirect method and they are for keeping the current version, or at least the possibility for management to decide which method is more useful in the case of their company. They agree with the views of EFRAG because the information about earnings allows the users to interpret the development of cash-flows faster. They also think that the introduction of the direct method would likely create the additional costs for the changes in the accounting systems of companies, seeing that the information needed for presenting cash-flow in direct method is simply not available now.

The proposal requires direct presentation of cash receipts and payments in the cash-flow statement divided according their character (inflows from customers, outflows for material, paid wages). The part of the statement should be also the *reconciliation of operating income to operating cash-flows*.

The question for participants was, if the financial statements should consist of both, reconciliation of operating income to the cash-flows and the detailed information about total receipts and payments from operating activities of the company, although the same information is going to be presented more times. In the Czech Republic 60% do not agree with presenting both of them, while only 10% of respondents would agree. In Slovakia 30% think it does not help to users of financial statements information and only 10% think that it does. Generally, only 10% of respondents see the sense in presenting both the reconciliation and detailed information taking into account cash flow and 45% do not support this proposal (as seen in Chart 4).

Chart 4

Respondents' disagreement with direct presentation of cash-flows fulfilled with the reconciliation of operating income to operating cash-flows

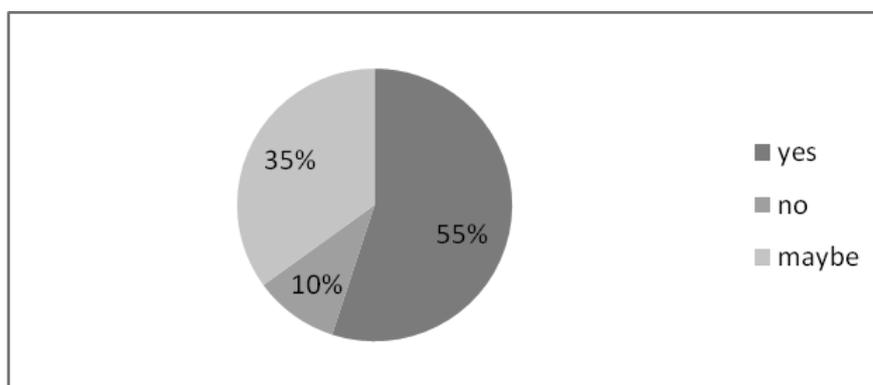


According to the proposal in the notes of financial statements, the company should disclose the information about *remeasurements*, which is an amount recognised in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of a change in (or transaction at) a current price or value, or a change in an estimate of a current price or value, or a change in any estimate or method used to measure the carrying amount of an asset or a liability. It helps to assess the degree, in which different components of the income will repeat in the future and by that to estimate future cash-flows of the company.

The majority of respondents 60% in Slovakia and 50% in the Czech Republic think that the separate disclosure of remeasurements in the notes of financial statements will contribute to the analysis of the financial performance of the company and its predictions, which presents totally 55% of participants. Only 10% do not see the importance in disclosing remeasurements (see Chart below).

Chart 5

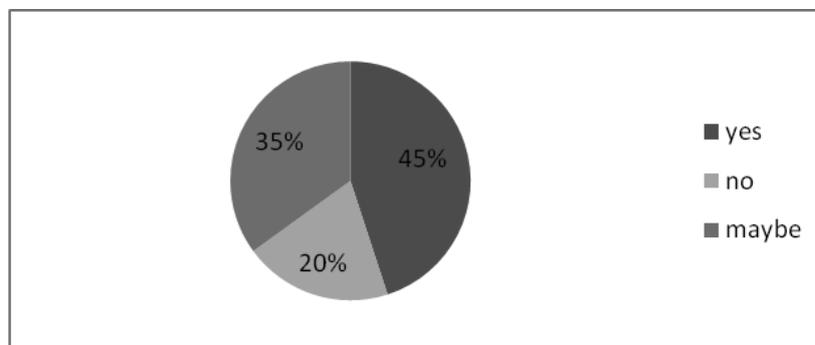
Positive reaction of respondents to the disclosure of remeasurements in the notes



Another new requirement is to disclose the *analysis of changes* between the beginning and ending balance of those *asset and liability items* that management regards as important for understanding the current period change in the entity's financial position in the notes of financial statements. More respondents, in the Czech Republic 50% and in Slovakia 40% think that the disclosure of analysis of the important changes in assets and liabilities will enable more correct assessment of the financial situation of company. The common results are displayed in the following chart.

Chart 6

Respondents' agreement with disclosures of analysis of changes in assets and liabilities in the notes

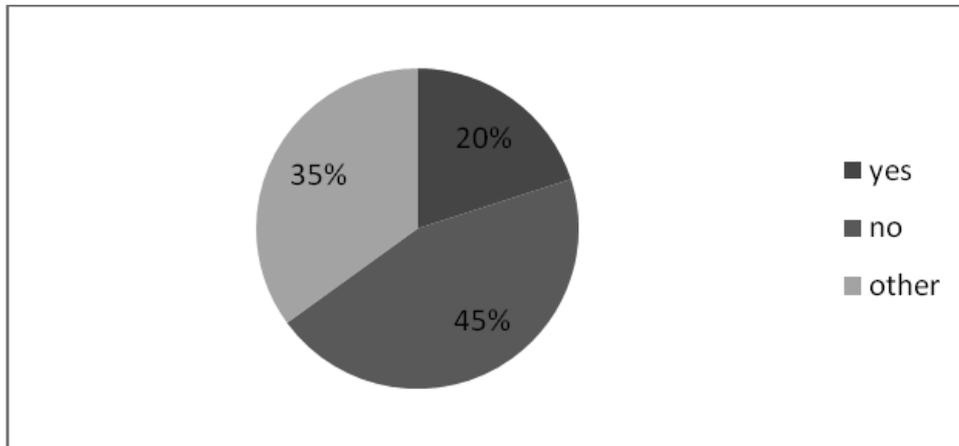


The proposed standard is equally valid for all entities. The question is if it improves the quality of financial reporting as well in the *financial sector* (banks and insurance companies). According EFRAG for example, the cash-flow statement is for those companies is of a minimum importance. More respondents agree with the EFRAG view that the cash-flow statement is of little value for the banks and insurance companies. Banks and insurance companies differ too much to have the same rules as the production companies. They think cash-flow statement is more important for the companies in other sectors – industry, etc. In the financial sector it is better to broad presentation in the field of liquidity, solvency and capital adequacy. However, according to them it is not appropriate to introduce separate standards for the financial sector; the proposed one should be therefore valid also for the financial sector. They prefer to introduce some separate rules for such specific areas as avoiding of the formation any obstacles to possible consolidation of financial and nonfinancial company.

To the question if the benefits of applying new standard will outweigh the costs of the implementation more respondents in both countries answered **No** and only 20% of all answers were **Yes**, as the chart below shows.

Chart 7

Respondents' opinion to the benefits from applying new standard in relation to the costs of its implementation



The respondents are generally not persuaded that the new suggested model of financial statements presentation will significantly improve *the presentation of financial performance* of the company. They think it will lead only to the much higher costs to prepare the financial statements and there are also other operative methods possible to use for the assessing of financial performance. According some there are good suggestions in the proposed standard, for example direct method of cash-flow presentation, but also wrong, for example to divide statements according to the business activities is going to be very subjective. They perceive this as a traditional problem and due to the protection of trade secrets and other sensitive information they expect hiding of relevant information despite of this requirement after the agreement with auditor upon the enough aggregated way to present information in such sections. Others think that exactly this disaggregation into sections will help to differentiate which areas improve the financial performance and which reduce. On such a small example of one particular change proposed in the staff draft and discussion behind it one can see that the public is not unified. According to one half the new standard will bring the positive changes for sure, according to other half the current model is sufficient and the new one is going to bring only additional costs and lobbying for auditors.

On the ground of the results of this questionnaire it can be concluded that it is not easy to determine the right and the best way how to accept proposed changes. For most of the questions the answers are neutral, what means that some respondents agree and almost the same part disagree with the particular issue. If the number of participants was higher, the results based on personal subjective opinions would present much more objective findings.

Discussion and Conclusion

The IASB and FASB are currently working on a joint project about financial statement presentation. Recent result of the cooperation was the publishing of the staff draft of exposure draft IFRS X – Financial statement presentation in July 2010. This step should bring more space for the public professional discussions about the most important issues and brand new proposals in advance of publishing the exposure draft, which usually presents only possibility to give the comments. However, in that case the new standard for financial statement presentation is going to be accepted worldwide and it is necessary to react on all relevant opinions from the national standard setters, analysts and future users.

To receive as much feedback as possible on the proposed model of financial statement presentation the IASB prepared online questionnaire. The other outreach activities, which were organised by EFRAG, consisted of 10 meetings with professionals and users round Europe and their own questionnaires. After processing the results both will publish the report and in this way improve the exposure draft which should be published in the middle of 2011. The most disputable questions are about the sufficiency of explanation of requirements, the new suggested structure based upon the business activities, direct method of cash-flow presentation complemented with reconciliation of operating income to cash-flow, and the new requirement for disclosing remeasurement and analysis of changes in assets and liabilities in the notes.

As the reaction to the recent activities of the IASB and EFRAG with regard to financial statements presentation project there was also prepared a questionnaire for Slovak and Czech respondents about the most critical points of the staff draft. The target was to find out their opinions and comments about proposed issues and to involve them into this discussion. The fact is that they have never been directly asked to participate in such a review before and generally they are not very interested in the standard setting process. They only accept and apply what is already approved. More than 50% of their answers were rather negative, reflecting their inability to fill in the questionnaire for of different reasons such as the lack of time, lack of information. From the responses received it is obvious that the respondents are not really persuaded about the advantages of proposed changes. For example, only 35% think that the suggested model of financial statements presentation based upon disaggregation and cohesiveness principles significantly contributes to the higher quality of information for decision-making process of users. The identical classification into sections, categories and subcategories in the statements of financial statements based on the business activities of the company is a neutral rather than positive change for Slovak respondents rather, for Czech respondents it is highly positive. Half of all respondents agree with the introduction of only the direct method of presenting cash-flows and arguments offered by the IASB to support this suggestion, but only 10% of them agree with supplemental reconciliation of operating income to operating cash-flows. Others would rather keep the current version with the indirect method of

cash-flow presentation or allow the management to choose between both methods. The majority of them think that disclosures of remeasurements and changes in assets and liabilities will contribute to the analysis of financial situation and performance of the company. Much more respondents eventually think that the benefits of applying the new standard will not outweigh the costs of its implementation.

The research carried out in Slovakia and in the Czech Republic, where the economic situation and background is quite comparable, has broadened the existing level of gained feedback on the new proposed standard. Both countries were omitted from the direct EFRAG's outreach meetings. Hopefully, the results could contribute to the general discussion about the topic and show the IASB and EFRAG the attitude of participants from these countries to the proposed changes.

Finally, the outcomes show that the respondents are generally not persuaded that the new suggested model of financial statements presentation will significantly improve the presentation of financial performance of the company. But they also think the new standard will definitely bring the positive changes. As one from the responses says "The more information is given the better it helps to understand business".

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