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Proposed Financial Statements Not Popular

On April 14, the comment period closed for a proposed format for financial statements. The 108-page discussion paper was put forward jointly by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). The goal was to create a new format for financial statements that would:

- Portray a cohesive financial picture of an entity's activities
- Disaggregate information so that it is useful in predicting an entity's future cash flows
- Help users assess an entity's liquidity and financial flexibility

Judging from the feedback, revision will be necessary to meet these goals.

The proposal would split the balance sheet, income statement and statement of cash flows into two sections: business and financing. In turn, the business section would be subdivided into investment and operations. Much of the criticism centers on sloppy terminology regarding the divisions—the lack of clarity would make implementation challenging. For banks, the proposed divisions are even more confusing as investing and financing activities are generally part of normal banking operations.

Another major concern was the proposed requirement that companies use the direct method of reporting cash flows. Currently most U.S. companies use the indirect method. Few companies have their accounting systems set up to track cash flows in a manner that allows direct method reporting. The consensus is that the substantial costs of reporting with the direct method would far outweigh any benefit to investors.

Other concerns include the timing. New adoption costs aren't welcome by companies already battling a financial crisis. Moreover, companies are already anticipating implementation hurdles in conjunction with new accounting changes the IASB and FASB are scheduled to roll out in 2011 in preparation for an eventual move toward IFRS conversion.



Related Links:

CFO.com. Critics Pan New Financial Statements.

<http://www.cfo.com/article.cfm/13561804>

Compliance Week. Will Revamped Financial Statement Benefit Valuation?

<http://www.complianceweek.com/article/5278/will-revamped-financial-statement-benefit-valuation>

FASB. Financial Statement Presentation—Joint Project of the IASB and FASB.

http://www.fasb.org/project/financial_statement_presentation.shtml

FASB. Discussion Paper: Preliminary Views on Financial Statement Presentation.

http://www.fasb.org/DP_Financial_Statement_Presentation.pdf

Journal of Accountancy. Shaking Up Financial Statement Presentation.

<http://www.journalofaccountancy.com/Issues/2008/Nov/ShakingUpFinancialStatementPresentation.htm>
