

Comment on the Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements : A Revised Presentation

Comment on Question 1

The change of the title of Balance Sheet to Statement of Financial Position may appear to be a minor change but it is indeed a very big change. It has been used for many years since accounting was created. It is like a special terminology for accounting. I believe both titles can be used. It is very much a matter of personal preference. As such, any idea or proposal to drop 'Balance Sheet' from accounting world should only be entertained if it can bring about greater benefits to all interested parties including the education sector who may have to reprint all the text books.

This big change is support by one and only paragraph ie BC5 in the Basis for Conclusions document. I find that the basis and reasons given are not convincing.

My comment to the basis used are as follows:

- 1) That "Statement of Financial Position better reflects the function of the statement and is consistent with the Framework which notes that the objective of financial statements is to provide information about financial position, performance and changes in financial position of an entity. -----"

My Comment:

If this is basis, then the proposed Statement of Recognised Income and Expenses should be called ' Statement of Financial Performance or Operation Performance'. I think, Income Statement is called so because it shows the income or profit. Cash flow statement is called so because it shows the cash flow from the 3 category of activities. Hence on a consistent approach, if the title of Balance Sheet were to be changed, it should be called Statement of Assets and Liabilities since it shows what assets and liabilities the company has.

2) That 'Balance Sheet simply reflects that double entry book keeping requires all debits to equal credits.'

My Comment:

I think Balance Sheet can also refer to the fundamental accounting equation of Assets – Liabilities = Equity ie Balance Sheet is the sheet/statement that reports these 3 items and they must be equalized. Taking away balance sheet from accounting dictionary has the danger of causing the ignorance of future generation of the mother of accounting equation.

3) That 'The Board also noted that 'financial position' is a well-known and accepted term....used by auditors....matching...statements.'

My Comment:

The claim that it is well known and accepted need to be back up by research findings otherwise it become the opinion of a few persons. The word 'financial position' may be understood easily for its normal meaning, but it can also mean different thing to different people. We all know what are to be included in Balance Sheet but Statement of Financial Position may be interpreted differently by different people causing confusion and inconsistent.

In conclusion, I believe it is best to keep 'Balance Sheet' at the moment as the Board can not provide good reason for the change. The Board should consider carrying more research and survey including conducting a poll among accountants and users of financial statements. I will give my support if the majority votes to change 'Balance Sheet' to 'Statement of Financial Position'. Other title such as Statement of Assets and Liabilities can also be included as another option. Lastly, I believe the fact that the titles are not made compulsory does show that the Board is not very convinced that the proposed title will be accepted widely. That being the case, why bother to change unless as I said it brings much greater benefits.

Comment on Question 3 - 5

My Comment:

I think it is difficult to find one title for a statement that encompasses all non owner changes in equity. The common items that are required to be charged or credited to equity are generally gain or loss in nature rather than income or expenses in nature. Since this statement will also include these items, it will be misleading to call it 'Recognised Income & Expenses'. If a name must be given, I would favour other options such as Comprehensive Income Statement (basically to extend the current Income Statement to include other gain or loss).

The other option is not to have a single statement. Instead 2 statements are used, one for Statement of Profit or Loss and the other one for the Statement of Other Recognised Gain or Loss. Then a Summary is presented to add the 2 amount to Total Non Owner Change in Equity. In the Statement of Changes In Equity, it is suggested to have sub total for the 2 types of change in equity ie owner change and non owner change. The Total of Non Owner Change in Equity would correspond to the proposed Summary. I am giving the idea here and if this is accepted, the Board can study the best way of presentation along the idea.

Based on my suggestion above, the question of option to have one or two statement will become irrelevant.

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