



Changing face of financial statements

Before long, the accounting profession and the business community in Malaysia will begin to see significant changes in the way financial statements look. The Malaysian Accounting Standards Board (MASB) will likely approve the release of a new standard which is a revised version of IAS 1 Presentation of Financial Statements. If approved, the new standard will become effective in Malaysia in 2010 although companies around the world would have implemented it beginning July 1, 2009.

In its quest for convergence with the US, the International Accounting Standards Board (IASB) issued a revision to its own standard, IAS 1, which will see changes to the titles of financial statements. Purportedly, these changes are to better describe the functions of the financial statements they represent. The "balance sheet" that we have known and grown up with will be known as a "statement of financial position". A "cash flow statement" will be called a "statement of cash flows".

PRESENT TITLE	NEW TITLE
<ul style="list-style-type: none"> • Balance sheet • Income statement 	
<ul style="list-style-type: none"> • Statement of changes in equity • Cash flow statement • Notes 	
	<ul style="list-style-type: none"> • Statement of financial position • Statement of comprehensive income: <ul style="list-style-type: none"> * Single statement; or * Two statements • Statement of changes in equity • Statement of cash flow • Notes

Interestingly, just five years after the good old, "Profit & Loss Statement", was changed to "Income Statement", the IASB has now changed it to "Statement of Comprehensive Income".

Countries that are already IFRS-compliant are expected to use the new format and title soon after the standard becomes effective although it is left to the management to choose between using the new term or maintaining the old name.

It is comforting to know that for now, the name change will have minimal impact on company operations, at least not until we see a significant change under Phase 2, which will be my subject

of review in the next article.

The new terminologies are not mandatory for use in the financial statements. However, as the new terminologies were implemented early with few problems in Europe, local companies would benefit if they adopt the revised titles in the interest of international congruence and comparability.

Interestingly enough, in addition to the change in terminologies, another proposed change to IAS 1 is the requirement for a third balance sheet — one which shows the position at the beginning of the previous period. This is only applicable if a

company changes its accounting policy or makes a restatement. Managers should then brace themselves for three sets of financial statements in a particular year.

Transition costs will be small as there is effectively no major change required to the reporting system. Studies conducted by the European Financial Reporting Advisory Group (EFRAG) in May last year revealed that despite the potential incremental publication costs, it will not be significant because the third balance sheet will require minimal modifications to the presentation format of the financial statements in annual reports.

On the other hand, allowing companies to prepare either one or two statements of comprehensive income has attracted different views. The EFRAG study revealed that having options in standards is unfavourable as they could affect the comparability of financial statements. Allowing either the single or two-statement format seems to be going against what the standard-setters had been champion-

ing all this while, which is to strive for greater standardisation of formats used in the financial statements.

All in all, the MASB's move to introduce the revised IAS 1 should be supported in line with the growing acceptance of the idea worldwide. Though the change in terminology and presentation can be seen as cosmetic, it is important that managers recognise the need to align themselves with international practice. **E**

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This is the first in a four-part series on the new standard and its impact on companies. Next month: Expect radical change in the way companies present their financial statements.