

**Presentation of Items of
Other Comprehensive Income**

Submission by

**DG & AB MAXWELL
Consulting Accountants**



INTRODUCTION

Our firm provides specialist financial and administration consulting services solely to Local Government throughout Australia. Our senior principal, David Maxwell, is a Fellow of the Institute of Chartered Accountants and an Associate of Local Government Managers Australia with over 30 years experience as Local Government Auditor, Principal Accounting Officer, Chief Executive Officer and Consultant.

Under the name Coalface Software Solutions - who supply a range of spreadsheet templates to assist Council officers in the preparation of the Annual Financial Statements - we have been contracted by the Local Government Association of South Australia to prepare the Model Financial Statements for use by Councils in that State. Coalface Software Solutions prepares Annual Financial Statements template formats to comply with legislative and reporting requirements for New South Wales, Northern Territory and South Australian Councils.

Coalface Software Solutions sponsors the NSW Annual Financial Statements Award presented by the NSW LGMA Financial Professionals Group, judged by nominees of the NSW Local Government Auditors Association, Finance Professionals Group and Coalface Software Solutions.

Our comments are directed principally in relation to Local Government. There are no matters that we request be treated in a confidential manner.

IMPLEMENTATION OF THE REVISION OF AASB 101

Local governments in the New South Wales, Queensland, South Australian, Victorian and Western Australian jurisdictions, in complying with the Australian Accounting Standards, are also required to comply with codes and model statements prepared for their jurisdiction. The other jurisdictions - Northern Territory and Tasmania - have no special formatting requirements, although many individual Councils base their presentation on those of another jurisdiction.

The codes, etc. currently authorised are - NSW: *Code of Accounting Practice and Financial Reporting, update #18*; Queensland: *Tropical Statements 2009/10*; South Australia: *Model Statements 2010*; Victoria: *Model Statements 2010*; Western Australia: *Local Government Accounting Manual*¹.

The purpose of this section is to report the various presentations adopted in the codes, etc. of the different jurisdictions to reflect the recent revision of AASB 101.

New South Wales - separate Income Statement and Statement of Comprehensive Income.

Queensland - single Statement of Comprehensive Income combining Income Statement and *other comprehensive income*.

South Australia - single Statement of Comprehensive Income combining Income Statement and *other comprehensive income*.

Victoria - single Comprehensive Income Statement combining Income Statement and *other comprehensive income*.

1. Not updated for the revision of AASB 101, but third party templates embodying the changes are in use and are acceptable to the Department.



Western Australia - single Statement of Comprehensive Income combining Income Statement and other comprehensive income.

RESPONSES TO IASB QUESTIONS

Question 1 - The Board proposes to change the title of the statement of comprehensive income to 'Statement of profit or loss and other comprehensive income' when referred to in IFRSs and its other publications. Do you agree? Why or why not? What alternative do you propose?

The proposed new title is unwieldy and unnecessary. However, as the ability to adopt a different title is retained, this is of no significance.

Question 2 - The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections — profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable. Do you agree? Why or why not? What alternative do you propose?

We concur with this proposal.

Question 3 - The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss. Do you support this approach? Why or why not? What alternative do you propose, and why?

In principle, we concur with this proposal. However, the proposal lacks specificity and consistency. In particular we refer to the use of the term "*will be reclassified*" in this question and questions 4 and 5, in proposed paragraph 82A and in paragraph BC25 of the Basis for Conclusions, and the term "*may be reclassified*" in questions 4 and 5, the illustrative financial statements, in paragraphs BC7(b) & BC25 of the Basis for Conclusions.

Although we are not aware of any particular items where an option exists², the Board must make clear the required basis of classification of any that do exist.

Question 4 - The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax. Do you support this proposal? Why or why not? What alternative do you propose and why?

General purpose local government entities in Australia are not subject to income taxation and the question is therefore irrelevant to a local government environment. However, on the grounds of consistency, we concur with this proposal.

2. An option exists in relation to the transfer of the revaluation credit on derecognition of property, plant and equipment (see AASB 116 *Property, Plant and Equipment* paragraph 41, but this transfer is direct between asset revaluation reserve and retained earnings).



Question 5 - In the Board's assessment:

- (a) the main benefits of the proposals are:
 - (i) presenting all non-owner changes in equity in the same statement.
 - (ii) improving comparability by eliminating options currently in IAS 1.
 - (iii) maintaining a clear distinction between profit or loss and items of other comprehensive income.
 - (iv) improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss.
- (b) the costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments. Do you agree with the Board's assessment? Why or why not?

We concur with this assessment. In particular, we support the view implicit in paragraph BC14 of the Basis for Conclusions that presenting total comprehensive income as the last number in the statement should not be confusing.

For the purposes of the calculation of certain performance ratios relating to financial sustainability, all local government jurisdictions exclude certain income and expense items, particularly those relating to grants and subsidies received specifically for the construction of property, plant and equipment and assets received for no or nominal cost. (Unfortunately, the detailed definitions of items excluded varies between jurisdictions.) Local governments, therefore, have had experience with the situation where the last number on the statement of profit and loss is not regarded as most important. This experience indicates that users can readily adjust to this situation.

Question 6 - Do you have any other comments on the proposals?

We note that the *other comprehensive income* sections of both illustrative examples show *items never to be reclassified to profit or loss before items that may be reclassified subsequently to profit or loss*. We submit that this order should be reversed, so that the Statement of Comprehensive Income will display in sequence

- (i) items that are included in profit or loss in this reporting period,
- (ii) items that may be reclassified to profit or loss in some future reporting period, and
- (iii) items that will never be reclassified to profit and loss.

We submit that our suggested sequence is more logical.

AASB SPECIFIC MATTERS FOR COMMENT

The AASB would particularly value comments on whether:

- (a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (i) not-for-profit entities; and
 - (ii) public sector entities – including in relation to GAAP/GFS harmonisation under AASB 1049 Whole of Government and General Government Sector Financial Reporting. If you



think the proposals would have implications for GAAP/GFS harmonisation, how do you think those implications should be dealt with in the context of the principles in AASB 1049?

- (b) overall, the proposals would result in financial statements that would be useful to users; and
- (c) the proposals are in the best interests of the Australian and New Zealand economies.

We are not aware of regulatory or other issues that would cause difficulty in adopting these proposals in the codes etc. applicable to local government in the several jurisdictions. Indeed, as we have shown, for most jurisdictions the only change would be the separation of *other comprehensive income* into the two new component sub-headings.

As AASB 1049 does not currently apply to local governments, there are no relevant matters to report.

We shall be pleased to supply any further information that you may require.

