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ISSUES OF IMPLEMENTATION OF THE STANDARD "PRESENTATION OF FINANCIAL STATEMENTS" (IAS 1)

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ABSTRACT
Motivated by the issuance of International Accounting Standard 1 revised, this paper investigates reporting choices on the comprehensive Income of listed companies from Europe and the USA. This research aims at verifying the effects of the requirements issued by the International Accounting Standard 1 revised in improving performance evaluation towards the convergence between European and American Accounting Standards, our research tests the correlation between the choice of income statement format and different variables, such as the size of companies, sign of other comprehensive income, leverage and status of a US listing. This paper also evaluates the effect of comprehensive income on financial performance by calculating the return on equity. The main findings underline that the format of Income Statement and the "location" of the comprehensive income can be interpreted both as factors that can influence the choices of investors and as a tool available to managers to alter the communication of the firm's performance choices.
KEYWORDS: *Financial Statements, Income Statement, Cash Flow*

The International Accounting Standards Board's (IASB) Framework states that; "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions". The statements prepared also show the results of the management's stewardship.

The requirements of IAS1 apply to all general purpose financial statements prepared and presented in accordance with international standards. General purpose financial statements and those intended for users who are not in position to demand reports that are tailored for their own particular information needs.

The recent process of accounting harmonization made possible by the adoption in 2005 of IAS/IFRS methods represents the beginning of a practice tending to overcome accounting differences not only at the European level but also more generally on a worldwide scale for the progressive adoption of a common global accounting language (McGregor, 1999; Pozzoli, 2003; Erikson et al., 2009; PWC, 2012). A super partes need emerges for a project of convergence between the European accounting IAS/IFRS standards and the American GAAP, which justifies the progressive harmonization of these two accounting systems (Tarca, 2005; Callagan and Treacy, 2007; Hail et al., 2010; Tarca, 2013). The exigency of reaching a definition of a unified set of accounting principles will not only result in the effective solution of "Tower of Babel accounting" (Erikson et al., 2009) but also improve comparability of data and financial communication on stock markets (Accountancy, 1966).

According to IAS1, the objective of such financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Apart from a slight difference in wording, this definition is of course the same as the one given in the IASB Framework. In order to meet this objective, general

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purpose financial statements should provide information about an entity's:

Assets. Liabilities and equity. Income and expense, including gains and losses. Contributions by and distributions to owners in their capacity as owners. The information is given in four primary financial statements. Further information is given in the notes which accompany these statements.

The adoption of the IAS/IFRS principles has brought about a radical change in certain key aspects of the creation of financial statements. For several years now, the (IASB, 2008) has been making significant revisions to basic accounting rules in anticipation of the future convergence between the IFRSs and the US GAAP. One of the themes recently revised is the concept of income formation and therefore the IFRS approach to the definition of business performance. At the European level, income determination based on IFRSs has been characterized by several steps that have caused considerable changes. The common aim is to improve external disclosure of the real performance achieved by companies and to meet the information needs of potential investors (IASCF, Framework for the Preparation and Presentation of Financial Statements, 1989; Conceptual Framework for Financial Reporting 2010 [the IFRS Framework] approved by the IASB, September 2010). Although the historical cost criterion has not been abandoned, the adoption of fair value as a "benchmark" criterion has led, in general terms, to the rejection of the concept of realized or produced income and the introduction of the concept of a "true and fair view" of the income, financial and asset positions, including factors of future realizability. This view is known as a "hybrid" or realizable income structure, i.e. an income structure inclusive of proceeds and revenues that, although accrued, have not yet been realized and are linked to the application of the fair value criterion. This results in an increase in the number of items to be recorded as income components, which must be measured solely on an accrual basis, because accrual is sufficient and actual realization is not required.

A statement of financial position as at the beginning of the earliest comparative period presented, if the entity has applied an accounting policy retrospectively or has made a retrospective restatement of items in its financial statements.

This titles have replaced the more traditional titles used in the previous version of IAS1 (balance sheet, cash flow statement) and are trough by the IASB to reflect more closely the function of each statement. However entities are allowed to use titles for the financial statements other than those used in the standard if they so wish.

The structure and content of most of the statements is specified in IAS1. But the statement of cash flows is dealt with by IAS7 Statement of cash flows. It is important to appreciate that the notes which accompany the four primary statements are in integral part of the financial statements and so fall within the scope of IAS1 and of the other international standards.

In addition to the items listed above, IAS1 recognizes that an entity's annual report might contain other statement such as environmental report or value added statement. These other statements are not part of the financial statements and are therefore outside the scope of international standards.

Financial statements must present fairly the financial position, financial performance and cash flows of the entity concerned. This requires that the effects of transactions and other events should be faithfully represented in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB Framework. It may be assumed that the application of international standards will result in financial statements that achieve a fair presentation. An entity which produces financial statements that comply with international standards must make an explicit and unreserved statement to that effect in the notes. A fair presentation also requires the entity to.

Select and apply appropriate accounting policies in accordance with the requirements of

international standard IAS. Provide information that is relevant, reliable, comparable and understandable

Provide further disclosures if compliance with international standards is insufficient to enable users to understand the impact of transactions and other events.

On very rare occasions, compliance with requirement in an international standard may produce misleading information and so conflict with the objective of financial statements. In these circumstances, the entity should depart from that requirement and the notes should disclose that the entity has complied with international standards except that it has departed from a particular requirement in order to achieve a fair presentation. The notes should identify the title of the standard concerned, the nature of the departure, the reason for the departure, the accounting treatment that the standard would have required, the accounting treatment actually adopted and the financial impact of the departure.

Financial statements should be prepared on the going concern basis unless the entity intends to cease trading or has no realistic alternative but to do so. If there are significant doubts concerning the entity's ability to continue as a going concern, the uncertainties which give rise to these doubts should be disclosed. If financial statements are not prepared on going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reasons for which the entity is not regarded as a going concern.

Financial statements other than the statement of cash flows should also be prepared using the accrual basis of accounting. The statement of cash flows is an obvious exception to this rule since, by definition; it is prepared on a cash basis.

IAS1 defines materiality by stating that emissions or miss statements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial statements. IAS1 further states that materiality should be judged in context and that either the size or nature of an item, or combination of both could determine whether or not the item is material.

In general, financial statements are prepared by analyzing transactions and other events into classes and the aggregating each of these classes to produce line items which appear in the statements. For instance, all sales transactions are aggregated into a single revenue figure shown in the statement of comprehensive income. IAS1 requires that each material class of similar items should be presented separately in the financial statements. If an item is not individually material, it may be aggregated with other line items.

IAS1 explicitly states that there is no need to satisfy the disclosure requirements of an compliance with the standards can be achieved without having to disclose immaterial items, whether in the primary financial statements or in the accompanying notes.

In general assets and liabilities should be reported separately in the statement of financial position and should not be offset against one another. Similarly, income and expenses should be reported separately in the statement of comprehensive income. IAS1 takes the view that offsetting should not be allowed, since this would normally detract from user's ability to understand transactions and other events. However, this general rule does not apply in a specific instance if another international standard permits or requires offsetting in that instance.

Financial statements should normally be presented at least annually. If an entity changes its accounting date and so presents a set of financial statements for a period which is longer or shorter than one year, the entity should disclose:

The reason for using a period that is longer or shorter than one year. The fact that the

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comparative amounts given for the previous period are not directly comparable with those given for the current period.

Unless another international standard permits or requires otherwise, IAS1 requires that entities should present comparative information is respect of the previous period for all amounts reported in the financial statements. Comparatives should also be given for narrative information if this would be relevant to an understanding of the current period's financial statements.

In order to maintain comparability the way in which items are presented and classified in the financial statements should generally be consistent from on accounting period to the next. However, this rule does not apply if:

It is apparent that a different presentation or classification would be more appropriate, following either a significant change in the nature of the entity's operations or a review of its financial statements. A different presentation or classification is required by an international standard.

The majority of IAS1 is concerned with the structure and content of an entity's financial statements. The standard requires that certain items should be shown in the statement of financial position, the statement of comprehensive income and the statement of changes in equity. Other items should be shown either in these statements or in the notes. IAS1 does not deal with the statement of cash flows, since this is the subject of IAS7 Statement of cash flows. The main headings in this part of IAS1.

The first point made in this part of IAS1 is that the financial statements should be clearly identified as such and distinguished from any other information which may be given in the same published document. Since international standards apply only to the financial statements, it is important that users can distinguish information that has been prepared in accordance with standards from information that has not.

Furthermore, each component of the financial statements should be clearly identified and the following information should be displayed prominently and repeated where necessary for a proper understanding of the information presented:

An important requirement of IAS1 with regard to the statement of financial position formerly known as the balance sheet is that current and noncurrent assets should be presented separately and that current and non -current liabilities should also be presented separately. For an entity which supplies goods or services within a clearly identifiable operating cycle, this separation provides useful information by:

Distinguishing the net assets that are continuously circulating as working capital from those used in the long term and highlighting the assets that are expected to be realized within the current operating cycle and the liabilities that are due for settlement within the same period.

IAS1 established as set of criteria which should be used to distinguish between current and non -current assets and another set of criteria which should be used to distinguish between current and non -current liabilities.

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