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Research Article

Problems And Prospects Of Current Financial Statements Under International Financial Reporting Standards (Ifrs)

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ABSTRACT
The benefits that users gain from financial statements depend on clear and concise presentation of the underlying economics. The current IFRS regulation on presentation of primary financial statements suffers from several flaws. This paper identifies and analyzes these flaws using illustrative examples from large accounting firms. Based on this discussion we present a set of alternative financial statements. The paper concludes with proposed modifications of the current financial statements under International financial reporting standards (IFRS), International Accounting Standard Board (IASB)

Keywords: International financial reporting standards, financial statements, current financial statements, cash flows, statement of financial position

1. INTRODUCTION

The paper is structured as follows: We give an overview of current International Financial Reporting Standards (IFRS) regulation of financial statements along with all relevant ongoing IFRS projects on financial statement regulation. We pinpoint flaws and limitations in the current IFRS regulation on presentation, supported by an analysis of illustrative examples of primary financial statements for the year 2015 and the year 2018 from the largest accounting firms. Our investigation includes illustrative examples of "Statement of financial position", "Statement of financial performance",[2] and "Statement of cash flows" from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. In the final part of the paper, we conclude with a modified version of the current financial statements under IFRS.

1.1. THE PURPOSE OF THE STUDY

Financial statements are used to present economic information (IASB, 2018). The value of financial data is dependent on a clear and succinct presentation of the underlying economics, with an emphasis on comparability and understandability. The fact that IFRS governs the recognition and measurement of accounting items, as well as additional disclosures, is a paradox as it pays much less attention to how these elements should be portrayed in financial accounts. This is remarkable, considering that the decision utility of financial data is influenced not only by the accuracy with which accounting items are recognised and measured, but also by how these items are classified and presented. Furthermore, the overall situation, the move toward digitization (Bhimani & Willcocks, 2014; CFA Institute, 2016; Efimova & Rozhnova, 2018) should enable accounting systems to produce better presentations at a lower cost.

1.2 REVIEW OF LITERATURE

There is a rising interest and discussion on presentation in the accounting literature, particularly with respect to disclosures (Elkins & Entwistle, 2018; Hellman, Carenys, & Gutierrez, 2018; Beyer, Cohen, Lys, & Walther, 2010; EFRAG, the ANC and FRC, 2012, IASB, 2019a1). Furthermore, the International Accounting Standards Board (IASB) is working on a project on primary financial statements (2018c). Yet, it appears that there is a need for a conversation about what constitutes high-quality presentations and the extent to which these presentations may be made available within the restrictions of efficient information production. The communication process is the responsibility of the reporting company (IASB, 2018a; KPMG, 2016, Thornton, 2016). (2018, BDO). The IASB, on the other hand, is responsible for developing laws that promote effective comparability, understandability, and clarity among companies and countries. This article analyses and explores some of the major faults and limitations of existing IFRS financial statement legislation (IAS 1), as well as a new classification system for financial statement items.

2. Regulation of financial statements under International Financial Reporting Standards (IFRS)

2.1. Current regulation of financial statements

IAS 1 (Presentation of financial statements and accounting policies): It includes the financial statement regulation under IFRS. A complete set of financial statements, according to the standard, includes a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity, and a statement of cash flows as well as notes that include a description of relevant accounting policies and other disclosures (IAS 1.10). These statements' particular outline is not restricted in any way. As a result, the structure and aggregation level at which information is delivered are entirely up to the entities. This discretion, however, has its limits. “An entity shall,” according to IAS 1.29, present each material class of similar goods separately. Unless they are immaterial, an entity must exhibit components of differing nature or function separately.” When deciding on the aggregation level of accounting items, businesses must consider liquidity, time horizon, and measurement bases (IAS 1.59). A list of items that must be met is included in the standard, if material, separately stated in the statement of financial position (IAS 1.54). It is up to the entities to decide on the order, grouping, and subtotals. For a statement of revenue, there are two general formats: item categorization by nature and item classification by function. The standard only needs four things to be presented separately in the income statement, namely revenue, expenses, and capital expenditures. Financial costs, profit or loss of associates and joint ventures accounted for using the equity method, and tax charges are all included in IAS 1.34. (IAS 1.82). The entities are essentially left to their own devices when it comes to the order, grouping, and subtotals.

The standard requires a disclosure of the financial status at the start of the previous period whenever the organisation changes accounting principles or presentation format (IAS 1.40A).

IAS 7 (Cash Flow): The reporting of cash flows is regulated further by the statements. This statement should be divided into four parts: operational cash flows, cash flows from investing activities, cash flows from financing activities, and lastly a cash segment. IAS 7 is descriptive in nature, as it provides examples of cash flows from each of the four divisions. However, two primary types are optional: direct and indirect methods. 7.18 International Accounting Standards).

Other IFRS standards that regulate financial reporting include IFRS 5 (IFRS 5.30 to 41), IFRS 15 (IFRS 15.105 to 109), and IFRS 16 (IFRS 16.105 to 109). (IFRS 16.47 to 50). Consult these standards for more information. Some standards also permit companies to provide information either as part of their financial statements or as separate disclosures.

To clarify the concept of "materiality," the IASB recently amended IAS 1 and IAS 8 (2018: effective from 2020). Materiality is a key concern in primary financial accounts. According to our findings in appendix A, accounting items are shown on distinct lines in the statement of financial situations in all of the cases despite the fact that the amounts are less than 0.5% of total assets. This holds true for accounting items in the statement of comprehensive income as well. Amounts that account for less than 0.5% of total revenues are reported on their own line. These lines, in our opinion, are irrelevant.

2.2. The process of developing a new regulation of financial statements

The International Accounting Standards Board (IASB) and the Financial Accounting Rules Board (FASB) of the United States have the goal of merging IFRS and US GAAP standards into a single set of accounting standards. One of their projects involved a joint financial statement regulation. Both standard setters individually created a project on new financial statement legislation in 2001, and three years later, they integrated these projects into a single collaborative project. In 2008, the discussion paper "Preliminary Views on Financial Statement Presentation" was published (IASB, 2008). The standard setters understood how difficult it is to follow the impact of transactions and economic events across many financial statements. In 2010, a follow-up to this discussion paper was published. “Staff Draft of” is a phrase that is used to describe a “Draft for exposure” (IASB, 2010b). All financial statements should be divided into (i) a business section with two subsections, operating and investing, (ii) a financing part, (iii) an income tax section, (iv) a discontinued operation section, and (v) a multi-category transaction section, according to this document. The draft proposes a uniform approach. Accounting items are classified across financial statements based on their function, nature, and measurement technique (paragraph 47). In 2010, this project was put on hold. Meanwhile, the IASB has started an initiative to improve financial reporting communication (IASB, 2019a). IASB has initiated a subproject on "Primary Data" as part of this project. Financial Statements” (IASB, 2018c), which has a more limited scope, focused on specific changes to the profit and loss and other comprehensive income statements, as well as the statement of cash flows. This project addresses some of the issues raised in the paper (IASB, 2018c).

Earlier versions of the IFRS conceptual frameworks lacked any guidance on how to present and disclose additional information (IASB, 2010c). However, the current IFRS conceptual framework (IASB, 2018a) includes a chapter on presentation and extra information (chapter 7) disclosures. The proposal highlights that the unit of account is the most important issue when it comes to presentation (IASB 2018 paragraph 4.51). The presentation format should be derived from a concept of similarity, which states that information with similar characteristics should be presented together; a concept of aggregation, which states that there should be one or more aggregation levels, and a concept of hierarchy, which states that information with similar characteristics should be presented together. Information should be comparable between entities and reporting periods, according to the concept of comparability. When classifying an item (asset, liability, equity, income, or expense), the entity must examine a variety of factors, including what features are significant for the firm's business activities, the item's nature, and its value, how it is monitored, and what role (function) it plays in corporate activities. This last component of the IFRS conceptual framework, covering objectives and principles, is, in our judgement, the least developed.

3. Financial statements and decision usefulness

The overall goal of financial reports is to provide helpful information for making decisions (Scott, 2015). If information assists accounting users in making better and more informed decisions, it is considered beneficial. “General purpose financial statements (referred to as ‘financial statements’) are those intended to suit the needs of users who are not in a financial situation,” according to IAS 1.7. position to demand that an entity create reports tailored to their specific information requirements.”

The principal consumers, according to the IFRS conceptual framework, are capital suppliers, such as existing and potential shareholders and debtholders (IASB 2018 paragraph 1.2 to 1.5).

3.1. Valuation purposes

In order to make investment decisions, consumers require information that will help them predict future cash flows. The goal of the financial report is to give information useful for valuation purposes rather than to present entity value estimations as such (IASB, 2018a paragraph 1.7). In theory, fair value is equal to the present value of future cash flows. These risk characteristics are based on market participants' expectations. The fair value estimates will include the quantities, the points in time where cash flows will occur, and the uncertainty associated with these cash flows. However, the usefulness of financial reports in terms of valuation is unaffected by the disclosure of fair value information. Given a stable context, historical cost data will hold predictive powers.

3.2. Stewardship purposes

The shareholders designate managers to operate on their behalf. The shareholders (and debtholders) give capital, and the management are responsible for ensuring that the shareholders (and debtholders) receive a fair return on their investment (Jensen & Meckling, 1976). Even so, there's a chance that the executives will behave in their own self-interest rather than in the best interests of the company (stockholders and debtholders). The agency theory explains why such opportunism happens and what techniques might be used to prevent it. The financial report is an important tool for managing and monitoring principal–agent relationships (relationships between managers and capital providers). Accounting users in the FASB's User Advisory Council in 2003 stressed this concern as well (FASB, 2005, section 2 paragraph 9). One of the two fundamental functions of financial reporting, according to the current IFRS conceptual framework, is stewardship (IASB, 2018a paragraph 1.2c and paragraph 1.18 to 1.22).

4. Flaws and limitations in financial statements

Financial statements are designed to assist managers in communicating economic facts and improving decision usefulness (IASB 2018). The prominent accounting firms Grant Thornton (2016) and KPMG (2016), for example, named their financial statement publications "Telling your storey" and "Room for improvement" respectively. The International Accounting Standards Board (IASB) has acknowledged the relevance of this issue has been highlighted in the work plan 2017-2021, which includes "Better communication in financial reporting" as one of four focal areas (IASB, 2016, p. 2019). "Financial reporting is not just about technical compliance, but also good communication," says the author (KPMG, 2018, p. 4)

There are significant communication issues in the present financial statements. To begin with, the formats of financial statements are normally extremely standardised in order to reduce the cost of production. Because little entity-specific changes are made to the financial statements, standardisation that leads to homogeneity may undermine decision usefulness. Second, there is the financial aspect generally rally, financial statements do not correspond to the business models of the businesses. Finally, the statements are not well aligned with one another. In a joint discussion note (IASB, 2008 section 1.11 to 1.17) that we refer to below, the IASB and FASB outlined the criticism of financial statements.

The things are classified according to various criteria in the various financial statements. Between financial accounts, there is a lack of coherence, as defined by 'linkage'or 'articulation' (Moehrle et al., 2010). Following an item or transaction across the financial statements is challenging for an external reader under existing regulations. The profit & loss statement is organised by nature or function, the statement of financial position is divided into current and non-current (or liquidity)

items, and the statement of cash flows is divided into operational, investment, and financial activities. This issue appears to be unaddressed in the IASB project on main financial statements (2018c.

4.1. Undesirable standardization.

When it comes to the structure and substance of financial statements, the present IFRS law allows for a lot of flexibility. The lack of specific, detailed regulation is predicated on the idea that non-opportunistic managers make disclosure decisions with the intention of informing rather than deceiving accounting users. We contend that in the absence of restrictions, additional variables besides decision usefulness could have a substantial impact on financial statement production practise. Financial statements are frequently described as "boilerplates" as a result of naïve and inadvertent uniformity. This standard can be used in a variety of ways. Though diverse economic operations are portrayed as if they are the same, there is deception. Information may be detrimental to decision utility since it leads to the revelation of fewer entity-specific data.

Standardization may be influenced by at least three factors. One is the entity's desire to make financial statements easier to read, interpret, and compare to other entities' financial statements. Due to the lack of regulation, there is a risk that the standard accounting principles will result in reduced comparability across businesses in the same industry, between industries, and between countries, also jurisdictions/countries in the same industry as well as across industries. IFRS is implemented differently in different countries, according to several studies (Kvaal & Nobes, 2010; Lourenço, Sarquis, Branco, & Pais, 2015; Nobes, 2011; SEC, 2011). These findings do not appear to be taken into account by the IASB. They write in the IFRS conceptual framework's Basis for Conclusions: As a result, if companies engage in similar types of business operations, the Board anticipates that those activities will be reflected similarly in their financial statements." (0.30 BC) Demmer, Pronobis & Yohn (2016), on the other hand, discover that countries that require IFRS implementation have much higher financial statement-based compliance.

Second, and perhaps more importantly, uniformity may be motivated by the entity's desire to reduce preparatory expenses. Unfavorable practise can occur when accounting users are not focused on and are critical of the specifics in the statements.

4.2. Lack of business model focus

When evaluating management's performance (accounting information for control purposes) and forecasting future economic performance (accounting information for valuation purposes), economic information about the entities' usual business activities is critical (Edwards & Bell, 1961; Gjesdal, 2007; ICAEW, 2010; Penman, 2011). According to Leisenringa, Linsmeiera, Schipper, & Trottc (2012, p. 339), the business model focus can successfully indicate management's goal for the use, disposition, or settlement of goods without necessarily tying to recognition and measurement. The objective of a "for-profit corporation is that it invests funds in a business model," according to Dichev (2017, p. 13), and he advocates for it. for a revenue-based strategy According to a European research of financial companies, a broad disclosure of their business models increases value relevance (Mechellia, Ciminia, & Mazzocchettiba, 2017). When displaying the contribution of routine business activities to profit, working capital and other investments required to finance business activities, as well as cash flow contributions from these activities, are all key sources of data (See Figure 1). It is considerably more critical with a business model approach in terms of broader integrated reporting (Burke & Clark, 2016).

4.1.Figure. Weak connection between accounting items concerning business model.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	STATEMENT OF FINANCIAL POSITION	STATEMENT OF CASH FLOWS
Revenue	Non-current assets	Operation activities
Operating expenses and other items	Current assets	Investment activities
Finance expense	**= Total assets**	Financing activities
= Profit before tax	Equity	**Cash/cash equivalents**
Tax expense	Non-current liabilities (including provisions)	
Discontinued operation	Current liabilities	Analyses Business activities (i.e. item strongly related to business modell)
= Profit	= Total liabilities	
Other comprehensive income	**= Total equity and liablities**	
= Total comprehensive income		

According to EFRAG (2015), the word "business model" has no broadly accepted definition. It's commonly referred to as a company's main activity or revenue-generating operations. Similar assets and liabilities may be managed in different ways as a result of different business decisions, resulting in distinct cash flow streams and timings from assets and liabilities. EFRAG (2015) lists the following groups of business models:

- “Price change” business models: These entities are trading in the same market as their recurring operation. Fair value measurement will give useful information.
- Business models based on "transformation": These are referred to as "value-added" firms by Marshall & Lennard (2014). These entail producing goods and services using inputs or commodities purchased in one market and sold in another. Manufacturing companies and retailers are two examples. The cost-model measurement will provide useful data.
- “Long-term investment” business models: These entities perform management with focus on cash flow from assets. Examples are real estate companies. Fair value measurement will give useful information.
- Business models based on "liability”: Long-term commitments are common for businesses with such business structures. This type of business model is comparable to those seen in the banking and finance industries, but it is not the same as the ones listed above. In this piece, we shall not discuss such entities. In these industries, financial data is presented in a unique way. must be solved independently from other industries.

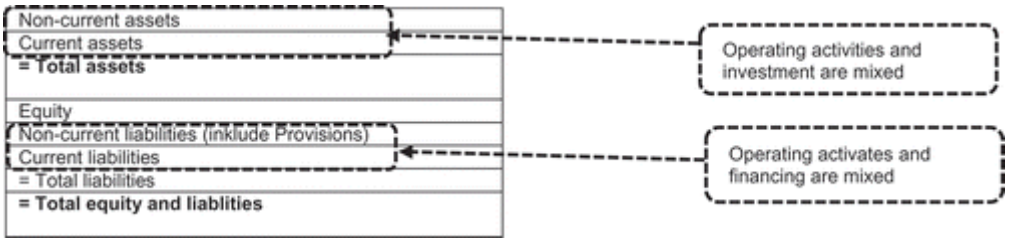
4.3 MISMATCH OF STATEMENTS

4.3.1 The statement of financial position

The asset side of the statement of financial position is divided into non-current assets and current assets under current IFRS regulations. Some assets are tied to the main business, i.e. operating activities, while others are not. Current assets are assets that are acquired as part of the business model and are expected to be realised within 12 months of the reporting date. (According to IAS 1.66). Short-term and non-interest-bearing items are items on the statement of financial position that are related to the business model but are not owner-used fixed assets. The phrase "operation cycle" is used in IAS 1 to describe "the net assets that are continuously circulating as working capital" (IAS 1.62). The business is linked to the operational cycle. The operating cycle, as described, has nothing to do with asset-side investing or debt-side financing. Taxes that have been deferred must be categorised as non-current (IAS 1.56). Based on a research of US corporations, Bauman & Shaw (2016) claim that such classification reduces the value of financial statements for equity investors.

Financial liabilities are debts that pay interest. Financial liabilities must be presented individually under IAS 1.54 m. There is still a lack of regulation on the disclosure of obligations according to finance or operating purposes. Barker (2010a) discusses the significance of this topic. All of the examples show interest-bearing loans or borrowings separately in the financial statements of position (see appendix A). The development of innovative strategies and products to conceal debt funding from important statistics and ratios is ongoing. As a result, reporting genuine entity financing is becoming increasingly difficult. As a categorization issue, "supply chain financing," also known as "supplier finance" or "reverse factoring," is on the table by ESMA (European Securities and Markets Authority) (2015). Debt may appear to be from a supplier, but it is actually from a bank (Pettersen, 2017). It's difficult to present such financing as payables (short-term debt). As a result, there are no rules governing the presentation of interest-bearing liabilities.

Figure 2. Mixed classification in statement of financial position.



For many entities, it is not possible to estimate the capital tied up in working capital or capital employed. However, for many analysts, working capital ratio is important. Working capital ratio is also often used in bank loan covenant claims. The illustrative example from Deloitte (2018) is the only one in our investigation that presents subtotal “Net current assets”. IAS 1.59 states “The use of different measurement bases for different classes of assets suggests that their nature or function differs”, and therefore presentation should be on separate lines. Such classification is not in use in the illustrative examples of financial statements presented by the largest accounting firms. Taken together, the regulation of statement of financial position has little focus on separating items related to business model from items with investment, financing or other purposes.

The new accounting standard on revenues, IFRS 15, has introduced several new lines in statement of financial position (IFRS 15.105 and B21). The illustrative examples from the large accounting firms have increased from two to eight lines. It is surprising to us that several of the new lines have an amount lower than 0.5% of total assets. We do not think such presentation was intended by IASB, with reference to the materiality amendment (IASB, 2018d).

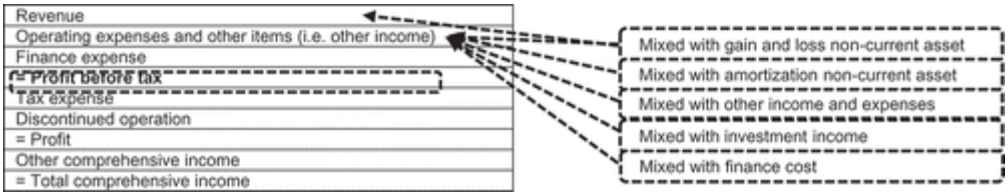
4.3. The statement of profit or loss and other comprehensive income

Profit or loss is defined as changes in equity over the reporting period that are not due to capital contributions or distributions. According to Barker (2010b), the IFRS conceptual framework lacks a definition of profit. Changes in net assets are defined as income and expenses (IASB, 2018a CF 4.68 and 4.69) in the definition of income and expenses (IASB, 2018a CF 4.68 and 4.69). This is, in theory, a problem with recycling of some of the items in comprehensive income to profit or loss at a later stage.

Under current IFRS regulations, businesses must include sales revenues in their profit and loss statements (IAS 18.7). Sales revenues are generated by business model activities, however, if the business model consists of investment activities, sales revenues are not generated. Furthermore, the users require a division of sales revenues based on their primary sources. It is not permissible under current IFRS regulations. Revenue earnings from the sale of goods, commissions from linked firms, or other income from services are all required to be specified. Revenues are split into three lines

according to their source in the illustrative sample financial statement from EY (2015), which is the only one. The term "primary revenue-generating activity" is used in IAS 1.34. Cost of sales (function), as well as the usage of raw materials and consumables (art) In most cases, the commodities offered will only include items from the company model's activities. There is no attempt to distinguish between actions and purposes for the remaining components. The art of the items is the key classifying criterion. Operating profit aims to keep finance elements out, but it's not always successful. Annual provisions modifications, for example, due to discounting.

Figure 3. Mixed classification and lack of clarity in statement of profit or loss.



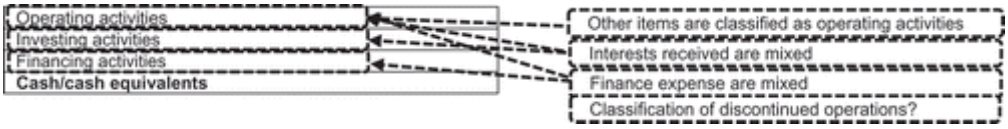
A concern prior to the regulation of other comprehensive income was that users did not include things recorded directly against the equity in their calculations. According to the users, such factors do have an impact on future cash flows. The following section goes over these problems in further detail (IASB, 2008). The entity can choose between a single statement of IAS 1.10A and a series of statements of IAS 1.10A in current IAS 1.10A or two separate statements: profit or loss and other comprehensive income. “Net income is on average more important than comprehensive income,” Thinggaard et al. (2006) conclude, “which may favour a two-statement approach statement.” In the illustration financial statements, for example, comprehensive income appears to get a lot of emphasis. For example, profit or loss statement of KPMG (2018) presents profit or loss on one and a half pages, other comprehensive income on one page, and other comprehensive income on half a page. Deloitte (2015) only uses half a page for the statement of profit or loss by nature connected to continuing operations, but the section with other comprehensive income takes up the entire page. Deloitte The profit or loss by nature statement is shown on one page, whereas the portion with other comprehensive income is presented on two pages. “Better approaches to communicate information about other comprehensive income (OCI)” will be investigated by the IASB (IASB, 2016).

4.4. The statement of cash flows

IAS 7 distinguishes between cash flows from operating activities, investing activities, and financing activities in the statement of cash flows. The depiction of cash flows from operating activities appears to be structured by the business model of the entity. This presentation, however, is hazy and looks to be a remnant format of objects. Every single item that Cash flows from operating activities are not recorded as pure investing or financing activities. This indicates that in this statement, cash flows from investing and financing activities are the most important. The overall goal of decision usefulness, we argue, shows that cash flows from operations are the most significant for the readers. Furthermore, classification of interests received or paid and dividends received, are optional.

For an illustration of the argument above, see Figure 4:

Figure 4. Mixed classification in statement of cash flows.



The classification of financial items is a hazy subject. "…there is no consensus on the classification of these financial flows for other entities," according to IAS 7.33. The term "no consensus" is only used in IAS 7 Statement of cash flows, according to a cursory scan of all IFRS and IAS standards.

Research provides evidence that the entities take advantage of the flexibility in classifying interest paid, interest received, and dividends received. "In analysing The classification of financial items is a hazy subject. There is no consensus on the classification of these financial flows for other entities," according to IAS 7.33. The term "no consensus" is only used in IAS 7 Statement of cash flows, according to a cursory scan of all IFRS and IAS standards. We find some evidence that the market's appraisal of the permanence of operating cash flows and accruals differs depending on the firm's categorization choices, and that the outcomes of particular OCF prediction models are sensitive to classification choices." (Gordon, Henry, Jorgensen, & Linthicum, p. 839 in Gordon, Henry, Jorgensen, & Linthicum, 2017). In addition, research gives evidence that this flexibility allows management to change the classification of interest paid over time. According to Baik, Cho, Choi, and Lee (2016 pg, p. 348), this flexibility reduces the comparability of statement of cash flows. Our research (see Appendix A) reveals a lack of consistency in practise.

In conclusion, we contend that the various assertions classify goods according to distinct criteria. This makes it difficult for consumers to grasp the relationships between the provided figures. Furthermore, there is no line-by-line guidance for financial statement presentations. As a result, multiple versions and inconsistent solutions emerge, making it impossible to examine the business models of the companies.

For an illustration of the argument above, see Figure 4.5

Section	Statement of financial position	Statement financial performance
Business model		
Operating activities	I) Current asset in business activities ↳ Inventories ↳ Trade receivables ↳ Other and prepayment	I) Revenue ↳ Sales of goods ↳ Rendering of services ↳ Rental income
		II) Cost of sales ↳ Changes in inventories ↳ Raw materials and consumables used ↳ Employee benefit expenses
		∑ **A) Gross profit**
	II) Not interest-bearing liabilities in the business activities ↳ Payables (not interest-bearing) ↳ Employee benefits ↳ Deferred income ↳ Provision (not present value)	III) Other expenses in business activities ↳ Employee benefit expenses - Pension cost ↳ Other expenses
	∑ **A) Net working capital in business activities (I-II)**	∑ **EBITDA**
	Non-current asset in use in business activities	Depreciation
		Non-current asset in use in business activities ↳ Sales price from disposal ↳ Amortization ↳ - Booked value disposal
	∑ **Capital employed in business activities**	
Investing activities	Asset and liabilities in investing activities	Income and cost from investing activities
	Cash and short-term investment	Finance income short-term investment
	Non-Current / Long-term investment ↳ Equity instrument measured at fair value ↳ Liabilities instrument measured at fair value ↳ Instrument measured at cost ↳ Investment property	Non-current financial investing and investment property ↳ Gross income and finance income ↳ Revaluation
Discontinued operation (and others)	Asset and liabilities Discontinued Operation	Profit or loss Discontinued Operation
	∑ **Capital employed**	∑ **Profit to distribution**
Distribution		
Financing	Interest-bearing liabilities (and financing asset)	Financing cost
	↳ Current interest-bearing liabilities	↳ Interest current liabilities
	↳ Non-currant interest-bearing liabilities	↳ Interest non-current liabilities
	↳ Provisions (indirect financing asset due to NPV (Net present value)	↳ Interest cost NPV
		∑ = **Profit before tax**
Tax	Short term tax liability Deferred tax assets Deferred tax	Income tax
Equity	∑ IX) **Equity**	∑ = **Profit** (To the owner)
Other comprehensive income		Other comprehensive income
		∑ = **Comprehensive income** (To the owner)
	Information: Total asset (IAS 1.9)	

We argue that the statement of financial performance must include "Operational profit or loss before depreciation from the main business" and the statement of financial position must include "Net working capital in the operating cycle of the main business." Users of financial reports should, in our opinion, have access to information on operating activities or capital expenditures, routine activities in accordance with the business concept. Then, cash flows from the main business, which is an important key number, can be simply computed by adding the change in "Net working capital in the operating cycle" to "Operating profit or loss before depreciation." Those who use financial statements as a basis for valuation need to know a lot of things. capital put to use This diagram is shown in our proposed model. We also propose that the companies include gross sales revenue from the sale of fixed assets and investments in their financial statements. There's no reason to present net gains or losses in the way we do now. In the statement of financial status, items estimated at fair value should be reported in their own part on different lines. Value adjustments, likewise, should be on distinct lines. These fair value modifications will most likely be evaluated differently by accounting users.

Total assets and total liabilities should be stated to meet the financial reporting objective, according to IAS 1.9. We recommend a reconciliation statement or disclosure (influenced by IASB, 2010b) to help consumers understand the relationship between the assertions (see Figure 6). We believe that in this instance, the cash flow statements and changes in equity can be more high-level.

Figure 4.6. Reconciliation statement or disclosure.

	Statement of financial position 1.1.	Cash flow only affect financial position	Statement financial performance				Statement of financial position 31.12.
			Cash flow	Fair value adjustments	Accruals	Cross section (others)	
Business							
Revenue							
Operating cost							
Fixed assets		Purchase	Disposal	Revaluation	Booked value sold asset Depreciation Amortization		
Operating							
Investing		New investment	Financial income Disposal	Revaluation	Book value of sold asset		
Financing		New/ increase loan Repayment	Financial cost				
Discontinued operation							
Tax							
Equity		Issuance of share/ Deposit share	Dividends				

5. CONCLUSION

The current financial report requirement does not fully take into account the users' needs for information regarding the companies' primary business model. As a result, there is a lack of comprehension, clarity, and the ability to compare entities. Users face missing data and must devote an inordinate amount of effort in investigating the primary financial accounts.

The classifications in the profit and loss statement, financial position, and cash flows are not consistent or coordinated. The usual main business model is currently receiving so little attention that the entities' true economic progress and status is obscured. We recommend that the profit or loss item "Operating profit or loss before depreciation from the main asset" be renamed "Operating profit or loss before depreciation from the main asset". business" (EBITDA) should be included in the financial performance statement, and "Net working capital in business activities" should be included in the financial position statement. Financial statement users should be able to quickly identify "fixed operating assets relevant to the main business" in order to compute capital utilised in the main business.

Only minor modifications have occurred between 2015 and 2018, according to our analysis of illustrative instances from prominent accounting firms. In the primary financial accounts, there are still a lot of irrelevant lines and an over-emphasis on "Other comprehensive income." The implementation of IFRS 15 in 2018 did not improve the display or understanding of financial statements. of revenues and the business model in the statements of financial performance.

The time has come, in our opinion, for a dialogue regarding presentation. Any changes, however, are costly, and many organisations will be forced to review and evaluate their presentation strategies in the coming years. First, the International Accounting Standards Board (IASB) is working on a project on primary financial statements. Second, using XBRL mapping to show data digitally will result in adjustments and efforts conformity. Third, many organisations will transition from traditional financial reporting to integrated reporting. Then there must be a clear cross-reference between the statements. Fourth, the transparency movement will emphasise clear and effective communication rather than information overload.

All of these adjustments, we think, will result in primary financial statements that are more intelligible, clearer, and comparable.

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