

Financial statements to undergo a facelift

By [Bongeka Nodada](#), issued by [SAICA](#)

11 Sep 2020

How many times have shareholders and other users of financial statements questioned the quality of financial information that companies provide in financial statements? The manner in which financial information is presented and disclosed could impact how the users of financial statements perceive the content and context provided in those financial statements. Financial statements are an important tool for communicating the financial performance, financial position and cash flows of a company. In addition, financial statements enable users to form an opinion, for example, on the liquidity and solvency of the company. They are also a mechanism that can be used to hold management accountable for the resources entrusted to it by shareholders, writes Bongeka Nodada, Saica project director: financial reporting.

Better communication of financial reporting is one of the major projects undertaken internationally by the global standard-setter, the International Accounting Standards Board, to assist companies to provide more useful and meaningful information to users of financial statements. This information assists users in making better and informed investment decisions.

In light of this project, companies should expect new accounting requirements on presentation and disclosures in the financial statements that will change the face of the income statement. Limited changes are expected to affect the statement of cash flows and the statement of financial position. These new requirements will impact companies in South Africa applying International Financial Reporting Standards (IFRS) across all industries, although its impact may vary from industry to industry.

Currently, operating profit presented on the income statement is not defined in IFRS and, therefore, is not interpreted consistently by all companies. The new accounting requirements will standardise how the income statement is presented by prescribing additional subtotals in the income statement. The new subtotals include operating profit or loss and income and expenses from integral associates and joint ventures and profit or loss before financing and income tax. These subtotals are intended to assist companies to provide relevant information and create a more consistent structure which would improve comparability.

Furthermore, with the revised format, companies would present items on the income statement based on three broad categories namely: operating, investing, financing and integral associates and joint ventures. Moreover, companies would also be required to provide an analysis of their operating expenses and to identify and explain any 'unusual income or expenses'. This analysis would assist investors to assess a company's earnings and forecast future cash flows.

To what extent will these proposals impact companies in South Africa? Each company needs to assess how the new requirements will require system changes, impact their debt covenants or budgetary requirements, key financial ratios but, most importantly, how this will enhance financial reporting. Companies should consider taking the board and investors along the journey to highlight the impact of the new requirements and also to manage expectations before the changes are implemented. Notably, companies in South Africa are encouraged to partake in the consultation process that is currently taking place and closing on 30 September 2020 to ensure that the new requirements are fit for purpose.

These new requirements are applicable to companies that are required to prepare financial statements in terms of IFRS,



Bongeka Nodada, Saica project director: financial reporting

including companies listed on the JSE and those required in terms of the Companies Act 71 of 2008 or any other legislation to comply with IFRS and others who have opted to apply IFRS.

The opportunity for greater transparency, a more informed set of financial statements and a more involved stakeholder is now.

The consultation document on the general presentation and disclosures can be accessed via this [link](#).

About Saica

The South African Institute of Chartered Accountants (Saica), South Africa's pre-eminent accountancy body, is widely recognised as one of the world's leading accounting institutes. The institute provides a wide range of support services to more than 50,000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting technicians (ATs[SA]), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation's highly dynamic business sector and economic development.

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ABOUT THE AUTHOR

Bongeka Nodada is the Project Director: Financial Reporting at Saica

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