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PRESENTATION OF FINANCIAL REPORTS

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This Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting published by the Council, Institute of Chartered Accountants of New Zealand.

The Accounting Standards Review Board (the Board) has approved FRS-2: Presentation of Financial Reports, for the purposes of the Financial Reporting Act 1993, to apply to reporting entities, the Crown and all departments, Offices of Parliament and Crown entities (each of which is defined in the Act) other than as expressly exempted by the terms of the Standard.

The Board has also approved this Standard to apply to local authorities (as defined in the Act) from 1 July 1998.

1 INTRODUCTION

COMMENTARY

1.1 This Standard builds on the *Statement of Concepts for General Purpose Financial Reporting* by establishing a framework for the information to be presented or displayed in general purpose financial reports.

1.2 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

2.1 This Standard applies to the general purpose financial reports of all entities as follows:

- (a) **The Standards in Section A, The Underlying Bases of Financial Reports, apply to the general purpose financial reports of all entities except that:**
 - (i) **qualifying entities (as defined in the *Framework for Differential Reporting*) are exempted from the requirements to produce a statement of cash flows as required by paragraph 5.2(d) and;**
 - (ii) **entities not required by legislation to prepare a statement of service performance are exempted from the requirement to provide a statement of service performance as required by paragraph 5.2(e).**
- (b) **The Standards in Section B, Presentation of Financial Statements, apply to the general purpose financial reports of all entities except that qualifying entities (as defined in the *Framework for Differential Reporting*) are exempted from the requirements of paragraph 9.1 (relating to statement of cash flows).**
- (c) **The Standards in Section C, Presentation of Non-financial Statements, apply to the general purpose financial reports of all entities that prepare a statement of service performance.**
- (d) **Section D, Supplementary Information, only contains commentary paragraphs. These paragraphs apply to the general purpose financial reports of all entities.**

2.2 The financial reporting standards set out in this Standard shall apply to all financial reports where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.

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2.3 This Standard applies to general purpose financial reports covering periods beginning on or after 1 January 1995.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 The purpose of this Standard is to establish a framework for the presentation of general purpose financial reports.

4 DEFINITIONS

STANDARD

The following terms are used in this Standard with these meanings:

4.1 “Financial statements” are the statements prepared by an entity to communicate information about its financial performance, financial position and cash flows.

COMMENTARY

4.2 The term “financial statements” includes those notes and schedules that are needed to clarify or further explain items in the statements.

STANDARD

4.3 “General purpose financial reports” are financial reports which are intended to provide information to meet the needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. The term “financial reports” is used throughout this document to mean general purpose financial reports.

COMMENTARY

4.4 Financial reports consist of:

- (a) financial statements;
- (b) non-financial statements; and
- (c) supplementary information which is additional to the information in financial and non-financial statements.

4.5 The term “financial reports” encompasses all reports that contain financial and non-financial information based on data generated from a financial accounting and reporting system.

STANDARD

4.6 “Net surplus (deficit)” is the sum of an entity’s operating surplus (deficit) and extraordinary items.

4.7 “Non-financial statements” are the statements prepared by an entity to communicate information about its non-financial performance.

COMMENTARY

4.8 The term “non-financial statements” includes those notes and schedules that are needed to clarify or further explain items in the statements.

STANDARD

4.9 “Operating surplus (deficit)” is a measure of financial performance resulting from transactions and other events during a period, excluding:

- (a) changes in equity resulting from the effect of extraordinary items;**
- (b) changes in reserves recognised in the statement of movements in equity;**
- (c) currency translation differences permitted to be recognised in the statement of movements in equity; and**
- (d) distributions to and contributions by owners.**

COMMENTARY

4.10 Operating surplus (deficit) for the period includes the deductions for tax expense.

SECTION A:

THE UNDERLYING BASES OF FINANCIAL REPORTS

INTRODUCTION

COMMENTARY

5.1 This Standard establishes a structure and a foundation for financial reports to:

- (a) display an entity’s financial and non-financial performance, financial position, and cash flows;
- (b) assist the assessment of an entity’s compliance with relevant legislation, regulations, common law and contractual arrangements which are relevant to the entity’s financial and non-financial performance, financial position and cash flows; and
- (c) assist users in making decisions about providing resources to, or doing business with, the entity.

THE STRUCTURE OF FINANCIAL REPORTS

STANDARD

5.2 The financial report of an entity shall include:

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- (a) a statement of financial performance;
- (b) a statement of movements in equity;
- (c) a statement of financial position;
- (d) a statement of cash flows (where not exempted);
- (e) a statement of service performance (where not exempted); and
- (f) such accounting policies and explanatory notes as a reader may need to understand the entity's financial and non-financial performance, financial position and cash flows.

COMMENTARY

Financial Statements

5.3 The statements which best display the entity's financial performance and position are:

- the statement of financial performance,
- the statement of movements in equity,
- the statement of financial position, and
- the statement of cash flows,
- together with accounting policies and explanatory notes to the above statements.

These statements are discussed in Section B of this Standard.

Non-financial Statements

5.4 The statement which best displays the entity's non-financial performance is the statement of service performance, together with accounting policies and explanatory notes to that statement.

This statement is discussed in Section C of this Standard.

Supplementary Information

5.5 Supplementary information, positioned outside the financial and non-financial statements, gives information additional to that reported in those statements.

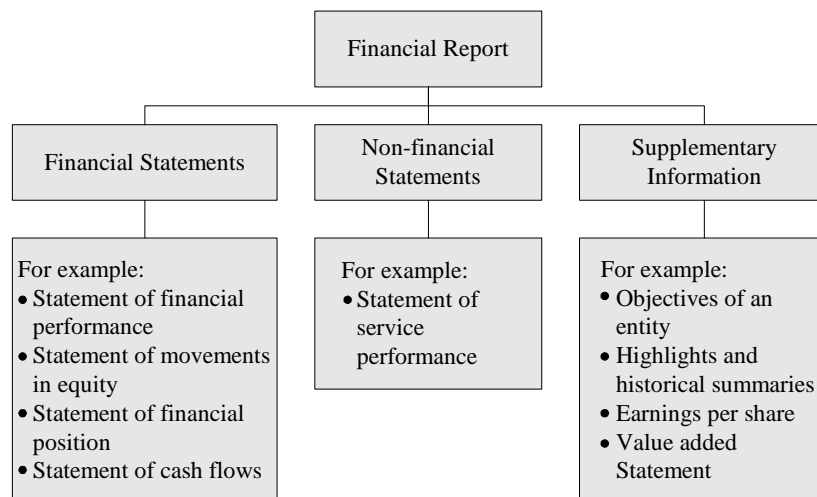
The supplementary information may be either financial or non-financial. It may include additional information required by legislation, and the reporting of objectives and prospective information.

Certain types of supplementary information are discussed in Section D of this Standard.

Diagrammatic Representation of the Structure of Financial Reports

5.6 The structure of financial reports is depicted in Figure 1.

Figure 1



Inter-relationship of Statements in Financial Reports

5.7 The statements in financial reports inter-relate in that:

- (a) they contribute both individually and collectively to an understanding of an entity's performance and position;
- (b) each statement reflects different attributes or aspects of the same transactions or events affecting an entity. For example, the increase in equity arising from revenue, reported in the statement of financial performance, is different from the cash flow from the same event reported in the statement of cash flows.

FORMATS OF FINANCIAL REPORTS

COMMENTARY

5.8 Following a prescribed format and adopting prescribed titles, may assist users of financial reports, especially when they are comparing the financial reports of different entities. Such prescriptions may, however, result in a loss of information and may affect the giving of a fair presentation. Accordingly, entities are permitted flexibility in presenting their financial report in a manner appropriate to their circumstances. While a flexible approach to presentation is favoured, this Standard requires, and prescribes methods for, the disclosure of certain components in financial reports.

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THE FOUNDATIONS OF FINANCIAL REPORTS

COMMENTARY

Aggregation

5.9 A financial report normally results from processing large quantities of data. Transactions and other events that affect an entity are represented in the financial report by words and numbers. Voluminous transactions and other events of the same nature are interpreted, condensed, combined, and structured by being aggregated into the amounts or totals disclosed. The resulting report conveys, subject to the constraint of benefit: cost considerations, relevant information that might otherwise be obscured if the report went into great detail, such as descriptions of each transaction or event.

Classification

5.10 Users may also be assisted in their assessment of the financial report if items are grouped or classified according to their nature and/or function. For example, expenses may be analysed by broad categories representing:

- the nature of a cost, such as purchases, or
- functions in the entity, such as production costs, or
- outputs, such as product lines or activity.

Components of Financial Reports

5.11 The final stage of the process of aggregation and classification is the presentation of condensed and classified data as components in the financial report. The nature of a component will determine the individual statement in the financial report in which it is to be included. For example, revenue or expense components will be included in the statement of financial performance; assets, liabilities and equity will be included in the statement of financial position; and input, output or outcome components may be included in the statement of service performance.

5.12 The prominence given to each component is to be appropriate to its overall significance in either the particular statement where it appears, or the entire financial report.

Notes to Financial and Non-financial Statements

5.13 Notes to financial and non-financial statements are to be included where necessary to amplify or explain the components in the individual statements. In certain instances, a note may provide information additional to that included in a statement about a particular transaction or event. For example, if investments are recorded in the statement of financial position at historical cost, their market value may be given in a note. The notes may also contain information about an entity's activities and its relationship with other entities. For example, the notes may contain information about:

- segmental data,
- cost of services, and
- transactions with related parties.

5.14 Where information is disclosed by way of note, that information is to be complete and the wording used is to be clear and unambiguous. If information in the statements gives an incomplete picture of the entity's financial and service performance and financial position, the notes are to include information that is essential for a complete understanding. The notes are an integral part of the financial and non-financial statements.

Comparative Figures

STANDARD

5.15 Comparative figures for the prior period shall be given for all items in the financial statements. In meeting this requirement, the figures for the prior period shall be reclassified, where necessary, so that such information corresponds to the classification presented for the current period. Where there has been a reclassification of prior period amounts, the nature of, and the reason for, the reclassification shall be disclosed.

COMMENTARY

5.15A The requirement to reclassify prior period information, where necessary, is limited to circumstances where there has been a change in basis for presentation of information reported in the current period from the basis for presentation of information reported in the previous period. This means there may be a realignment of prior period information with the current period information but there cannot, as a consequence of the requirement in paragraph 5.15, be a remeasurement of prior period information. Therefore, the reclassification may, where appropriate, result in related amendments to prior period amounts within a single primary financial statement but not between two primary financial statements. For example, amendments to prior period amounts are appropriate where components of expense groupings have changed in the statement of financial performance of the current period. However, amendments are not appropriate where a foreign currency translation revenue or expense which was reported directly as a component of the statement of movements in equity of the previous period is subsequently reported as a revenue or expense in the statement of financial performance of the current period.

5.16 The requirement to report comparatives applies only to items in the financial statements. Entities are encouraged to provide comparatives in statements of service performance and for supplementary information where such information will be of assistance to users.

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General Disclosure

STANDARD

5.17 The financial report shall state the name of the entity, the date of the statement of financial position, and the period covered by the other statements in the financial report.

SECTION B:

PRESENTATION OF FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

COMMENTARY

Introduction

6.1 A statement of financial performance contributes to the objectives of general purpose financial reporting by disclosing the net surplus (deficit), and the components of the net surplus (deficit), arising from activities or events during the given period that are significant for the assessment of both past and future financial performance.

6.2 In order to meet the standards of comparability, consistency and neutrality, all revenues and expenses are to be included in the statement of financial performance, unless a financial reporting standard requires that a particular revenue or expense be incorporated in the statement of movements in equity.

Components of Net Surplus (deficit)

STANDARD

6.3 The net surplus (deficit) for the period shall be separately disclosed in the statement of financial performance. Any minority interest in the net surplus (deficit) shall also be separately disclosed in the statement of financial performance.

6.4 A component of net surplus (deficit) shall be reported separately if separate disclosure is necessary in order to achieve the objectives of general purpose financial reporting.

COMMENTARY

6.5 The need for information about various components of a net surplus (deficit) arises because the effects of an entity's various activities, transactions and events differ in stability, risk and predictability.

6.6 The components of net surplus (deficit) can be reported as items in the statement of financial performance in various ways. When making a decision about the information to present, the following are to be considered:

- (a) materiality of individual items and classes of similar items;
- (b) amounts that are affected in different ways by changes in economic conditions or operating activity;
- (c) nature of particular items. For example it may be necessary to disclose separately the results of investment activities as these are frequently assessed on a basis different from that of an entity's other activities; and
- (d) detail necessary, subject to benefit: cost considerations, to enable users to understand the relationships between revenue and expenses.

Operating Surplus (deficit)

STANDARD

6.7 The operating surplus (deficit) shall be disclosed separately.

Minority Interests

STANDARD

6.8 The interest of minorities in the operating surplus (deficit) and their interest in extraordinary items shall each be disclosed separately in the statement of financial performance.

Equity Income

STANDARD

6.9 The entity's share of associates' operating surplus (deficit) and extraordinary items shall each be disclosed separately in the statement of financial performance.

Extraordinary Items

STANDARD

6.10 Extraordinary items shall be disclosed separately in the statement of financial performance following the operating surplus (deficit).

COMMENTARY

6.11 For a proper understanding of the entity's financial performance, extraordinary items are to be disclosed separately, net of tax, immediately before the net surplus (deficit). There shall also be separate disclosure of the taxation attributable to extraordinary items. An adequate description of each extraordinary item is to be given to enable its nature to be understood. Guidance relating to the identification of extraordinary items and further guidance relating to the reporting of these is set out in FRS-7: *Extraordinary Items and Fundamental Errors*.

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Tax Expense

STANDARD

6.12 The tax expense shall be disclosed separately in the statement of financial performance following the operating surplus (deficit) before taxation.

COMMENTARY

Sub-headings

6.13 Where appropriate the following sub-headings (or their equivalent) are to be disclosed in the statement of financial performance:

- (a) operating surplus (deficit) before taxation; and
- (b) operating surplus (deficit).

An illustration of the presentation of these sub-headings is set out in Appendix 1.

Display of Financial Performance

6.14 An example of a statement of financial performance is given in Appendix 1. The precise format of the statement will depend on individual circumstances.

STATEMENT OF MOVEMENTS IN EQUITY

COMMENTARY

7.1 A statement of movements in equity contributes to the objectives of general purpose financial reporting by combining information about net surplus (deficit) with other aspects of an entity's financial performance in order to give a degree of measure of comprehensive income. In conjunction with the statement of financial position, it also provides information that is useful for assessing the return on investment in the entity.

STANDARD

7.2 The statement of movements in equity shall include a reconciliation of the equity at the beginning of the period with the equity at the end of the period.

7.3 The statement of movements in equity shall separately disclose:

- (a) **total recognised revenues and expenses including:**
 - (i) **net surplus (deficit) (separately disclosing minority interest);**
 - (ii) **increases/decreases in revaluation reserves;**
 - (iii) **currency translation differences;**
 - (iv) **total minority interest in (ii) and (iii);**
- (b) **distributions to owners (other than minority interest);**
- (c) **contributions by owners (other than minority interest); and**

(d) minority interest in contributions by and distributions to owners.

7.4 Opening equity shall be adjusted for any fundamental errors.

COMMENTARY

7.5 The increases and decreases in revaluation or other reserves displayed in the statement of movements in equity are to exclude any changes in reserves recognised in the statement of financial performance.

7.6 This Standard does not require that non-current assets or other elements be revalued, but rather, that where revaluations are recorded, the effect of those revalued figures is disclosed in order to provide adequate information concerning financial performance.

7.7 Transfers between reserves are not to be reflected in the statement of movements in equity, but in a note to the financial statements.

Display of Movements in Equity

7.8 An example of a statement of movements in equity is given in Appendix 2. The precise format of the statement will depend on individual circumstances.

STATEMENT OF FINANCIAL POSITION

STANDARD

8.1 The statement of financial position shall include assets and liabilities, and shall display the entity's resource structure (by major classes of assets) and its financing structure (by major classes of liabilities and equity).

COMMENTARY

8.2 A statement of financial position contributes to the objectives of general purpose financial reporting by providing information about the assets, liabilities and equity of an entity, and the relationship of these elements to each other at a point in time.

8.3 Information about the economic resources controlled by an entity, and its capacity to modify these resources, is useful in assessing the entity's ability to generate cash and/or provide services in the future. Information about the financing structure is useful in assessing future borrowing needs, and how future surpluses and cash flows may be distributed among those with an interest in the entity. The information is also useful in assessing how successful the entity is likely to be in raising further finance.

8.4 A statement of financial position does not purport to show the value of an entity. However, together with other statements in the financial report and other information, a statement of financial position is to provide information that is useful to those who wish to make their own estimates of an entity's value.

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STANDARD

8.5 The statement of financial position shall separately disclose:

- (a) (i) **current assets;**
- (ii) **non-current assets;**
- (iii) **current liabilities;**
- (iv) **non-current liabilities; and**
- (v) **equity (including separate disclosure of minority interests);**

or

- (b) **where, because of the nature of the activity of the entity, it is not appropriate to disclose the classification listed in (a):**
 - (i) **the major components of assets and liabilities in the broad order of their liquidity; and**
 - (ii) **equity (including separate disclosure of minority interests).**

COMMENTARY

8.6 Information concerning assets, liabilities and equity is condensed into classes by aggregation and classification. The main basis for deciding the number of classes and the content of each, is that the resulting statement of financial position is to help users to assess:

- the nature, amounts and liquidity of available resources;
- their function in use; and
- the amounts and timing of obligations that require or may require liquid resources for settlement.

8.7 Information in the statement of financial position can assist users to estimate the amounts, timing and uncertainty of future cash flows. Reporting which distinguishes assets by function is useful for this purpose. For example, assets held for sale are to be reported separately from assets held for use in production, because of the potential effects of each in the timing of future cash flows. In addition, assets may be grouped according to the relative certainty of their valuation, or according to an order of liquidity.

8.8 As an example of the grouping of assets, financial institutions may list their assets in order of liquidity.

STATEMENT OF CASH FLOWS

STANDARD

9.1 The statement of cash flows shall disclose separately the cash flows for the period, classified by major sources and uses, from:

- (a) **operating activities;**
- (b) **investing activities; and**
- (c) **financing activities.**

COMMENTARY

9.2 The statement of cash flows contributes to the objectives of general purpose financial reporting by reflecting an entity's cash receipts and its cash payments during a period, in order to provide useful information about an entity's activities in generating cash through operations to:

- repay debt,
- distribute dividends, or
- reinvest to maintain or expand operating capacity.

It also provides useful information about cash flows generated from an entity's investing and financing activities, both debt and equity.

SECTION C:

PRESENTATION OF NON-FINANCIAL STATEMENTS

INTRODUCTION

COMMENTARY

Non-financial Statements

10.1 Non-financial statements contribute to the objectives of general purpose financial reporting by providing:

- narrative and statistics on the entity's performance in supplying goods and services, and
- information on the effects on the community of the entity's existence and operations.

Service Performance

10.2 "Service performance" is the term used to describe an entity's performance in meeting its objectives of supplying goods and services.

10.3 The elements of service performance are defined as inputs, outputs and outcomes in the *Statement of Concepts for General Purpose Financial Reporting* as follows:

Inputs are the resources used to produce the goods and services which are the outputs of the reporting entity.

Outputs are the goods and services produced by the reporting entity.

Outcomes are the impacts on, or consequences for, the community resulting from the existence and operations of the reporting entity."

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To assess service performance, users need information on some or all of these elements. Service performance is primarily reported in non-financial terms. Additional financial information related to service performance may also be reported. Which elements are to be reported will depend on the entity's specific activities and its accountability obligations.

Accountability Obligations

10.4 The *Statement of Concepts for General Purpose Financial Reporting*, commencing paragraph 3.4, states that “to fulfil the accountability role, financial reports should reflect the nature and dimensions of performance that are relevant to the entity.... Accountability requires that financial reports:

- (a) identify the objectives and targets normally established by formal process;
and
- (b) measure actual achievements against those objectives and targets.

Such objectives and targets may be financial or non-financial.”

10.5 All entities are to consider their responsibility to report service performance where such reporting is necessary to fulfil their accountability obligations.

10.6 Entities have accountability obligations to report service performance when the entity receives funding from one party but delivers (or arranges to deliver) outputs (goods and services) to third parties. This relationship occurs when the entity has the coercive power to tax, rate or levy to obtain public funds, or the entity receives donations from the public.

For example, this relationship exists where the entity reporting is a charity that receives donations from the public but provides services to third parties such as the disabled. Similarly, a local authority may charge rates to property owners but provides a park and other services for the general public as third parties.

10.7 Where the person paying (the ratepayer, the donor etc) does not receive the outputs paid for but these outputs pass to a third party (the general public, the disabled etc), the entity that produces the outputs (the local authority, charity etc) meets its accountability obligation by producing a statement of service performance describing the outputs provided.

Outcomes

10.8 Users of financial reports are often interested in the impacts on, and consequences for, the community of an entity's existence and operations (ie *outcomes*, as defined in paragraph 8.4 of the *Statement of Concepts for General Purpose Financial Reporting*). This interest is taken in all entities, regardless of whether their financial reports cover financial performance, or delivery of goods and services, or both. If outcome information were to be reported in an entity's financial report, it could be to reflect either or both of the accountability role and the informative role (paragraph 3.1 of the *Statement of Concepts for General*

Purpose Financial Reporting) of financial reporting, or it could be to assist interpretation of financial information and non-financial information (for example, outputs) (paragraph 3.7 of the *Statement of Concepts for General Purpose Financial Reporting*). Pending further developments in reporting outcomes all entities are encouraged to develop and publish outcome reporting as part of financial reporting.

10.9 The reporting of outcomes intended and/or outcomes achieved may be presented in a statement of service performance or included as additional information in other non-financial statements.

STATEMENT OF SERVICE PERFORMANCE

STANDARD

11.1 The statement of service performance shall describe and disclose the outputs of an entity. Similar individual outputs may be aggregated.

COMMENTARY

11.2 An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial report where:

- the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or
- the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial report.

Not-for-profit entities are strongly encouraged to produce a statement of service performance.

11.3 Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:

- quantity;
- quality;
- time;
- location.

The cost of each output is to be described and disclosed.

11.4 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.

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11.5 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.

STANDARD

11.6 The statement of service performance shall present both projected service performance and actual service performance.

COMMENTARY

11.7 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.

11.8 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.

11.9 Actual and projected service performance are to be reported consistently with one another. The information disclosed is to be sufficiently specific for performance to be assessed.

SECTION D:

SUPPLEMENTARY INFORMATION

INTRODUCTION

COMMENTARY

12.1 It is not possible to identify all the supplementary information which it may be appropriate to include in financial reports. The supplementary information needed for an appreciation of an entity's past financial and service performance, and an assessment of its future performance, will vary from one entity to another. The following are suggested as items which, if not required by other standards or by legislation, might be displayed as supplementary information.

Objectives of an Entity

12.2 A statement of the intended future directions of an entity's activities could help users of the financial report to assess an entity's future financial and service performance, financial position and cash flows. The benefits from publishing objectives may include:

- increased awareness of the entity's economic and social purposes;

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- increased comprehension (particularly by reasonably informed users of the financial report) of information contained in other reports presented by the entity, thereby enabling an assessment of the entity's performance in achieving the objectives;
- more informed discussion about the relative ability of the entity to achieve its mission and thereby improve the allocation of scarce economic and social resources in society;
- improved accountability.

12.3 Objectives exist in a hierarchy, with the highest level of objective being the mission or purpose of the entity. The mission is the entity's basic purpose and may include a description of the general nature of the goods and services to be provided by the entity and, where appropriate, the identifiable beneficiaries. Other objectives range from long-term strategic overall objectives to short term specific targets. These specify the ends to be met if the entity is to achieve its mission, and give rise to the targets against which the entity's performance can be assessed.

Highlights and Historical Summaries

12.4 Highlights and historical summaries are amounts, ratios and other computations, applicable to a single period or to a number of periods, that disclose key information about financial and service performance, financial position and cash flows. Statistical information is usually a useful addition to the information in financial reports for a period. When highlights for successive periods are presented in a comparative form, they enable the user to observe the amount and direction of change in various factors, and to distinguish trends which would not otherwise be apparent from a study of the financial reports for a single period.

12.5 The criteria used in deciding what information should be included in a section of highlights and historical summaries are the same as the concepts used in deciding what information should be included in other parts of financial reports, namely, those which fulfil the objectives of general purpose financial reporting.

Earnings per Share

12.6 The analysis and interpretation of financial statements frequently involves the calculation of measurements that can be used in comparing the performance of a company over time. The measure, earnings per share, assists in this comparison.

12.7 Earnings per share involves expressing an entity's operating or net surplus as a ratio of units of capital. The ratio aids comparison of the entity's ability to earn a surplus in different time periods and also with other entities' ability to earn a surplus.

Value Added

12.8 A statement of value added displays how wealth has been created by the efforts of the entity and its employees. The statement shows how the value added

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has been used to pay those contributing to its creation, and elaborates on, or complements the statement of financial performance.

Resources

12.9 In some circumstances an entity's resources are not capable of being measured in financial terms, and therefore of being included in a statement of financial position. Even if the resources are capable of being measured in financial terms, there are other circumstances, especially where the entity's objectives are primarily service-related, in which a physical description of the resources available to the entity provides a useful addition to the financial description in the statement of financial position. Resources may also include assets, such as internally generated goodwill, which are not recognised, in whole or in part, in the financial statements because they are unable to be measured reliably.

Acquisitions

12.10 Where appropriate a pro forma statement of financial position may be drawn up in order to illustrate the probable position of the entity following the proposed acquisition of another entity.

Management Discussion and Analysis

12.11 An understanding of financial reports may be assisted by a management discussion and analysis explaining the information given in the financial reports, and discussing the significance of that information. In certain circumstances, information which is required by legislation to be disclosed may also be included in the management discussion and analysis.

12.12 In some circumstances in understanding a financial report it will be necessary for additional information to be provided where information about the entity cannot be divided clearly into nominated time periods.

Prospective Information

12.13 Users of a financial report may be assisted in making their investment decisions by the provision of prospective information concerning the entity's possible future financial performance and position. When working with or using prospective financial information it is essential to understand its inherent limitations.

Governing Bodies' Responsibilities

12.14 An entity may wish to include a statement of the governing body's responsibilities. The matters to be included in the governing body's responsibilities would reflect the specific requirements applicable to the entity. For example the responsibilities of a company's directors would normally include the following points:

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- (a) Company law requires directors to ensure a financial report is prepared for each financial year which gives a true and fair view of the financial position of the company as at the end of the financial year and the results and cash flows for that period.
- (b) In preparing those financial statements the directors are required to:
 - select suitable accounting policies and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable;
 - comply with applicable financial reporting standards;
 - prepare the financial report on the going concern basis unless it is not appropriate to presume that the company will continue in business.
- (c) The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company (or group) and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the public sector some entities have a legislative requirement to provide a management statement. For example, refer to the Public Finance Act 1989, sections 29, 37 and 42.

Compliance Reporting

12.15 The objectives of financial reporting may be advanced by the provision within the financial report of a statement concerning the entity's compliance with relevant and material obligations (legislative, regulatory or contractual) which impact upon its financial or service performance or financial position. The following factors together might indicate whether compliance obligations are relevant and material:

- whether the compliance obligation relates to activities of the reporting entity rather than disclosures;
- whether compliance/non-compliance has an impact on net surplus (deficit), comprehensive income, equity, or quantity or quality of outputs or outcomes;
- whether the financial or service performance impact is significant.

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APPENDIX 1

Alternative 1 – Disaggregation approach

Statement of Financial Performance

Statement of Financial Performance for the Period Ended 30 June 20X1

	20X1	20X0
Operating revenue	\$	\$
Operating expenses	<u>\$</u>	<u>\$</u>
Operating surplus (deficit) before taxation	\$	\$
Taxation	<u>\$</u>	<u>\$</u>
Operating surplus (deficit)	\$	\$
Extraordinary items	<u>\$</u>	<u>\$</u>
Net surplus (deficit) for the period comprising:	\$	\$
- Parent interest	\$	\$
- Minority interest	<u>\$</u>	<u>\$</u>
	<u>\$</u>	<u>\$</u>

Alternative 2 - Deduction approach

Statement of Financial Performance

Statement of Financial Performance for the Period Ended 30 June 20X1

	20X1	20X0
Operating revenue	\$	\$
Operating expenses	<u>\$</u>	<u>\$</u>
Operating surplus (deficit) before taxation	\$	\$
Taxation	<u>\$</u>	<u>\$</u>
Operating surplus (deficit)	\$	\$
Extraordinary items	<u>\$</u>	<u>\$</u>
Net surplus (deficit) for the period :	\$	\$
Less: Net surplus (deficit) attributable to minority interest	<u>\$</u>	<u>\$</u>
Net surplus (deficit) attributable to parent interest	<u>\$</u>	<u>\$</u>

APPENDIX 2

Statement of Movements in Equity

Statement of Movements in Equity for the Period Ended
30 June 20X1

	20X1	20X0
Net surplus (deficit) for the period, comprising		
– Parent interest	\$	\$
– Minority interest	\$	\$
Other recognised revenue and expenses		
– Increases/decreases in revaluation reserves	\$	\$
– Currency translation difference	\$	\$
– Total minority interest in currency translation differences and changes in revaluation reserves	<u>\$</u>	<u>\$</u>
Total recognised revenues and expenses	\$	\$
Contributions from owners	\$	\$
Distributions to owners	\$	\$
Minority interest in contributions from/distributions to owners ¹	<u>\$</u>	<u>\$</u>
Movements in equity for the period	\$	\$
Equity at start of the period	\$	\$
Fundamental errors	<u>\$</u>	<u>\$</u>
Amended equity at start of the period	\$	\$
comprising:		
– Parent interest	\$	\$
– Minority interest	<u>\$</u>	<u>\$</u>
	<u>\$</u>	<u>\$</u>
Equity at end of the period	\$	\$
comprising:		
– Parent interest	\$	\$
– Minority interest	<u>\$</u>	<u>\$</u>
	<u>\$</u>	<u>\$</u>

1 Wording should be adjusted to suit the circumstances

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APPENDIX 3

Comparison of FRS-2 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 1 December 1993 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-2.

Neither the International Accounting Standards Committee nor the Australian Accounting Standards Board nor the Australian Public Sector Accounting Standards Board has issued a financial reporting standard equivalent to FRS-2.

HISTORY

No previously issued accounting standards are superseded by this Financial Reporting Standard.

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