BETTER COMMUNICATION – Let's do it

The International Accounting Standards Board (IASB) develops its five year work plan based on the feedbacks and consultations with the global constituents. In November 2016, IASB published its five year work plan (for the period from 2017 to 2021).

The feedback received by IASB indicated widely shared concerns of the stakeholders about the communication effectiveness of current financial reportings, and consequent need of projects aimed to improve the existing standards and enhancement of the communicative value of the financial reporting. IASB acknowledged that valuable information is often hidden by 'boiler-plate' disclosures and financial information is often poorly presented. Therefore, making it difficult and time-consuming for investors to identify the most useful information from amongst all the information that is disclosed.

In consideration of these widely shared concerns IASB has formulated a theme of 'Better Communication' to set its projects for the next 5 years. These projects will focus on how financial information is presented and grouped together with the aim of enhancing presentation and disclosure.

Under the better communication theme IASB has initiated various projects and as part of this the IFRS Foundation published a case study report *"Better Communication in Financial Reporting"*.

This case study report contains real-life examples of financial statements showing how companies from different parts of the world have improved communication in their financial statements prepared in accordance with IFRS Standards.

WHY SHARE THE CASE STUDIES

The case study report aims to demonstrate how improvements can be made and to inspire other entities to initiate their own improvement projects.

As explained in the report by describing a few companies' journeys towards improving the way they communicate information in their financial statements, the report shows that communicating information more effectively is feasible when applying IFRS Standards. The companies' experiences demonstrate that relatively small changes can significantly enhance the usefulness of their financial statements.

The report seeks to inspire other companies to improve communication in their own financial statements. Most companies featured in this report found it at first challenging to start making improvements. However, once they completed their first tentative steps, these companies found making improvements much easier.

AREA OF FOCUS

IASB has identified following three major concerns about information in financial statements, collectively termed as **'Disclosure Problem**".

- Not enough relevant information
- Too much irrelevant information
- Ineffectively communicated information

Although these three concerns are interrelated, the focus of published case studies is on the third one—**the need to communicate information effectively.**

BENEFITS OF BETTER COMMUNICATION

As noted by IASB Chairman, effective communication of information in financial statements can contribute to better investment decisions and a lower cost of capital for companies.

COMPANIES INCLUDED IN THE CASE STUDY REPORT

Brief profiles of the companies included for case study purposes is as under:

COMPANY NAME	INCORPORATION & LISTING	BUSINESS
Fonterra Co-operative Group Limited	Incorporated in NewZeland	Operates in the international dairy industry, with sales to more than 100 countries
Wesfarmers Limited	Listed on the Australian Securities Exchange	Operations span a retail division with businesses in supermarkets, home improvement, office supplies and department stores, and an industrial division with businesses in chemicals, energy and fertilisers, industrial and safety products, and coal
PotashCorp	Canadian company listed on the Toronto and New York Stock Exchanges	Manufactures fertiliser and associated chemical and mineral products
ITV plc	Listed on the London Stock Exchange and forms part of the FTSE 100 Index	An integrated producer broadcaster that creates, owns and distributes content on multiple platforms
Orange S.A.	French multinational, listed on the Paris Stock Exchange and New York Stock Exchange	Provides telecommunication and data services to customers in 29 countries
Pandora A/S	Listed on the NASDAQ OMX Copenhagen Stock Exchange and OMX Copenhagen 20 Index	An international jewellery manufacturer and retailer with products sold in more than 100 countries

HOW THEY DID IT

Through the case study report it has been demonstrated that the financial statements are easier to read and understand because the companies identified which information is relevant to their investors, prioritized it appropriately and presented it in a clear and simple manner. In some cases, this resulted in companies including additional information that was considered useful for investors and, in other cases, removing information that was immaterial.

For the companies included in the report, the following factors were key to making the improvements in communication possible:

- **Senior management support**- senior management supported the changes in communication;
- **Engagement with the investors** - companies engaged with their investors to identify and understand their information needs;
- **Multi-disciplinary team** - departments across the companies participated in the process; and
- **Involvement of other stakeholders** - the companies' auditors, regulators and national standard-setters supported the process and were willing to discuss the proposed changes.

Companies featured in the report have taken different approaches to making changes in the way they communicate in their financial statements. Some companies made dramatic changes during a single reporting period. Other companies have been improving the way they communicate information for a few years. What is important though is that these companies have committed to making continuous improvements in the financial reportings within the context of existing IFRS Standards.

EXTRACTS FROM THE REPORT

The IFRS foundation published report "*Better Communication in Financial Reporting*" can be accessed at: http://www.ifrs.org/-/media/project/disclosure-initative/better-communication-making-disclosures-more-meaningful.pdf? However, few extracts from the report have been reproduced here under:

Restructuring the notes - To enhance the way in which the company communicated information in its financial statements, the companies determined which key themes were most important and relevant to stakeholders. Using those themes, the company reordered disclosures and grouped related notes under the following sections

Company: Westfarmers Limited (Page 16 of the case study report)

Before

Financial statements

for the year ended 30 June 2013 – Wesfarmers Limited and its controlled entities

Contents

Income statement		96
Statement of comprehensive income		97
Balance sheet		98
Cash flow statement		99
Statement of changes in equity		100
Notes to the financial statements		101
1	Corporate information	101
2	Summary of significant accounting policies	101
3	Segment information	115
4	Income and expenses	118
5	Income tax	119
6	Earnings per share	121
7	Dividends paid and proposed	121
8	Cash and cash equivalents	122
9	Trade and other receivables	123
10	Inventories	124
11	Investments backing insurance contracts, reinsurance and other recoveries	124
12	Investments in associates	125
13	Property, plant and equipment	126
14	Intangible assets and goodwill	128
15	Other assets	131
16	Trade and other payables	131
17	Interest-bearing loans and borrowings	132
18	Provisions	134
19	Insurance liabilities	136
20	Other liabilities	140
21	Contributed equity	141
22	Retained earnings	143

Entity-specific

Better organised

Better linked

After

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016 – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

Contents

Financial statements	Income statement	Page 86
	Statement of comprehensive income	Page 87
	Balance sheet	Page 88
	Cash flow statement	Page 89
	Statement of changes in equity	Page 90
Notes to the financial statements	About this report	Page 91
	Segment information	Page 93

Key numbers	Capital	Risk	Group structure	Unrecognised items	Other
1. Income	10. Capital management	15. Financial risk management	18. Associates and joint arrangements	21. Commitments and contingencies	23. Parent disclosures
2. Expenses	11. Dividends and distributions	16. Hedging	19. Subsidiaries	22. Events after the reporting period	24. Deed of Cross Guarantee
3. Tax expense	12. Equity and reserves	17. Impairment of non-financial assets	20. Business combinations		25. Auditors' remuneration
4. Cash and cash equivalents	13. Earnings per share				26. Related party transactions
5. Receivables	14. Interest-bearing loans and borrowings				27. Other accounting policies
6. Inventories					28. Share-based payments
7. Property, plant and equipment					29. Director and executive disclosures
8. Goodwill and intangible assets					30. Tax transparency disclosures
9. Provisions					

Key judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Page		
96	Note 1	Income
98	Note 3	Tax expense
100	Note 6	Inventories
101	Note 7	Property, plant and equipment
102	Note 8	Goodwill and intangible assets
103	Note 9	Provisions
118	Note 17	Impairment of non-financial assets
120	Note 18	Associates and joint arrangements

Simple and direct

Better linked

Company: ITV Plc (Page 29 of the case study report)

Entity-specific

Better organised

Better linked

Before

Financial statements

Statement of directors' responsibilities	63
Independent auditor's report	64
Consolidated income statement	65
Consolidated statement of comprehensive income	66
Consolidated statement of financial position	67
Consolidated statement of changes in equity	68
Consolidated statement of cash flows	70
Notes to the accounts	71
ITV plc Company Financial Statements	108
Notes to the ITV plc Company Financial Statements	109

After

2.3 Taxation
2.4 Earnings per share

Section 3: Operating Assets and Liabilities
3.1 Working capital
3.2 Property, plant and equipment
3.3 Intangible assets
3.4 Acquisitions
3.5 Investments
3.6 Provisions
3.7 Pensions

Section 4: Capital Structure and Financing Costs
4.1 Net cash/(debt)
4.2 Borrowings and finance leases
4.3 Managing market risks: derivative financial instruments
4.4 Net financing costs
4.5 Fair value hierarchy
4.6 Equity
4.7 Share-based compensation

Section 5: Other Notes
5.1 Related party transactions
5.2 Contingent liabilities
5.3 Subsequent events
5.4 Subsidiaries except from audit

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities

In this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. On the following pages there are notes covering working capital, non-current assets and liabilities, acquisitions and disposals, provisions and pensions.

Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in note 2.3.

3.1 Working capital

Keeping it simple

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights and production costs, trade and other receivables and trade and other payables.

Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Working capital is a driver of the profit to cash conversion, a key performance indicator for the Group. The Group's target profit to cash ratio on a rolling three year basis is at least 90%. For those subsidiaries acquired during the year, working capital at the date of acquisition is excluded from the profit to cash calculation so that only subsequent working capital movements in the period owned by ITV are reflected in this metric.

Financial Statements

Entity-specific

Simple and direct

Communicating relevant information in a concise and clear way - This involved rearrangement, redrafting and relocation of information in the financial statements.

Company: Westfarmers Limited **(Page 17 & 19 of the case study report)**

Before

10: Inventories

	CONSOLIDATED	
	2013 $m	2012 $m
Raw materials	103	92
Work in progress	27	39
Finished goods	4,917	4,875
Total inventories at the lower of cost and net realisable value	5,047	5,006

Inventories recognised as an expense for the year ended 30 June 2013 totalled $42,218 million (2012: $40,987 million).

Entity-specific

Better linked

After

6. Inventories

	CONSOLIDATED	
	2016 $m	2015 $m
Raw materials	92	112
Work in progress	18	55
Finished goods	6,150	5,330
	6,260	5,497

Inventories recognised as an expense for the year ended 30 June 2016 totalled $48,182 million (2015: $45,682 million).

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell.

Key estimate: net realisable value

The key assumptions, which require the use of management judgement, are the variables affecting costs recognised in bringing the inventory to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. The total expense relating to inventory writedowns during the year was $50 million (2015: $46 million). Any reasonably possible change in the estimate is unlikely to have a material impact.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- *Raw materials*: purchase cost on a weighted average basis.
- *Manufactured finished goods and work in progress*: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs. Work in progress also includes run-of-mine coal stocks for Resources, consisting of production costs of drilling, blasting and overburden removal.
- *Retail and wholesale merchandise finished goods*: purchase cost on a weighted average basis, after deducting any settlement discounts, supplier rebates and including logistics expenses incurred in bringing the inventories to their present location and condition.

Volume-related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are accounted for as a reduction in the cost of inventory and recognised in the income statement when the inventory is sold.

Key estimate: supplier rebates

The recognition of supplier rebates in the income statement requires management to estimate both the volume of purchases that will be made during a period of time and the related product that was sold and remains in inventory at reporting date. Management's estimates are based on existing and forecast inventory turnover levels and sales. Reasonably possible changes in these estimates are unlikely to have a material impact.

Before

(ai) New and revised Accounting Standards and Interpretations

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2012 to the Group have been adopted, including:

– Amendments to AASB 1048 /

The Standard identifies the Au
classifies them into two group
IASB interpretation and those
apply each relevant Australian
statements that are within the

– Amendments to AASB 2010-
Accounting Standards - Defer
Assets

These amendments address t
on investment property measu
rebuttable presumption that d
measured at fair value should

Better formatted

Simple and direct

After

(b) New and amended standards and interpretations issued but not yet effective

The following standards, amendments to standards and interpretations are relevant to current operations. They adoption but have not been applied by the Group in this financial report.

Reference	Description
The effects of the following Standards are not expected to be material:	
AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*	AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.
AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation*	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of an intangible asset.
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	This Standard makes amendments to a number of Australian Accounting Standards as a result of AASB 9 *Financial Instruments* (December 2014).

Company: Potashcrop (Page 23 of the case study report)

Better linked

Before

5. ACCOUNTS RECEIVABLE

		2006	2005
Trade accounts	– Canpotex	$ 84.1	$ 71.6
	– Other	329.3	343.0
Non-trade accounts		33.6	43.8
		447.0	458.4
Less a			

NOTE 3 RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the company will not be able to collect all amounts due. The carrying amount of the trade receivables is reduced through the use of the allowan... amount of any increase in the allowance is recog... receiv... trade... credit...

	2010	2009
Trade accounts – Canpotex	$ 297.9	$ 164.3
– Other	448.7	264.4
Less allowance for doubtful accounts	(8.2)	(8.4)
	738.4	420.3

After

Note 11 Receivables

Receivables represent amounts the company expects to collect from other parties. Trade receivables consist mainly of amounts owed to PotashCorp by its customers, the largest individual customer being the related party, Canpotex.

Accounting Policies

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment of trade accounts receivable. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the consolidated statements of income.

Accounting Estimates and Judgments

Determining when amounts are deemed uncollectible requires judgment.

Supporting Information

	2016	2015
Trade accounts – Canpotex (Note 28)	$ 141	$ 148
– Other	292	327
Less provision for impairment of trade accounts receivable	(6)	(7)

Company: ITV plc (Page 30 of the case study report)

Entity-specific

Better formatted

Before

Acquisitions and disposals in 2009

GMTV

On 26 November 2009, the Group acquired the remaining 25% interest in the shares of GMTV Limited, the national breakfast time channel 3 licensee, taking its total percentage of shareholding to 100%. The results of this entity have always been disclosed within the consolidated income statement of the Group at 100% with an adjustment made to reflect the previous non-controlling interest's share. The impact of the acquisition of the remaining non-controlling interest is reflected in the consolidated statement of changes in equity.

The fair value of the consideration paid is £23 million. The non-controlling interest reserve of £8 million was debited on acquisition with the excess of consideration over the identifiable net assets acquired of £15 million debited to retained losses in accordance with IAS 27.

After

Talpa Media B.V.

On 30 April 2015 the Group acquired a 100% controlling interest in Talpa Media B.V. and its subsidiaries.

Key terms:

Cash consideration of £362 million (€500 million) was paid at acquisition and the maximum total consideration for 100% of the business, including the initial payment, was £796 million (€1,100 million, undiscounted). All future payments are performance based.

The deal structure allows for a further £434 million (€600 million) payable after two, five and eight years, on the achievement of stretching performance targets for the business in the years following acquisition. For these amounts to be payable in the future, the deal requires the seller to remain with the business during the earnout period. Further, if the seller leaves within the first two years following acquisition, €150 million of the initial consideration would be

Talpa Media B.V. acquisition accounting:

Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £276 million (€382 million) were identified and goodwill was valued at £41 million (€57 million). Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Company: Orange S.A. **(Page 38 of the case study report)**

Better formatted

Enhanced comparablility

Before

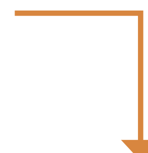
20.4 Dividends

At its meeting of July 28, 2010, the Board of Directors decided to distribute an interim cash dividend of 0.60 euro per share in respect of 2010. This interim dividend was paid on September 2, 2010 for a total amount of 1,589 million euros.

The France Telecom Shareholders' Meeting held on June 9, 2010 decided the distribution of a dividend of 1.40 euro per share in respect of 2009. Given the interim dividend of 0.60 euro per share, which was paid out on September 2, 2009 for a total of 1,588 million euros, the distribution on June 17, 2010, amounted to 0.80 euro per share, for a total of 2,117 million euros.

The France Telecom Shareholders' Meeting held on May 26, 2009 had decided the distribution of a dividend of 1.40 euro per share in respect of 2008. Given the interim dividend of 0.60 euro per share, which was paid out on September 11, 2008 for a total of 1,563 million euros, the distribution on June 30, 2009, amounted to 0.80 euro per share, for a total of 2,091 million euros. This payment was made in cash for 1,553 million euros and in France Telecom shares for 538 million euros, since shareholders had the option to receive payment of 50% of the balance of the dividend, i.e. 0.40 euro per share, in France Telecom shares.

The France Telecom Shareholders' Meeting held on May 27, 2008 had decided the distribution of a cash dividend of 1.30 euro per share in respect of 2007. The dividend was paid



After

13.3 Dividends

Full Year	Approved by	Description	Dividend per share (in euro)	Payout date	How paid	Total (in millions of euros)
2016	Board of Directors Meeting on July 25, 2016	2016 interim dividend	0.20	December 7, 2016	Cash	532
	Shareholders' Meeting on June 7, 2016	Balance for 2015	0.40	June 23, 2016	Cash	1,064
		Total dividends paid in 2016				**1,596**
2015	Board of Directors Meeting on July 27, 2015	2015 interim dividend	0.20	December 9, 2015	Cash	530
	Shareholders' Meeting on May 27, 2015	Balance for 2014	0.40	June 10, 2015	Cash	1,059
		Total dividends paid in 2015				**1,589**
2014	Board of Directors Meeting on July 28, 2014	2014 interim dividend	0.20	December 9, 2014	Cash	529
	Shareholders' Meeting on May 27, 2014	Balance for 2013	0.50	June 5, 2014	Cash	1,317
		Total dividends paid in 2014				**1,846**

Layout and Design: ICAP Publications Department
publications@icap.org.pk