GUIDANCE FOR THE INCLUSION OF ITEMS IN THE RESULTS OF OPERATING ACTIVITIES

Introduction
This Circular provides guidance for the inclusion of items in the results of operating activities and similar line items.

Issue
IAS 1 (revised 2003) – Presentation of Financial Statements does not require disclosure of results of operating activities as a line item on the face of the income statement because operating activities is not defined by the International Accounting Standards Board (the Board). In the Basis for Conclusions for IAS 1 (revised 2003), BC13, it states that “The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure the amount disclosed is representative of activities that would normally be considered to be ‘operating’. In the Board’s view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly relating to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses”.

At the time of drafting this Circular, the Accounting Practices Committee (APC) noted that some South African entities exclude from the results of operating activities and similar line items the exact items referred to in BC13 of IAS 1 (revised 2003). Those entities currently report under AC 101 (revised 1998), which requires the disclosure of the results of operating activities.
Conclusion

04 The APC concluded that any entity disclosing the results of operating activities and similar line items must include the results of all items of an operating nature including:

- items which may previously have been excluded from the results of operating activities and similar line items because of an industry practice;
- items that occur irregularly or infrequently or are unusual in amount; and
- items that do not involve cash flows.

05 Although the term “operating activities” is not defined in IAS 1 (revised 2003) the Board, which is the leading international accounting standard setter, is of the view that exclusion of such items from the results of operating activities (and similar line items) would be misleading and would impair the comparability of financial statements. In the APC’s view the Board’s Basis for Conclusions, in effect, sets principles of what should not be excluded from the results of operating activities in the interpretation of the current version of AC 101 (revised 1998), as well as IAS 1 (revised 2003).

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