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## FASB | IASB Education Meeting

Date	<b>29 September 2023</b>
Project	<b>Primary Financial Statements</b>
Topic	<b>Disaggregation and management-defined performance measures</b>
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# Project overview

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## Project overview

**The Primary Financial Statements Project will improve the quality of financial reporting, including digital reporting, through**

Presentation of **defined subtotals** in statement of profit or loss to improve **comparability**

Disclosures about **management-defined performance measures (MPMs)** to provide **transparency**

Enhanced requirements for **aggregation and disaggregation** to provide **useful information**

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# Disaggregation of operating expenses

## Aggregation and disaggregation requirements

General requirements	Roles of the primary financial statements and the notes	Principles for aggregation and disaggregation
	Requirements for line items, including goodwill in the statement of financial position	Aggregating items and using meaningful labels
Specific requirements	<b>Disclosure of specified expenses by nature</b>	Present operating expenses by nature or by function (mixed presentation permitted)

## Disclosure of specified expenses by nature

Disclose the amounts included in each line item in the statement of profit or loss for

Depreciation

Amortisation

Employee  
benefits

Specified  
impairments

Write-down  
of  
inventories

Amount disclosed are not required to be expense amounts  
— qualitative explanation required if part of the amount disclosed has been included in the carrying amount of assets

## Example of specified expenses by nature note

(in currency units)	20X2	20X1
Cost of goods sold	23,710	21,990
Research and development expenses	2,518	2,596
General and administrative expenses	4,975	4,975
<b>Total depreciation</b>	<b>31,203</b>	<b>29,561</b>
Research and development expenses	13,842	12,693
<b>Total amortisation</b>	<b>13,842</b>	<b>12,693</b>
Cost of goods sold	61,646	57,174
Selling expenses	7,514	7,111
Research and development expenses	6,547	6,750
General and administrative expenses	5,421	5,824
<b>Total employee benefits</b>	<b>81,128</b>	<b>76,859</b>
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
<b>Total impairment loss</b>	<b>6,100</b>	<b>1,500</b>
Cost of goods sold	2,775	2,625
Other operating expenses	–	4,900
<b>Total write-down of inventories</b>	<b>2,775</b>	<b>7,525</b>

This table shows the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line item in the statement of profit or loss.

Each amount disclosed for depreciation and employee benefits includes both amounts that have been recognised as an expense in the reporting period and amounts that have been included in the carrying amount of inventory and property, plant and equipment.

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# Management-defined performance measures



## What are management-defined performance measures?

### Performance measures

#### Financial performance measures

##### Subtotals of income & expenses

#### MPMs

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

#### IFRS-Specified

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

#### Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt

#### Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

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## Definition of management-defined performance measures

Subtotals of income and expenses not specified by IFRS Accounting Standards

**Used in public communications  
outside financial statements**

**Communicate management's view  
of an aspect of an entity's  
financial performance**

**Presumed that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance.**

The presumption can be rebutted with reasonable and supportable information.

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## Disclosures for management-defined performance measures

### Disclosed in a single note

Reconciliation to the most directly comparable specified subtotal/total

Explanation of MPM calculation and how it provides useful information

Statement that MPM provides management's view and not comparable to MPM of other entities

Explanation of and reasons for changes to MPMs

## What might a reconciliation look like?

<b>Operating profit (IFRS-specified)</b>	<b>41,270</b>	<b>Tax</b>	<b>NCI</b>
Restructuring in Country X (incl. in employee benefits)	5,400	(900)	1,020
Revenue adjustment (incl. in revenue)	6,200	(1,550)	-
<b>Adjusted operating profit (MPM)</b>	<b>52,870</b>		



### Most directly comparable subtotal/total specified by IFRS Accounting Standards:

- operating profit, profit before financing and income tax
- gross profit (and subtotals similar to gross profit)
- profit before tax, profit from continuing operations, profit or loss
- total other comprehensive income, comprehensive income
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method
- operating profit and income and expenses in the investing category (specific entities only)

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## Calculating the income tax effects – three possible methods

Using the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s)

Based on a reasonable pro rata allocation of the entity's current and deferred tax in the relevant jurisdiction(s)

By another method that achieves a more appropriate allocation in the circumstances

Disclose how income tax effects are calculated — required for each reconciling item if more than one method is used.

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