IFRS® Accounting

Staff paper

Agenda reference: AP2

Joint CMAC-GPF meeting
June 2023

Primary Financial Statements—Illustrative Examples

Purpose of the session

- **Provide a brief overview** on the draft illustrative examples that have been prepared for today's discussion (slides 6–8, 11–14 and 16); and
- **Receive feedback** from CMAC and GPF members to help us develop the illustrative examples we plan to issue with the forthcoming IFRS Accounting Standard *General Presentation and Disclosures*

A summary of the requirements relevant to each illustrative example is included in Appendix A, Appendix B and Appendix C of this slide deck. For an overview of the requirements please also watch our October 2022 webinar

Questions for CMAC and GPF members

Question 1a)	Are the examples shown on slides 6–8, 11–14 and 16 useful in illustrating the proposed requirements? • CMAC members: do the examples provide information you would expect to see under the proposed requirements? • GPF members: are the examples helpful in understanding the proposed requirements and illustrating how they could be applied?
Question 1b)	Specifically, on the MPM example (slides 11–14): • CMAC members: which variant makes accessing the information on MPMs easiest? • GPF members: do you have a preferred variant and are there circumstances where you would choose a different variant to disclose information on MPMs?
Question 2	Are there any aspects of the examples that might be misleading or result in boilerplate information?
Question 3	What improvements would you suggest (for example, is something missing that should be illustrated)?

*** When answering the questions, please consider both paper-based reports and digital reports tagged using the IFRS Accounting Taxonomy**

Illustrative Examples 1–3 relating to the statement of profit or loss (P&L)

Overview of Illustrative Examples 1–3

This section includes three examples:

- **Illustrative Example 1**: P&L of a general corporate that presents operating expenses using a mixture of expenses by function and expenses by nature (slide 6)
- **Illustrative Example 2**: P&L of a manufacturer with customer financing[1] (slide 7)
- **Illustrative Example 3**: P&L of an investment and retail bank[1] (slide 8)

[1] *Specific requirements apply to entities that provide financing to customers as a main business activity or invest in assets as a main business activity (referred to as 'entities with specified main business activities'). See slides 22–25 in Appendix A for more information*

Illustrative Example 1—P&L of a general corporate

Entity A presents in the operating category some expenses by function and some expenses by nature (mixed presentation)

Entity A has concluded that presenting goodwill impairment losses separately provides a more understandable overview of operating expenses (rather than allocating goodwill impairment losses to function line items)

See slides 18–21

(in currency units)

Feature of the line item, subtotal or total		20X2	20X1
	Revenue	17,600	15,200
	Cost of sales	(9,000)	(8,200)
Specified subtotal	**Gross profit**	**8,600**	**7,000**
	Selling expenses	(1,700)	(2,200)
	Research and development expenses	(800)	(850)
	General and administrative expenses	(1,200)	(1,000)
Nature line item	Goodwill impairment losses	(1,000)	-
	Other operating expenses[a]	(100)	(200)
Required subtotal	**Operating profit**	**3,800**	**2,750**
	Share of profit of associates and joint ventures	300	400
Required subtotal	**Profit before financing and income tax**	**4,100**	**3,150**
	Interest expense on lease liabilities and other debt	(150)	(200)
	Interest expense on pension and decommissioning liabilities	(250)	(300)
Specified subtotal	**Profit before income tax**	**3,700**	**2,650**
	Income tax expense	(800)	(700)
Required total	**Profit**	**2,900**	**1,950**

[a] An analysis of the composition of 'other operating expenses' is provided in note [X]. (not illustrated in this example)

Illustrative Example 2—P&L of a manufacturer with customer financing

Entity B is a manufacturer that provides financing to customers as a main business activity

As an accounting policy choice Entity B has classified in the operating category only the portion of income and expenses from:

- cash and cash equivalents; and
- transactions that involve only the raising of finance that relates to the provision of financing to customers

See slides 18–23 and slide 25

(in currency units)

Feature of the line item, subtotal or total		20X2	20X1
	Revenue from the sale of goods	390,000	355,000
	Cost of goods sold	(285,000)	(270,000)
Specified subtotal	**Gross profit from the sale of goods**	**105,000**	**85,000**
Acc. policy choice—'some'	Interest revenue related to the provision of financing to customers	119,500	121,000
	Expenses related to the provision of financing to customers	(110,000)	(100,800)
Specified subtotal	**Gross profit from the provision of financing to customers**	**9,500**	**20,200**
	Selling expenses	(28,900)	(26,300)
	Research and development expenses	(15,800)	(15,400)
	General and administrative expenses	(22,900)	(23,600)
Required subtotal	**Operating profit**	**46,900**	**39,900**
	Share of profit of associates and joint ventures	1,800	2,500
Required subtotal	**Profit before financing and income tax**	**48,700**	**42,400**
	Interest expense on borrowings not related to the provision of financing to customers	(3,800)	(3,500)
	Foreign exchange losses on borrowings not related to the provision of financing to customers	(1,600)	(1,200)
Specified subtotal	**Profit before income tax**	**43,300**	**37,700**
	Income tax expense	(11,200)	(9,000)
Required total	**Profit**	**32,100**	**28,700**

Illustrative Example 3—P&L of an investment and retail bank

Entity C classifies in the operating category all income and expenses from transactions that involve only the raising of finance (accounting policy choice)

Entity C is therefore prohibited from presenting 'profit before financing and income tax'*

Because Entity C invests in financial assets as a main business activity, income and expenses from cash and cash equivalents are classified in the operating category

See slides 18–23 and slide 25

(in currency units)

Feature of the line item, subtotal or total		20X2	20X1
	Interest revenue calculated using the effective interest method	356,000	333,800
	Interest expense	(281,000)	(259,000)
Specified subtotal	**Net interest income**	**75,000**	**74,800**
	Fee and commission income	76,800	74,300
	Fee and commission expenses	(45,300)	(44,800)
Specified subtotal	**Net fee and commission income**	**31,500**	**29,500**
	Net trading income	9,100	900
	Net investment income, including from cash and cash equivalents	11,600	7,800
	Credit impairment losses	(17,300)	(19,100)
	Employee benefits	(55,100)	(49,500)
	Depreciation and amortisation	(3,700)	(2,950)
Required subtotal	**Operating profit**	**51,100**	**41,450**
No subtotal between investing and financing line items*	Share of profit or loss of associates and joint ventures	1,800	2,100
	Interest expense on pension and lease liabilities	(1,000)	(2,000)
Specified subtotal	**Profit before income tax**	**51,900**	**41,550**
	Income tax expense	(11,200)	(9,000)
Required total	**Profit**	**40,700**	**32,550**

** The IASB will discuss the proposal on the prohibition of the subtotal 'profit before financing and income tax' at a future IASB meeting*

Illustrative Example 4 relating to disclosures of management performance measures (MPMs)

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Overview of Illustrative Example 4—MPMs

Illustrative Example 4 includes an example of an MPM disclosure illustrated in **three different ways** (slides 12–14)*

(The narrative information on slide 11 accompanying the MPM disclosure is the same for all variants of the example)

<table>
<tr><th></th><th colspan="2">Likely advantages</th><th colspan="2">Likely disadvantages</th></tr>
<tr><td>Variant A (slide 12)</td><td colspan="2">• Reconciling items as columns allows for multiple MPMs to be in single table (no duplication of information)
• P&L line items illustrated as rows—the same as in P&L</td><td colspan="2">• Reconciling items as columns might make reconciliation more difficult to understand
• Comparative period in separate table</td></tr>
<tr><td>Variant B (slide 13)</td><td rowspan="2">• Reconciling items as rows might make reconciliation easier to understand
• Reporting and comparative period in single table</td><td>• Reconciliation separated from additional required information in single table</td><td rowspan="2">• Reconciling items as rows leads to duplication of information if an entity has multiple MPMs</td><td>• Information provided in footnotes might be difficult to understand</td></tr>
<tr><td>Variant C (slide 14)</td><td>• Reconciliation separated from additional required information in separate table</td><td>• Many columns might make information more difficult to understand</td></tr>
</table>

* We expect entities would provide the reconciliation in a tabular format—whereas an entity might provide additional required information on the effect of tax and non-controlling interests and the line item(s) in the statement of profit or loss in which a reconciling item is (or would be) included either in a tabular or text format

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Illustrative Example 4—Narrative information on MPMs

The Group uses ‘adjusted operating profit’ and ‘adjusted profit’ as management performance measures in its financial communications with users of financial statements. These measures provide management’s view of an aspect of the Group’s financial performance as a whole. They are not specified by IFRS Accounting Standards and therefore may not be comparable to apparently similar measures used by other entities.

The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group. The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group’s management, should be considered separately when assessing trends:

(1) Unusual income and expenses—these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.
(2) Revenue adjustment—the Group has acquired several entities in Country A which had recognised contract liabilities. IFRS 3 *Business Combinations* requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.

The Group identified the following unusual income and expenses in 20X2 and 20X1:
20X2: Tax reform—The Group’s parent entity is located in Country B. In 20X2, the government of Country B reformed the tax system. As a result of this reform one of Country B’s property taxes will be abolished from 1 January 20X3. In 20X2 the Group recognised property tax expenses in relation to this tax. As this property tax expense will not arise for several future annual reporting periods, the Group identified the property tax expense as an unusual expense in 20X2. Country B’s property taxes are deductible from income tax.

20X2: Restructuring—The Group decided to move one of its factories from Country C to Country D because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country C. Restructuring expenses were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600. The Group identified these expenses as unusual expenses because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.

20X1: Court case X—Litigation expense arose from court case X in which the Group recognised an expense for damages incurred after the Group mislabelled one of its products. The Group has since taken measures to remedy its labelling procedures. The Group identified this litigation expense as an unusual expense in 20X1.

The tax effect of the revenue adjustment is calculated based on the statutory tax rate applicable in Country A at the end of the reporting period, which is 15.5% in both 20X2 and 20X1. Litigation expense from court case X does not have a tax effect because these expenses are not tax-deductible or chargeable.

Illustrative Example 4—Reconciliation and additional information (Variant A)

Reconciling items as columns

Separate table for each reporting period

All information disclosed in a single table

20X2

	MPM	Revenue adjustment	Property tax	Restructuring	Measure specified by IFRS Accounting Standards
Revenue		(6,200)	-	-	
Cost of goods sold		-	-	(4,990)	
General and administrative expenses		-	(2,500)	(410)	
Adjusted operating profit / Operating profit	**55,370**	(6,200)	(2,500)	(5,400)	**41,270**
Income and expenses from borrowings		-	-	(600)	
Income tax		1,550	625	900	
Adjusted profit / Profit	**40,075**	(4,650)	(1,875)	(5,100)	**28,450**
Profit attributable to non-controlling interests (NCI)		-	-	(300)	

20X1

	MPM	Revenue adjustment	Litigation expense	Measure specified by IFRS Accounting Standards
Revenue		(7,500)	-	
General and administrative expenses		-	(3,500)	
Adjusted operating profit / Operating profit	**48,200**	(7,500)	(3,500)	**37,200**
Income tax		1,875	-	
Adjusted profit / Profit	**36,900**	(5,625)	(3,500)	**27,775**
Profit attributable to non-controlling interests (NCI)		-	-	

** There are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have been incurred by the parent as it would have arisen from the operations of wholly owned subsidiaries. Also, there are no amounts attributable to non-controlling interests for property tax and litigation expense from court case X because the expenses arose at the parent entity level.*

Illustrative Example 4—Reconciliation and additional information (Variant B)

Reconciling items as rows

Single table for both reporting periods

All information disclosed in a single table

	20X2			20X1		
		Tax	NCI		Tax	NCI
Adjusted operating profit	**55,370**			**48,200**		
Revenue adjustment[a]	(6,200)	1,550	-	(7,500)	1,875	-
Property tax[a]	(2,500)	625	-	-	-	-
Litigation expense[a]	-	-	-	(3,500)	-	-
Restructuring[b]	(5,400)	810	(270)	-	-	-
Operating profit	**41,270**			**37,200**		

	20X2			20X1		
		Tax	NCI		Tax	NCI
Adjusted profit	**40,075**			**36,900**		
Revenue adjustment[a]	(6,200)	1,550	-	(7,500)	1,875	-
Property tax[a]	(2,500)	625	-	-	-	-
Litigation expense[a]	-	-	-	(3,500)	-	-
Restructuring[b]	(6,000)	900	(300)	-	-	-
Income tax[a]	3,075	-	-	1,875	-	-
Profit	**28,450**			**27,775**		

(a) The revenue adjustment would be included in revenue. Property tax expense and litigation expense is included in general and administrative expenses. Income tax would be included in income tax expense.
(b) In 20X2, CU4,990 is included in cost of goods sold, CU410 is included in general and administrative expenses and CU600 is included in income and expenses from borrowings.

** There are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have been incurred by the parent as it would have arisen from the operations of wholly owned subsidiaries. Also, there are no amounts attributable to non-controlling interests for property tax and litigation expense from court case X because the expenses arose at the parent entity level.*

Illustrative Example 4—Reconciliation and additional information (Variant C)

Reconciling items as rows

Single table for both reporting periods

Reconciliation and additional required information disclosed in a separate table

	20X2	20X1	20X2					20X1			
					Line items in the P&L					Line items in the P&L	
			Tax	NCI	Revenue	Cost of goods sold	General and administrative expenses	Tax	NCI	Revenue	General and administrative expenses
Adjusted operating profit	**55,370**	**48,200**									
Revenue adjustment	(6,200)	(7,500)	1,550	-	(6,200)	-	-	1,875	-	(7,500)	-
Property tax	(2,500)	-	625	-	-	-	(2,500)	-	-	-	-
Litigation expense	-	(3,500)	-	-	-	-	-	-	-	-	(3,500)
Restructuring	(5,400)	-	810	(270)	-	(4,990)	(410)	-	-	-	-
Operating profit	**41,270**	**37,200**									

	20X2	20X1	20X2							20X1				
					Line items in the P&L							Line items in the P&L		
			Tax	NCI	Revenue	Cost of goods sold	General and administrative expenses	Income and expenses from borrowings	Income tax expense	Tax	NCI	Revenue	General and administrative expenses	Income tax expense
Adjusted profit	**40,075**	**36,900**												
Revenue adjustment	(6,200)	(7,500)	1,550	-	(6,200)	-	-	-	-	1,875	-	(7,500)	-	-
Property tax	(2,500)	-	625	-	-	-	(2,500)	-	-	-	-	-	-	-
Litigation expense	-	(3,500)	-	-	-	-	-	-	-	-	-	-	(3,500)	-
Restructuring	(6,000)	-	900	(300)	-	(4,990)	(410)	(600)	-	-	-	-	-	-
Income tax	3,075	1,875	-	-	-	-	-	-	3,075	-	-	-	-	1,875
Profit	**28,450**	**27,775**												

** There are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have been incurred by the parent as it would have arisen from the operations of wholly owned subsidiaries. Also, there are no amounts attributable to non-controlling interests for property tax and litigation expense from court case X because the expenses arose at the parent entity level.*

Illustrative Example 5 relating to disclosures of operating expenses by nature

Illustrative Example 5—Disclosure of operating expenses by nature

Entity A presents one or more line items comprising expenses classified by function in the operating category and is therefore required to disclose in a single note the amount of depreciation, amortisation, employee benefits, impairment and write-down of inventory included in each line item in the operating category

Entity A has included a portion of the depreciation, amortisation and employee benefits for the period in the carrying amount of assets. It is therefore required to give a qualitative explanation of that fact, including the identification of which assets the amounts have been recognised as part of the carrying amount

Note—Operating expenses by nature

(in currency units)

	20X2	20X1
Depreciation	**175**	**165**
Cost of goods sold	100	90
General and administrative expenses	25	35
Research and development expenses	50	40
Amortisation	**100**	**90**
Research and development expenses	100	90
Employee benefits	**375**	**400**
Cost of goods sold	150	200
Selling expenses	100	90
General and administrative expenses	50	50
Research and development expenses	75	60
Impairment losses	**80**	**-**
Research and development expenses	80	-
Write-down of inventory	**50**	**10**
Cost of goods sold	30	10
Other operating expenses	20	-

The following table shows the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventory included in each line item in the operating category.

The amounts disclosed for depreciation, amortisation and employee benefits include amounts that have been included in the carrying amount of inventory and property, plant and equipment.

Appendix A—Requirements relating to Illustrative Examples 1–3 (P&L)

Proposed requirements for the statement of profit or loss

Classification

- Items of income and expense shall be **classified** into categories in the statement of profit or loss:
  - operating
  - investing
  - financing
  - income tax, discontinued operations
- Classification differs **in some cases** for entities that provide financing to customers or invest in assets as a main business activity (slides 22–25)

Presentation

- Entities are required to **present** the subtotals:
  - operating profit or loss
  - profit or loss before financing and income tax*
  - profit or loss

(Subtotals structure statement of profit or loss into categories, no requirement to present category headings)

- An entity would present specified line items that provide an understandable overview of the entity's income and expenses and additional line items and subtotals when it is necessary for understanding the entity's performance

** The proposals in the Exposure Draft prohibit entities that provide financing to customers as a main business activity and classify all income and expenses from liabilities that involve only the raising of finance in the operating category to present this subtotal. The IASB will discuss that proposal at a future IASB meeting.*

IFRS Accounting

What is in the operating category?

Includes, but is not limited to, income and expenses from an entity's main business activities

Defined as a default—includes income and expenses not classified in other categories

- Works for **different business models**
- A direct definition would require **significant judgement** which may result in operating profit not being comparable
- Avoids creation of a **'non-operating' category** that is neither operating, investing nor financing, which may be used opportunistically

Includes volatile and unusual income and expenses arising from an entity's operations

- The category is intended to provide a **complete** picture of the entity's operations for the period

What is in the investing category?

Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity, including cash and cash equivalents

Examples:

- rental income and remeasurements of investment property
- interest income and fair value changes on financial assets
- dividends and fair value changes on non-consolidated equity investments

See slides 22 and 24–25 for entities that invest in assets as a main business activity

Income and expenses from associates and joint ventures accounted for using the equity method

The same for all entities

What is in the financing category?

All income and expenses from liabilities that involve only the raising of finance

A transaction that involves only the raising of finance is a transaction that involves:

- the receipt by the entity of cash, an entity's own equity instruments or a reduction in a financial liability; and
- the return by the entity of cash or an entity's own equity instruments

For example, a typical loan contract involves only the receipt of cash and the return of cash

See slides 22–23 and 25 for entities that provide financing to customers as a main business activity

Interest expense and the effects of changes in interest rates from other liabilities

For other liabilities **interest expense and the effect of changes in interest rates** are classified in the financing category when such amounts are identified applying the requirements of IFRS Accounting Standards (for example, IAS 19 or IAS 37)

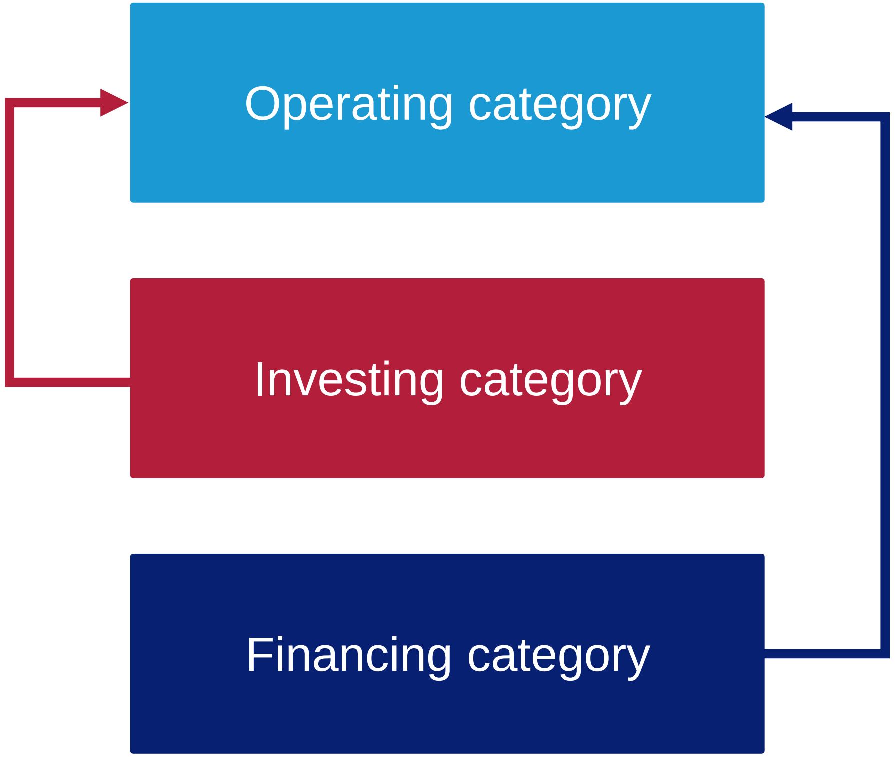
For example, a lease liability involves the receipt of a right-of-use asset and the return of cash

The same for all entities

Entities with specified main business activities

Operating profit is intended to include, but is not limited to, income and expenses from an entity's main business activities

The IASB proposes requirements for some entities, such as banks, to classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories



Entities that provide financing to customers as a main business activity

Operating

Income and expenses from transactions that involve only the raising of finance

- Classified in the operating category by entities that provide financing to customers as a main business activity, such as banks and entities that provide financing to customers to purchase the entity's products
- Accounting policy choice whether to classify in the operating category ***all*** such income and expenses or ***only*** those related to providing financing to customers

Financing

Specified income and expenses from other liabilities classified in the financing category (same approach for all entities)

Entities that invest as a main business activity

Operating

Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity

- Classified in the operating category by entities that invest in those assets as a main business activity, such as insurers, investment entities and investment property companies
- Applies to cash and cash equivalents if invest in financial assets as a main business activity, regardless of whether the entity has any other specified main business activity

Investing

Income and expenses from associates and joint ventures accounted for using the equity method classified in the investing category (same approach for all entities)

Income and expenses from cash and cash equivalents

Does the entity have specified main business activities?

Yes

Does the entity invest in **financial assets** as a main business activity?

No

Does the entity provide financing to customers as a main business activity?

No

Yes

Yes

No

Classify all income and expenses from cash and cash equivalents in the investing category (e.g., property investment entity)

Accounting policy choice to classify either all income or expenses from cash and cash equivalents or the portion related to providing financing to customers in the operating category

Classify all income and expenses from cash and cash equivalents in the operating category

Appendix B—Requirements relating to Illustrative Example 4 (MPMs)

What are MPMs?

Performance measures

Non-Financial performance measures

For Example:

- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-Specified

For example:

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

MPMs

For example:

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

Other measures that are not subtotals of income/expenses

For example:

- Free cash flow
- Return on equity
- Net debt
- Same-store sales

Definition of MPMs

Subtotals of income and expenses not specified by IFRS Accounting Standards that:

Are used in public communications outside financial statements (excluding oral communications, transcripts and social media posts)

=

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

Rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance—rebutted with reasonable and supportable evidence (including management communicating or using a subtotal in a way that is consistent with the assertion that the subtotal does not communicate management's view).

The rebuttable presumption is intended to:

- reduce the subjectivity involved in identifying the subtotals that represent management's view; and
- avoid requiring entities to include as management performance measures, subtotals of income and expenses that do not represent management's view of an aspect of the entity's performance

What disclosures will be required for MPMs?

Reconciliation	Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests
Why an MPM communicates management's view	Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary
Not necessarily comparable with other entities	A statement that MPM provides management's view of an aspect of the entity's financial performance and is not necessarily comparable with measures provided by other entities
Changes in calculation	Explanation of and reasons for any changes in how the entity calculates its MPMs or which MPMs it provides

What might a reconciliation look like?

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

Most directly comparable subtotal/total specified by IFRS Accounting Standards—can be:

- 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

Tax effect can be calculated:

- using the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s);
- on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or
- by another method that achieves a more appropriate allocation in the circumstances.

An entity is required to disclose how it has determined the income tax effects. The disclosure is required for each reconciling item if more than one method is used to calculate the tax effect.

Appendix C—Requirements relating to Illustrative Example 5 (operating expenses by nature)

Disclosure of operating expenses by nature in the notes

An entity that presents **one or more line items comprising expenses classified by function** in the operating category of the statement of profit or loss shall disclose in a single note the **amounts** included in each line item in the operating category for:

- **depreciation**
- **amortisation**
- **employee benefits**
- **impairment**
- **write-down of inventory**

*For example, if an entity presents '**cost of sales**' it shall disclose the amount of depreciation, amortisation, employee benefits, impairment and write-down of inventory included in that function*

- The amounts disclosed do not need to be the amounts recognised as an expense in the period (for example, they could include amounts that have been recognised in the period as part of the carrying amount of an asset)
- If the amounts disclosed include amounts that have been recognised as part of the carrying amount of an asset, an entity shall give a qualitative explanation of that fact, including the identification of which assets the amounts have been recognised as part of the carrying amount

Disclosure of operating expenses by nature in the notes

Statement of profit or loss	20X2[1]
Revenue	3000
Cost of goods sold	(600)
Gross profit	**2400**
Other income	500
Selling expenses	(400)
Research and development expenses	(300)
General and administrative expenses	(200)
Impairment losses on trade receivables	(100)
Operating profit	**1900**

Disclosure of operating expenses by nature (illustrating depreciation and employee benefits)[2]	20X2[1]
Depreciation	**(400)**
Cost of goods sold	*(150)*
Selling expenses	*(150)*
Research and development expenses	*(50)*
General and administrative expenses	*(50)*
Employee benefits	**(500)**
Cost of goods sold	*(200)*
Selling expenses	*(100)*
Research and development expenses	*(150)*
General and administrative expenses	*(50)*

[1] Comparative reporting period not depicted in example for simplification purposes
[2] Amortisation, impairment losses and write-down of inventory not illustrated

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