What is the 'I' in EBIT—Case study

This summary outlines the main views of participants on the case study described in the accompanying slides.

1. The staff explained that the Board is considering introducing additional subtotals and line items in the statement(s) of financial performance. Participants were asked to classify a number of income and expense items in the proposed new structure for the statement(s) of financial performance, ie either:
    a. above the 'profit before investing, financing and income tax' subtotal—which some consider to be an 'operating' category;
    b. as 'income/expenses from investments';
    c. as 'finance income/expenses', below the 'profit before financing and income tax' (EBIT) subtotal; or
    d. as part of the 'income tax' line item.

2. Participants considered several criteria —in addition to the principles the Board has tentatively agreed on—for determining the appropriate classification of income and expense items, including:
    a. whether the income or expenses arise as a result of the entity's main operations;
    b. in the case of interest, whether the payment of interest was explicitly agreed in a contract (eg interest on a bank loan) or interest is required to be imputed by IFRS Standards to reflect the time value of money (eg unwinding of the discount on a decommissioning liability);
    c. who the counterparty is; and
    d. how users treat the items in their valuation models—some participants encouraged the Board to conduct more research on this topic.

3. For many of the examples in the case study, participants expressed mixed views on the most appropriate classification; for example:
    a. some participants said that the interest on decommissioning and net defined benefit liabilities should be classified above the 'profit before investing, financing and income tax' subtotal, because such expenses arise as a result of an entity's main operations. Others classified such expenses as 'finance expenses', because they reflect the time value of money and an entity incurs these expenses regardless of whether it has any operations in the period.
    b. participants classified interest on trade receivables with a significant financing component either as 'income from investments' or 'finance income'. Views on the classification of interest on trade payables with a significant financing component were more consistent, as many participants classified such interest as 'finance expenses'.

4. Participants also said there may be a tension between 'income/expenses from investments' and 'finance income/expenses', specifically for classifying income and expenses related to financial assets. Some participants argued that income and expenses related to financial assets held as part of an entity's treasury activities—which can be a broader category than cash and cash equivalents—should be classified as 'finance income/expenses'. Income and expenses related to other financial assets held for investment purposes should be classified as 'income/expenses from investments'.

5. Some participants said that the share of profit or loss of associates and joint ventures that are integral to an entity's operations should be presented above 'profit before investing, financing and income tax', whereas the share of profit or loss of other associates and joint ventures should be presented as 'income/expenses from investments'. Some of these participants suggested the Board provide guidance to help entities assess whether an associate or joint venture is integral to its operations. Some participants said that, in their view, joint ventures are always integral to an entity's operations.

6. Some participants encouraged the Board to focus on improving disaggregation of income and expenses, rather than standardising the structure of the statement(s) of financial performance. However:
   a. a Board member said that comparability is important to users and a standardised structure can be helpful for them—for example when they are screening a large number of entities in a short time frame.
   b. one participant argued that, in the context of the Disclosure Initiative and the Board's intention to reduce disclosure overload, requiring more line items and disclosures is not necessarily a good solution.