IFRS

STAFF PAPER

November 2018

IASB® meeting

Project	Primary Financial Statements		
Paper topic	Templates or examples		
CONTACT(S)	Yuki Fujiwara	yfujiwara@ifrs.org	+44 (0)20 7246 6467
	Aida Vatrenjak	avatrenjak@ifrs.org	+44 (0)20 7246 6456

Purpose and structure of this paper

1. The purpose of this paper is to discuss:
   (a) whether the Board would like to develop templates or examples to assist preparers of financial statements; and
   (b) if so, the status and scope of such templates or examples.
2. This paper is structured as follows:
   (a) summary of staff recommendations (paragraph 3);
   (b) background (paragraphs 4–9);
   (c) status of templates or examples (paragraphs 10–12);
   (d) advantages and disadvantages of developing non-mandatory illustrative examples (paragraphs 13–16); and
   (e) scope of the material (paragraphs 17–24).

Summary of staff recommendations

3. The staff recommend that the Board:
   (a) develop non-mandatory illustrative examples to accompany a revised IAS 1 *Presentation of Financial Statements*;

(b) include the following in the newly developed illustrative examples:

(i) the statement(s) of financial performance for different types of entities (see paragraph 3(c));

(ii) the statement of cash flows; and

(iii) any notes that are introduced or amended by the project; and

(c) include illustrative examples for the statement(s) of financial performance for the following types of entities:

(i) a non-financial entity (both by function and by nature);

(ii) an investment property company;

(iii) an insurer;

(iv) a traditional bank with no material investing activities;

(v) a bank engaged in both investing and customer financing activities;

(vi) a bank-insurer;

(vii) a manufacturer that conducts investing activities; and

(viii) a manufacturer that provides financing to customers.

Background

4. In December 2016, the Board decided to explore whether to produce templates or examples of the primary financial statements for a limited number of industries. These templates or examples would illustrate the Board's proposals for improvements to the primary financial statements. This paper discusses this proposal in more detail.

5. Some Standards are already accompanied by illustrative examples. In particular, IAS 1 and IAS 7 *Statement of Cash Flows* are accompanied by examples of layouts of some primary financial statements and notes; extracts from these examples are reproduced as Appendix A of this paper. Illustrative examples provide non-mandatory guidance to preparers but are not part of the Standards.

6. The illustrative examples accompanying IAS 1 and IAS 7 are provided to help with preparing IFRS financial statements, but are fairly basic. The illustrative examples accompanying IAS 1 do not specify the type of entity covered nor the industry to which the entity belongs, but appear to relate to a non-financial entity. The illustrative examples accompanying IAS 7 include illustrations relating to both financial institutions and entities other than financial institutions.

7. During our outreach in 2016, stakeholders (mainly users and formal advisory bodies to the Board) expressed support for developing templates or examples for the primary financial statements for a limited number of industries. [1]

8. The views of the Advisory Council were mixed on whether to develop industry-specific templates. Some members supported the suggestion as long as the templates were not too detailed or prescriptive. Others suggested it would be difficult to reach a consensus on the format of any such templates.

9. CMAC and GPF members discussed this matter most recently in their June 2018 meeting. Some members expressed concerns that templates or examples may prevent innovation in presentation or disclosure practices. In addition, some members noted that templates already exist for some industries or have been developed by audit firms. A few CMAC members suggested that the Board could consider developing examples for banks and insurance companies, as their presentation practices vary.

Status of templates or examples

10. If the Board decides to develop templates or examples, the first question is their status, that is, whether use of the templates or examples developed by the Board should be mandatory. Mandatory templates would be included as an integral part of a Standard (most likely IAS 1). Non-mandatory examples could be provided as illustrative examples that accompany Standards (most likely IAS 1 again).

[1] Refer to paragraph 7 in AP21D of November 2016 Board meeting.

11. Making the use of templates mandatory may increase comparability. However, the staff do not recommend developing mandatory templates, for the following reasons:

    (a) it would not be possible to develop templates to cover all types of entities, all business activities, or all possible ways of reporting those activities (that is, it would not be possible to be comprehensive). If the use of templates were mandatory, entities engaged in business activities that are not covered by a particular template may be required to present information in a way that does not reflect their business activities. This could undermine comparability by making unlike things look alike.[2]

    (b) IFRS Standards dealing with presentation, particularly IAS 1, are drafted around principles that allow preparers the flexibility to present their statements in a way that reflects their business activities and that they think would be useful to users. Making the use of templates mandatory would undermine this principles-based approach.

    (c) defining which entities should apply which templates may be difficult. However, providing entities with a free choice as to which template to use may not achieve the desired comparability.

    (d) mandatory templates may conflict with local laws and regulations in some jurisdictions.

12. Developing non-mandatory illustrative examples could avoid the disadvantages listed in paragraph 11. Consequently, the staff's view is that any templates or examples developed by the Board should be non-mandatory illustrative examples. In the following section we discuss the advantages and disadvantages of developing non-mandatory illustrative examples.

Advantages and disadvantages of developing non-mandatory illustrative examples

13. The possible advantages of providing non-mandatory illustrative examples are:

[2] See paragraph 2.27 of the *Conceptual Framework for Financial Reporting.*

(a) they could help preparers decide what information should be included in the primary financial statements;

(b) they may encourage greater disaggregation of information in the primary financial statements, which users may find useful;

(c) they may contribute to greater comparability in the presentation of information in the financial statements, which users may find useful;

(d) they would help illustrate the new line items and subtotals proposed in the project; and

(e) line items from illustrative examples will be included as elements in the IFRS Taxonomy which will facilitate electronic reporting by promoting greater consistency in tagging of financial information.

14. The staff acknowledge that some regulators, industries and audit firms have already developed templates or examples. However, in our view, the illustrative examples developed by the Board would nevertheless be useful because:

(a) they would reflect the outcome of the project (that is, the new line items and subtotals proposed in the project) and would be available at the same time as a revised IAS 1 is issued;

(b) they may provide presentation guidance for industries and jurisdictions where little such guidance exists; and

(c) guidance issued by the Board, even if it is non-mandatory, may be more effective in promoting improved presentation than guidance produced by other bodies.

15. Providing non-mandatory illustrative examples may also have some disadvantages:

(a) such examples may discourage entities from being innovative in their presentation of information and may discourage entities from providing entity specific information;

(b) such examples may discourage entities from providing more information than is suggested by the templates; and

(c) it is not possible to provide examples that cover all types of entities or all business activities, therefore providing examples may not be helpful to all entities.

16. The staff recommend that, given the balance of advantages and disadvantages discussed above, the Board should develop non-mandatory illustrative examples that accompany a revised IAS 1.

Question 1
Does the Board agree with the staff recommendation that the Board should develop non-mandatory illustrative examples that accompany a revised IAS 1?

Scope of the material

Which primary financial statements and notes should be included?

17. If the Board agrees to develop non-mandatory illustrative examples, it will need to consider how extensive the illustrative examples should be, that is, which primary financial statements and which notes should be covered by illustrative examples.

18. The staff do not consider it feasible or necessary to develop comprehensive illustrative examples for all primary financial statements and all notes. Instead, in the staff's view, the illustrative examples should focus on those primary financial statements that are amended by the project and any notes that are introduced or amended by the project.

19. Consequently, the staff recommend that the Board should develop illustrative examples for:

(a) the statement(s) of financial performance. The project will have the biggest effect on the structure and content of the statement(s) of financial performance. Consequently, illustrative examples for that statement are likely to be most helpful to preparers. Such illustrative examples should include:

(i) examples for different types of entities. The types of entities to be covered are discussed in paragraphs 21–23.

(ii) examples of both a by function and a by nature disaggregation of expenses included in the operating profit subtotal of a non-financial entity.

(b) the statement of cash flows. The proposals in the project will have only a limited effect on the statement of cash flows. Therefore, we propose simply updating the current illustrative examples accompanying IAS 7 to reflect the decisions made as part of the project. These examples are for an entity other than a financial institution and for a financial institution.

(c) any notes that are introduced or amended by the project. These might include notes on:

(i) management performance measure(s);

(ii) additional information on the nature of the expenses when an entity provides a primary analysis of expenses using a by-function methodology; and

(iii) unusual or infrequent items.

20. The illustrative examples currently accompanying IAS 1 include examples for the statement of financial position and for the statement of changes in equity. The Board might decide to update examples for the statement of financial position, depending on future discussions on disaggregation. In the staff's view, the Board should not update the examples for the statement of changes in equity, at least at this stage of the project, because this statement may be affected by the result of the Board's Financial Instruments with Characteristics of Equity project.

Question 2

Does the Board agree with the staff recommendation to develop illustrative examples for:

(a) the statement(s) of financial performance for different types of entities;

(b) the statement of cash flows for a financial and non-financial entity by updating the current illustrative examples; and

(c) any notes that are introduced or amended by the project?

Which types of entities should be included in the examples of statement(s) of financial performance?

21. If the Board agrees to develop illustrative examples for the statement(s) of financial performance for different types of entities, the next question is which industries or types of entities they should cover. As discussed in paragraph 6, the current illustrative examples accompanying IAS 1 do not specify the type of entity they cover, but appear to relate to a non-financial entity.

22. In the September 2018 Board meeting, the Board discussed the scope of subtotals in the statement of profit or loss, and tentatively agreed in principle with the proposals discussed in AP21A. That paper was accompanied by AP21B, which includes illustrations of the statement of profit or loss for different types of entities. A few Board members commented that the illustrations are helpful and that they could form the basis of illustrative examples the Board may develop. The illustrations from AP21B are reproduced as Appendix B of this paper.

23. The staff's view is that examples included in AP21B from the September 2018 Board meeting illustrate the different presentations that are needed to cover most business activities. Consequently, the staff propose that the illustrative examples could include examples for the following types of entities:

    (a) a non-financial entity. The staff indicate that it would be helpful to include examples of both by function and by nature disaggregation of expenses in the operating profit subtotal.

    (b) an investment property company.

    (c) an insurer.

    (d) a traditional bank with no material investing activities.

    (e) an entity engaged in more than one business activity including both investing and financing:

        (i) a bank engaged in both investing and customer financing activities; and

        (ii) a bank-insurer.

    (f) an entity engaged in more than one business activity, including either an investing or a financing activity:

(i) a manufacturer that conducts investing activities.
Although this entity type was not illustrated in AP21B, we recommend including it for completeness.

(ii) a manufacturer that provides financing to customers.

24. Although the examples from September 2018 AP21B are a good starting point for the illustrations that will be included in a revised IAS 1, we acknowledge that they will need to be further developed.

Question 3
Does the Board agree with the staff recommendation to include illustrations for the types of entities listed in paragraph 23?

Appendix A—Extracts from materials accompanying IAS 1 and IAS 7

A1. Guidance on implementing IAS 1 includes examples for the following:

(a) statement of financial position;

(b) statement of profit or loss and other comprehensive income in one statement (classification of expenses within profit or loss by function);

(c) statement of profit or loss and other comprehensive income in two statements (classification of expenses within profit or loss by nature);

(d) disclosure of components of other comprehensive income (notes);

(e) disclosure of tax effects relating to each component of other comprehensive income (notes);

(f) statement of changes in equity; and

(g) capital disclosures.

A2. Illustrative examples accompanying IAS 7 include examples for the following:

(a) statement of cash flows for an entity other than a financial institution (direct method and indirect method);

(b) notes to statement of cash flows for an entity other than a financial institution (direct method and indirect method);

(c) statement of cash flows for a financial institution (direct method); and

(d) reconciliation of liabilities arising from financing activities.

A3. Extracts from examples for paragraphs A1(b), A1(c) and A2(a) are reproduced below for ease of reference.

Guidance on implementing IAS 1

Figure 1—Profit or loss (by function) and other comprehensive income in one statement

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates[9]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates[9]	400	(700)
Income tax relating to items that will not be reclassified[10]	5,834	(7,667)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations[11]	5,334	10,667
Cash flow hedges[(d)]	(667)	(4,000)
Income tax relating to items that may be reclassified[(c)]	(1,167)	(1,667)
	3,500	5,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

Figure 2—Profit or loss (by nature) and other comprehensive income in two statements

	20X7	20X6
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[12]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates[13]	400	(700)
Income tax relating to items that will not be reclassified[14]	5,834	(7,667)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified[(b)]	(1,167)	(1,667)
	3,500	5,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500

Illustrative examples (IAS 7)

Figure 3—Direct method statement of cash flows for an entity other than a financial institution

Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Dividends paid[2]	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

Figure 4—Indirect method statement of cash flows for an entity other than a financial institution

Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Dividends paid[3]	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230
Cash flows from operating activities		
Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	
Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	3,740	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380

Appendix B—Extracts from AP21B from the September 2018 Board meeting

B1. The following are extracts from AP21B from the September 2018 Board meeting. They cover all types of entities listed in paragraph 23 other than the entity type describes in paragraph 23(f)(i). As discussed in paragraph 24, further work on these examples will be required.

B2. The examples have not been updated to reflect the tentative decisions made at the October Board meeting to amend the description of the subtotals (for example, relabelling 'Business profit from consolidated entities' as 'Operating profit'). However, these tentative decisions will be reflected in any final illustrative examples.

Figure 5—Extract from statement(s) of financial performance for a non-financial entity

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs (SG&A)	-3,000
Business profit (from consolidated entities)	**3,000**
Share of profit of integral associates and joint ventures	500
Profit before investing, financing and income tax	**3,500**
Changes in the fair value of financial assets	250
Share of profit of non-integral associates and joint ventures	100
Other income from investments	50
Profit before financing and income tax (EBIT)	**3,900**
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income (eg foreign exchange gains)	50
Other finance expenses (eg interest on defined benefit liabilities)	-350
Profit before tax	2,700

Figure 6—Extract from statement(s) of financial performance for an investment property company

Extract from statement(s) of financial performance	
Gross rental income	X
Property operating expenses	(X)
Net rental income	X
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
Business profit from consolidated entities	**X**
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Profit before financing and income tax (EBIT)	**X**
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

Figure 7—Extract from statement(s) of financial performance for an insurer

Extract from statement(s) of financial performance	
Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income*	X
Impairment of investments	(X)
Insurance finance expenses	(X)
Net financial result	X
Business profit from consolidated entities	**X**
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Profit before financing and income tax (EBIT)	**X**
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

Figure 8—Extract from statement(s) of financial performance for a traditional bank

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
Net interest income	**X**
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
Business profit from consolidated entities	X
Share of profit of integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
Profit before tax	**X**

Figure 9—Extract from statement(s) of financial performance for a bank with investing and customer financing activities

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
Net interest income	**X**
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	**X**
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
Business profit from consolidated entities	X
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
Profit before tax	**X**

Figure 10—Extract from statement(s) of financial performance for a bank-insurer

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
Net interest income from banking activities	**X**
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	**X**
Net trading income	X
Net investment income (non-insurance)	X
Credit impairment losses	(X)
Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	**X**
Interest income from assets backing insurance contracts*	X
Other investment income related to from assets backing insurance contracts	X
Impairment of investments backing insurance contracts	(X)
Insurance finance expenses	(X)
Net insurance financial result	**X**
Other operating expenses	(X)
Business profit from consolidated entities	X
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Other finance income	X
Other finance expenses	(X)
Profit before tax	X

Figure 11—Extract from statement(s) of financial performance for an entity that sells goods and has a customer financing business

Extract from statement(s) of financial performance	
Revenue from sale of goods	X
Cost of goods sold	(X)
Gross profit from sale of goods	**X**
Interest income from customer financing (calculated using effective interest method)	X
Interest expense related to customer financing business	(X)
Gross profit from customer financing business	**X**
Selling, general and admin expenses (SG&A)	(X)
Business profit (from consolidated entities)	X
Share of profit of integral associates and joint ventures	X
Profit before investing, financing and income tax	X
Share of profit of non-integral associates and joint ventures	X
Other income (expenses) from investments	X
Profit before financing and income tax (EBIT)	X
Interest income from cash and cash equivalents calculated using effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	(X)
Other finance income	X
Other finance expenses	(X)
Profit before tax	X