IFRS

STAFF PAPER

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IASB® meeting

Project	**Primary Financial Statements**		
Paper topic	Minimum line items		

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Purpose of the paper

1. This paper discusses amendments and clarifications to the existing presentation requirements for line items in the statement(s) of financial performance, arising from the Board's tentative decisions to date.

2. At a future Board meeting, we will bring a paper that discusses:

   (a) principles that preparers could use to decide when to present items in the primary financial statements (ie when to present items as line items); and

   (b) possible additional required line items such as goodwill.

Summary of staff recommendations in this paper

3. The staff recommend that the Board:

   (a) clarify that the line items that are required to be presented in the statement(s) of financial performance may need to be presented in more than one section of that statement;

   (b) do not add 'other finance income' and 'other finance expenses' to the list of line items required to be presented in the statement(s) of financial performance;

(c) remove the requirement in paragraph 82(b) of IAS 1 to present ‘finance costs’ in the statement(s) of financial performance; and

(d) clarify that the line items required to be presented in the statement(s) of financial performance shall be presented separately regardless of the method of analysis of expenses in the operating profit section.

Structure of paper

4. This paper is structured as follows:

   (a) Background (paragraphs 5-7);

   (b) Issue 1—Required line items which may qualify for inclusion in more than one section of the statement(s) of financial performance (paragraphs 8-17);

   (c) Issue 2—Line items presented below ‘profit or loss before financing and income tax’ (paragraphs 18-23);

   (d) Issue 3—Consequences for the existing requirement to present ‘finance costs’ (paragraphs 24-26);

   (e) Issue 4—Interaction between required line items and the requirement to present an analysis of expenses by function or by nature (paragraphs 27-41);

   (f) Integral and non-integral associates and joint ventures (paragraphs 42-44); and

   (g) Appendix—Paragraph 82 of IAS 1 *Presentation of Financial Statements.*

Background

5. Paragraph 82 of IAS 1 *Presentation of Financial Statements* (see Appendix) includes a list of line items required to be presented in the statement of profit or loss. The staff have considered the implications of the Board’s tentative decisions on this project for these required line items.

Tentative decisions affecting required line items

6. The Board has tentatively decided to require:

   (a) subtotals creating distinct sections in the statement(s) of financial performance including: operating, investing and financing;

   (b) the presentation, in the statement(s) of financial performance, of:

      (i) interest income from cash and cash equivalents calculated using the effective interest method;

      (ii) other income from cash, cash equivalents and financing activities;

      (iii) expenses from financing activities;

      (iv) other finance income; and

      (v) other finance expenses.

   (c) a disaggregation of expenses in the statement(s) of financial performance using either the by-function or the by-nature method, whichever provides the most useful information to users (the implication of this decision is that the disaggregation of expenses in the operating profit section must use either a by-nature or by-function method, a mixture of the two methods would not be permitted); and

   (d) presentation of the results of 'integral' associates and joint ventures separately from those of 'non-integral' associates and joint ventures in the statement(s) of financial performance.

What are the issues?

7. The staff have identified four issues:

   (a) based on the Board's tentative decision on the content of subtotals, some of the line items required by paragraph 82 of IAS 1, would be included in more than one section of the statement(s) of financial performance. In paragraphs 8 -17, we discuss whether such items should be presented in one or more sections.

(b) some of the line items that the Board has tentatively decided to require to be presented below the subtotal 'profit or loss before financing and income tax' may not provide useful information. In paragraphs 18-23, we discuss whether these requirements should be removed.

(c) some of the line items that the Board has tentatively decided to require to be presented below the subtotal 'profit or loss before financing and income tax' overlap with existing required line items. In paragraphs 24-26 of this paper, we discuss whether to remove some of existing requirements for line items.

(d) the line items required by paragraph 82 of IAS 1 can be described as by-nature line items rather than by-function line items. In paragraphs 27-41, we discuss the interaction between the paragraph 82 requirement to present particular line items and the Board's tentative decision to require entities to present an analysis of expenses either by-function or by-nature in the operating profit section of the statement(s) of financial performance.

Issue 1—Required line items which may qualify for inclusion in more than one section of the statement(s) of financial performance

8. Based on the Board's tentative decision on the content of subtotals, some of the line items required by paragraph 82 of IAS 1 would be included in more than one section of the statement(s) of financial performance.

9. For example, for a non-financial entity, 'impairment losses determined in accordance with IFRS 9 section 5.5' (paragraph 82(ba) of IAS 1) could include expenses that our tentative decisions would require to be presented in three sections of the statement(s) of financial performance (ie operating, investing and financing sections):

(a) impairment losses on trade receivables arising from an entity's main business activity would be required to be included in the operating profit section;

(b) impairment losses on financial assets that generate returns largely independently of the other assets of the entity would be required to be included in the investing section; and

(c) impairment losses on cash and cash equivalents would be required to be included in the financing section (expected to be rare due to the requirement for cash equivalents to have an insignificant risk of changes in value).

10. Other examples include:

(a) interest revenue calculated using the effective interest method—for a non-financial entity interest revenue on cash and cash equivalents would be required to be presented in the financing section while interest revenue on investments would be required to be presented in the investing section; and

(b) gains or losses for a hedge of a group of items with offsetting risk positions whose hedged risk affects different line items in the statement of profit or loss required by paragraph 6.6.4 of IFRS 9. The presentation of this item would depend on the nature of the hedged items and could be presented in any category.

11. It is not clear how the requirement to present these items separately in the statement(s) of financial performance and the Board's tentative decision on the content of subtotals requiring the statement(s) of financial performance to be split into several sections interact. We have identified two ways to clarify this interaction:

(a) Approach 1 – require such line items to be presented in only one section of the statement(s) of financial performance; and

(b) Approach 2 – require such line items to be separately presented in each section of the statement(s) of financial performance.

Approach 1 - presenting required line items in only one section

12. This approach would require an entity to present required line items in only one section of the statement(s) of financial performance. The advantage of this approach is that it would limit the number of line items in the statement(s)—a proliferation of line items could potentially obscure relevant information and may make the statement(s) of financial performance less understandable.

13. However, this approach will create additional complexity as the Board would either need to specify in which section a particular line item should be included or develop

guidance to help preparers determine which section should be used. Specifying in which section of the statement(s) of financial performance a required line item should be included may not result in a faithful representation of the financial performance of some entities. However, any guidance for preparers is likely to require the exercise of significant judgment; comparability may be reduced if preparers decide to present required line items in different sections of the statement(s) of financial performance.

Approach 2—presenting required line items in more than one section

14. This approach would require an entity to separately present line items in each section of the statement(s) of financial performance, even if it means the same required line item would appear in more than one section.

15. The advantage of this approach is that it would ensure consistent classification of income or expenses in the different sections of the statement(s) of financial performance, regardless of whether the income or expenses are required line items. This would help ensure the Board's objective of developing comparable subtotals is maintained.

16. The disadvantage of this approach is that a proliferation of line items could obscure information and reduce the understandability of the statement(s) of financial performance. However, the application of the concept of materiality may reduce the number of instances in which the same line item appears in more than one section of the statement(s) of financial performance. For example, a non-financial entity that has material impairment losses on its trade receivables but immaterial impairment losses on its investments and cash and cash equivalents would only be required to present impairment losses in its operating section.

Staff recommendation

17. The staff recommend Approach 2 because separate presentation of line items in each section is consistent with the Board's objective of developing comparable subtotals in the statement(s) of financial performance.

Question 1
Does the Board agree with the staff’s recommendation to clarify that the line items that are required to be presented in the statement(s) of financial performance may need to be presented in more than one section of that statement?

Issue 2— Line items presented below ‘profit or loss before financing and income tax’

18. In November 2017 the Board tentatively decided to require that income or expenses presented below the ‘profit or loss before financing and income tax’ subtotal should consist of the following line items:

    (a) interest income from cash and cash equivalents calculated using the effective interest method;

    (b) other income from cash, cash equivalents and financing activities;

    (c) expenses from financing activities;

    (d) other finance income; and

    (e) other finance expenses.

19. The objective of requiring the items in paragraph 18 was to present income and expenses arising from financing activities as defined by the Board (items 18 (a)-(c)) separately from other finance costs (items 18 (d)-(e)), which did not arise from financing activities (such as interest on defined benefit liabilities, decommissioning liabilities and long-term provisions).

20. These items were separated into the five individual line items (18 (a)-(e)) to satisfy the requirements of paragraph 32 of IAS 1 to not offset income and expenses, and the requirement of paragraph 82(a)(i) of IAS 1, to separately present interest revenue calculated using the effective interest method.

21. The staff continue to believe that separate presentation of the line items in paragraph 18 (a)-(c) (if material) would provide useful information. However, in this section, we consider whether the requirement to present ‘other finance income’ and ‘other finance’ expense would result in useful information.

22. The nature of the income and expenses included in the ‘other finance income’ and ‘other finance expense’ line items is likely to vary between entities. Describing such income and expenses as ‘other’ is unlikely to provide useful information to users. The staff think that when entities recognise material income or expenses on liabilities that do not arise from financing activities (currently described as ‘other finance income’ or ‘other finance expense’), it would be more useful to present these items separately with more descriptive labels, for example ‘unwinding of discount on decommissioning liabilities’. When the amounts recognised in respect of ‘other finance income’ or ‘other finance expense’ are immaterial, presenting them separately from the line items in paragraph 18 (a)-(c) would be unnecessary.

23. Consequently, we do not think a requirement to present ‘other finance income’ and ‘other finance expenses’ would result in useful information and recommend that the Board does not add these line items to the list of items required to be presented in the statement(s) of financial performance. In making this recommendation, we note that our proposals on disaggregation would be likely to result in the separate presentation of material income or expenses on liabilities that do not arise from financing activities. However, we would expect entities to use descriptions for those items that are more descriptive than ‘other finance income’ and ‘other finance costs’.

Question 2

Does the Board agree with the staff’s recommendation not to add ‘other finance income’ and ‘other finance expenses’ to the list of line items required to be presented in the statement(s) of financial performance?

Issue 3—Consequences for the existing requirement to present finance costs

24. Paragraph 82(b) of IAS 1 requires the presentation of ‘finance costs’ in the statement of profit or loss. The staff think that the Board’s tentative decision to require presentation of the line items listed in paragraph 18 makes this requirement unnecessary.

25. Finance costs are not directly defined in IFRS standards. Expenses typically included in this line include items such as total interest expenses for financial liabilities

calculated using the effective interest method (IFRS 7) and borrowing costs (IAS 37). Non-financial entities would include these costs below the profit before financing and income tax subtotal, some of which will be included in the proposed required line item of expenses from financing activities, making the requirement for presentation of the 'finance costs' line item redundant.

26. We therefore recommend removing the requirement in paragraph 82(b) of IAS 1 to present 'finance costs' in the statement(s) of financial performance.

Question 3
Does the Board agree with the staff's recommendation to remove the requirement in paragraph 82(b) of IAS 1 to present 'finance costs' in the statement(s) of financial performance?

Issue 4—Interaction between required line items and the requirement to present an analysis of expenses by function or by nature

27. In the September 2017 meeting the Board tentatively decided to:

(a) describe the nature of expense and function of expense methods;

(b) continue to require an entity to provide an analysis of expenses using either a by-nature or a by-function methods, whichever provides the most useful information;

(c) require entities to present its primary expense analysis in the statement(s) of financial performance; and

(d) require entities to disclose in a single note an analysis of expenses by nature when an entity presents an analysis of expenses by function.

28. An implication of these decisions is that entities are required to present expenses either using a by-nature or a by-function method in the operating profit section of the statement(s) of financial performance and not a mixture of the two.

29. The Board has tentatively decided to describe the by-nature method as providing information about expenses arising from the main inputs that are consumed to accomplish an entity's business activities without reference to how these are allocated

to functions within the business. The by-function method is described as allocating and combining expense items according to the activity from which the item arises.

30. Paragraph 82 of IAS 1 requires the presentation of line items, in the statement of profit or loss that match the Board's tentative description of the by-nature method. Some of these line items may be required to be presented in the operating profit section of the statement(s) of financial performance. Consequently, if an entity presents a by-function analysis of expenses, the requirements of paragraph 82 could result in an analysis of expenses that is a mixture of natural line items and functional line items.

31. Presenting required natural line items when an entity presents an analysis of operating expenses by-function may be viewed as contradicting the Board's tentative decision to require an analysis of expenses using either a by-function or a by-nature method.

32. The staff have identified two ways in which to clarify the interaction between the requirement for line items and the method of analysis of expenses in the operating profit section:

    (a) Approach 1—require presentation of line items regardless of the method of analysis of expenses (see paragraphs 33-36)

    (b) Approach 2—do not require presentation of natural line items for expenses in the operating profit section for entities that use a by-function method of analysis of expenses (see paragraphs 37-40)

Approach 1—Require the presentation of line items regardless of the method of analysis of expenses

33. Under Approach 1, line items required by IAS 1 would continue to be presented regardless of the method of presenting expenses. This would separate the requirement to present line items from the requirement to present expenses using either the by-nature or the by-function method.

34. In requiring line items, the Board has previously decided that each of the required line items provide relevant information that should be presented in the statement(s) of financial performance unless they are immaterial. The main advantage of Approach 1 is that it upholds these decisions. In other words, this approach would recognise that

the required line items provide relevant information regardless of the method used to present expenses.

35. The main disadvantage of this approach is that it could be seen as inconsistent with the requirement to present an analysis of expenses using only a by-function or a by-nature method.

36. A consequence of this approach is that required line items in the operating profit section could not be allocated to functional categories, such as cost of sales, or general and administrative expenses. This also means that any such items could not be included in the calculation of gross profit, because the Board has described gross profit as the difference between revenue and cost of sales.

Approach 2—do not require presentation of natural line items for expenses in the operating profit section for entities that use a by-function method of analysis of expenses

37. Under Approach 2 entities that present an analysis of expenses by function would not be required to present any natural items within the operating profit section.

38. The main advantage of this approach is that it is consistent with our proposal to require entities to present an analysis of expenses using either a by-nature or a by-function method.

39. The main disadvantage of this approach is that it would result in line items previously considered by the Board to provide relevant information not being presented in the statement(s) of financial performance.

40. The Board could alleviate this concern by requiring these items of income or expense to be separately disclosed in the analysis of expenses by-nature that entities presenting a by-function analysis of expenses would be required to disclose in the notes (see paragraph 27(d)). However, disclosing this information in the notes may not give it the prominence that the Board considered was necessary when it made the original decision to require presentation of these items in the statement(s) of financial performance.

Staff recommendation

41. The staff recommend Approach 1 because we think that the usefulness of separate presentation of required line items in the operating profit section of the statement(s) of financial performance outweighs the disadvantage of possible inconsistency with the method of analysis of operating expenses.

Question 4
Does the Board agree with the staff's recommendation to clarify that the line items required to be presented in the statement(s) of financial performance shall be presented separately regardless of the method of analysis of expenses in the operating profit section?

Integral and non-integral associates and joint ventures

42. The Board has tentatively decided to require presentation of the share of results of 'integral' associates and joint ventures separately from those of 'non-integral' associates and joint ventures in the statement(s) of financial performance.

43. Paragraph 82(c) of IAS 1 currently requires the presentation of the share of profit or loss of associates and joint ventures accounted for using the equity method in the statement of profit or loss.

44. The staff are not asking the Board for any decision but highlight that paragraph 82(c) will require updating to reflect its tentative decision to require the separate presentation of the share of profit or loss of 'integral' and 'non-integral' associates and joint ventures accounted for using the equity method in the statement(s) of financial performance.

Appendix: Paragraph 82 of IAS 1 *Presentation of Financial Statements*

82. In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:

(a) revenue, presenting separately:

(i) interest revenue calculated using the effective interest method; and

(ii) insurance revenue (see IFRS 17);

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(ab) insurance service expenses from contracts issued within the scope of IFRS 17 (see IFRS 17);

(ac) income or expenses from reinsurance contracts held (see IFRS 17);

(b) finance costs;

(ba) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;

(bb) insurance finance income or expenses from contracts issued within the scope of IFRS 17 (see IFRS 17);

(bc) finance income or expenses from reinsurance contracts held (see IFRS 17);

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in IFRS 9);

(cb) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;

(d) tax expense;

(e) [deleted]

(ea) a single amount for the total of discontinued operations (see IFRS 5).

(f)-(i) [deleted]