

Primary Financial Statements

The project scope

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- To help define the scope of the Primary Financial Statements project by getting views on possible improvements to:
 - statement(s) of profit or loss and other comprehensive income (OCI)
 - statement of cash flows
 - statement of financial position

- Background
 - 2015 Agenda Consultation Feedback
 - Current direction of the project
- Concerns identified & Questions for ASAF:
 - statement(s) of profit or loss and OCI
 - statement of cash flows and statement of financial position

- Identified as a priority project
- Focus should be on performance reporting issues such as:
 - structure and content of the statement(s) of profit or loss and OCI
 - single measure of performance
 - the distinction between profit or loss and OCI
- Fewer comments on the other primary financial statements

- Structure and content of statement of profit or loss and OCI including:
 - whether to define additional line items or subtotals (including operating profit and EBIT)
 - alternative performance measures
- Whether there is demand for changes to:
 - statement of financial position
 - statement of cash flows
- Implications for digital reporting (will not discuss today)

- Defining a single measure of performance or the distinction between profit or loss and OCI
 - financial performance is a multi-faceted notion
 - in the Conceptual Framework project, the Board only managed to develop high-level guidance
 - improvements to the structure and content of the statement of profit or loss and OCI would provide better information about performance and may reduce the need to report income and expense in OCI

Current direction of the project—topics excluded (continued)

- The statement of changes in equity
 - will be considered in the project on Financial Instruments with Characteristics of Equity

Statement(s) of profit or loss and OCI

Concerns identified and questions for ASAF

- Paragraph 82 requires the presentation of only the following items:

Statement of profit or loss
Revenue
Impairment losses
Finance costs
Gains/losses from derecognition of financial assets
Gains/losses from reclassification of financial assets
Share of result of associates
Tax expense
Gains/losses from discontinued operations
Profit or loss

- Additional line items are required when relevant to an understanding of an entity's performance (Paragraph 85)

Some of the concerns identified

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- Inconsistent structure across entities (slide 11)
- No definition of operating profit subtotal (slide 12)
- Same performance measure calculated differently (slide 13)

Inconsistent structure

- We observe inconsistencies even within the same industry:

Company A	Company B	Company C	Company D
Revenue	Revenue	Revenue	Revenue
Cost of goods sold	Cost of goods sold	Operating expenses	
Distribution cost	Selling cost (including marketing costs)		
Marketing and administrative costs	General and administrative cost		
R&D cost	R&D cost		
Other cost	Other cost		

Classification/
disaggregation of items
vary among peer
companies.

Calculation of operating profit today

- ‘Operating profit’ (based on EBIT) can be calculated differently

Company E	Company F	Company G	Company H
Revenue	Revenue	Revenue	Revenue
Operating expenses	Operating expenses	Operating expenses	Operating expenses
Interest cost of pension			Interest cost of pension
	Share of result of associates		
Operating profit	Operating profit	Operating profit	Operating profit
Financial income/expense	Financial income/expense	Financial income/expense	Financial income/expense
	Interest cost of pension		
Share of result of associates		Share of result of associates	
Tax	Tax	Tax	Tax
			Share of result of associates
Profit	Profit	Profit	Profit

Same performance measure calculated differently

- For example, ‘adjusted operating profit’:

Adjustments made to operating profit	Peer companies in the same industry			
	Company I	Company J	Company K	Company L
Acquisition related cost	Yes	Yes	Yes	Not clear
Amortisation of intangibles	Not clear	No	Not clear	Yes
Restructuring	No	Not clear	Yes	Not clear
Impairment of PPE	No	Yes	Not clear	Not clear
Impairment of intangible	No	Yes	Not clear	Not clear
Impairment of goodwill	Yes	Yes	Yes	Not clear
Disposal of PPE	No	Not clear	Not clear	Yes
Disposal of business	Yes	Yes	Yes	Not clear
Litigation cost	No	Not clear	Yes	Not clear

Yes The company adjusts the item when calculating the adjusted operating profit.

No The company does not adjust the item when calculating the adjusted operating profit.

Not clear The company’s policy was not clear on the footnote disclosure.

Question 1

Should the project:

- address inconsistencies in the structure of the statement(s) of profit or loss and OCI? If so, how would you address these inconsistencies?
- explore requiring new subtotals for example operating profit or earnings before interest and tax (EBIT)?
- seek to define any alternative performance measures?
- provide guidance on the use of alternative performance measures?

Question 2

What other problems, if any, have you identified with the structure and content of the statement(s) of profit or loss and OCI? What could we do to address these problems?

Statement of cash flows & Statement of financial position

Concerns identified and questions for ASAF

Some of the concerns identified

- Interaction between items reported in different primary financial statements is unclear
 - particularly between statement of profit or loss and other comprehensive income (OCI) and statement of cash flows
- Options for presenting items in statement of cash flows causes confusion
 - eg interest and dividends
- More disaggregation of line items is needed
 - eg 'other' line items

Question 3

Should the project:



- explore the interactions between items reported in different primary financial statements? if so, please provide specific examples
- eliminate options for presenting items in the statement of cash flows?
- achieve more disaggregation of particular line items?

Question 4


What other problems, if any, have you identified with the structure and content of the statement of financial position or statement of cash flows?

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