

Joint CMAC-GPF meeting, 15-16 June 2016
Agenda Paper 4

Primary Financial Statements

Issues in current financial reporting

The views expressed in this presentation are those of the presenter, and are not necessarily International Accounting Standards Board (the Board) or IFRS Foundation views.

Purpose of the session

- To help define the scope of the Primary Financial Statements project
- To do this, in this session we would like to get your views on problems associated with:
 - the statement of profit or loss and other comprehensive income (OCI)
 - the statement of financial position (balance sheet)
- Structure of session
 - Background information (15 min)
 - Breakout sessions
 - statement of profit or loss and OCI (35 min)
 - balance sheet (15 min)
 - Report back (30 min)

Background: Feedback from 2015 Agenda Consultation

- Many respondents identified Primary Financial Statements as a priority project
 - Most investor/analyst respondents
 - Many preparer respondents
- Many stated that the project should focus on performance reporting:
 - the structure and content of the statement of profit or loss and OCI
 - a single measure of performance or the distinction between profit or loss and OCI
- Respondents provided fewer comments on the other primary financial statements

Background: Project direction

- Initial research work on:
 - structure and content of the statement of profit or loss and OCI, including:
 - whether to define operating profit
 - alternative performance measures
 - whether there is any demand for changes to:
 - statement of cash flows (see AP3 in this session)
 - balance sheet
 - implications of digital reporting (will not be discussed today)
- The Board decided not to undertake research into:
 - defining a single measure of performance
 - possible changes to statement of changes in equity
(will be considered in Financial Instruments with Characteristics of Equity project)

Background: Problems identified— statement of profit or loss and OCI

- Issues we've heard regarding the structure and content of the statement of profit or loss and OCI include:
 - varied structures (see slide 7)
 - no definition of operating profit subtotal (discussed at the last CMAC meeting)
 - calculations vary for the same performance measure (see slide 8)

Statement of profit or loss and OCI

- Under IAS 1 *Presentation of Financial Statements*, paragraph 82 requires the presentation of only 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

- Companies can decide which other line items are presented
- Below profit or loss, IAS 1 requires the presentation of OCI classified by nature.

Varied structure of the statement of profit or loss and OCI today

- Companies in the same industry can choose different structures for the statement of profit or loss and OCI.

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 alternative performance measures today

- Calculations vary when companies present their performance measures (eg adjusted operating profit), making comparisons among peer companies difficult.

Adjustments made to operating profit	Peer companies in the same industry			
	Company E	Company F	Company G	Company H
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

Do you think the project should consider the following issues regarding the structure and content of the statement of profit or loss and OCI?

- Varied structure
- No definition of operating profit subtotal
- Problems with the use of performance measures

Questions – statement of profit or loss and OCI (continued)

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Question 2

If you answered yes to Question 1, do you think the project should consider:

- whether there should be more requirements for the structure of the statement of profit or loss and OCI;
- whether certain totals/subtotals should be required;
- whether the Board should define any alternative performance measures; and
- whether guidance should be provided on the use of alternative performance measures?

Question 3

What other problems, if any, have you identified with the structure and content of the statement of profit or loss and OCI?

- There were fewer concerns voiced about the structure and content of the balance sheet.
- Some suggested that:
 - the interaction needs to be clearer between items reported in the balance sheet and other primary financial statements. (Note: we have not heard specific examples that cause particular problems)
 - some line items should be more disaggregated (eg ‘other’ items).

Question 4

Do you think the project should consider the following issues related to the structure and content of the balance sheet?

- The view that the interaction needs to be clearer between items reported in the balance sheet and other primary financial statements. If so, please provide specific examples that require changes.
- The view that items should be more disaggregated. If so, please provide specific examples that require changes.

Question 5

What other problems, if any, have you identified with the structure and content of the balance sheet?

