

# Scope of proposals for subtotals in the statement of profit or loss

Illustrations of possible effects of staff proposals on some types of entities

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We advise printing  
these slides in colour.

The slides provide the following illustrations for different types of entities:

Types of entities		Illustrations provided
1	Investment property companies	For each of these, we have prepared an illustration of: <ul style="list-style-type: none"><li>• a typical P&amp;L today;</li><li>• a P&amp;L applying current project tentative decisions for non-financial entities; and</li><li>• a P&amp;L applying the staff proposals in paper 21A.</li></ul>
2	Insurers	
3	Traditional banks (no material investing activities)	
4	Entities with more than one main business activity incl. both investing and financing): A. A bank with investing & customer financing activities B. A bank-insurer	A P&L applying the staff proposals in paper 21A.
5	Entities with more than one main business activity, incl. investing or financing: manufacturer that provides financing to customers	

- We have assumed the entities in our examples have homogeneous business activities, except for examples that show entities with two main business activities;
- We have made further assumptions relating to main business activities, which are noted on the slides;
- Current project proposals do not prescribe how entities should present income/expenses above business profit—the illustrations show one possible presentation. However, we will discuss proposals on disaggregation at a future Board meeting, which may affect line items presented above business profit.

# 1 Investment property company

## —a typical P&L today

### Extract from statement(s) of financial performance

Gross rental income	X
Property operating expenses	(X)
<b>Net rental income</b>	<b>X</b>
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
Share of profit from associates and joint ventures*	X
<b>Profit from operating activities</b>	<b>X</b>
Finance income	X
Finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Presentation of an **EBIT-type subtotal** is common (though often labelled differently); however:

- EBIT is not widely used in analysis—investors prefer measures that are adjusted for fair value changes
- Most entities do not use EBIT as a key measure to communicate their performance outside their financial statements

Separate presentation of **finance expenses** towards the bottom of the statement is common

\* Is presented below profit from operating activities by some entities.

# 1 Investment property company

## —P&L applying tentative decisions for non-financial entities

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Extract from statement(s) of financial performance	
Property operating expenses	(X)
Administrative expenses	(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
Gross rental income	X
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	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

Based on investor discussions, we understand this presentation is **not useful**.

Rental income, changes in fair value and gains/losses on investment properties arise from the entity's main business activities.

Not a significant change from current practice, EBIT could apply in the same way as for non-financial entities

# 1 Investment property company

## —P&L as per staff’s proposals

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
<b>Business profit from consolidated entities</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
<b>Profit before financing and income tax (EBIT)</b>	<b>X</b>
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

Presentation of rental income, changes in fair value and gains/losses on investment properties **in business profit** (although we expect entities to disclose management performance measures that exclude changes in fair value)

We think separate presentation of results from associates/JVs outside business profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity’s main business activities would be presented outside business profit (assumed to be immaterial in this illustration).

## 2 Insurer

### —expected format post IFRS 17

#### Extract from statement(s) of financial performance\*

Insurance revenue	X	Required line item	Arising from contracts in scope of <b>IFRS 17</b>
Insurance service expenses	(X)	Required line item	
<b>Insurance service result</b>	<b>X</b>		
Investment income**	X		Mostly arising from financial instruments in scope of <b>IFRS 9</b>
Impairment of investments	(X)		
Insurance finance expenses	(X)	Required line item	Arising from contracts in scope of <b>IFRS 17</b>
<b>Net financial result</b>	<b>X</b>		Margin between investment return and insurance finance expenses is a key measure of performance (see IFRS 17, para.110)
Share of profit of associates and joint ventures	X	Required line item	
Other finance expenses	(X)	Required line item	Finance expenses not arising from insurance contracts are expected to be presented separately, and not as part of a key performance metric
<b>Profit before tax</b>	<b>X</b>		

\* See illustrative examples in IFRS 17 [Effects Analysis](#)

\*\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 2 Insurer

### —P&L applying tentative decisions for non-financial entities

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Extract from statement(s) of financial performance	
Insurance revenue	X
Insurance service expenses	(X)
Business profit from consolidated entities (= insurance service result)	X
Share of profit of integral associates and joint ventures	X
Profit before investing, financing and income tax	X
Investment income*	X
Impairment of investments	(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—Insurance finance expenses	(X)
Other finance expenses—Unwinding of discount on other liabilities	(X)
Profit before tax	X

This presentation is

**not useful:**

- investment returns and insurance finance expenses arise from the entity's main business activities.
- presentation of a margin between investment returns and insurance finance expenses is not possible (inconsistent with IFRS 17 para. 110).

EBIT could apply in the same way as for non-financial entities\*\*

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

\*\* Though 'I' in EBIT may not be material.

## ② Insurer

### —possible P&L as per staff's proposals

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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
<b>Business profit from consolidated entities</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
<b>Profit before financing and income tax (EBIT)</b>	<b>X</b>
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

Presentation of investment returns and insurance finance expenses in business profit

We think separate presentation of results from associates/JVs outside business profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity's main business activities would be presented outside business profit (assumed to be immaterial in this illustration).

We assume this entity does not provide financing to customers in the course of its main business activities and therefore it presents an EBIT subtotal.

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

### ③ Traditional bank

—typical P&L (pre IFRS 9 *Financial Instruments*)

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Extract from statement(s) of financial performance	
Interest income	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating profit</b>	<b>X</b>
Share of profit/loss of associates/JVs	X
<b>Profit before tax</b>	<b>X</b>

The margin between interest income and interest expense is **net interest income**, which is a key performance metric

Net interest on net defined benefit liability is commonly included in employee benefit expenses

**No evidence EBIT** is commonly presented by banks or used in analysis of banks today

We assume that this entity only has one main activity (ie providing financing) and does not have significant investing activities.

### ③ Traditional bank

## —P&L applying tentative decisions for non-financial entities

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Extract from statement(s) of financial performance	
Interest income (on loans to customers)	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Business profit from consolidated entities</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
<b>Profit before financing and income tax (EBIT)</b>	<b>X</b>
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—including interest expense on customer deposits and other debt	(X)
Other finance income	X
Other finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

Income from loans to customers considered not to meet the definition of 'income from investments'.

Definition of financing activities hard to interpret—customer deposits could be considered to meet the definition which would not result in useful presentation.

Would include net interest on net defined benefit liability and unwinding of discount on other liabilities. Separate presentation outside business profit could be useful.

We assume that all associates and joint ventures are considered 'integral' and that the entity does not have any material investing activities. For that reason, the entity does not present an 'income/expenses from investments' category or a profit before investing, financing and income tax subtotal.

### ③ Traditional bank

—possible P&L as per staff’s proposals

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

Interest expense is incurred in the course of the entity’s main business activities, so should be presented **in business profit**. This allows the presentation of **net interest income** as a subtotal.

We think separate presentation of results from associates/JVs outside business profit is as useful as for non-financial entities.

Income (or expenses) from investments made outside the course of the entity’s main business activities would be presented outside business profit (assumed to be immaterial in this illustration).

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 4 Entities with more than one main business activity, including both investing and financing

—possible P&L as per the staff's proposals

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	(X)
<b>Net fee and commission income</b>	<b>X</b>
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)
<b>Business profit from consolidated entities</b>	<b>X</b>
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)
<b>Profit before tax</b>	<b>X</b>

- **Example A:** A bank with investing and customer financing activities

Interest income, interest expense, net trading income and net investment income are earned (incurred) in the course of the entity's main business activities, so should be presented **in business profit**

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 4 Entities with more than one main business activity, including both investing and financing

—possible P&L as per the staff’s proposals

### Extract from statement(s) of financial performance

Interest income*	X
Interest expense	(X)
<b>Net interest income from banking activities</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	(X)
<b>Net fee and commission income</b>	<b>X</b>
Net trading income	X
Net investment income (non-insurance)	X
Credit impairment losses	(X)
Insurance revenue	X
Insurance service expenses	(X)
<b>Insurance service result</b>	<b>X</b>
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)
<b>Net insurance financial result</b>	<b>X</b>
Other operating expenses	(X)
<b>Business profit from consolidated entities</b>	<b>X</b>
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)
<b>Profit before tax</b>	<b>X</b>

- **Example B:**  
A bank-insurer

Banking

Insurance

Banking +  
Insurance

\*Interest revenue calculated using the effective interest method would have to be presented separately (IAS 1.82(a)(i))

## 5 Entities with more than one main business activity, including investing or financing

—possible P&L as per the staff’s proposals

- 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)
<b>Gross profit from sale of goods</b>	<b>X</b>
Interest income from customer financing (calculated using effective interest method)	X
Interest expense related to customer financing business	(X)
<b>Gross profit from customer financing business</b>	<b>X</b>
Selling, general and admin expenses (SG&A)	(X)
<b>Business profit (from consolidated entities)</b>	<b>X</b>
Share of profit of integral associates and joint ventures	X
<b>Profit before investing, financing and income tax</b>	<b>X</b>
Share of profit of non-integral associates and joint ventures	X
Other income (expenses) from investments	X
<b>Profit before financing and income tax (EBIT)</b>	<b>X</b>
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)
<b>Profit before tax</b>	<b>X</b>

Sale of goods

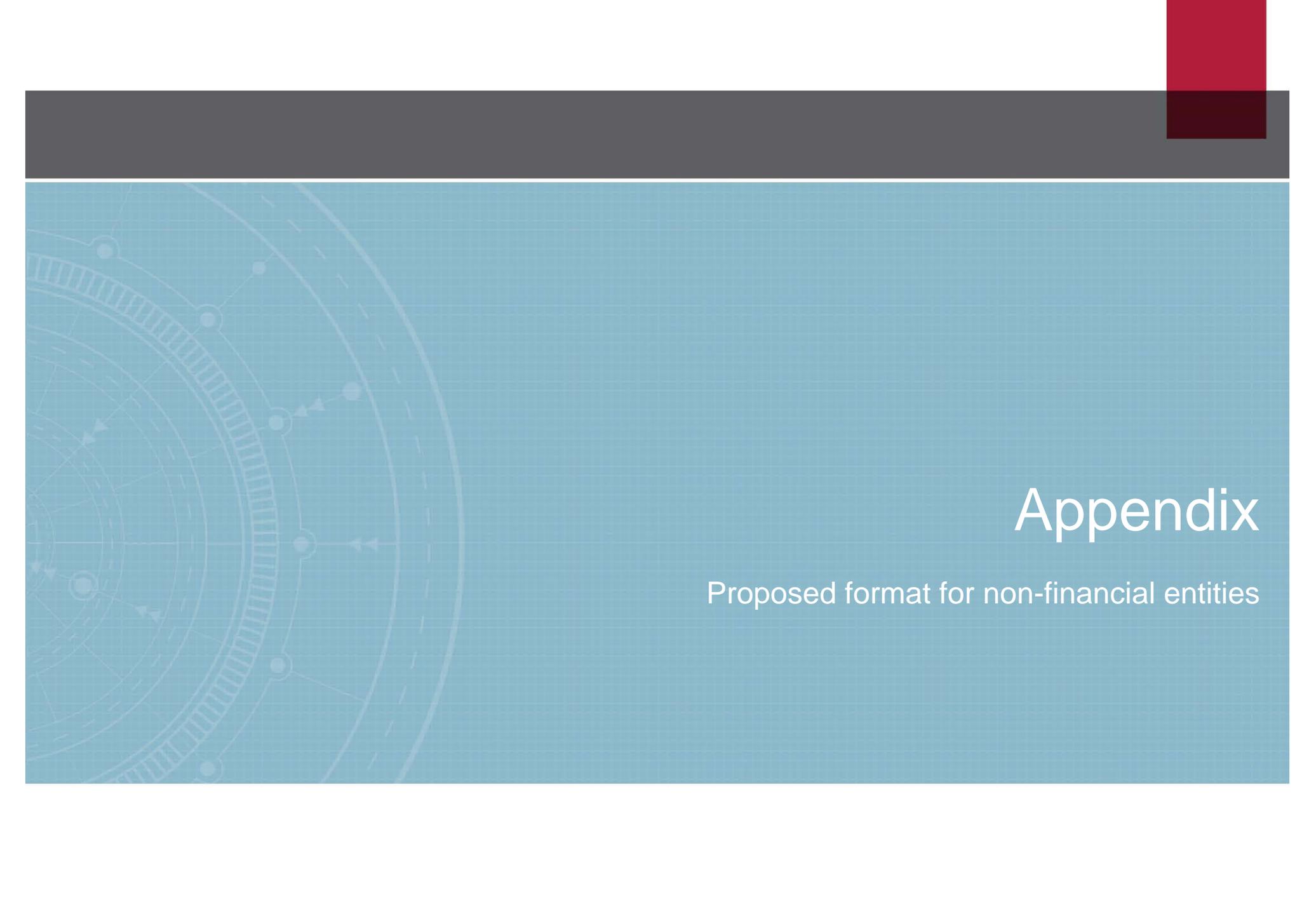
Customer financing

Sale of goods + customer financing

# Summary

	Business profit from consolidated entities	Profit before investing, financing and tax	Profit before financing and tax (EBIT)	Profit before tax
Investment property company	✓	✗	✓	✓
Insurer	✓	✗	✓	✓
Traditional bank	✓	✓*	✗	✓
Entities with more than one main business activity (incl. both investing & financing)	✓	✗	✗	✓
Entities with more than one main business activity (incl. investing or financing)	✓	✓	✓	✓

\*Income/expenses from investments are assumed to be immaterial for the illustration on slide 12.



# Appendix

Proposed format for non-financial entities

# Illustration of proposed subtotals for non-financial entities

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs (SG&A)	-3,000
<b>Business profit (from consolidated entities)</b>	<b>3,000</b>
Share of profit of integral associates and joint ventures	500
<b>Profit before investing, financing and income tax</b>	<b>3,500</b>
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
<b>Profit before financing and income tax (EBIT)</b>	<b>3,900</b>
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

**Income/  
expenses from  
investments**

**Finance income/  
expenses**

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