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STAFF PAPER

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IASB® meeting

Project	Primary Financial Statements
Paper topic	Principles for presentation and required line items in primary financial statements

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Purpose of this paper

1. This paper considers the relationship between the general principle of disaggregation for the presentation of information in the primary financial statements and the requirements in IAS 1 *Presentation of Financial Statements* for specific line items in those statements. It also considers the feedback on the proposals for required line items in the Exposure Draft *General Presentation and Disclosures*, which were largely carried forward from IAS 1. This paper does not explore the implications of digital reporting. The staff will bring to a future meeting a paper that explores the implications of digital reporting and considers any changes in drafting needed to facilitate digital consumption of information resulting from proposals in this project.

Summary of staff recommendations in this paper

2. The staff recommend the IASB:

   (a) revise paragraph 42 of the Exposure Draft as follows:

   42 This [draft] Standard requires ~~minimum~~ specified line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including

by disaggregating required ~~minimum~~ line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are ~~relevant to an understanding of the entity's financial performance or financial position~~ <u>necessary to provide an understandable overview of the entity's income and expenses or assets, liabilities and equity</u>.

(b) revise the introductions to the lists of required line items in paragraphs 65 and 82 of the Exposure Draft as follows:

> In addition to items required by other IFRS Accounting Standards, <u>unless doing so reduces how useful the statement is in providing an understandable overview of the entity's income and expenses [or assets, liabilities and equity],</u> an entity shall present in the statement of profit or loss [or statement of financial position] line items for…..;

(c) add application guidance that indicates in general:

(i) it is unlikely that the presentation of items set out in paragraph 65 of the Exposure Draft that are classified in the operating category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses; and

(ii) in contrast, it is likely that the presentation of items set out in paragraph 65(b) of the Exposure Draft that are classified in the investing category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses.

(d) include in the Basis for Conclusions an analysis of the costs and benefits of requirements for specified line items.

(e) not revisit the existing requirements for specified line items brought forward from IAS 1.

(f) not add a specific requirement to present impairments of non-financial assets.

(g) proceed with the proposed requirement to present goodwill separately from intangible assets.

(h) proceed with the proposed requirement for required line items to be presented in each affected category in the statement of profit or loss.

(i) not specify any required line items to be presented in the financing category in the statement of profit or loss.

Structure of the paper

3. This paper is structured as follows:

   (a) requirements in IAS 1, proposals in the Exposure Draft and IASB redeliberations so far (paragraphs 4–8);

   (b) feedback on required line items (paragraphs 9–11);

   (c) staff analysis and recommendations (paragraphs 12–57); and

   (d) Appendix A—extracts from the Exposure Draft.

Requirements in IAS 1, proposals in the Exposure Draft and IASB redeliberations so far

4. Paragraph 42 of the Exposure Draft sets out the general principle for what line items should be presented in the primary financial statements. It was brought forward essentially unchanged from paragraphs 55 and 85 of IAS 1. It states:

   > 42 This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

5. Paragraph 65 of the Exposure Draft (reproduced in Appendix A) lists line items that an entity is required to present in the statement of profit or loss. The items listed are

essentially unchanged from IAS 1,[1] but have been re-ordered to provide a structured list. Five items relate to the requirements of IFRS 9 *Financial Instruments*, 5 items relate to IFRS 17 *Insurance Contracts* and 7 items relate to other IFRS Accounting Standards. An important aspect of the proposals in the Exposure Draft is that the required line items do not override the classification requirements. Hence, if amounts for a line item are required to be classified in different categories in the statement of profit or loss, a line item for those amounts is required in each category (paragraph B44 of the Exposure Draft).

6. Paragraph 82 of the Exposure Draft (reproduced in Appendix A) lists line items that an entity is required to present in the statement of financial position. The 22 items listed are unchanged from IAS 1, except for the addition of goodwill.[2]

7. When the IASB discussed the general principles of disaggregation at its April 2021 meeting (Agenda Paper 21A), it tentatively decided in relation to presentation in the primary financial statements:

   (a) not reinstate paragraph 29 of IAS 1, which required an entity to present separately each material class of similar items, in the new Standard. The objective of that paragraph continues to apply because entities are required to disaggregate material information in the notes to the financial statements. However, it is not possible to require an entity to present complete disaggregation of material information in the primary financial statements.

   (b) include a reference to understandability in the description of the role of the primary financial statements.

8. Agenda Paper 21A of the April 2021 IASB meeting also explained that the wording of paragraph 42 of the Exposure Draft (reproduced in paragraph 5 of this paper) needed to be revised because the reference to 'relevant' implies information should be

[1] The Exposure Draft proposed separate line items for the share of profit for integral and non-integral associates and joint ventures. The IASB tentatively decided in October 2021 not to proceed with such a split for associates and joint ventures. The Exposure Draft also proposed replacing the line item 'finance costs' with a line item 'income or expenses from financing activities'. That line item is discussed in paragraphs 54–57 of this paper.

[2] The Exposure Draft proposed separate line items for integral and non-integral associates and joint ventures. The IASB tentatively decided in October 2021 not to proceed with such a split for associates and joint ventures.

presented in the primary financial statements if it is material, in conflict with the decision described in paragraph 7(a) of this paper.

Feedback on required line items

9. The Exposure Draft did not have a specific question relating to the proposed requirements for line items. However, some respondents commented on these proposals. Of those, some agreed with the requirements and some (mainly preparers) disagreed.

10. Most respondents who commented said that additional guidance or clarification is needed. These respondents asked for the following guidance or clarification:

    (a) some asked the IASB to clarify the relationship between the required line items and the proposal to prohibit a mixture of the nature of expense method and the function of expense method. (The IASB tentatively decided in Agenda Paper 21B of the October 2021 IASB meeting not to prohibit a mixed presentation, so this question no longer needs to be considered);

    (b) some asked for further guidance clarifying that required line items are only required to be presented in the primary financial statements when they are material; and

    (c) some suggested a comprehensive review of the required line items to consider, for example:

        (i) a consistent approach to setting requirements for line items with a clear rationale and conceptual basis (for example requiring presentation of impairment for either both financial and non-financial assets or neither).

        (ii) whether all required line items should remain, especially those that would be presented in categories below operating profit.

11. On the proposed separate presentation of goodwill in the statement of financial position, some agreed and some disagreed. Some respondents that agreed with the separate presentation also said that impairment of goodwill should also be required to

be presented separately in the statement of profit or loss. Some respondents that disagreed were concerned that requiring presentation of goodwill in the statement of financial position could lead to disclosure of immaterial information. A few of those that disagreed said that goodwill is not sufficiently different from other intangible assets to justify separate presentation in the statement of financial position.

Staff analysis

12. This section of the paper is structured as follows:

    (a) the wording of the general principle of disaggregation relating to presentation in the primary financial statements (paragraphs 13–19);

    (b) the relationship between the general principle of disaggregation relating to presentation and specific requirements for line items (paragraphs 20–33);

    (c) when should the IASB set specific requirements for line items (paragraphs 34–47); and

    (d) required line items in the investing and financing categories (paragraphs 48–57).

The wording of the general principle of disaggregation relating to presentation in the primary financial statements

13. Before considering requirements for specific line items, the staff think it is helpful to conclude on the wording of the general principle set out in paragraph 42 of the Exposure Draft:

    > 42 This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position *when such presentations are relevant to an understanding of the entity's financial performance or financial position*. [Emphasis in italics added.]

14. As explained in paragraphs 7 and 8 of this paper, the wording in italics needs to be revised because not all material (ie relevant) disaggregation can be included in the primary financial statements.

15. The staff have sought alternative wording that links paragraph 42 with paragraph 20 of the Exposure Draft, which sets out the role of the primary financial statements. Following the discussion at the April 2021 meeting, the staff propose paragraph 20 of the Exposure Draft be drafted as follows:

> 20 The role of the primary financial statements is to provide a structured ~~and comparable~~ summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:
>
> (a) obtaining an <u>understandable</u> overview of the entity's assets, liabilities, equity, income, expenses and cash flows;
>
> (b) making comparisons between entities, and between reporting periods for the same entity; and
>
> (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

16. These revisions focus on the fact that the primary financial statements are a structured summary, as described in paragraph 5.2 of the Conceptual Framework, and balance the need for the summary to be understandable and provide comparable information.

17. Paragraph 20 of the Exposure Draft can then be used as the basis on which paragraph 42 of the Exposure Draft builds. The first sentence in paragraph 42 of the Exposure Draft refers to the presentation requirements that apply to all entities and which therefore support the role of primary financial statements in providing information that is useful for making the comparisons set out in paragraph 20(b) of the Exposure Draft, for example:

    (a) the required structure of the statement of profit or loss;

    (b) the requirement to classify assets and liabilities as current or non-current or use a presentation based on liquidity in the statement of financial position; and

    (c) the requirements for specific line items in each statement.

18. Any additional line items added by an entity applying the second sentence in paragraph 42 of the Exposure Draft will inevitably be entity-specific. Accordingly, they are likely to relate to the role of primary financial statements in providing information that gives the understandable overview set out in paragraph 20(a).[3]

19. The staff therefore recommend the following revision to paragraph 42

> 42 …..An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are ~~relevant to an understanding of the entity's financial performance or financial position~~ <u>necessary to provide an understandable overview of the entity's income and expenses or assets, liabilities and equity</u>.

Question for the IASB
Q1 Does the IASB agree with the recommended revisions to paragraph 42 of the Exposure Draft set out in paragraph 19 of this paper?

The relationship between the general principle of disaggregation relating to presentation and specific requirements for line items

20. The description of the role of primary financial statements in paragraph 20 of the Exposure Draft requires a balance between giving an understandable overview and providing details that enable comparisons to be made between entities. Specific requirements for line items result in all entities providing those line items (when material) and, accordingly, help users of financial statements to compare entities.

[3] The final aspect of the role of the primary financial statements set out in paragraph 20(c)—identifying items or areas about which more information is given in the notes—is intended to emphasise that the primary financial statements cannot by themselves provide all necessary information. Some information can only be given in the notes. The descriptions of the line items in the primary financial statements and the cross-references to the notes enable users of financial statements to find that additional information.

21. However, such specific requirements may not help an entity give an understandable overview. This is particularly the case in the statement of profit or loss where the required line items are heavily focused on items relating to IFRS 9 and IFRS 17. An entity that is not a financial institution might have such items that are material, and hence should be disclosed, but which do not need to be presented in the statement of profit or loss to give an understandable overview of the entity's income and expenses. Rather they might create clutter that make the overview less understandable.

22. The staff have developed two possible amendments that would mitigate the risk that required line items create an imbalance between information useful for comparisons and information useful for giving an understandable overview:

    (a) adding a general constraint on when the requirement for specified line items applies and

    (b) for the statement of profit or loss, adding application guidance on applying that general constraint.

Adding a general constraint on when the requirement for specified line items apply

23. To avoid the situation in which a required line item would result in clutter that makes the overview given by a primary financial statement less understandable, the staff recommends amending the introduction in the paragraphs that list the required line items (paragraphs 65 and 82 of the Exposure Draft). The staff considered two approaches to such an amendment [emphasis in italics added here to aid comparison between the two approaches]:

    (a) In addition to items required by other IFRS Accounting Standards[4], <u>*unless doing so reduces* how useful the statement is in providing an understandable overview of the entity's income and expenses [or assets, liabilities and equity],</u> an entity shall present in the statement of profit or loss [or statement of financial position] line items for…..; or

[4] The staff will investigate whether we need to refer to items required by other IFRS Accounting Standards here and, if so, whether any caveat added to the paragraph in this Standard needs to apply to those items.

(b) In addition to items required by other IFRS Accounting Standards, *if doing so enhances* how useful the statement is in providing an understandable overview of the entity's income and expenses [or assets, liabilities and equity], an entity shall present in the statement of profit or loss [or statement of financial position] line items for…..

24. Under both approaches, any specified line item not presented because of the caveat added to the paragraphs in the Exposure Draft would be disclosed in the notes applying the general principle of disaggregation for disclosures (assuming that information about the item is material).

25. The first approach places more emphasis on the role of the required line items in achieving comparability between entities, and is a smaller change compared to the existing requirements. The second approach places more emphasis on the role of the primary financial statements in providing an understandable summary, and effectively removes the possibility of line items being presented that enhance comparability only and do not also contribute to an understandable overview. The staff think the first approach gives the better balance between comparability and understandability and hence recommends it.

Application guidance for the statement of profit or loss

26. The staff acknowledge the addition of the caveat recommended by the staff requires an entity to make judgements about what makes an understandable summary of its income and expenses. Because of the potential conflict between comparability and understandability in the statement of profit or loss described in paragraph 21 of this paper, the staff think it would be helpful to add application guidance on how that caveat is likely to apply in that statement.

27. In developing application guidance for the statement of profit or loss, the staff explored the effect of the required line items on the different categories in that statement. The required line items in paragraph 65 of the Exposure Draft comprise[5]:

[5] This paragraph of the paper does not consider the situation in which amounts relating to a single required line item are required to be classified in more than one category. That situation is discussed in paragraphs 49–53 of this paper.

(a) items that will always be classified in the operating category:

(i) revenue;

(ii) cost of sales; and

(iii) five items relating to insurance contracts;

(b) items that will always be classified in a category other than the operating category:

(i) share of profit or loss of associates and joint ventures (split between integral and non-integral);[6]

(ii) income taxes; and

(iii) discontinued operations;

(c) items that could be classified in the operating category in specific circumstances:

(i) items relating to financial assets, which will be classified in the investing category unless they arise from investments made in the course of an entity's main business activities and are accordingly classified in the operating category; and

(ii) income or expenses from financing activities, which will be classified in the financing category unless an entity provides financing to customers and makes an accounting policy choice to classify specified amounts in the operating category. Paragraphs 54–57 of this paper explain why the staff think we do not need a required line item for this category.

28. For items always classified in the operating category, the staff think the level of detail required by the specified line items is not likely to detract from an understandable

[6] The Exposure Draft proposed separate line items for the share of profit or loss of integral and non-integral associates and joint ventures. The IASB tentatively decided in October 2021 not to proceed with such a split for associates and joint ventures, so a single line item for all equity-accounted associates and joint ventures will be required. The IASB has not yet redeliberated the classification of the share of profit or loss of associates and joint ventures for entities with specified main business activities.

overview of an entity's income and expenses. The same is true for the items never classified in the operating category.

29. Further, to the extent the line items described in paragraph 27(c) are classified in the operating category, the staff think their separate presentation is likely to be necessary for an understandable overview of an entity's income and expenses, given:

    (a) the items relating to financial assets (paragraph 27(c)(i)) will arise from investments made in the course of an entity's main business activities; and

    (b) the income and expenses relating to financing activities (paragraph 27(c)(ii) will be those that the entity has made an accounting policy choice to classify in the operating category.[7]

30. Accordingly, the staff recommend adding guidance that it is unlikely that the presentation of required line items that are classified in the operating category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses.

31. It follows that the risk of required line items adding clutter to the statement of profit or loss, thereby reducing its usefulness in providing an understandable overview of an entity's income and expenses, is largely restricted to required line items in the investing category.

32. For the investing category, evidence from our outreach and fieldwork indicates that the total amount involved is likely to be relatively small, and that disaggregation into the line items specified in paragraph 65(b) of the Exposure Draft could be disproportionate. In such cases, a more understandable overview of the entity's income and expenses would be given by allowing the entity to aggregate specified line items in the investing category, even if the specified line items were individually material, and provide disaggregation in the notes to the financial statements.

33. Accordingly, overall the staff recommend:

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[7] The IASB is yet to redeliberate the proposals in the Exposure Draft on this accounting policy choice. The staff will discuss that topic in a future paper.

(a) revising the introductions to the lists of required line items in paragraphs 65 and 82 of the Exposure Draft as follows:

> In addition to items required by other IFRS Accounting Standards, <u>*unless doing so reduces* how useful the statement is in providing an understandable overview of the entity's income and expenses [or assets, liabilities and equity],</u> an entity shall present in the statement of profit or loss [or statement of financial position] line items for…..; and

(b) adding application guidance that indicates in general:

  (i) it is unlikely that the presentation of items set out in paragraph 65 of the Exposure Draft that are classified in the operating category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses; and

  (ii) in contrast, it is likely that the presentation of items set out in paragraph 65(b) of the Exposure Draft that are classified in the investing category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses.

Questions for the IASB
Q2 Does the IASB agree with the recommendation in paragraph 33(a)
Q3 Does the IASB agree with the recommendation in paragraph 33(b)?

When should the IASB set specific requirements for line items?

34. As described in paragraph 10 of this paper, some respondents asked questions about the rationale for the selection of the specific line items proposed by the Exposure Draft (and brought forward from IAS 1).

35. The first point to make is that specific requirements apply only to material items. If the information is not material, a specific requirement would not apply. A few respondents asked for clarification of this. We would not want to make a statement in

the Standard about the application of materiality to these specific requirements—paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* includes the statement that requirements in IFRS Accounting Standards need not be applied when the effect of applying them is immaterial.

36. However, the staff think that some confusion might have been created by the use of the term 'minimum line items' in paragraph 42 of the Exposure Draft (brought forward from IAS 1). 'Minimum' may be read as implying the items are required as a minimum even when they are not material. The staff therefore recommend deleting the term 'minimum' from that paragraph, so that (combined with the recommendations in paragraph 19 of this paper) it becomes:

> 42 This [draft] Standard requires ~~minimum~~ <u>specified</u> line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required ~~minimum~~ line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are ~~relevant to an understanding of the entity's financial performance or financial position~~ <u>necessary to provide an understandable overview of the entity's income and expenses or assets, liabilities and equity</u>.

37. On the more general question of when the IASB should require specific line items, the staff has identified the following costs and benefits of such specific requirements, compared with relying on an entity applying the principle of presenting line items when necessary to provide an understandable overview of the entity's income and expenses or assets and liabilities:

(a) costs:

(i) potential conflict with the role of the primary financial statement to give an understandable overview. A requirement for a specific line item would mean an entity would have to present it separately (assuming the item is material) even if doing so results in the statement giving a less understandable overview of the assets/liabilities or income/expenses. However, either of the suggested revisions to the paragraphs in the Exposure Draft that list the required line items (set out in paragraph 23 of this paper) would eliminate such a conflict.

(ii) a list of specified line items is more likely to promote a checklist compliance approach. Entities may simply present the required line items and not consider whether additional disaggregation would be useful. The longer the list of required line items, the less likely an entity will feel the need to consider whether disaggregation into additional line items is necessary, even if the list of required line items does not necessarily focus on the most important types of income and expenses for the entity.

(b) benefits:

(i) specific requirements result in increased comparability of primary financial statements across entities.

(ii) specific requirements are easier to apply and enforce compared to the application of a general principle.

(iii) specific requirements can include guidance on how the requirement can be met, for example on how items covered by the requirement might be identified or presented. Such guidance could enhance comparability of amounts and help make the requirements more operational.

(iv) specific requirements can be accompanied by a specific cost relief, should the IASB decide such relief is appropriate.

38. The staff considered whether the IASB should assess these costs and benefits for each of the existing requirements for line items to determine whether to retain them. However, except in relation to the financing category as discussed in paragraphs 54–57 of this paper, the staff does not recommend the IASB undertake such an exercise as part of this project—the requirements were established by past IASB projects and revisiting them could involve substantial resources. Further, any review would be an incomplete exercise without also considering whether new line items should be added. The staff think the recommendations set out in paragraph 33 of this paper will resolve

any practical concerns relating to the required line items, and any more wide-ranging review is not a priority for the project. Instead, the staff recommend the Basis for Conclusions describe these costs and benefits and explain that the IASB will consider them when requiring specific line items to be presented in future projects.

Possible new specific requirements

39. Notwithstanding the staff's view that a wide-ranging review of the required line items is not a priority, the staff considered two possible additions to the line items specified in IAS 1:

    (a) goodwill in the statement of financial position, proposed in the Exposure Draft (see paragraphs 40–43); and

    (b) impairments of non-financial assets in the statement of profit or loss, suggested in the feedback to the Exposure Draft (see paragraphs 44–47).

40. The feedback was mixed on the proposal in the Exposure Draft for a required line item for goodwill in the statement of financial position.

41. Some disagreed with the proposal because of concerns about requiring immaterial information. However, as explained in paragraphs 35 of this paper, entities are not required to present items that are immaterial.

42. A few disagreed with the proposal because they did not agree that goodwill was sufficiently different from intangible assets to require separate presentation. However, some agreed with the proposal because they agreed goodwill was different from intangible assets. Further, feedback on the Discussion Paper Business Combinations—*Disclosures, Goodwill and Impairment* indicates general support for the proposal because such separate presentation would avoid the need for the subtotal discussed in the Discussion Paper of net assets excluding goodwill.

43. The staff continue to think that goodwill has sufficiently different characteristics from intangible assets to often warrant separate presentation, as explained in the Basis for Conclusions. Accordingly, the staff recommends retaining the required line item for goodwill proposed in the Exposure Draft.

44. Some respondents to the Exposure Draft commented that impairments of non-financial assets should be treated in the same way as a required line item as impairments of financial assets. The staff acknowledges that for some entities impairments of non-financial assets are more likely to be part of an understandable overview of their income and expenses than impairments of financial assets.

45. However, the proposed revisions of paragraphs 42 and 65 of the Exposure Draft set out in paragraphs 19 and 33(a) of this paper would result in such entities:

    (a) presenting the impairment of non-financial assets, if doing so is necessary to provide an understandable overview of the entity's income and expenses; and

    (b) not presenting the impairment of financial assets, if doing so reduces how useful the statement is in providing an understandable overview of its income and expenses.

46. In practice, the staff think it is likely that entities will conclude separate presentation of impairments of non-financial assets is necessary to provide an understandable overview of the entity's income and expenses. For entities that present an analysis of operating expenses by nature, such separate presentation would be expected as part of that analysis. For entities that present an analysis of operating expenses by function, a clear indication of their desire to present impairments of non-financial assets separately is given by the feedback on the proposal in the Exposure Draft to prohibit the presentation of operating expenses using a mix of by-function and by-nature items. Not being able to present such impairments separately was cited as a reason by many of the respondents that disagreed with the proposal.[8]

47. Accordingly, the staff does not think there is a need to add a required line item for impairments of non-financial assets. In the absence of an obvious need, the staff do not think the IASB should add such a required line item without exploring more generally whether other specific line items are required, in the context of the costs and benefits described in paragraph 37 of this paper.

[8] As noted in paragraph 10 of this paper, the IASB tentatively decided in October 2021 not to prohibit a mixed presentation.

Questions for the IASB
Q4 Does the Board agree to remove the term ‘minimum’ from paragraph 42 of the Exposure Draft?
Q5 Does the IASB agree with including in the Basis for Conclusions the costs and benefits of requirements for specified line items?
Q6 Does the IASB agree not to revisit the existing requirements for specified line items brought forward from IAS 1?
Q7 Does the IASB agree to proceed with the requirement to present goodwill separately from intangible assets?
Q8 Does the IASB agree not to add a specific requirement to present impairments of non-financial assets?

Required line items in the investing and financing categories

48. This section of the paper considers two questions relating to required line items in the investing and financing categories:

    (a) what happens when amounts relating to a required line item are classified in more than one category in the statement of profit or loss?

    (b) should the IASB proceed with its proposal for a required line items for income or expenses from financing activities?

Amounts related to a required line item are classified in more than one category

49. A line item required to be presented by paragraph 65 of the Exposure Draft may include amounts required to be classified in more than one category in the statement of profit or loss. In such circumstances, paragraph B44 of the Exposure Draft requires the line item to be presented in each affected category.

50. Some respondents questioned whether this would lead to clutter in the statement of profit or loss. One example such respondents gave related to the line item ‘interest

revenue calculated using the effective interest method'. Under the proposals in the Exposure Draft, amounts for this line item could have been classified in:

(a) the operating category—when arising on financial assets which either do not generate returns that arise individually and largely independently from entities' other resources or are held in the course of an entity's main business activity;

(b) the investing category—when arising on financial assets that generate returns individually and largely independently of other resources and are not held in the course of an entity's main business activities; and

(c) the financing category—when arising on cash and cash equivalents.

51. The possibility of such amounts being classified in the financing category has been removed by the IASB's tentative decision in Agenda Paper 21B of the May 2021 IASB meeting not to include interest on cash and cash equivalents in the financing category. Nonetheless, items could still be classified in both the operating and investing categories.

52. The staff continue to think that in such circumstances, the line item should *in principle* be required in both categories. Not to require it in both categories would mean overriding the classification requirements, which are fundamental to this project. But the staff think the caveat recommended to be added to paragraph 65 of the Exposure Draft 'unless doing so reduces how useful the statement is in providing an understandable overview of its income and expenses', together with the recommended application guidance relating to line items required in the investing category (see paragraphs 26–33 of this paper), will remove the risk of clutter in the statement of profit or loss.

53. The staff also observe, that if an entity presented the line item in one category and also included amounts covered by the line item in another category (either as a separate presented line item or combined with other amounts in another line item), it would need to ensure that the description of the presented line item(s) would not mislead users of financial statements about what was included in the line item(s). The description of the presented line item would need to be sufficiently granular to describe only the amounts captured in each presented line item(s).

Question for the IASB
Q9 Does the IASB agree to continue with the requirement proposed in paragraph B44 of the Exposure Draft for required line items to be presented in each affected category in the statement of profit or loss?

Required line items in the financing category

54. Paragraph 65 of the Exposure Draft requires a line item to be presented for ‘income or expenses from financing activities’ with a cross-reference to the requirement in paragraph 49 of the Exposure Draft to classify in the financing category ‘income and expenses arising from financing activities’. This line item replaced the line item in IAS 1 ‘finance costs’. At its July 2021 meeting, the IASB tentatively decided not to define liabilities arising from financing activities but instead to classify in the financing category of the statement of profit or loss:

    (a) all income and expenses from liabilities that arise from transactions that involve only the raising of finance; and

    (b) specified income and expenses from other liabilities.

55. The staff considered the implications of this decision for the presentation of line items in the financing category. The IASB tentatively decided not to define liabilities arising from financing activities in determining how to classify income and expenses because of the difficulty in making such a definition robust and operational. For the same reason, the staff do not recommend continuing with the line item proposed in the Exposure Draft.

56. The staff considered whether the IASB should instead require presentation of a line item ‘income and expenses from liabilities that arise from transactions that involve only the raising of finance’. However, the distinction between such liabilities and other liabilities was intended only as an operational mechanism for identifying what income and expenses should be classified in the financing category. It was not intended to indicate a necessarily significant difference between the types of income

and expenses classified in the financing category. The amounts captured from 'other liabilities' cover a spectrum including interest expense on finance leases, net interest expense on pension liabilities and interest expense on decommissioning liabilities. There is a range of views on the extent to which these amounts are similar or dissimilar to interest on liabilities that arise from transactions that involve only the raising of finance. That range of views, combined with the varying amounts involved for different entities, leads the staff to recommend that the IASB should not specify any required line items for the financing category.

57. The outcome of not specifying any required line items is that an entity will be required to either give a single line item for all amounts in the financing category,[9] or use its judgement to present more than one line item, as necessary to provide an understandable overview of its income and expenses. Any disaggregation that results in material information not presented in the statement of profit or loss would be disclosed in the notes.

Question for the IASB
Q10 Does the IASB agree not to specify any required line items to be presented in the financing category in the statement of profit or loss?

[9] An entity would be required to present a subtotal immediately before the financing category (profit or loss before financing and income tax) and is very likely to present a subtotal immediately after the financing category (profit or loss before tax).

Appendix A—Extracts from Exposure Draft *General Presentation and Disclosures*

Extracts from the Exposure Draft

General presentation and disclosure requirements

Objective of the financial statements and roles of the primary financial statements and the notes (see paragraphs B3–B4)

…

20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

(a) obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

…

Line items and subtotals

42 [IAS 1.85, 55] This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

…

Statement(s) of financial performance

Statement of profit or loss

…

Line items to be presented in the statement of profit or loss

65 **[IAS 1.82] In addition to items required by other IFRS Standards, an entity shall present in the statement of profit or loss line items for (see paragraphs B15 and B44):**

(a) amounts required by this [draft] Standard, which are:

(i) revenue, presenting separately the line items described in paragraphs 65(b)(i) and 65(c)(i);

(ii) income or expenses from financing activities (see paragraph 49(b));

(iii) share of the profit or loss of integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities*;

(iv) share of the profit or loss of non-integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12;

(v) income tax expense;

(vi) a single amount for the total of discontinued operations (see IFRS 5); and

(vii) cost of sales (see paragraph 71);

(b) amounts related to the requirements of IFRS 9, which are:

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

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

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

(iv) 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); and

(v) 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; and

(c) amounts related to the requirements of IFRS 17, which are:

(i) insurance revenue;

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

(iii) income or expenses from reinsurance contracts held;

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

(v) finance income or expenses from reinsurance contracts held.

…

Statement of financial position

Line items to be presented in the statement of financial position

82 **[IAS 1.54] In addition to items required by other IFRS Standards, an entity shall present in the statement of financial position line items for (see paragraphs B12–B14):**

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) goodwill;

(e) financial assets (excluding amounts shown under (g), (h), (k) and (l));

(f) **groups of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;**

(g) **investments in integral associates and joint ventures;**

(h) **investments in non-integral associates and joint ventures;**

(i) **biological assets within the scope of IAS 41 Agriculture;**

(j) **inventories;**

(k) **trade and other receivables;**

(l) **cash and cash equivalents;**

(m) **the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5;**

(n) **trade and other payables;**

(o) **provisions;**

(p) **financial liabilities (excluding amounts shown under (n) and (o));**

(q) **groups of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;**

(r) **liabilities and assets for current tax, as defined in IAS 12;**

(s) **deferred tax liabilities and deferred tax assets, as defined in IAS 12;**

(t) **liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;**

(u) **non-controlling interests, presented within equity; and**

(v) **issued capital and reserves attributable to holders of claims against the parent classified as equity.**

…