IFRS Accounting

Agenda reference: 2

IFRS Taxonomy Consultative Group (ITCG) meeting

Date **27 February 2023**

Project **Primary Financial Statements (PFS)**

Topic **Digital representation of specific proposals related to the Primary Financial Statements project (continued)**

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Purpose of this session

- We discussed different modelling solutions for PFS proposals on subtotals/categories in the statement of profit or loss at December 2022 ITCG meeting
- Since the last meeting, we have done some more work on this topic and today, we are planning to take that discussion forward with the help of examples (continuation of discussion on Topic 1 at December 2022 ITCG meeting) (slides 9–20)

Questions for ITCG members: slide 22

- **Appendix—**Feedback received from ITCG members at December 2022 ITCG meeting

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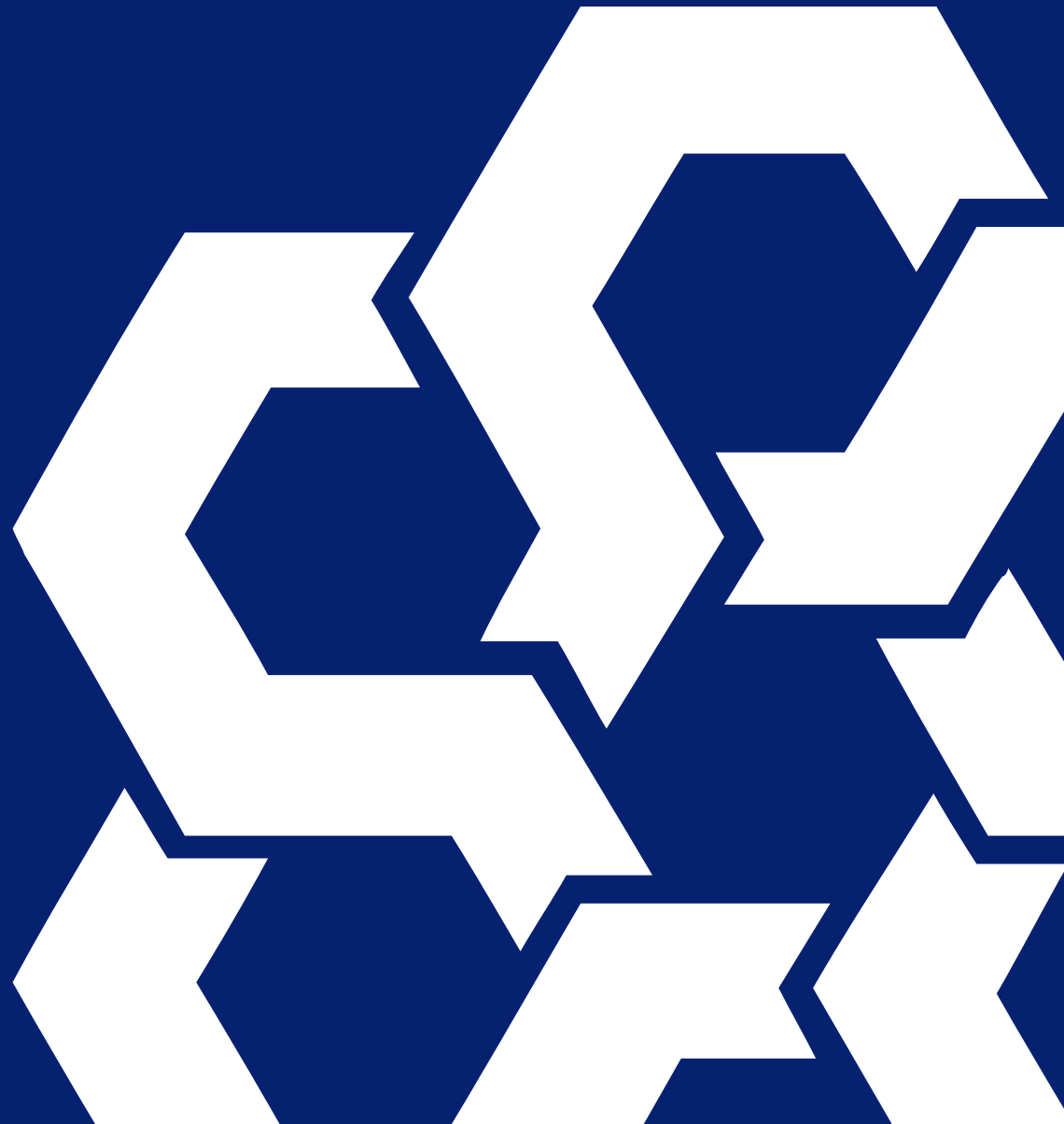
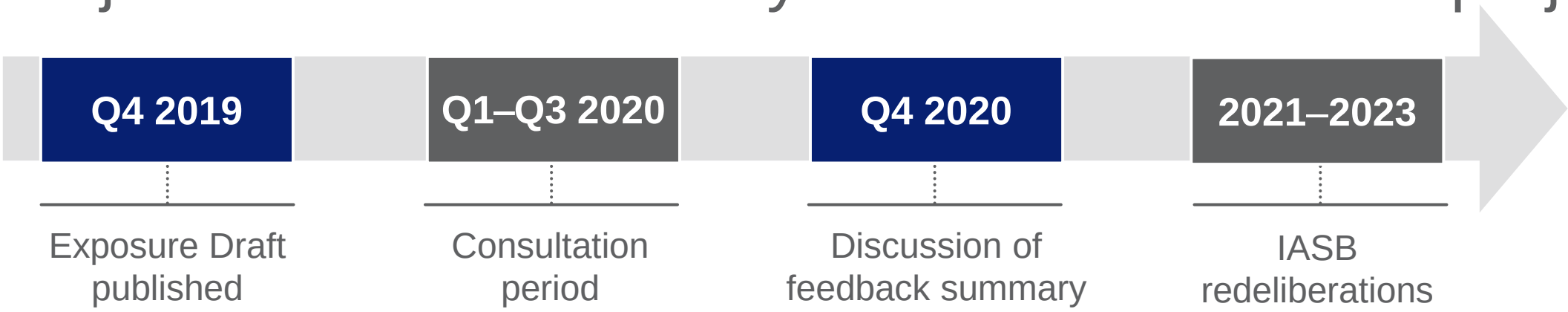
Setting the context



Project overview of Primary Financial Statements project



Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

1. Require additional **defined subtotals** in statement of profit or loss
2. Require disclosures about **management performance measures**
3. Strengthen requirements for **disaggregating information**

PFS proposals would require entities to…

Present required subtotals

Statement of profit or loss (simplified for general corporate)	
Revenue	X
Cost of goods sold	(X)
Selling expenses	(X)
General and administrative expenses	(X)
Research and development expense	(X)
Operating profit or loss	**X**
Income and expenses from associates and joint ventures accounted for using the equity method	X
Interest revenue from cash and cash equivalents	X
Profit or loss before financing and income tax	**X**
Income and expenses from liabilities that arise from transactions that involve only the raising of finance	(X)
Specified income and expenses on other liabilities	(X)
Profit or loss before tax	**X**
Income tax expense	(X)
Profit or loss from continuing operations	**X**
Loss from discontinued operations	(X)
Profit or loss	**X**

Operating

Investing

Financing

Income tax

Discontinued operations

Classify income and expenses into categories

PFS proposals provide users with relationship-information—for a paper-based user it will be clear…

- In what category is a presented item included (operating, investing or financing category)
- What are the components of a required subtotal in the statement of profit or loss (for example, which income and expenses are included in ‘operating profit or loss’)

Relationships between presented items (‘on the face’)

- In what line item in the statement of profit or loss is a disclosed item included
- How much depreciation, amortisation and employee benefits is included in each presented functional line item

Relationships between presented and disclosed items

?

How can we achieve these benefits for digital users using the modelling approaches illustrated in today’s session?

Not discussed today

Presented = item is presented in the primary financial statements (for example, in the statement of profit or loss)
Disclosed = item is disclosed in the notes

Recap of ITCG Meeting in December 2022

What we asked ITCG members (Topic 1)

- Whether **using category metadata** would achieve objective of providing users with information on the location of items in the statement of profit or loss (categories) and the components of subtotals; whether there were any risks with regard to such an approach
- Whether **line item or dimensional modelling** would still achieve objective if risks of using category metadata were too high (or whether a different tool that has less risks could achieve the objective)

Feedback we heard from ITCG members (see Appendix for more detail)

- **Generally disagreed with using category metadata** (new approach that would need to be tested, not used in other jurisdictions, could lead to more diversity in practice with regard to tagging information)
- **Some supportive of line item modelling, but acknowledged that could be burdensome** (generally works well for primary financial statements, dimensions should only be used for disaggregation, preparer and users find line items simpler)
- **Some supportive of dimensional modelling** (provides additional metadata, hard to anticipate number of line items needed, makes maintaining IFRS Accounting Taxonomy easier, some users prefer dimensions)

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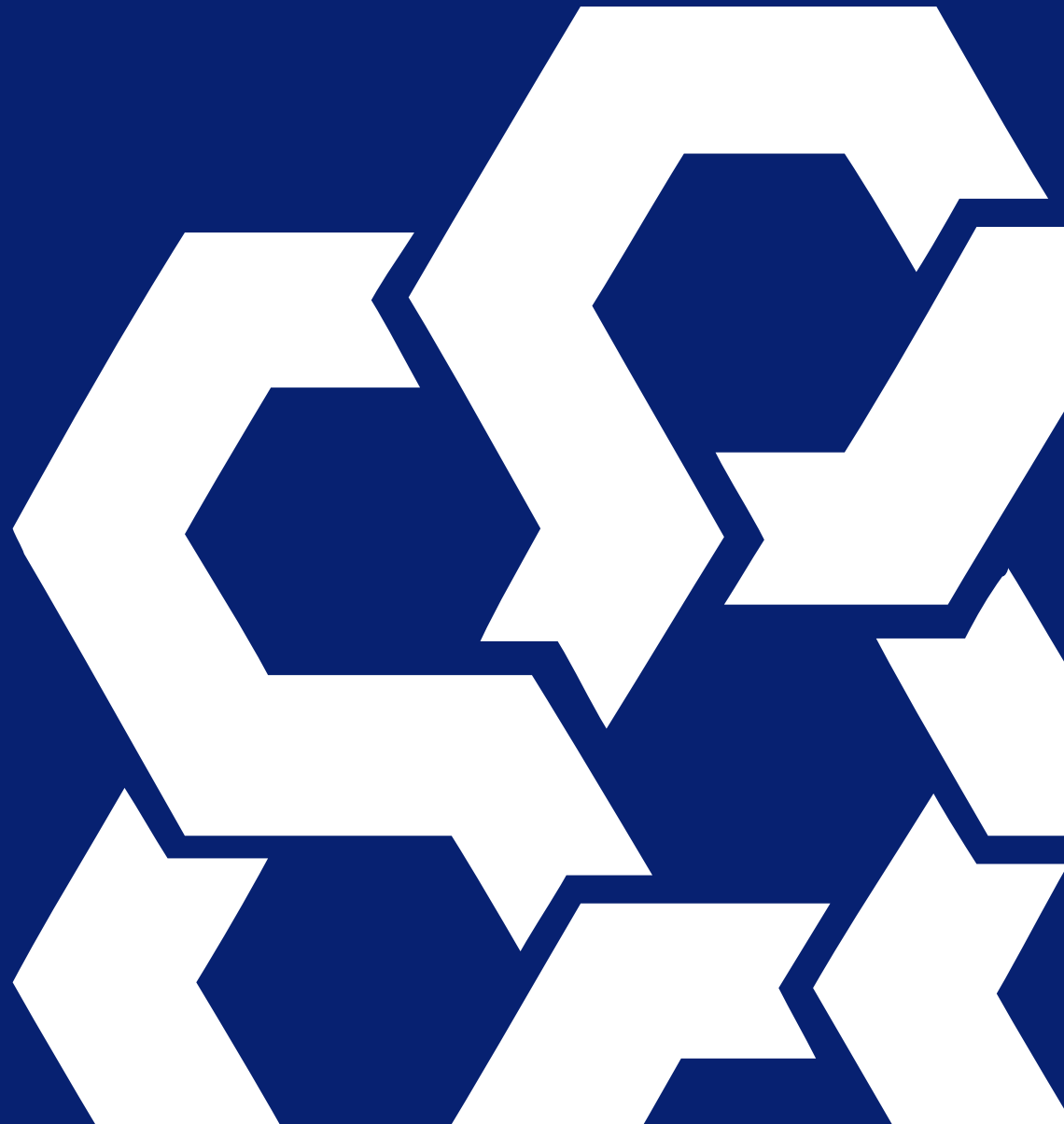
Modelling approaches



Requirements in the PFS proposals

- As per PFS proposals, it is very important for an user to know/ understand:
  - in what category is a presented item included (operating, investing or financing category); and
  - what are the components of a required subtotal in the statement of profit or loss (for example, which income and expenses are included in ‘operating profit or loss’).
- In the following slides, we will set out two basic modelling approaches (ie line item modelling and dimensional modelling) along with examples and drawbacks for each.
- We then set out some possible top-up modelling options which could be used with the two approaches to reach to the objective of the PFS proposals for a user of the tagged information.

Dimensional modelling

- There would be a ‘Profit or loss category’ axis with 3 members[1] – operating category, investing category and financing category.
- Entity could use any line item in the Taxonomy, along with this axis and these member(s) to indicate the location (or category) in the statement of profit or loss (and in the notes).

[1] In addition, we would also need member elements for the categories ‘income tax’ and ‘discontinued operations’

Example of tagging—dimensional modelling

Taxonomy element	Member element (dimension)	Summary of a statement of profit or loss	
Revenue	Operating category	Revenue	100
Entity specific expenses (Extn)	Operating category	Entity specific expenses	(15)
Impairment loss	Operating category	Impairment	(10)
Profit (loss) from operating activities		**Operating profit or loss**	**75**
Share of profit (loss) of associates and joint ventures accounted for using equity method	Investing category	Share of profit or loss of associates and joint ventures accounted for using the equity method	5
Entity specific expenses (Extn)	Investing category	Entity specific expenses	(25)
Net foreign exchange loss	Investing category	Foreign exchange gain (loss)	(5)
Impairment loss	Investing category	Impairment	(20)
Profit (loss) before financing and income tax		**Profit or loss before financing and income tax**	**30**
Expense arising from passage of time on other provisions	Financing category	Unwinding of discount on other provisions	(8)
Profit (loss) before tax		**Profit or loss before tax**	**22**

Operating

Investing

Financing

Red highlight - Extension element

XBRL data for the users—dimensional modelling

This is how the dimensionally tagged data will be available for the users.

Taxonomy element	Operating category	Investing category	Financing category	
Revenue	100			
Entity specific expenses (Extn)	(15)	(25)		
Impairment loss	(10)	(20)		
Profit (loss) from operating activities				75
Share of profit (loss) of associates and joint ventures accounted for using equity method		5		
Entity specific expenses (Extn)	(15)	(25)		
Net foreign exchange loss		(5)		
Impairment loss	(10)	(20)		
Profit (loss) before financing and income tax				30
Expense arising from passage of time on other provisions			(8)	
Profit (loss) before tax				**22**

✓ Category information is easily available, for base and extension items.

✗ Building the statement of profit or loss (with some adjustments) from the tagged information could be a bit difficult for the users.

✗ Since XBRL calculations can’t cross dimensions, it will be difficult for the users to identify the components of any sub-total.

XBRL data for the users—dimensional modelling (cont.)

Case 1: Users want to extract the amount foreign exchange gain (loss)	Foreign exchange gain (loss) Amount: 5, Category: Investing Category information would be very clear. It would be difficult to understand that this amount is arriving at which subtotal because calculations are missing.
Case 2: Users want to extract extensions under different categories	There is one extension used with two members. Member elements suggest the categories to which the amount relates. However, because of missing calculation relationships, further analysis of this extension could be difficult.
Case 3: Users want to build an adjusted statement of profit or loss taking out impairment exp	Since the calculations are not available, it will be difficult to build the adjusted statement of profit or loss.
Case 4: Users want to download all the components of the Operating profit or loss	Since the calculations are not available and data is tagged dimensionally, it will be difficult to derive the components of any specific subtotal. Users would need to download the whole presentation tree to get this information.

Line item modelling

- There would be separate line items for income/ expense which can appear in multiple categories, one for each category in which such income/ expense could be classified.
- The taxonomy elements for different income/ expense under different classification could be derived from the illustrative examples or the examples in the new Standard.

Example of tagging - line item modelling

Entity A classified foreign exchange loss under investing category

Taxonomy element		Summary of a statement of profit or loss	
Revenue	+	Revenue	100
Entity specific expense 1 (Extn)	-	Entity specific expenses	(15)
Impairment loss, operating	-	Impairment	(10)
Profit (loss) from operating activities	=	**Operating profit or loss**	**75**
Share of profit (loss) of associates and joint ventures accounted for using equity method	+	Share of profit or loss of associates and joint ventures accounted for using the equity method	5
Entity specific expense 2 (Extn)	-	Entity specific expenses	(25)
Net foreign exchange loss	-	Foreign exchange gain (loss)	(5)
Impairment loss, investing	-	Impairment	(20)
Profit (loss) before financing and income tax	=	**Profit or loss before financing and income tax**	**30**
Expense arising from passage of time on other provisions	-	Unwinding of discount on provisions other than provisions for employee benefits	(8)
Profit (loss) before tax	=	**Profit or loss before tax**	**22**

Entity B classified foreign exchange loss under operating category

Taxonomy element		Summary of a statement of profit or loss	
Revenue	+	Revenue	100
Entity specific expense 1 (Extn)	-	Entity specific expenses	(15)
Impairment loss, operating	-	Impairment	(10)
Net foreign exchange loss	-	Foreign exchange gain (loss)	(5)
Profit (loss) from operating activities	=	**Operating profit or loss**	**70**
Share of profit (loss) of associates and joint ventures accounted for using equity method	+	Share of profit or loss of associates and joint ventures accounted for using the equity method	5
Entity specific expense 2 (Extn)	-	Entity specific expenses	(25)
Impairment loss, investing	-	Impairment	(20)
Profit (loss) before financing and income tax	=	**Profit or loss before financing and income tax**	**30**
Expense arising from passage of time on other provisions	-	Unwinding of discount on provisions other than provisions for employee benefits	(8)
Profit (loss) before tax	=	**Profit or loss before tax**	**22**

Green highlight- Concepts for which specific elements for presentation in different categories will be provide based on examples in Standard / illustrative examples
Red highlight- Extension element

XBRL data for the users- line item modelling

Case 1: Users want to extract the amount of “foreign exchange gain (loss)”	Foreign exchange loss: Entity A: 5 Entity B: 5 Information about category under which the line item is presented would be unknown. In order to get the information about the category in which “foreign exchange loss” is presented (which may be different for each entity), user might have to download the whole presentation or calculation tree and find the parent of the ‘foreign exchange loss’ to derive the category information. This process may be cumbersome for some users.
Case 2: Users want to extract extensions under different categories	There are two extensions for CU 15 and 25 each. Labels of the extensions suggest that these are entity specific expenses but information about their category is missing. Again, the user might have to download the whole presentation or calculation tree to derive the category information.
Case 3: Users want to build an adjusted statement of profit or loss taking out impairment exp	Since all the calculations are available, users can understand where to add/delete the line items to make adjustments to the statement of profit or loss.
Case 4: Users want to download all the components of the Operating profit or loss	Since all the line items (both taxonomy elements and extensions) are in calculation relationship, it is easy to find the components of any sub-total.

XBRL data for the users- line item modelling

✗ Category information is not easily available.

✓ Building the statement of profit or loss (with some adjustments) from the tagged information would be easier for the users.

✓ Since calculations work fine with the line items, it will be easy for the users to identify the components of any sub-total.

Staff analysis

- We think dimensional modelling works well to identify category information on the statement of profit or loss but it does not work well with calculations.
- In our view, calculations are important for users to perform their analysis or to build the profit or loss with some adjustments, as per the users' requirements.
- Since line item modelling works well with calculations, we think that line item modelling would be suitable for the PFS proposal in question. However, it has a limitation in that it's relatively difficult for users to find category information.
- We have considered some top-up options to convey category information within the line item modelling.

	Dimensional modelling	**Line item modelling**
Category information	Easy	Difficult
Components of a subtotal	Difficult	Easy
Building adjusted P&L	Difficult	Easy

Potential top-up options with line item modelling

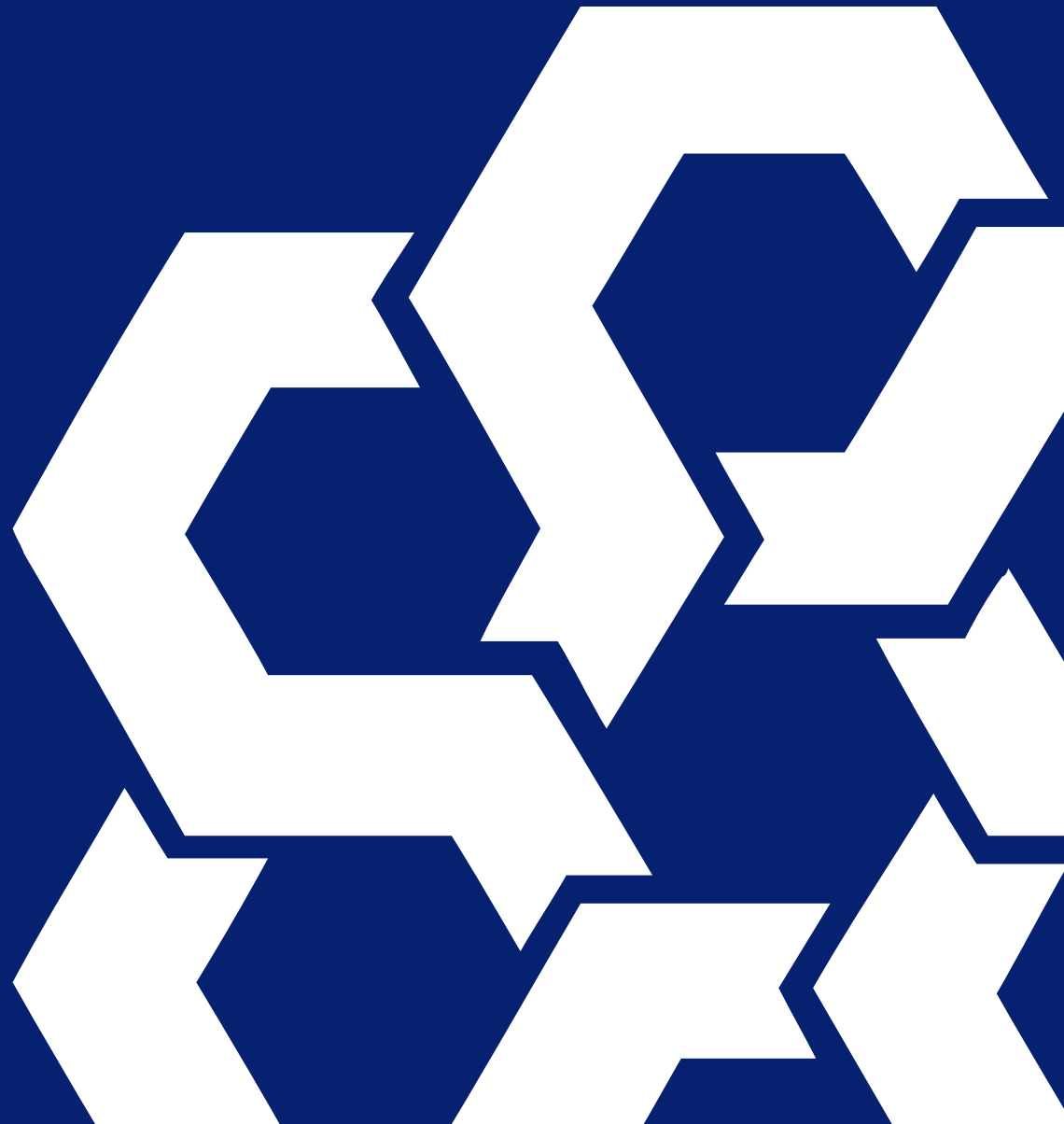
1	Naming convention for extensions	We could provide the guidance in the Preparer's Guide to suggest if preparers create extensions in the Statement of profit or loss, they should provide the category information within the extension name/label.
2	Dummy elements	We could create some dummy elements in the Statement of profit or loss, with category information. Eg, 'Expense 1, operating category', etc. For entity specific line item(s), preparers can use those dummy elements instead of extensions and change the label as per their financial statements. Eg, preparer can use the above dummy element and label it as per the financial statements. Users can then easily find the category information for entity specific line item.
3	Category metadata	In addition to the normal taxonomy structures and fact data, every element of income or expense in P&L could be linked to one of the categories through an anchoring-like mechanism[1].

[1] Such as a link to an abstract concept representing the category using a custom link role (akin to the indication of assertion severity), the new 'property' reference part role in the Link Role Registry, 'concept traits', or a generic fact-attribute mechanism. A set of extensible enumeration elements, parallel to all the line items, could also be used to carry such metadata.

Potential top-up options with line item modelling (cont.)

- The first two solutions mainly deal with extensions. Therefore, the issue of category information about base taxonomy elements would still remains. For example, category information for the line item ‘foreign exchange loss’ may still be difficult to obtain (see case 1 on slide 16).
- Therefore, we think category metadata as a top up solution to the basic line item modelling could work best to achieve both the objectives of the PFS proposals.

Questions for ITCG members



Questions for ITCG members

1. Given our further analysis and findings, do you think line item modelling in conjunction with using category metadata as a top-up:
   a) would achieve the objective of PFS proposals; and
   b) should be pursued as an approach?
2. If we introduce category metadata, should this tool be used:
   a) only when:
      – the label of the taxonomy element does not convey information about the category; or
      – an extension is created; or
   b) consistently/in general—that is, even when the label of an item alone might sufficiently convey information about the category, for example, ‘impairment of investment property’ (investing category)?
3. Do you know of any other possible top-up solutions that we should explore?

Appendix—Feedback received from ITCG members at December 2022 ITCG meeting

Feedback from ITCG Meeting in December 2022 (1/3)

ITCG members generally **disagreed with the use of category metadata**—citing a few reasons for disagreeing:

a) relatively new approach; staff should be cautious about introducing new mechanisms into the IFRS Accounting Taxonomy (in addition, any approach would need to be tested before being implemented)

b) consistent modelling approach across jurisdictions for similar proposals would be beneficial (and category metadata was currently not used in other jurisdictions, for example, in the FASB Taxonomy)

c) approach might lead to more variations of how companies would tag information

Feedback from ITCG Meeting in December 2022 (2/3)

Some members **supported using a line-item modelling approach** (rather than a dimensional modelling approach)—citing a few reasons for supporting such an approach:

a) a line-item approach was felt to be better for primary financial statements (except for the statement of changes in equity) because it would be simpler to apply than dimensional modelling

b) dimensions should ideally only be used for disaggregation of line items because users would find it confusing if dimensions were used for other purposes (such as providing metadata on the location of a line item in the statement of profit or loss)

Some members acknowledged that line-item modelling would lead to more entity-specific extensions being necessary and thus put more burden on the developers of the IFRS Taxonomy (to either pre-emptively add line items to the taxonomy or to monitor and reflect common practice disclosures)—but were not particularly concerned about the ongoing need to analyse common practice

One member questioned whether the number of line items would significantly increase as a result of the PFS proposals on subtotals and categories (and if not, a line-item modelling approach would be a reasonable solution)

Feedback from ITCG Meeting in December 2022 (3/3)

Some members **supported using a dimensional modelling approach** because they felt dimensions would provide a better solution if they were used consistently for a given category (that is, if all items in a given category would be tagged with the same member) — citing a few reasons for supporting such an approach:

a) having additional metadata is always beneficial and using dimensions for both disaggregation and to provide additional metadata information would not be confusing because axes and members are not used as a way to determine mathematical calculations (that is, for validation purposes)

b) dimensions are already used to tag information in the primary financial statements under the IFRS Accounting Taxonomy (statement of changes in equity) and the FASB Taxonomy and calculations have improved over time. Some members also said that more work could be undertaken together with XBRL International to further improve calculations

c) it would be hard to anticipate exactly which line items would be needed with regard to the PFS proposals on subtotals and categories — hence, a line-item modelling approach would be challenging

d) maintaining the IFRS Accounting Taxonomy would be easier under a dimensional modelling approach and users prefer dimensions compared to a repetitive list of similar line items

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