2023
World Standard-setters Conference
#WSS2023

Better information for better decisions

Primary Financial Statements
Presenters

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Agenda

1. Project overview
2. Categories and subtotals
3. Management-defined performance measures
4. Aggregation and disaggregation
5. Digital reporting
6. Statement of cash flows, transition and effective date
Project overview

The Primary Financial Statements Project will improve the quality of financial reporting, including digital reporting, through

- Presentation of defined subtotals in statement of profit or loss to improve comparability
- Disclosures about management-defined performance measures (MPMs) to provide transparency
- Enhanced requirements for aggregation and disaggregation to provide useful information
Categories and subtotals
<table>
<thead>
<tr>
<th>Category</th>
<th>Line Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>Other operating income, Selling expense, Research and development expenses, General and administrative expenses, Goodwill impairment loss, Other operating expenses</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>Share of the profit from associates and joint ventures, Gains on disposals of associates and joint ventures</td>
</tr>
<tr>
<td><strong>Profit before financing and income tax</strong></td>
<td>Interest expense on borrowings and lease liabilities, Interest expense on pension liabilities</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*
Defining the categories

**Operating**
Includes, but is not limited to, income and expenses from an entity’s main business activities

Income and expenses not classified in other categories

Includes volatile and unusual income and expenses arising from an entity’s operations

**Investing**
Income and expenses from:

- associates and joint ventures accounted for using the equity method
- assets that generate a return individually and largely independently of other resources held by an entity, including cash and cash equivalents

**Financing**
All income and expenses from liabilities that involve only the raising of finance

Interest expense and the effects of changes in interest rates from other liabilities
Entities with specified main business activities

Operating profit is intended to include, but is not limited to, income and expenses from an entity’s main business activities.

Some entities, such as banks, classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories.
Statement of profit or loss - financing and investing as main business activities

Interest revenue
Interest expense

**Net interest income**
Fee and commission income
Fee and commission expenses

**Net fee and commission income**
Net trading income
Net investment income
Credit impairment losses
Employee benefits
Depreciation and amortisation expenses

**Operating profit**
Share of profit or loss of associates and joint ventures

**Operating profit and income and expenses from equity method investments**
Interest expense on pension and lease liabilities

**Profit before tax**
Income tax expense

**Profit for the year**

*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*
Statement of profit of loss - insurance as a main business activity

Insurance revenue
Insurance service expenses

**Insurance service results**
Interest revenue
Other investment revenue
Credit impairment losses
Insurance finance expenses

**Net financial result**
Other operating expenses

**Operating profit**
Share of profit or loss of associates and joint ventures
Operating profit and income and expenses from associates and joint ventures / Profit before financing and income tax
Interest expense on borrowings and pension liabilities

**Profit before tax**
Income tax expense

**Profit for the year**

*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*
Questions?
Management-defined performance measures
What are management-defined performance measures?

## Performance measures

### Financial performance measures

<table>
<thead>
<tr>
<th>Subtotals of income &amp; expenses</th>
<th>MPMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS-Specified</td>
<td></td>
</tr>
<tr>
<td>- Operating profit</td>
<td></td>
</tr>
<tr>
<td>- Operating profit before depreciation amortisation and specified impairments</td>
<td></td>
</tr>
<tr>
<td>Non-financial performance measures</td>
<td></td>
</tr>
<tr>
<td>- Number of subscribers</td>
<td></td>
</tr>
<tr>
<td>- Customer satisfaction score</td>
<td></td>
</tr>
<tr>
<td>- Store surface</td>
<td></td>
</tr>
</tbody>
</table>

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

- Free cash flow
- Return on equity
- Net debt
Definition of management-defined performance measures

Subtotals of income and expenses not specified by IFRS Accounting Standards

**Used in public communications outside financial statements**

**Communicate management’s view of an aspect of an entity’s financial performance**

Presumed that a subtotal used in public communications represents management’s view of an aspect of an entity’s financial performance.

The presumption can be rebutted with reasonable and supportable information.
Disclosures for management-defined performance measures

Disclosed in a single note

| Reconciliation to the most directly comparable specified subtotal/total | Explanation of MPM calculation and how it provides useful information |
| Statement that MPM provides management’s view and not comparable to MPM of other entities | Explanation of and reasons for changes to MPMs |
What might a reconciliation look like?

<table>
<thead>
<tr>
<th>Operating profit (IFRS-specified)</th>
<th>41,270</th>
<th>Tax</th>
<th>NCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring in Country X (incl. in employee benefits)</td>
<td>5,400</td>
<td>(900)</td>
<td>1,020</td>
</tr>
<tr>
<td>Revenue adjustment (incl. in revenue)</td>
<td>6,200</td>
<td>(1,550)</td>
<td>-</td>
</tr>
</tbody>
</table>

**Adjusted operating profit (MPM)**: 52,870

**Most directly comparable subtotal/total specified by IFRS Accounting Standards**:
- operating profit, profit before financing and income tax
- gross profit (and subtotals similar to gross profit)
- profit before tax, profit from continuing operations, profit or loss
- total other comprehensive income, comprehensive income
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method
- operating profit and income and expenses in the investing category (specific entities only)
Calculating the income tax effects – three possible methods

Using the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s)

Based on a reasonable pro rata allocation of the entity’s current and deferred tax in the relevant jurisdiction(s)

By another method that achieves a more appropriate allocation in the circumstances

Disclose how income tax effects are calculated — required for each reconciling item if more than one method is used.
Questions?
Aggregation and disaggregation
# Aggregation and Disaggregation Requirements

## General Requirements
- Roles of the primary financial statements and the notes
- Requirements for line items, including goodwill in the statement of financial position

## Specific Requirements
- Disclosure of specified expenses by nature
- Present operating expenses by nature or by function (mixed presentation permitted)

## Principles for Aggregation and Disaggregation
- Aggregating items and using meaningful labels
Roles of the primary financial statements and the notes

Role of primary financial statements

Provide a useful structured summary for:

- **obtaining an understandable overview** of the entity’s assets, liabilities, equity, income, expenses and cash flows
- **making comparisons** between entities and reporting periods
- **identifying items or areas** about which users may wish to seek additional information in the notes

Role of the notes

Provide further information necessary to understand items included in primary financial statements

Supplement the primary financial statements with other information to meet the objectives of financial statements
## Aggregation and disaggregation

### Principles for aggregation and disaggregation

Single dissimilar characteristic can be enough to disaggregate if resulting information is material

Application guidance on when disaggregation:
- in the primary financial statements would result in a **useful structured summary**
- in the notes would result in **material information**

### Aggregating items and using meaningful labels

Use meaningful labels
- use the label ‘other’ only when unable to find a more informative label
- label as precisely as possible (eg ‘other operating expenses’)

Additional disclosures required if aggregated amounts of immaterial items are sufficiently large that users might question whether the amount includes material items
Disclosure of specified expenses by nature

Disclose the amounts included in each line item in the statement of profit or loss for:

- Depreciation
- Amortisation
- Employee benefits
- Specified impairments
- Write-down of inventories

Amount disclosed are not required to be expense amounts — qualitative explanation required if part of the amount disclosed has been included in the carrying amount of assets.
Specified expenses by nature note

This table shows the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line item in the statement of profit or loss.

Each amount disclosed for depreciation and employee benefits includes both amounts that have been recognised as an expense in the reporting period and amounts that have been included in the carrying amount of inventory and property, plant and equipment.

<table>
<thead>
<tr>
<th>(in currency units)</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>23,710</td>
<td>21,990</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>2,518</td>
<td>2,596</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>4,975</td>
<td>4,975</td>
</tr>
<tr>
<td><strong>Total depreciation</strong></td>
<td>31,203</td>
<td>29,561</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>13,842</td>
<td>12,693</td>
</tr>
<tr>
<td><strong>Total amortisation</strong></td>
<td>13,842</td>
<td>12,693</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>61,646</td>
<td>57,174</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>7,514</td>
<td>7,111</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>6,547</td>
<td>6,750</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>5,421</td>
<td>5,824</td>
</tr>
<tr>
<td><strong>Total employee benefits</strong></td>
<td>81,128</td>
<td>76,859</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>1,600</td>
<td>1,500</td>
</tr>
<tr>
<td>Goodwill impairment loss</td>
<td>4,500</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total impairment loss</strong></td>
<td>6,100</td>
<td>1,500</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>2,775</td>
<td>2,625</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>–</td>
<td>4,900</td>
</tr>
<tr>
<td><strong>Total write-down of inventories</strong></td>
<td>2,775</td>
<td>7,525</td>
</tr>
</tbody>
</table>
Digital reporting
Improving digital reporting

<table>
<thead>
<tr>
<th>Investor needs</th>
<th>Current practice</th>
<th>Likely effects of the project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable across companies and periods</td>
<td>Diversity in tagging data</td>
<td>Reduced diversity in reporting practices will in turn reduce diversity in tagging data</td>
</tr>
<tr>
<td>Company-specific</td>
<td>Company-specific information tagged using extensions or not tagged at all</td>
<td>MPMs in a single note are more likely to be tagged</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New elements will reduce need for company-specific extensions</td>
</tr>
<tr>
<td>Availability in an easily usable format</td>
<td>Use of intermediaries, XBRL calculations and manual adjustments to normalise subtotals</td>
<td>Enhanced comparability across companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Easier extraction of information about MPMs</td>
</tr>
<tr>
<td>Consistently available</td>
<td>Diversity in reporting practice</td>
<td>Defined subtotals consistently available for all companies</td>
</tr>
<tr>
<td>Free from errors</td>
<td>Tagged information is not free from errors</td>
<td>No significant effect on the number of errors</td>
</tr>
</tbody>
</table>
Questions?
Statement of cash flows, transition and effective date
Changes to the statement of cash flows

Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

<table>
<thead>
<tr>
<th>Cash flows</th>
<th>Entities without specified main business activities</th>
<th>Entities with specified main business activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>Investing activities</td>
<td>Single category (either operating, investing or financing activities)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>Financing activities</td>
<td></td>
</tr>
<tr>
<td>Dividends received</td>
<td>Investing activities</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>Financing activities</td>
<td>Financing activities</td>
</tr>
</tbody>
</table>
Transition and effective date

- All requirements applied at the **same time** by all entities from the effective date, unless an entity elects to apply the requirements **earlier**
- Comparative periods in interim and annual financial statements restated
- Reconciliation of the statement of profit or loss required for the immediately preceding comparative period
- An entity eligible to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures* is permitted to change its selection for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss

**Transition Period**
- New IFRS Accounting Standard issued
- Transition and effective date
- Effective date

**Prepare financial statements**
- Effective date
- Prepare financial statements

**Financial statements issued**
- Effective date
- Financial statements issued
Questions?