

Illustrations for financial entities in Agenda Papers 21A and 21B

Primary Financial Statements

February 2019 Board meeting

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

- The examples in this slide deck are only meant to illustrate the staff proposals for *classification* of income and expenses related to investments and financing and cash flows from interest and dividends.
- Presentation of other line items is simplified and thus the examples do not present a complete illustration of the statements of financial performance and cash flows.

Statement(s) of financial performance

Agenda Paper 21A

Proposed new model for statement(s) of financial performance

Starting point

(Tentative decisions for non-financials)

Present all 3 subtotals

Present expenses from financing activities and income from cash & cash equivalents in the financing category, below the 'profit before financing & tax' subtotal

Present income (expenses) from investments in the investing category, below the 'operating profit and share of integral associates/ JVs' subtotal

Ass./JVs and unwinding of discount below operating profit

Approach for financial entities

If providing financing to customers is a main business activity, make accounting policy choice:

Split expenses from financing activities and income from cash & cash equivalents:

- Related to provision of financing to customers
- Not related to provision of financing to customers

Operating

Financing

OR

Present all expenses from financing activities and income from cash & cash equivalents in:

Operating

If the entity invests in the course of its main business activities:

Split income/ expenses from investments:

- Investments in course of main business activities
- Investments not in course of main business activities

Operating

Investing

If no expenses from financing activities or income from cash & cash equivalents in financing category:

No 'profit before financing & tax' subtotal

Insurance finance expenses (income):

Operating

Example 1—Investment property company

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 on disposal of investment properties	X
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Dividends from investments in equity instruments at FVOCI	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents	X
Expenses from financing activities	(X)
Unwinding of discount	(X)
Profit before tax	X

Income (expenses) from **investments** that are made in the course of the entity's **main business activity** are included in operating profit.

Income (expenses) from **investments not** made in the course of the entity's **main business activity** are presented below operating profit.

Example 2—Insurer

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
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Profit before (non-customer) financing and income tax	X
Interest income from cash and cash equivalents**	X
Expenses from financing activities	(X)
Profit before tax	X

Income (expenses) from **investments** that are made in the course of the entity's **main business activity** are included in operating profit ***

Insurance finance expenses included in operating profit, applying exception

Expenses from financing activities (eg interest on financial debt) below operating profit, applying model for general corporates

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

** classification of income from cash and cash equivalents to be discussed at a future Board meeting.

*** in this example, the entity does not have investments not made in the course of its main business activity.

Example 3—Bank with multiple business activities

A bank with multiple business activities, including investing, customer financing activities and other services

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
Net interest income	X
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	X
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Income from investments outside main business activities	X
Unwinding of discount	(X)
Profit before tax	X

In this example, the entity has chosen to present **all expenses from financing activities in operating profit**, instead of splitting them between its different business activities.

Income (expenses) from **investments** that are made in the course of the entity's **main business activity** are included in operating profit. Income (expenses) from other investments are presented below operating profit.

Entity does not present 'profit before financing and income tax' subtotal applying exception.

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

Example 4—Entity with captive finance subsidiary

An entity that manufactures and sells goods and has a customer financing business (eg car manufacturers)

Extract from statement(s) of financial performance	
Revenue from sale of goods	X
Cost of goods sold	(X)
Gross profit from manufacturing and sale of goods	X
Interest income from customer financing	X
Expenses from financing activities related to customer financing business	(X)
Gross profit from customer financing business	X
Selling, general and admin expenses (SG&A)	(X)
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit or loss of integral associates and joint ventures	X
Share of profit of non-integral associates and joint ventures	X
Income from investments	X
Profit before financing of manufacturing business and income tax	X
Interest income from cash and cash equivalents related to manufacturing business	X
Expenses from financing activities related to manufacturing business	(X)
Unwinding of discount	(X)
Profit before tax	X

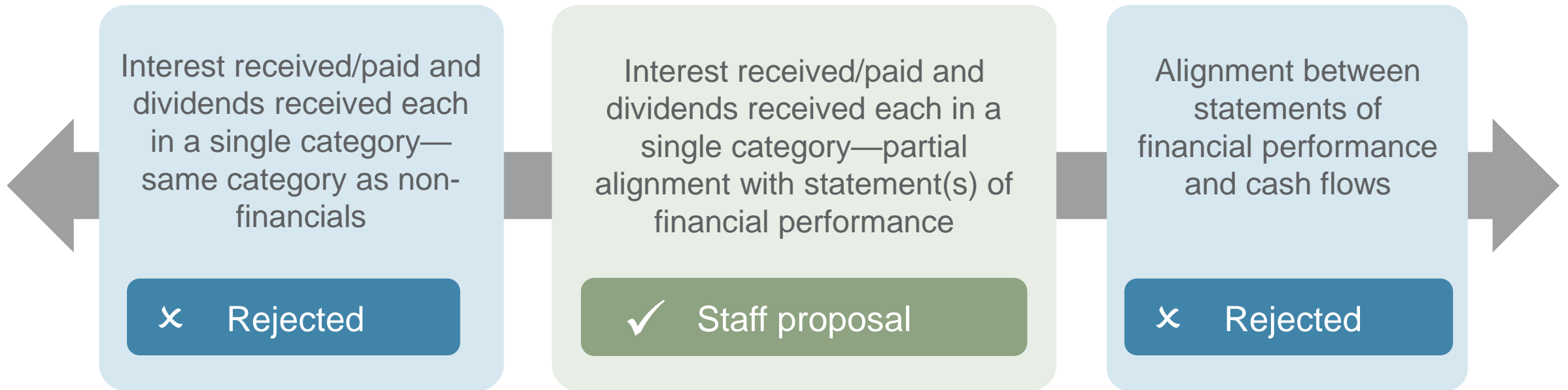
In this example, the entity has chosen to **split expenses from financing activities and income from cash and cash equivalents** between its different business activities, instead of presenting all in operating profit.

Statement of cash flows

Agenda Paper 21B

Classification of interest paid/received and dividends received

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If in a **single category** in P&L, put it in the same category in the statement of cash flows

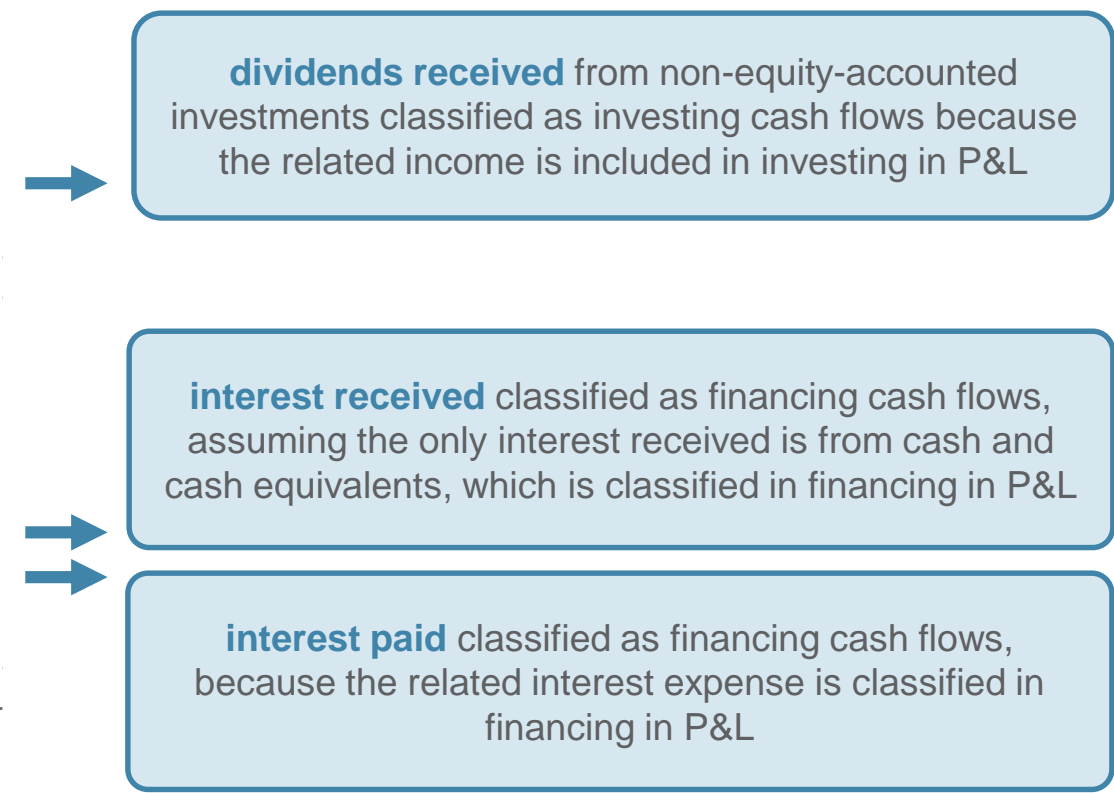
If in **more than one category** in P&L, choose a single category in the statement of cash flows

Summary of possible cash flow classifications

Cash flow item	IAS 7 classification	Classification — non-financial entities	Classification— financial entities
Interest paid	Operating or financing	Financing	Operating or financing
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing
Dividends received	Operating or investing	Investing	Operating or investing (always investing for equity-accounted investments)

Example 1—Investment property company

Cash flows from operating activities	
Receipts in the course of operations	X
Payments in the course of operations	(X)
Income taxes paid	(X)
Net cash from operating activities	X
Cash flows from investing activities	
Purchase of investment properties	(X)
Proceeds from sale of investment properties	X
Dividends received from integral associates and JVs	X
Dividends received from non-integral associates and JVs	X
Dividends received from non-equity-accounted investments	X
Net cash from investing activities	(X)
Cash flows from financing activities	
Proceeds from issue of share capital	X
Proceeds from long-term borrowings	X
Payment of lease liabilities	(X)
Interest received	X
Interest paid	(X)
Dividends paid	(X)
Net cash from financing activities	(X)



Example 2—Insurer

Cash flows from operating activities	
Premiums received	X
Claims paid	(X)
Interest received	X
Dividends received from non-equity-accounted investments	X
Income taxes paid	(X)
<hr/>	
Net cash from operating activities	X
Cash flows from investing activities	
Proceeds from sale of subsidiary, net of cash acquired	X
Acquisition of subsidiary, net of cash acquired	(X)
Dividends received from integral associates and JVs	X
Dividends received from non-integral associates and JVs	X
<hr/>	
Net cash from investing activities	(X)
Cash flows from financing activities	
Proceeds from issue of share capital	X
Proceeds from long-term borrowings	X
Dividends paid	(X)
Interest paid	(X)
<hr/>	
Net cash from financing activities	X

Accounting policy choice—this entity has chosen to classify **interest received** as operating cash flows (interest income is included in operating and financing in P&L)

dividends received from non-equity-accounted investments classified as operating cash flows because the related income is included in operating in P&L

interest paid classified as financing cash flows, because the related interest expense is classified in financing in P&L

Example 3—Bank with multiple business activities

Cash flows from operating activities	
Dividends received (from non-equity method investments)	X
Interest received	X
Interest paid	(X)
Income taxes paid	(X)
Cash flows from operating activities before changes in operating assets and liabilities	X
<i>Net change in operating assets and liabilities:</i>	
Deposits	X
Loans	(X)
Net cash from operating activities	X
Cash flows from investing activities	
Proceeds from sale of subsidiary, net of cash acquired	X
Acquisition of subsidiary, net of cash acquired	(X)
Dividends received from integral associates and JVs	X
Dividends received from non-integral associates and JVs	X
Net cash from investing activities	X
Cash flows from financing activities	
Proceeds from issue of share capital	X
Dividends paid	(X)
Net cash from financing activities	X

Accounting policy choice—this entity has chosen to classify **dividends received** as operating cash flows

Interest received is classified as an operating cash flow because all interest income is included in operating profit in P&L.

Interest paid is classified as an operating cash flow because the entity uses the proposed exemption in P&L and presents all expenses from financing activities in operating.

Example 4—Entity with captive finance subsidiary

Cash flows from operating activities	
Receipts from customers	X
Payments to suppliers and employees	(X)
Interest received	X
Income taxes paid	(X)
<hr/>	
Net cash from operating activities	X
Cash flows from investing activities	
Acquisition of subsidiaries, net of cash acquired	(X)
Purchase of property, plant and equipment	(X)
Proceeds from sale of property, plant and equipment	X
Dividends received (from non-equity method investments)	X
Dividends received from integral associates and JVs	X
Dividends received from non-integral associates and JVs	X
<hr/>	
Net cash from investing activities	(X)
Cash flows from financing activities	
Proceeds from issue of share capital	X
Proceeds from long-term borrowings	X
Interest paid	(X)
Dividends paid	(X)
<hr/>	
Net cash from financing activities	(X)



Accounting policy choice—this entity has chosen to classify **interest received** as operating cash flows



dividends received from non-equity-accounted investments classified as investing cash flows because the related income is included in investing in P&L



Accounting policy choice—this entity has chosen to classify **interest paid** as financing cash flows

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