



2023

World Standard-setters Conference

#WSS2023

**Better information
for better decisions**

**Primary Financial
Statements**



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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

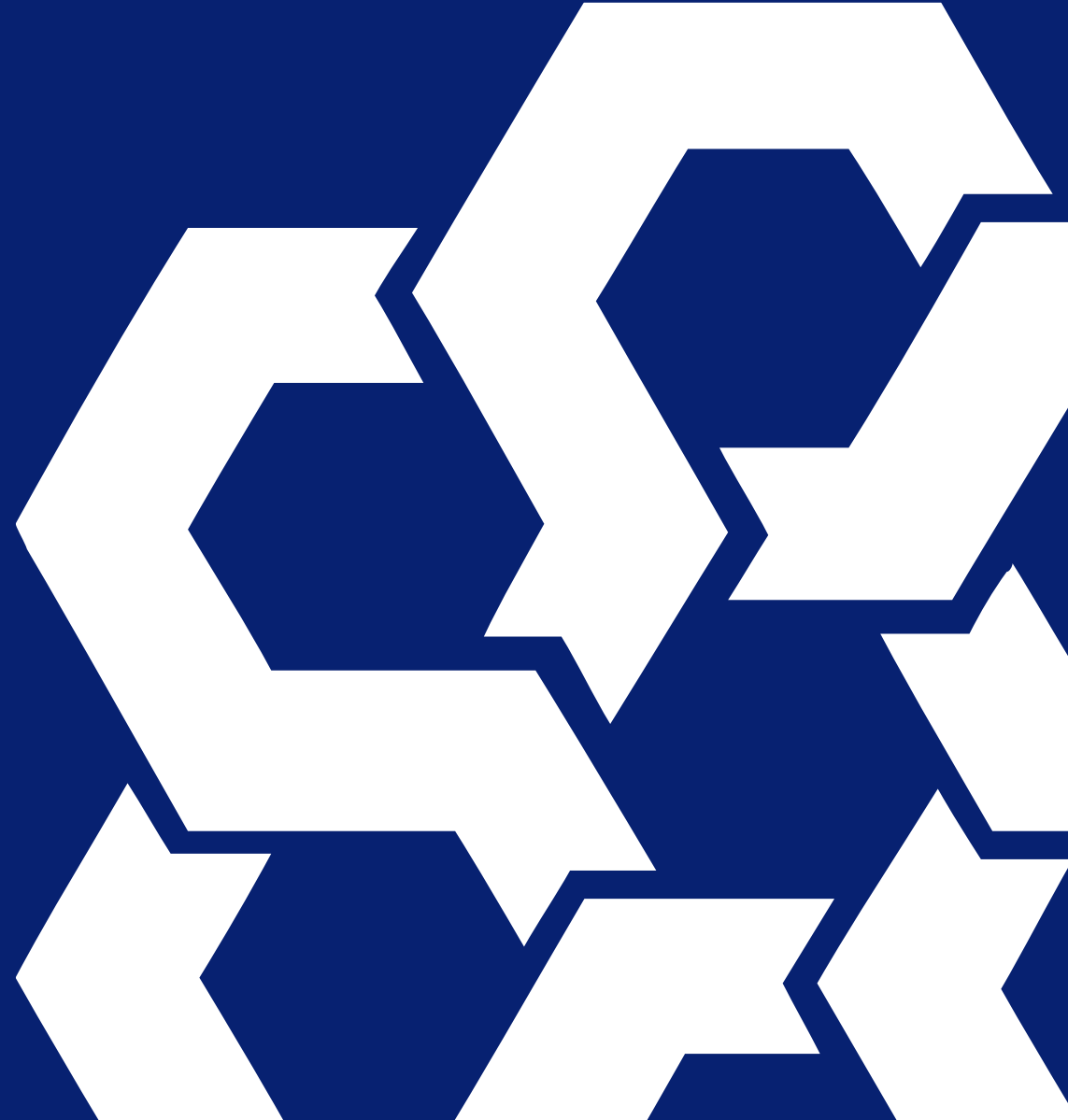
The Primary Financial Statements Project will improve the quality of financial reporting, including digital reporting, through

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



Statement of profit or loss – general corporate

Revenue

Cost of goods sold

Gross profit

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Goodwill impairment loss

Other operating expenses

Operating profit

Share of the profit from associates and joint ventures

Gains on disposals of associates and joint ventures

Profit before financing and income tax

Interest expense on borrowings and lease liabilities

Interest expense on 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.

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

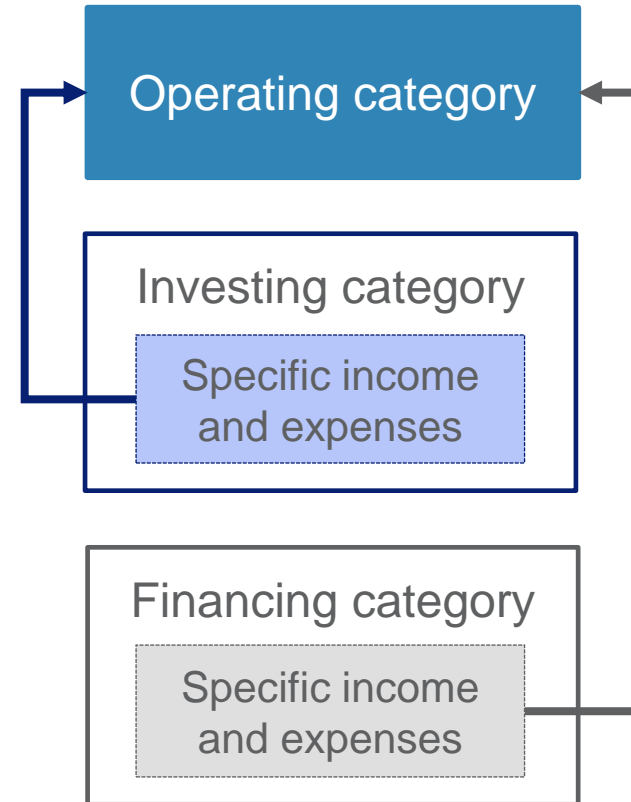
Interest expense and the effects of changes in interest rates from other liabilities

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

Operating

Non-main Investing and
financing

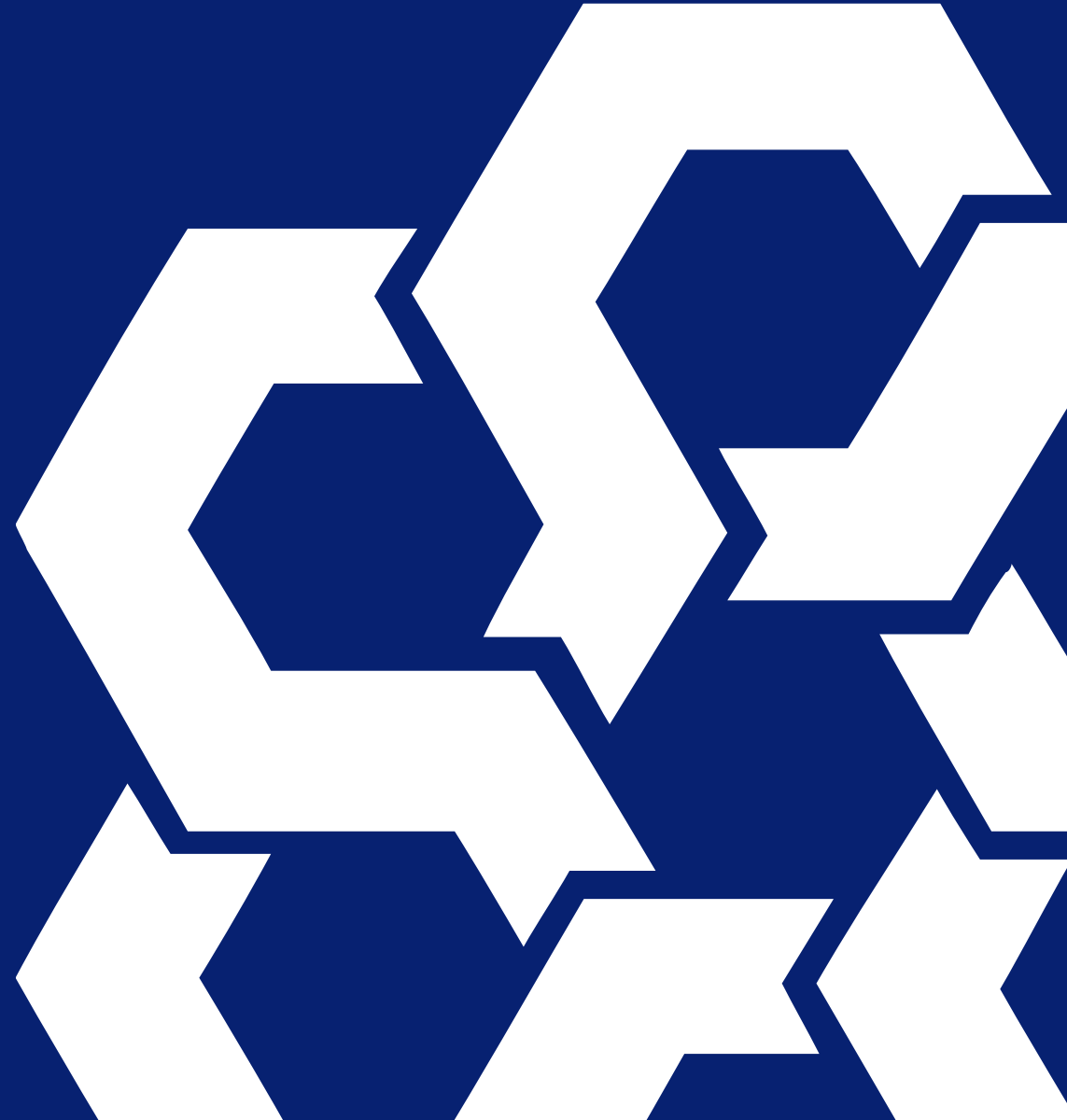
Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.

Statement of profit of loss - insurance as a main business activity

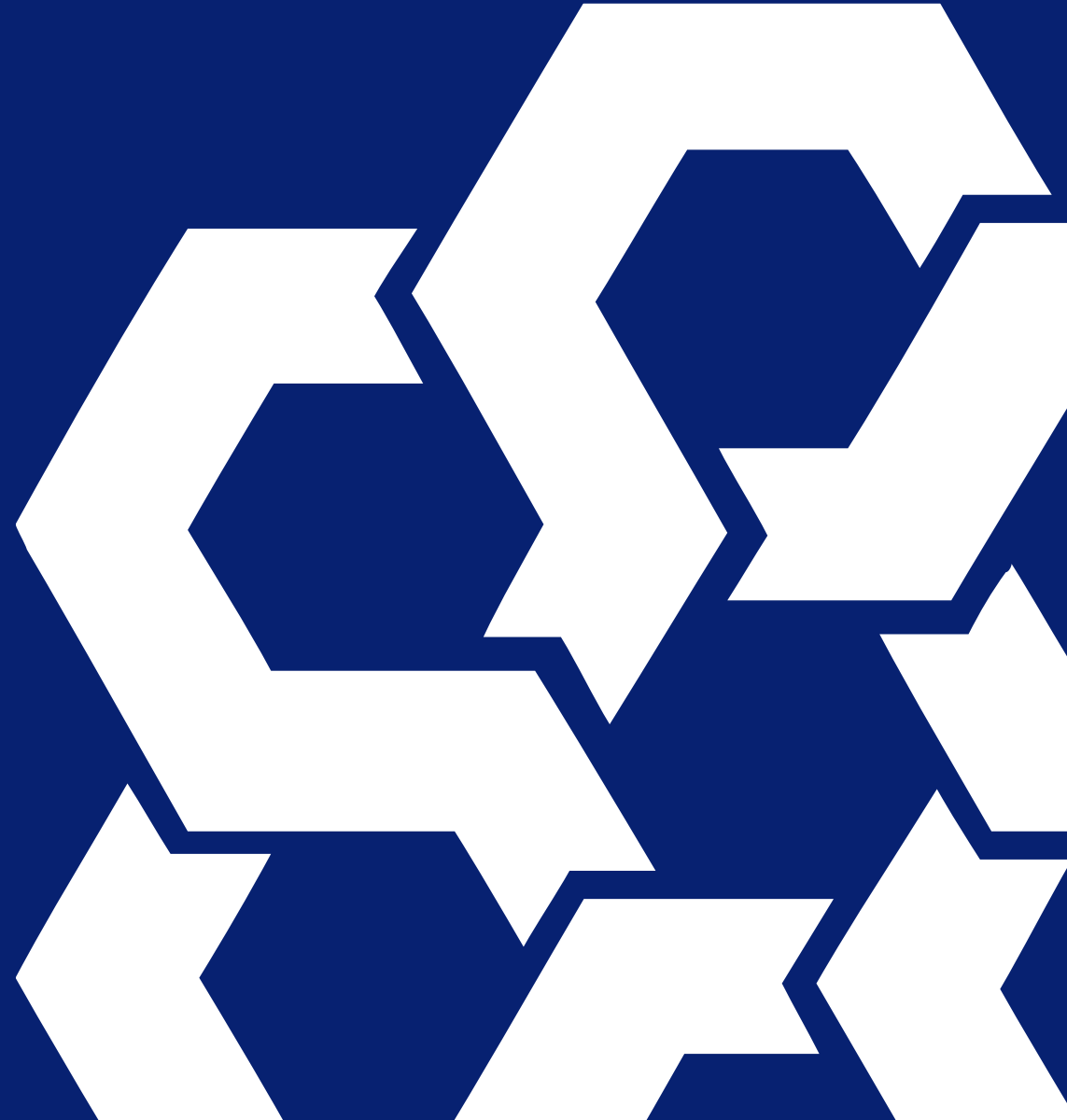
Insurance revenue	Operating
Insurance service expenses	
Insurance service results	
Interest revenue	
Other investment revenue	
Credit impairment losses	
Insurance finance expenses	
Net financial result	
Other operating expenses	
Operating profit	
Share of profit or loss of associates and joint ventures	Investing
Operating profit and income and expenses from associates and joint ventures / Profit before financing and income tax	Financing
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

Subtotals of income & expenses

MPMs

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

IFRS-Specified

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

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

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?

Operating profit (IFRS-specified)	41,270	Tax	NCI
Restructuring in Country X (incl. in employee benefits)	5,400	(900)	1,020
Revenue adjustment (incl. in revenue)	6,200	(1,550)	-
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)

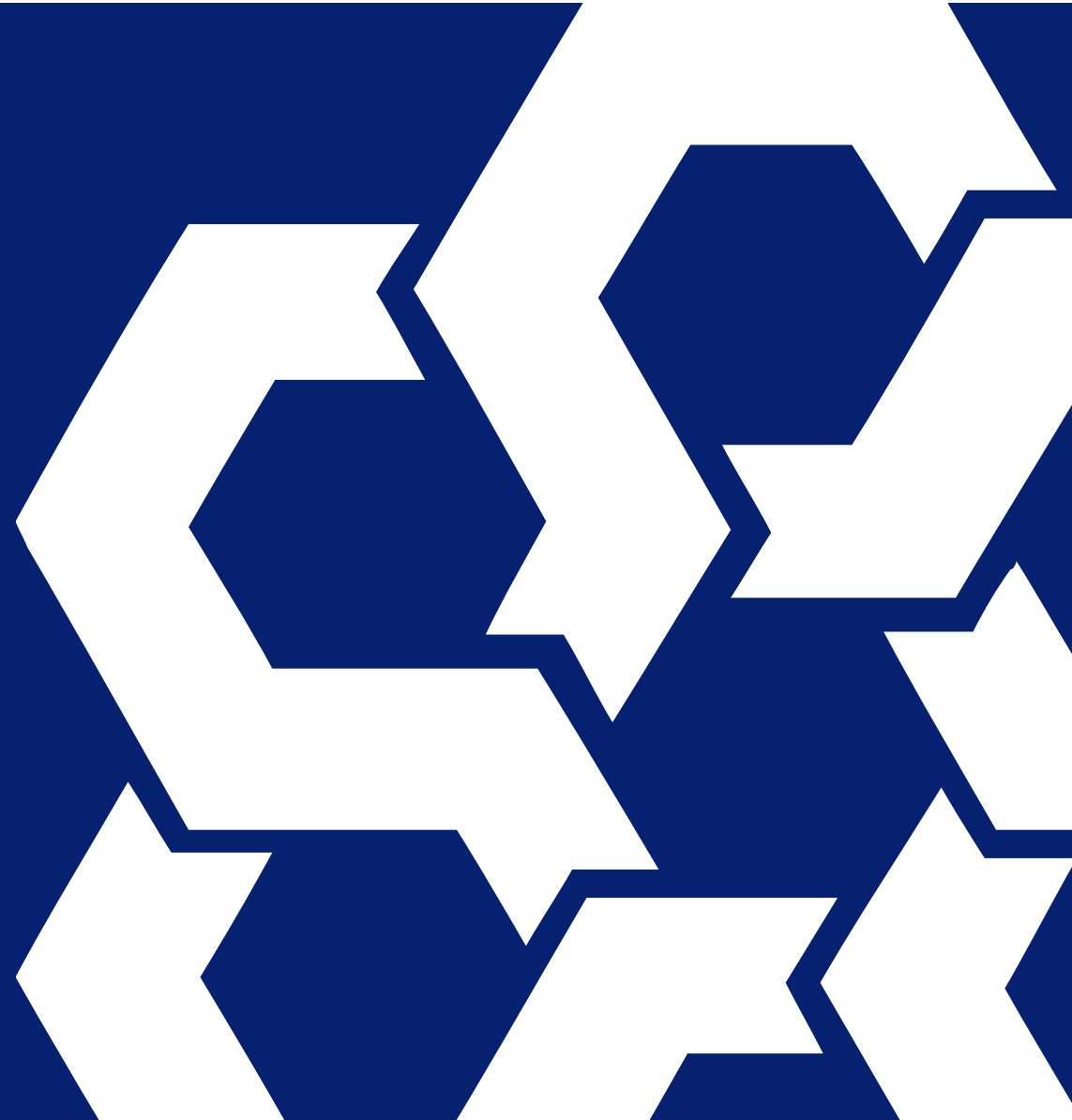
By another method that achieves a more appropriate allocation in the circumstances

Disclose how income tax effects are calculated — required for each reconciling item if more than one method is used.

Questions?

A large, abstract geometric pattern on the right side of the slide, consisting of interconnected white and dark blue hexagonal shapes on a dark blue background.

Aggregation and disaggregation



Aggregation and disaggregation requirements

General requirements	Roles of the primary financial statements and the notes	Principles for aggregation and disaggregation
	Requirements for line items, including goodwill in the statement of financial position	Aggregating items and using meaningful labels
Specific requirements	Disclosure of specified expenses by nature	Present operating expenses by nature or by function (mixed presentation permitted)

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

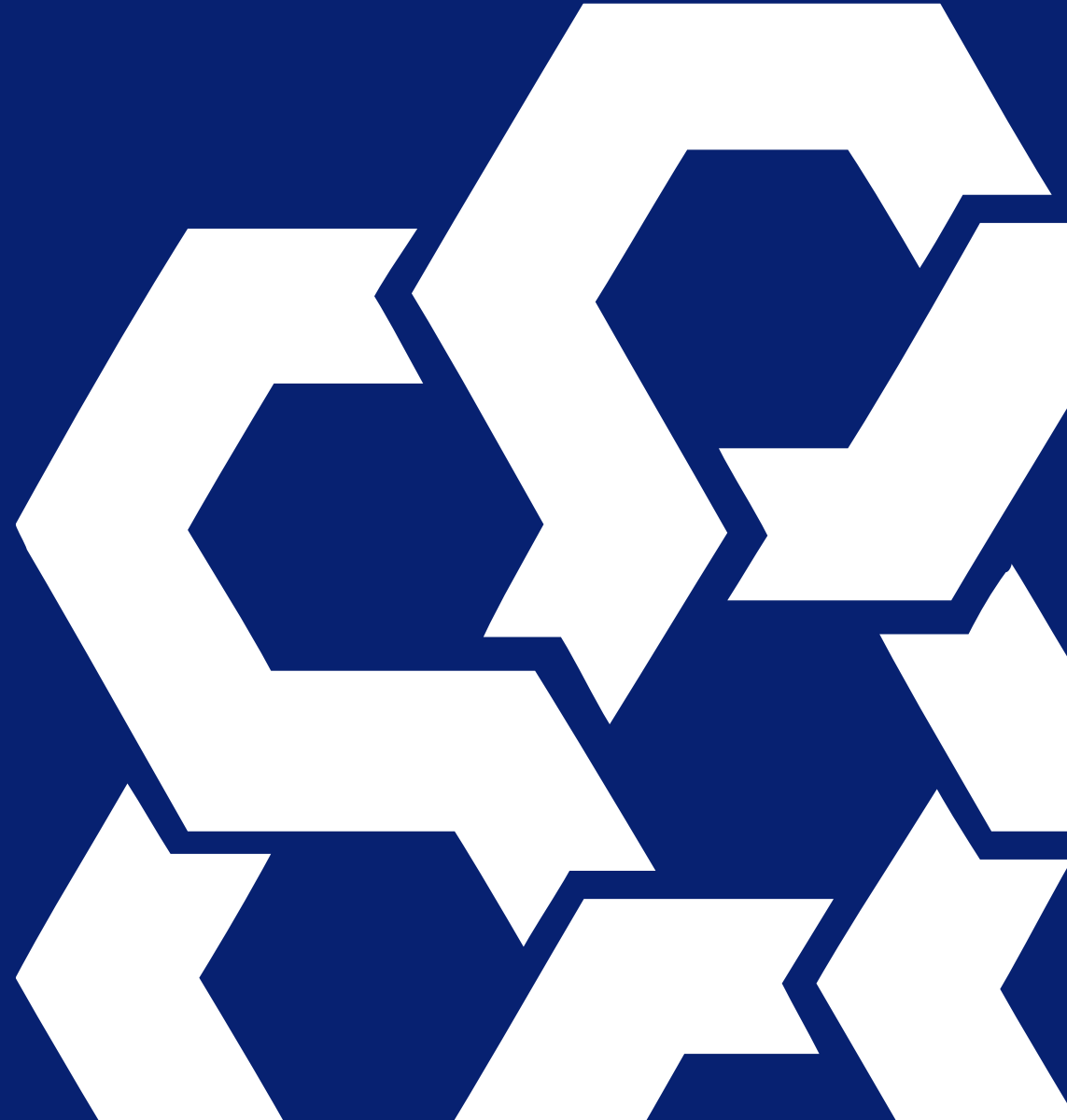
Specified expenses by nature note

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

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.

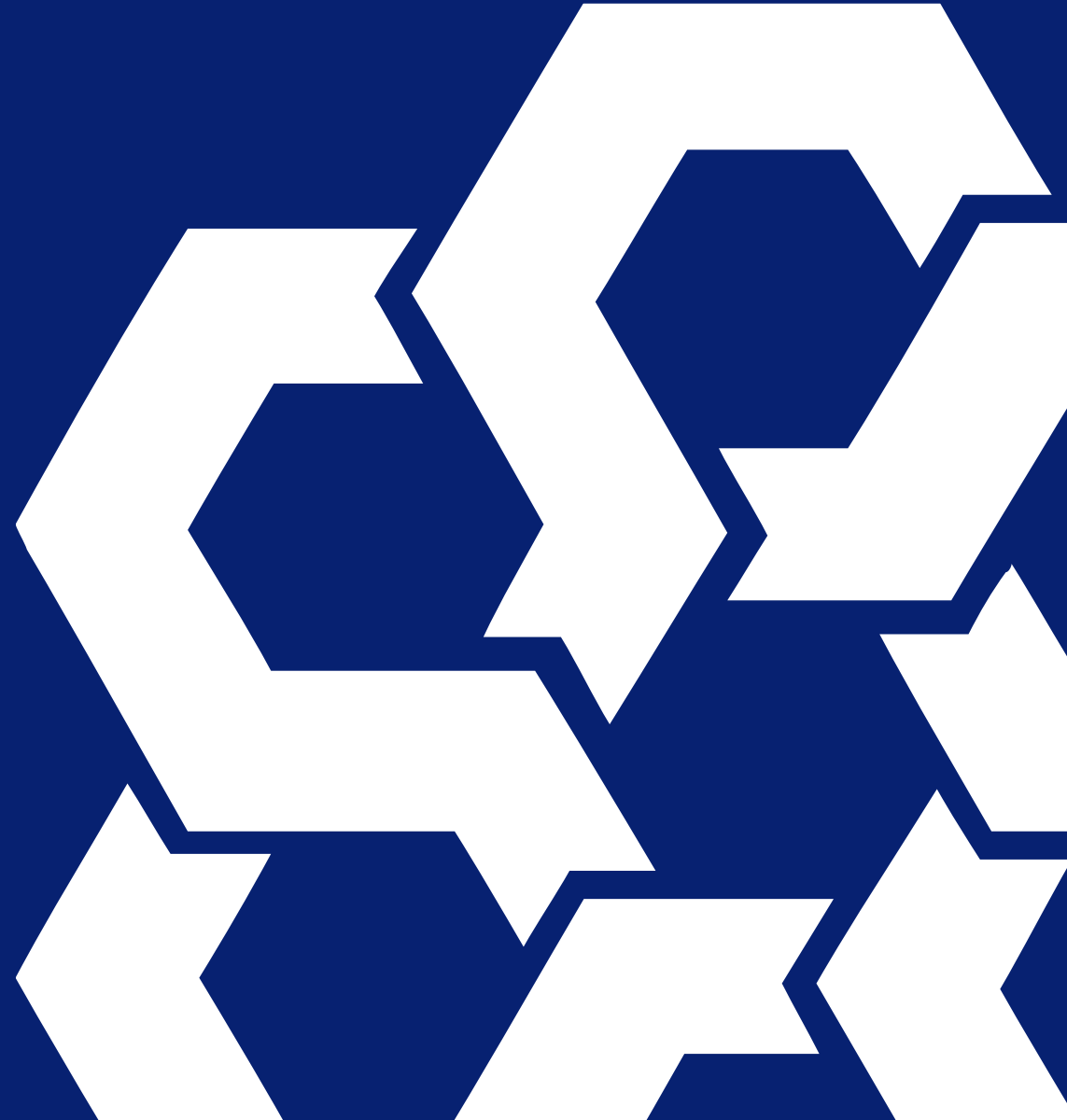
Digital reporting



Improving digital reporting

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

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

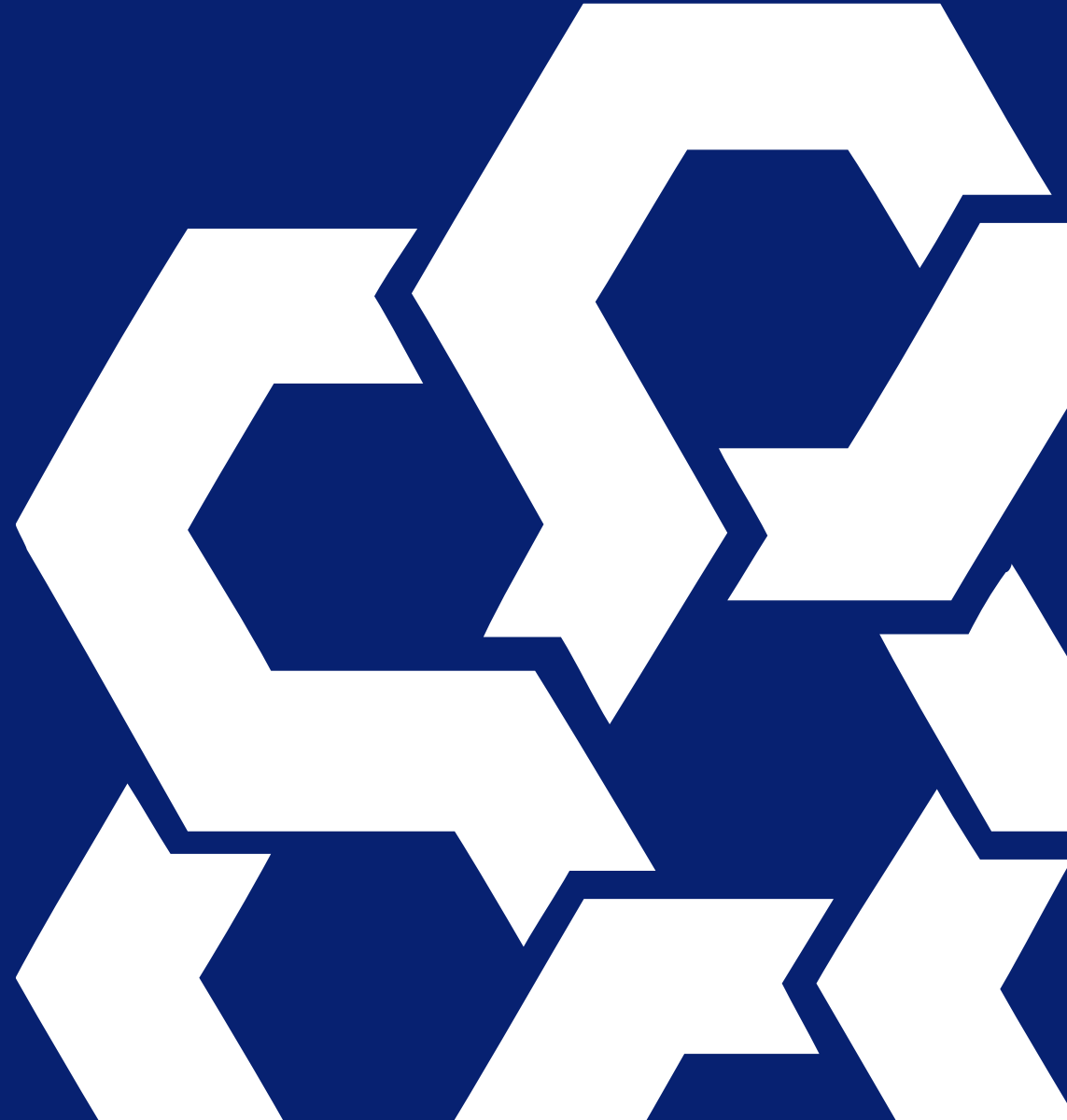
Cash flows	Entities without specified main business activities	Entities with specified main business activities
Interest received	Investing activities	Single category (either operating, investing or financing activities)
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

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

Questions?



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