

Primary Financial Statements project
Exposure Draft
General Presentation and Disclosures

July 2020
Disaggregation

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

Housekeeping

The Exposure Draft, its accompanying documents and the slides used in this presentation are available for download on the Primary Financial Statements project webpage at www.ifrs.org/projects/work-plan/primary-financial-statements.

The views expressed are those of the presenters, not necessarily those of the International Accounting Standards Board (Board) or the IFRS Foundation.

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Primary Financial Statements project



objective

To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss



* Comment period extended from June 2020 due to covid-19 pandemic

Project responds to investor needs

What investors say

Board's main proposals



Subtotals in the statement of profit or loss need to be comparable between different companies.

- 1 Require companies to present additional **defined subtotals** in the statement of profit or loss.



Companies should provide more granular information and information grouped in a way that provides better inputs for our analysis.

- 2 Strengthen requirements for **disaggregating information**.



Performance measures defined by management can provide useful information, but should be used in a more transparent and disciplined way.

- 3 Require companies to disclose information about **management performance measures** in the notes.

*The Exposure Draft also contains other proposals, including targeted improvements to the statement of cash flows.

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General requirements and required line items

Roles of the primary financial statements and the notes

Principles for aggregation & disaggregation

Required line items, including goodwill

Grouping dissimilar immaterial items, avoiding 'other' labels

Specific requirements

2 Analysis of operating expenses by nature and by function

3 Disclosure of unusual income and expenses

① General requirements and required line items

Disaggregation—roles and line items

Roles of the primary financial statements and the notes

- **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.
- **Role of the notes** is to:
 - provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
 - supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

Required line items

New required line items would include:

- Separate line items for integral and non-integral associates and joint ventures (statement of profit or loss, cash flows and financial position)
- Income or expenses from financing activities
- Goodwill (statement of financial position)

Disaggregation—principles and grouping of dissimilar items

Principles for aggregation & disaggregation

1. Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events
2. Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic
3. Separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes

Grouping dissimilar immaterial items

- Companies should use **meaningful labels** for groups of immaterial items, avoiding line items such as ‘other expenses’.
- If that is not possible, companies would be required to provide information in the **notes** about the **content** of such groups of items.

② Analysis of operating expenses

Operating expenses—example by nature



Revenue	347,000
Other income	3,800
Changes in inventories of finished goods and work in progress	3,000
Raw materials used	(146,000)
Employee benefits	(107,000)
Depreciation	(37,000)
Amortisation	(12,500)
Professional fees and other expenses	(10,030)
Operating profit	41,270
Share of profit or loss of integral associates and joint ventures	(600)
Operating profit and income and expenses from integral associates & JVs	40,670
Share of profit or loss of non-integral associates and joint ventures	3,380
Dividend income	3,550
Profit before financing and income tax	47,600
Expenses from financing activities	(3,800)
Unwinding of discount on pension liabilities and provisions	(3,000)
Profit before tax	40,800
Income tax	(7,200)
Profit for the year	33,600

Operating

Integral associates and joint ventures

Investing

Financing

Statement of profit or loss

Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**

- **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method.
- Companies should **not mix** the two methods.
- Would **remove option** to present analysis of expenses in the **notes only**.

Notes

Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss

- Analysis of **total** operating expenses—no requirement to analyse each functional line item by nature.

Current practice—mix of nature and function

Revenue	86,750
Cost of sales	(55,775)
Gross profit	30,975
General and administrative expenses	(9,472)
Research and development expenses	(5,385)
Depreciation	(6,750)
Other income	1,645
Operating profit	11,013
Finance expenses	(813)
Profit before tax	10,200
Income tax	(1,800)
Profit	8,400



Cost of sales or
depreciation is
incomplete

Example of analysis by nature in the notes

Statement of profit or loss (by function)

Revenue	500
Cost of goods sold	(300)
Gross profit	200
Selling expenses	(40)
Research and development expenses	(20)
General and administrative expenses	(50)
Impairment losses on trade receivables	(30)
Operating profit	60

Notes (by nature)

Changes in inventories of finished goods and work in progress	30
Raw material used	(160)
Employee benefits	(140)
Depreciation	(40)
Impairment of property, plant and equipment	(10)
Impairment loss on trade receivables	(30)
Property taxes	(40)
Litigation expenses	(20)
Gains (losses) on derivatives	(30)
Operating expenses total	(440)

③ Unusual income and expenses

Unusual income and expenses

Definition



Income and expenses with **limited predictive value**.

Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

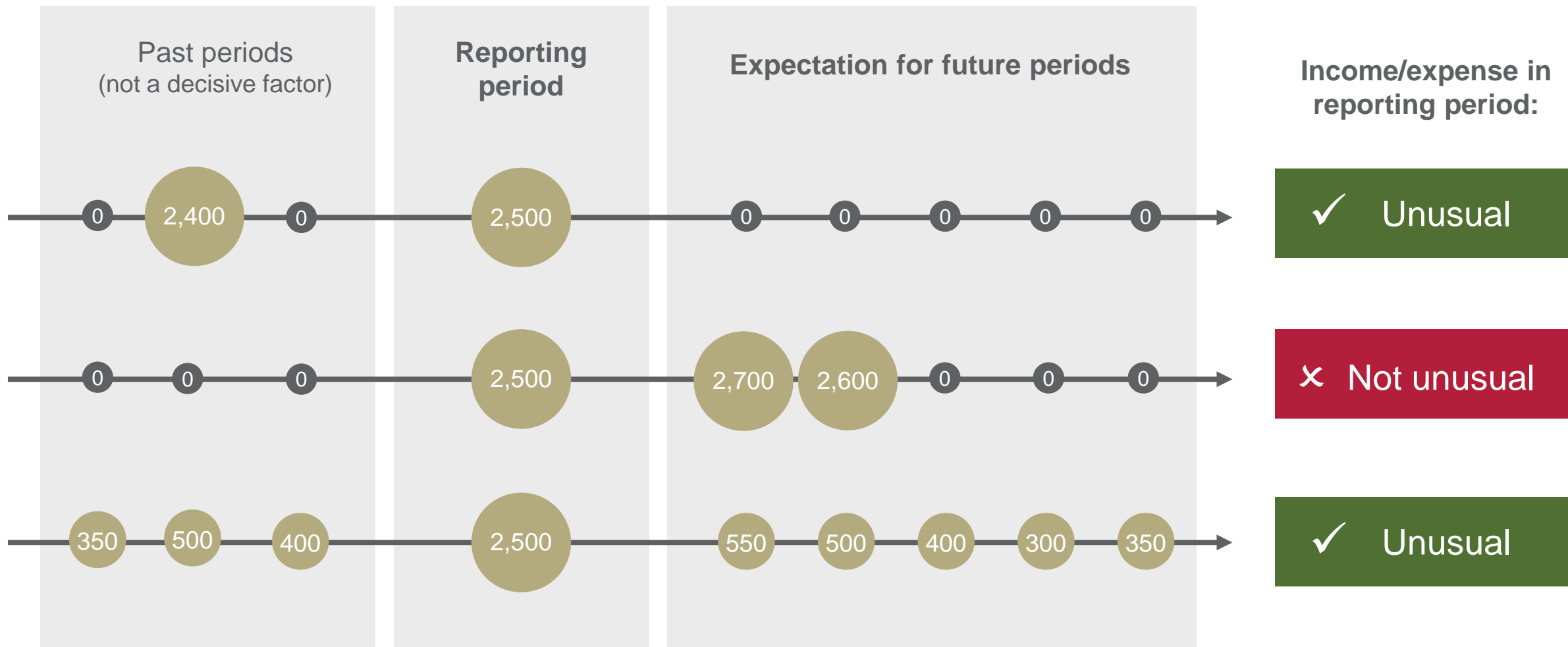
Disclosures

Amount & narrative description

Amount disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

Applying the definition of 'unusual'—examples



Example—disclosure of unusual income and expenses

Line items in P&L by function that include unusual income and expenses	Unusual income and expenses by type		
	Property tax	Restructuring expenses	Total unusual items
Cost of sales		(4,990)	(4,990)
General & administrative expenses	(2,500)	(410)	(2,910)
Expenses from financing activities		(600)	(600)

Operating expenses by nature	Unusual income and expenses by type		
	Property tax	Restructuring expenses	Total unusual items
Employee benefits		(2,050)	(2,050)
Impairment of PP&E		(3,350)	(3,350)
Property taxes	(2,500)		(2,500)

questions
expressions of individual views
comments
questions or comments
expressions of individual views
feedback
questions
feedback
questions
and viewpoints
and comments



- [Exposure Draft](#)
 - [Basis for Conclusions](#)
 - [Illustrative Examples](#)
- and a comparison of proposals with requirements of IAS 1



[Snapshot](#)



[Recording of the previous webinars](#) *
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[Video](#) of IASB Chairman introducing the proposals

* Also available in Japanese, Chinese, Portuguese, Korean and Spanish

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