

# Primary Financial Statements— Illustrative examples

## Executive Summary

<b>Project Type</b>	Monitoring
<b>Project Scope</b>	Significant
<b>Purpose of the paper</b>	
<p>At this meeting we will seek Board views on a set of proposed illustrative examples developed by the staff from the IASB that illustrate the IASB’s main tentative decisions on the Primary Financial Statements project. These examples will be discussed at the July 2023 ASAF meeting. The input received from the Board will help inform the UKEB’s feedback to the IASB at this ASAF meeting.</p>	
<b>Summary of the Issue</b>	
<p>We are asking for the Board’s views on the following examples:</p> <ul style="list-style-type: none"> <li>• Examples 1–3: Presentation of income statements for different types of entities</li> <li>• Example 4: Disclosure of Management Performance Measures (MPMs)</li> <li>• Example 5: Disclosure of operating expenses by nature</li> </ul> <p>The ASAF paper with these examples can be accessed in this <a href="#">link to ASAF paper</a>.</p>	
<b>Decisions for the Board</b>	
<p>No decisions are required. Board members are asked the following questions, which are in the <a href="#">ASAF paper</a>:</p> <ol style="list-style-type: none"> <li>1. Does the Board think that that the five examples shown on slides 11–13, 16–19 and 21 of the ASAF paper:             <ol style="list-style-type: none"> <li>a) Are helpful for preparers in understanding the proposed requirements?; and</li> <li>b) Provide information that users would want to see under the proposed requirements?</li> </ol> </li> <li>2. On the MPM example (slides 16–19 of the ASAF paper) is there any variant that the Board thinks is the most useful in illustrating the proposed requirements and why?</li> <li>3. Are there any aspects of the examples (in the ASAF paper) that the Board thinks are misleading or result in boilerplate information?</li> </ol>	

4. What improvements does the Board think could be made to any of the illustrations (in the ASAF paper)? For instance:
- a) Do you agree that other illustrations and sufficient narrative information could be added (as proposed in paragraphs 8–13 of this paper)?
  - b) When considering digital reporting is there anything that should be illustrated to facilitate the creation of elements in the IFRS Accounting Taxonomy?

**Recommendation**

- N/A

**Appendices**

- Appendix A Illustrative examples–Description
- [Link to ASAF paper](#)

# Primary Financial Statements— Illustrative examples

<b>UKEB Project Status:</b> Active Monitoring <b>IASB Next Milestone:</b> Seek feedback from IASB consultative groups	<a href="#">UKEB project page</a> <a href="#">FRC Comment Letter (FCL)</a> (before UKEB Chair was appointed) ( <b>Published in September 2020</b> )
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## Background

1. In previous meetings we have provided regular updates to the Board on the IASB's redeliberations of the proposals included in the [Exposure Draft General Presentation and Disclosures](#) (the ED) as part of its project on **Primary Financial Statements** (PFS).
2. At this meeting we are seeking the Board's views on a set of proposed examples that were developed by the staff from the IASB, that illustrate the IASB's main tentative decisions on the PFS project. These examples will serve as a basis for developing the illustrative examples that will accompany the **IFRS Accounting Standard General Presentation and Disclosures** (the "forthcoming Standard").
3. The IASB will use these examples to obtain input from the IASB's consultative groups (i.e. the Capital Markets Advisory Committee or 'CMAC' and from the Global Preparers Forum or 'GPF') at their joint meeting on 15 June 2023 and from ASAF members at its meeting in July 2023. The input received from the Board will help inform the UKEB's feedback to the IASB at this ASAF meeting.
4. The ASAF paper with the proposed set of examples can be accessed in the ifrs.org website [[link to ASAF paper](#)].

## ASAF examples and questions for members

5. The ASAF paper includes **five examples** (and support materials in **Appendices A–C of the ASAF paper**) covering the following areas of the ED's proposals:
  - a) Presentation of **income statements for different types of entities** (**Examples 1–3** in *slides 11–13* with additional information in *slides 23–30 of the ASAF paper*).

- b) Disclosure of **Management Performance Measures** (MPMs) (**Example 4** with three different variations in *slides 17–19* and narrative information on MPMs on *slide 16* with additional information in *slides 32–35 of the ASAF paper*).
  - c) Disclosure of **operating expenses by nature** (**Example 5** in *slide 21* with additional information in *slides 37–38 of the ASAF paper*).
6. The IASB is seeking information from ASAF members on the following questions:

**Questions for ASAF members** (page 3 [ASAF agenda paper 4](#))

*Question 1a. Are the examples shown on slides 11–13, 16–19 and 21 useful in illustrating the proposed requirements? Specifically, for stakeholders in your region, do you think the examples:*

- a) are helpful for preparers in understanding the proposed requirements?*
- b) provide information you would expect users would want to see under the proposed requirements?*

*Question 1b. Specifically, on the MPM example (slides 16–19): Which of the variants is the most useful in illustrating the proposed requirements and why?*

*Question 2. Are there any aspects of the examples that might be misleading or result in boilerplate information?*

*Question 3a. What improvements would you suggest (for example, is something missing that should be illustrated)?*

*Question 3b. Specifically, when considering digital reporting: is there something that should be illustrated to facilitate the creation of elements in the IFRS Accounting Taxonomy?*

7. We welcome any comments on these questions. To aid this discussion, we provide some preliminary views in paragraphs 8–13 below. **Appendix A** of this paper includes a brief description of each example, additional explanations and links to relevant paragraphs in the ED and to previous [Illustrative Examples \(IE\)](#) accompanying the [ED](#), to aid in the understanding of these examples.

### Secretariat's view

8. Based on our preliminary review, we consider that the proposed illustrative examples are in line with the requirements in the forthcoming standard and are useful in demonstrating the application of some of those requirements.

9. However, we consider that further illustrative examples could be added to address a wider range of situations and aspects of the IASB's tentative decisions. For instance, adding examples on the following areas would be useful:
- a) The presentation of new specified subtotals for example, the 'operating profit or loss and income and expenses from investments accounted for using the equity method'.
  - b) The use of the label 'other' for an aggregation of varied material or immaterial items.
  - c) The requirement to provide a qualitative explanation if part of the amount disclosed has been included in the carrying amount of assets.
  - d) The disclosure of MPMs in the same note that an entity uses to disclose information about its operating segments.<sup>1</sup>
  - e) The application of the exemption from the general requirement to disaggregate material information.
10. We think that the following illustrations (that were included as part of the [IEs](#) accompanying the ED) should be updated and retained:
- a) Income statements for other types of entities that are also impacted by the new requirements (e.g. an insurance entity and a property investment entity).<sup>2</sup>
  - b) Statements of cash flows illustrating the classification of interest/dividends received and interest/dividends paid.<sup>3</sup>
11. Additionally, whenever the requirements in the forthcoming standard interact with other requirements in IFRS Accounting Standards this interaction should be explained and/or demonstrated. For example, the interaction with the disclosure requirements in IAS 36 *Impairment of Assets*.<sup>4</sup>

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<sup>1</sup> Paragraph B83 of the ED allowed this disclosure. The IASB confirmed its tentative decision to allow this disclosure at its meeting in May 2023.

<sup>2</sup> **Examples II-1** and **II-2** in the [IEs](#) accompanying the ED (pages 17 and 19) include examples of statements of financial performance for two different entities investing in the course of its main business activities, one for a property investment entity and another for an insurance entity.

<sup>3</sup> The section on the consequential amendments to the Illustrative Examples accompanying IAS 7 *Statement of Cash Flows* (refer to the [IEs](#) accompanying the ED pages 26-33) includes examples of different statements of cash flows, one for an entity that does not have a main business activity of providing financing to customers, and another for an entity that provides financing to customers as its main business activity.

<sup>4</sup> For example, in a situation where an entity has included impairment losses in more than one functional line item in the income statement, an entity would have to comply with (i) the requirement in the forthcoming standard (i.e. to disclose in a **single note** the amount of depreciation, amortisation, employee benefits, **impairment** and write-down of inventory included in each functional line) and with (ii) the disclosure requirements in paragraphs

12. We also consider that the IASB should ensure that each illustration is accompanied by sufficient narrative to aid understanding and references to the relevant paragraphs in the forthcoming standard.
13. We do not consider that the proposed examples are misleading or result in boilerplate information.

### Questions for the Board—Illustrative examples

1. Does the Board think that the five examples shown on slides 11–13, 16–19 and 21 of the [ASAF paper](#):
  - a) Are helpful for preparers in understanding the proposed requirements?
  - b) Provide information that users would want to see under the proposed requirements?
2. On the MPM example (slides 16–19 of the [ASAF paper](#)) is there any variant that the Board thinks is the most useful in illustrating the proposed requirements and why?
3. Are there any aspects of the examples (in the [ASAF paper](#)) that the Board thinks are misleading or result in boilerplate information?
4. What improvements does the Board think could be made to any of the illustrations (in the [ASAF paper](#))? For instance:
  - a) Do you agree that other illustrations and sufficient narrative information could be added (as proposed in paragraphs 8–13 of this paper)?
  - b) When considering digital reporting is there anything that should be illustrated to facilitate the creation of elements in the IFRS Accounting Taxonomy?

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126(a)–(b) of IAS 36 (i.e. to disclose the amount of impairment losses/reversals of impairment losses recognised in profit or loss and the line item(s) of the statement of comprehensive income in which those amounts are included/reversed). Therefore, it would be helpful if the IASB adds an example explaining how an entity would comply with both requirements.

# Appendix A: Illustrative examples–Description<sup>1</sup>

## Examples 1, 2 and 3: Presentation of income statements for different types of entities<sup>2</sup>

Description	Notes
<p><b>Example 1 (slide 11)</b>                      Income statement of a <b>general corporate</b> that presents operating expenses using a <b>mixture</b> of expenses by function and expenses by nature</p>	<ul style="list-style-type: none"> <li>• The mixed presentation of expenses (based on their nature and function) was prohibited in the ED. The IASB tentatively decided to allow this presentation when it provides the most useful information.</li> <li>• The entity includes ‘goodwill impairment losses’ in a single line item in the income statement and not in more than one line item and presents it separately as this provides an understandable overview of income and expenses.</li> <li>• “Specified subtotals” are subtotals specified by IFRS standards that are not MPMs (which are listed in paragraph 104 of the ED) and include subtotals that are similar to ‘gross profit’<sup>3</sup> (paragraph B78 in the ED) and the “required subtotals” in paragraphs 60 and 73 of the ED. Not all ‘specified’ subtotals are ‘required’ subtotals<sup>4</sup>.</li> <li>• The IASB tentatively decided to require all entities to classify, in the investing category in the income statement, income and expenses from associates and joint ventures accounted for using the equity method.</li> <li>• The entity is required to disaggregate the line item of “other operating expenses” in a note (paragraph 28 of the ED). However, such a note is not included in this example.</li> </ul>

<sup>1</sup> Link to the **ASAF** **handout**: [ASAF agenda paper 4](#).

<sup>2</sup> **Slides 23–30** in **Appendix A** of the ASAF **handout** explain the proposed requirements for the income statement for the required categories; for entities with specified main business activities and for the classification of income and expenses from cash and cash equivalents.

<sup>3</sup> It means that it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue.

<sup>4</sup> For example, some of the recently added ‘specified’ subtotals of *operating profit or loss before depreciation and amortisation* and *operating profit or loss and income and expenses from investments accounted for using the equity method* are not ‘required’ subtotals.

Description	Notes
<p><b>Example 2 (slide 12)</b>                      Income statement of a <b>manufacturer that provides financing to customers as a main business activity</b><sup>5</sup></p>	<ul style="list-style-type: none"> <li>• The entity has two main business activities: it is a manufacturer and provides financing to customers. Paragraph 51 of the ED gives the entity a choice for the classification of income and expenses arising from its financing activities (see slides 23–28 and slide 30). In this example, the entity chooses to classify in the <i>operating category</i> <u>only the portion</u> of income and expenses from financing activities (and from cash and cash equivalents) that relate to the provision of finance (paragraph 51(a) of the ED).</li> <li>• Income and expenses from other liabilities that do not arise from financing activities (some examples are in paragraph B37 of the ED) remain in the <i>financing category</i> (and this is a requirement for <u>all</u> entities).</li> <li>• The subtotal “Gross profit from the provision of financing to customers” is considered a “specified subtotal” (paragraph B78 in the ED) as it is similar to “gross profit”.</li> </ul>
<p><b>Example 3 (slide 13)</b>                      Income statement of an entity <b>investing in the course of its main business activity and providing financing to customers as a main business activity (an investment and retail bank)</b><sup>6</sup></p>	<ul style="list-style-type: none"> <li>• The entity provides financing to customers as main business activity and therefore, it can apply the accounting policy choice in paragraph 51 of the ED.</li> <li>• One main difference with Example 2 is that in Example 3 the entity chooses to classify in the <i>operating category</i> <u>all</u> income and expenses from financing activities (and from cash and cash equivalents) in the <i>operating category</i> (paragraph 51(b) of the ED). As this entity made this choice it cannot present the “Profit before financing and income tax” subtotal even when it presents income and expenses on other liabilities (paragraph 64 of the ED).<sup>7</sup></li> <li>• The subtotals “Net interest income” and “Gross profit from the provision of financing to customers” are “specified subtotals” in accordance with ED paragraphs 104(b) and B78 (i.e. they are similar to gross profit).</li> </ul>

<sup>5</sup> This is based on example II–4 in the [Illustrative Examples](#) accompanying the ED (refer to page 22).

<sup>6</sup> This is based on example II–3 in the [Illustrative Examples](#) accompanying the ED (refer to page 20).

<sup>7</sup> Paragraph BC60 of the ED explains that this is because presenting this subtotal would be misleading. Although, the note on slide 13 explains that the IASB will discuss the proposed prohibition of the subtotal ‘profit before financing and income tax’ at a future IASB meeting.



## Example 4: Disclosure of Management Performance Measures (MPMs)<sup>8</sup>

- Information on reconciling items is presented in a tabular format. Additional information on the effect of tax and non-controlling interests (NCI) and the affected line items in the income statement is presented in a tabular or text format.
- The **MPM disclosure is illustrated in three different ways (Variant A, Variant B and Variant C)**.
- **Slide 16** illustrates the narrative information that will accompany all these variants.

Description	Notes
<b>Example 4 (Variant A)–Side-by-side reconciliation<sup>9</sup> (slide 17)</b>	
<p><b>Reconciling items in a columnar format</b> with a column representing each adjusting item and each row indicating line items in the income statement. This disclosure shows how an adjusting item, such as restructuring, affected each line item in the income statement.</p>	<p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>• This presentation allows for multiple MPMs to be presented in a single table.</li> <li>• Items of income and expense are illustrated as rows (same as income statement).</li> <li>• Separate table for each reporting period.</li> </ul> <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>• Reconciling items as columns make the reconciliation difficult to understand.</li> <li>• Comparative period in separate table.</li> </ul>

<sup>8</sup> **Slide 15** summarises the likely advantages and disadvantages for all variants. **Appendix B** of the ASAF handout (**slides 32–35**) explains the proposed requirements relating to MPMs.

<sup>9</sup> This variant is based on the example included in Note 2 (see pages 11–15) of the [Illustrative Examples](#) accompanying the [ED](#).

Description	Notes
<b>Example 4 (Variant B)–Row reconciliation. Columns explaining tax effects and NCI. Footnotes explaining the items affected in the income statement (slide 18)</b>	
<p><b>Reconciling items as rows</b>, with a description of income statement line items affected by an adjusting item (such as restructuring), but with no corresponding amount for each line item affected in the income statement. NCI and tax effects are in a columnar format.</p>	<p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>• Reconciling items as rows makes reconciliation easier to understand.</li> <li>• Reporting and comparative period in a single table.</li> </ul> <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>• May lead to duplication of information if an entity has multiple MPMs.</li> <li>• Information in footnotes to explain the effects in income statement may be difficult to understand.</li> </ul>
<b>Example 4 (Variant C)–Row reconciliation. Columns explaining additional required information (tax effects, NCI and items affected in the income statement) (slide 19)</b>	
<p><b>Reconciling items as rows</b>, with additional columns representing tax and NCI effects as well as other line items affected in the income statement</p>	<p><u>Advantages:</u></p> <ul style="list-style-type: none"> <li>• Same as Variant B.</li> </ul> <p><u>Disadvantages:</u></p> <ul style="list-style-type: none"> <li>• Reconciliation and additional required information (i.e. tax effect, NCI and items in income statement affected) are disclosed in separate tables.</li> <li>• Many columns make information more difficult to understand.</li> </ul>

## Example 5: Disclosure of operating expenses by nature<sup>10</sup>

Description	Notes
<b>Example 5 (slide 21)</b>	
<p>The table shows the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventory included in each line item in the operating category.</p>	<ul style="list-style-type: none"> <li>• The IASB tentatively decided to require an entity that presents line items comprising expenses classified by function in the operating category, to disclose in a single note the amount of depreciation, amortisation, employee benefits, impairment and write-down of inventory included in each functional line.</li> <li>• We note that it would have been preferable if the income statement (using a function of expense method) had been provided because it would have aided in the understanding of how each functional line item was affected by the requirements for disaggregation of operating expenses by nature.</li> <li>• Entity A has included a portion of the depreciation, amortisation and employee benefits for the period in the carrying amount of assets. The entity is required to provide a qualitative explanation of that fact, including the identification of which assets the amounts have been recognised as part of the carrying amount. However, such a note is not included in this example.</li> </ul>

<sup>10</sup> Appendix C of the ASAF handout (slides 37–38) explains the proposed requirements relating to the disclosure of operating expenses by nature.