

# Re-shaping presentation in financial statements



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## Proposals aim to bring more comparability, transparency and guidance

### Highlights

- New income statement structure with three new mandatory profit subtotals
- Improved disaggregation and tightening of requirements to present analysis of operating expenses
- More transparency and guidance in the use of management performance measures
- Have your say – Comment deadline is 30 June 2020

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### Proposed changes to how companies report their financial performance in response to investors' demand for more comparability.

A re-shaping of the presentation of financial statements to improve their usefulness is proposed under a new IFRS® Standard that would replace IAS®1 *Presentation of Financial Statements*.

Proposals from the International Accounting Standards Board (the Board) in their exposure draft (ED) **General Presentation and Disclosures** could introduce significant changes for many companies in how they present and/or disclose financial information in the financial statements, particularly in the income statement. Presentation choices in the cash flow statement would also be reduced, improving comparability.

### Proposed new income statement structure

With no set structure for the income statement under current IFRS Standards, companies use different formats to present their results, making it difficult for investors to compare financial performance across companies.

Under the proposals, companies would be required to present three new subtotals in their income statement, effectively allocating their income and expenses between four major categories, as shown in the illustration [here](#).

**"The proposals offer greater comparability and transparency in financial statement presentation – a clear benefit to investors and other users. Companies may see significant changes in their income statement – with new subtotals and/or aligning their self-defined subtotals with the new definitions in the proposals. The impact on companies may vary, depending on current presentation practice under IFRS Standards."**

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Income and expenses from 'integral' associates and joint ventures would be presented separately in the income statement. Determining which of its equity-accounted associates and joint ventures are 'integral' could require a company to make potentially significant judgements.

When classifying income and expenses into each of the categories, companies would also need to consider the nature of their business activities. For example, if a company provides financing to customers as its main business activity (e.g. a bank), it would classify in the operating category, income and expenses from financing activities, and interest and expenses from cash and cash equivalents related to providing financing to customers.

## Improved disaggregation and analysis of operating expenses

As well as changes to the structure of the income statement, the proposals introduce new requirements for companies to provide an analysis of their operating expenses on the face of the income statement – either by nature or function – selecting the method that provides the 'most useful' information. The proposed approach would explicitly prohibit 'mixed presentation' of operating expenses on the face and would remove the option to present analysis in the notes only.

To further improve disaggregation, the proposals introduce disclosure requirements and guidance for 'unusual' items and other changes to discourage aggregation of items into large, single numbers.

The proposals also introduce more transparency and guidance on the presentation of management's own performance measures<sup>1</sup> (MPMs).

## More transparency and guidance in the use of MPMs

Companies are increasingly using 'non-GAAP information' to explain their financial performance because it allows them to tell their own story and provides investors with useful insight into a company's performance.

Acknowledging investors' demand for MPMs, the Board is proposing that MPMs used in public communications outside the financial statements are required to be disclosed in a single note to the financial statements. Companies would also be required to explain why the measures provide useful information and how they are calculated, and provide a reconciliation to the most directly comparable profit subtotal specified by IFRS Standards.

These proposals are broadly aligned with guidelines prescribed by regulators on **alternative performance measures** (APMs) disclosed outside the financial statements.

## Have your say – Comment deadline is 30 June 2020

The proposals are open for comment until 30 June 2020. We encourage preparers and users of financial statements to read the proposals and take this opportunity to shape the future of financial reporting.

Look out for our detailed analysis of the proposals in our *New on the Horizon* publication coming soon.

For further information on the proposals, speak to your KPMG contact.

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1. The ED defines management performance measures (MPMs); these measures are currently commonly known as non-GAAP measures, alternative performance measures (APMs), or key performance indicators (KPIs).

# Proposed new income statement

Example income statement		Proposed category	What is included
Revenue	20XX X		Information about income and expenses from a company's main business activities
Operating expenses (analysed by nature or by function as appropriate)	(X)	<b>Operating</b>	All income and expenses recognised in profit or loss unless they are classified in other categories
<b>Operating profit</b>	<b>X</b>		
Share of profit or loss of integral associates and joint ventures	X	<b>'Integral' associates and JVs</b>	Share of profit or loss and related income and expenses of integral associates and joint ventures. Integral associates and joint ventures are equity-accounted associates and joint ventures that are integral to the main business activities of the company and hence do not generate a return individually and largely independently of the other assets of the company
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>X</b>		
Share of profit or loss of non-integral associates and joint ventures	X	<b>Investing</b>	Information about returns from investments that are generated individually and largely independently of other resources held by a company
Income from investments	X		
<b>Profit or loss before financing and income tax</b>	<b>X</b>		
Interest revenue from cash and cash equivalents	X	<b>Financing</b>	Information about income and expenses from assets and liabilities related to a company's financing
Expenses from financing activities	(X)		
<b>Profit before tax</b>	<b>X</b>		
Income tax	X		
<b>Profit for the year</b>	<b>X</b>		

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