



# Re-shaping presentation in financial statements

9 January 2020



Gabriela Kegalj  
KPMG's global IFRS presentation leader

**“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.”**

Gabriela Kegalj  
KPMG's global IFRS presentation leader

## 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

---

### 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](#).

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.

---

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                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------|----------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                             | 20XX     |                                        |                                                                                                                                                                                                                                                                                                                                                                            |
| Revenue                                                                                     | X        | } <b>Operating</b>                     | Information about income and expenses from a company's main business activities<br>All income and expenses recognised in profit or loss unless they are classified in other categories                                                                                                                                                                                     |
| Operating expenses (analysed by nature or by function as appropriate)                       | (X)      |                                        |                                                                                                                                                                                                                                                                                                                                                                            |
| <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> |                                        |                                                                                                                                                                                                                                                                                                                                                                            |

Publication name: *Re-shaping presentation in financial statements*

Publication date: January 2020

© 2020 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative ('KPMG International') is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind any member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

*This publication contains copyright © material and trademarks of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit [www.ifrs.org](http://www.ifrs.org)*

**Disclaimer:** To the extent permitted by applicable law the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.