



Brewing Over

Proposed amendments to the way in which we present financial information in the financial statements – Part 2

This article is the second instalment of a 3 part series, and considers the Exposure Draft (ED) titled 'General Presentation and Disclosures' which is expected to replace IAS 1 *Presentation of Financial Statements*.

Some of the changes the ED proposes include the following:

- A new income statement structure,
- The disaggregation of information and
- required disclosures for non-GAAP measures

Part 1 considers the new income statement structure. This article, will consider the second bullet above, and part 3 addresses non-GAAP measures.

To start off this article I want to pose the question – what is the role of the financial statements?

IAS 1 states the purpose of financial statements is to provide financial information (that is both relevant and reliable)... that is useful to a wide range of users in making economic decisions¹. Ultimately, financial statements are the result of processing large numbers of transactions or other events, which are grouped together into classes which eventually form the line items disclosed.

Currently, IAS 1 does provide guidance for materiality and aggregation, which requires “*an entity to present separately each material class of similar items, and separately items of a dissimilar nature or function unless they are immaterial. If a line item is not individually material, it is aggregated with other items either in [primary] statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant*

¹ IAS 1 para 9



separate presentation in the notes.”²

The application of the above requires materiality judgements to be applied – something of a struggle for many preparers. Therefore, in response to this, as part of the boards project on Better Communication in Financial Reporting, they have issued a Practice statement ‘Making materiality judgements³’ – which is a whole other subject matter for discussion.

Considering the financial statements from the perspective of the users and investors though, some have indicated the challenge they face when they are required to unpack an entities reported information because items are grouped together without sufficient or appropriate labelling and or explanation.

Some investors have requested that preparers provide more granular information and that information is grouped in a way to allow for better analyses.

Others investors feel preparers at times disclose too much detail.

The board, through the ED, is therefore proposing to introduce additional guidance for disaggregating information in an attempt to address these concerns.

What has the board proposed?

² IAS 1 para 29 - 30

³ This document is available on the IASB website.

The ED includes the boards description of the role of the primary financial statements and the notes.

- The role of the primary statements is to provide a structured and comparable summary of the recognised assets, liabilities, income, expenditure and cash flows. This is useful for a user to obtain an overview, make comparisons between entities, and identify items which they may wish to seek additional information in the notes.
- The notes are to supplement and provide further information necessary for the users to understand the primary financial statements.

These descriptions are expected to help preparers decide where to present or disclose information – on the face of the primary statements, or in the notes.

The board proposes introducing principles for aggregation and disaggregation. These principles require a preparer to do the following:

- 1) identify assets, liabilities, income or expenditure that arise from individual transactions or events
- 2) classify these items into groups based on shared characteristics – so that the item disclosed in the primary financial statements include those which share at least one common characteristic
- 3) separate those items based on further characteristics (if applicable), which would



result in the separate disclosure of material items in the notes supporting the primary financial statements

In addition, the ED provides more guidance around the grouping of dissimilar immaterial items in such a way to avoid obscuring relevant information. In disclosing groupings of immaterial items, preparers should ensure they include meaningful labels or descriptions, and should avoid the use of descriptions such as “other expenses”.

Lastly, the ED requires disclosure of specific additional line items in the primary statements, for example, Goodwill in the Balance sheet.

The expectation though, is that the application of this guidance will result in better communication through the financial statements. Views expressed to date, largely seems to indicate support for the above proposals.

The comment letter period for this ED ended on 30 September 2020.

At this stage, there is no set date for when these amendments may be effective.

Note: Disaggregation of operating expenses by nature or function, and the proposed disclosure requirement for unusual items of income and expenditure have been addressed in Part 1 (where proposed amendments to the income statement have been considered) although do also form part of the boards response to the issue at hand.

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