



## THE 14<sup>th</sup> ANNUAL AOSSG MEETING

*Joining hands in regional cooperation and the development of IFRS*

*November 15-16, 2022, Hybrid Meeting*

### Presentation and Disclosure Working Group

#### Primary Financial Statements

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# Overview

## Project Overview



## Background

- In August, IASB requested for help related to targeted outreach from ASAF members
- AOSSG secretariat shared the IASB's email and outreach materials with the AOSSG members
- As an ASAF member, AOSSG has received the updates and materials for the outreach to date
- Thus, this session focuses on gathering members' opinions on each of the IASB's topic

# Objective

## PFS Project

- The objective of this session is:
  - ✓ **To gather** preliminary feedback from AOSSG members regarding IASB's outreach on a targeted selection of its tentative decisions (four topics) and,
  - ✓ **To share** members' views and insights as well as feedbacks from Korean stakeholders obtained from IASB's outreach in Korea in October

# Topic (Primary Financial Statements)

#	Outreach Topic
1.	Disclosure of operating expenses by nature
2.	Management performance measures (MPMs)
3.	Subtotals and categories – Financing category
4.	Unusual income and expenses

I

**Disclosure of  
operating expenses  
by nature**

# Disclosure of operating expense by nature

➤ IASB has tentatively decided to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss

## ■ Comparison of Exposure Draft and revised proposal

Statement of profit or loss	202X <sup>1</sup>
Revenue	3000
Cost of goods sold	(600)
<b>Gross profit</b>	<b>2400</b>
Other income	500
Selling expenses	(400)
Research and development expenses	(300)
General and administrative expenses	(200)
Impairment losses on trade receivables	(100)
<b>Operating profit (loss)</b>	<b>1900</b>

<sup>1</sup> Comparative reporting period not depicted in example for simplification purposes

Exposure Draft proposal	202X <sup>1</sup>
Changes in inventories of finished goods and work in progress	200
Raw material used	(400)
Reversal of inventory write-downs	50
Depreciation	(500)
Employee benefits	(400)
Amortisation	(100)
Impairment of property, plant and equipment	(100)
Impairment losses on trade receivables	(100)
Property taxes	(25)
Litigation expenses	(100)
Gains (losses) on derivatives	(25)
Other miscellaneous expenses	(100)
<b>Operating expenses total</b>	<b>(1600)</b>

Revised proposal (illustrating depreciation and employee benefits) <sup>2</sup>	202X <sup>1</sup>
<b>Depreciation</b>	<b>(500)</b>
Cost of goods sold	(250)
Selling expenses	(150)
Research and development expenses	(50)
General and administrative expenses	(50)
<b>Employee benefits</b>	<b>(400)</b>
Cost of goods sold	(200)
Selling expenses	(100)
Research and development expenses	(50)
General and administrative expenses	(50)

<sup>2</sup> Amortisation not illustrated. Additional specified nature expenses may be required in the final proposal

# IASB Outreach Feedback (Korea)

**Q1.** Does disclosing the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss provide a better balance of costs and benefits than the proposal in the Exposure Draft?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparer:**
    - most agreed that the revised proposal provides a better balance of costs and benefits than ED
    - are of the view that such disclosure are commercially too sensitive to make public as it will have detailed cost information
    - asked a question regarding definition and classification of cost of sales
  - **User:**
    - supported the IASB's revised proposal, but viewed that this disclosure requirement will not add too much burden for larger companies with well-structured accounting system, whereas it may put undue costs and efforts for small and mid size companies that do not have sufficient resources including a system

# IASB Outreach Feedback (Korea)

**Q2.** Do you think the list of line items included in question 1 should also include impairments and write-downs of inventories? Why or why not?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparer:**
    - Not supportive of including those items because of the reason that it will not be useful as the write-down of inventories are generally included in the cost of sales, and not allocated to other function; also, write-down of inventories is already required to be disclosed in the notes according to IAS 2
    - For the similar reason, not supportive of including impairment

# IASB Outreach Feedback (Korea)

- Q3.** Do you think requiring an entity to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss would provide a similar balance between costs and benefits as the revised proposal described in question 1? Why or why not?
- Q4.** Do you think an undue cost or effort relief to the proposed requirement in question 3 is required to achieve the right balance between improving disclosures provided by entities and ensuring that entities do not incur excessive costs to provide information? Why or why not?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparer:**
    - Most said that the cost and benefit balance will depend on how sophisticated accounting systems an entity has. Also, In case of preparing consolidated financial statements, it will be difficult to prepare a complete information in the consolidated financial statements, if one subsidiary provides functional information for all items of expense by nature, while another subsidiary provides only some items due to undue cost or effort reason

# IASB's Question (Operating expenses)

1. Does disclosing the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss provide a better balance of costs and benefits than the proposal in the Exposure Draft?
2. Do you think the list of line items included in question 1 should also include impairments and write-downs of inventories? Why or why not?
3. Do you think requiring an entity to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss would provide a similar balance between costs and benefits as the revised proposal described in question 1? Why or why not?
4. Do you think an undue cost or effort relief to the proposed requirement in question 3 is required to achieve the right balance between improving disclosures provided by entities and ensuring that entities do not incur excessive costs to provide information? Why or why not?

# II

**Management  
performance  
measures (MPMs)**

# Revised definition of MPMs

Subtotals of income and expenses not specified by IFRS Accounting Standards that:

Are used in public communications outside financial statements (excluding oral communications, transcripts and social media posts)



Communicate management's view of an aspect of an entity's financial performance

Rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance—rebutted with reasonable and supportable evidence

The rebuttable presumption is intended to\*:

- reduce the subjectivity involved in identifying the subtotals that represent management's view; and
- avoid requiring entities to include as management performance measures, subtotals of income and expenses that do not represent management's view of an aspect of the entity's performance

- \*objectives for rebuttable presumption

# MPM Reconciliation - Example

<b>Adjusted operating profit (MPM)</b>	<b>52,870</b>	<b>Tax</b>	<b>NCI</b>
Restructuring in Country X (included in employee benefits)	(5,400)	900	(1,020)
Revenue adjustment (included in revenue)	(6,200)	1,550	-
<b>Operating profit (IFRS-specified)</b>	<b>41,270</b>		



Simplified approach to calculating the tax effect

# IASB Outreach Feedback (Korea)

- Q1. (*Rebuttable presumption*)** Do you think that establishing the rebuttable presumption that a subtotal of income and expense included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance will achieve the objectives described in slide 13? Why or why not?
- Q2.** If not, what alternative approach would you suggest and why?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparers:**
    - generally agreed with the revised proposal
    - are of view that at this time MPM seems to be a low-relevance issue in accounting practice in Korea, because most companies in Korea use operating profit or loss defined by K-IFRS (different than IFRS) as their main performance measures and have no other sub-totals identified as MPM in the ED or revised proposal
    - But because the definition of operating profit or loss under new IFRS standard is different than that of K-IFRS, it will make the MPM an important issue in practice
  - **Users:**
    - supportive of MPM disclosure, but the transitional progress should be considered

# IASB Outreach Feedback (Korea)

**Q3. (Simplified approach to tax on reconciling items)** Does the IASB's tentative decision to revise the method used to calculate the tax effect in slide 14 provide a better balance of costs and benefits than the proposal in the Exposure Draft?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparers:**
    - concerned that the requirement to disclose the tax and NCI effect for reconciliation between MPM and the most directly comparable IFRS is the most burdensome of the MPM disclosure requirement
  - **Auditors:**
    - auditing such tax effect and NCI effect on reconciling items will be difficult and may cause some issues. More simplified approach on those disclosure need to be considered, such as disclosing the tax rates rather than tax effects

# IASB's Question (MPMs)

## ***2.1 Rebuttable presumption***

1. Do you think that establishing the rebuttable presumption that a subtotal of income and expense included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance will achieve the objectives described in slide 13? Why or why not?
2. If not, what alternative approach would you suggest and why?

## ***2.2 Simplified approach to tax on reconciling items***

3. Does the IASB's tentative decision to revise the method used to calculate the tax effect in slide 14 provide a better balance of costs and benefits than the proposal in the Exposure Draft?

# III

## **Subtotals and categories – Financing category**

# Revised proposal for the financing category

## All income and expenses from liabilities that involve only the raising of finance

A transaction that involves only the raising of finance is a transaction that involves:

- The receipt by the entity of cash, an entity's own equity instruments or a reduction in a financial liability; and
- The return by the entity of cash or an entity's own equity instruments

For example, a typical loan contract involves only the receipt of cash and the return of cash

## Interest expense and the effects of changes in interest rates from other liabilities

For other liabilities, including lease liabilities, **interest expense and the effect of changes in interest rates** are classified in the financing category when such amounts are identified applying the requirements of IFRS Accounting Standards (eg IFRS 16, IAS 19 or IAS 37)

For example, a lease liability involves the receipt of a right-of-use asset and the return of cash

- The revised approach is intended to make the proposals easier to apply and is not expected to result in a change in the income and expenses classified in the financing category
- However, lease liabilities and amounts payable for goods or services will be captured by 'specified income and expenses from other liabilities'

# IASB Outreach Feedback (Korea)

**Q1.** Is the revised proposal for classifying income and expenses within the financing category clearer and easier to apply than the proposal in the Exposure Draft? If not, what alternative approach would you suggest and why?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **Preparers:**
    - agreed that the new definition of financial category that the IASB has proposed seems to be easier to understand using more intuitive and easier terms than the proposal in the ED

# Questions (Subtotals – financing category)

1. Is the revised proposal for classifying income and expenses within the financing category clearer and easier to apply than the proposal in the Exposure Draft? If not, what alternative approach would you suggest and why?
2. Are you aware of any issues that may arise from the expected change in outcome from the Exposure Draft for lease liabilities and amounts payable for goods and services received discussed on slide 19?
3. Does the revised proposal for classifying income and expenses in the financing category result in a change from the proposals in the Exposure Draft for the classification of any income and expenses from liabilities other than lease liabilities and amounts payable for goods and services received?

# IV

## **Unusual income and expenses**

# Unusual income and expenses

The Exposure Draft proposed a definition of unusual income and expenses and disclosure requirements (for example, an entity would disclose the line item(s) in the statement of financial performance in which unusual income and expenses are included and narrative information)



Feedbacks: although most agreed with developing a definition, they said that the definition was too subjective, and that more application guidance was required

- The IASB has been working on a revised definition of unusual items – focusing on reducing the subjectivity and limiting the population of items captured by the definition
- Discussions with stakeholders and IASB members over the last nine months have not led to a consensus on what the population of unusual income and expenses should be



The IASB tentatively decided not to proceed with the specific requirements for unusual income and expenses as part of this project

# IASB Outreach Feedback (Korea)

Q1. Do you have any comments on the IASB tentative decision to withdraw the proposals for unusual income and expenses?

## Korean Stakeholder Comments

- ❑ Summary of Korean stakeholders' comments:
  - **All stakeholders:**
    - supported the IASB's tentative decision to withdraw the proposals for unusual income and expense, because due to its nature, it will be difficult to provide a consistent definition and to ensure comparability between companies

# Questions (Unusual income and expenses)

1. Do you have any comments on the IASB tentative decision to withdraw the proposals for unusual income and expenses?

# Appendix - IASB Outreach material (PFS)

- Refer to the appendix file shared with this presentation material

# Thank You

