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International Accounting Standards Board
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United Kingdom

Comments on Exposure Draft (ED/2019/7) on General Presentation and Disclosures

1. Question 1—operating profit or loss

Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

This is a welcoming proposal that entities have to present operating profit in the Statement of Profit or Loss and we agree with the proposal.

2. Question 2—the operating category

Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board’s reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

We do not agree that operating category should be residual category. As it is related with main activities of an entity, some concrete definition should be identified and some typical examples may be quoted for various types of entities (financial, manufacturing, construction, service etc.). Guidance may also be provided for some abnormal items like loss by fire (for stock and for asset etc.) related to where to classify them.

3. Question 3—the operating category: income and expenses from investments made in the course of an entity’s main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity’s main business activities.

Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board’s reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Main business activity needs to be elaborated and illustrated as it may be quite confusing for some businesses.

It is proposed that main business may be defined as contributing more than half revenue to total revenue of the entity.

4. Question 4—the operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board’s reasons for the proposals.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Yes, we agree with the proposal that interest earned from customers should be shown in operating category but again it demands that operating category should be clearly defined.

5. Question 5—the investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity’s main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board’s reasons for the proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposal as it is in line with the spirit of Statement of Cash Flows but related incremental expenses needs to be elaborated and illustrated further.

6. Question 6—profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board’s reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree with proposal provided there is no mismatch in statement of profit or loss and statement of cash flows except for non-cash items. If so, guidance should be provided necessary amendments should made in IAS 7.

7. Question 7—integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We are of the view that classification of JVs and associates into integral and non-integral will create confusions as no basis has been recommended in the exposure draft. Further, IFRS 12 already deals with material JVs and associates and prescribes relevant disclosures and reconciliations to be given in notes by the entities. We think these disclosures are sufficient for users.

8. Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board’s reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

For aggregation requirements, some aggregation becomes necessary even without having shared characteristics. But once an item is determined immaterial and aggregated accordingly, no further information or explanation should be needed to be presented in the notes.

9. Question 9—analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board’s reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Providing choice to entities to give analysis of operating expenses either by nature of expense method or function of expense method is a welcoming proposal. At present, entities are using any one of the two methods for the same. But paragraph 72 requires to provide an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes, this will create an extra cost burden for those who are using function of expenses method. These entities will have to change their accounting system and are required to collect data on both methods. Further, uniformity in classification of operating expenses be maintained in cost accounting and financial accounting in integrated accounting system.

10. Question 10—unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of ‘unusual income and expenses’.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

No Comments

11. Question 11—management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

Key management performance ratios be identified as done by Uday Kotak Committee on Corporate governance in India.

12. Question 12—EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

Several entities are reporting EBITDA while several are not. We are not in a position comment on this but recommend further research on this topic.

13. Question 13—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board’s reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

There is a mismatch between statement of cash flows and statement of profit or loss as IAS 7 requires to transfer all interest expenses to financing section, but some interest (like those which occur in the course of main business activity as mentioned in Q. 3) should be shown in operating category of statement of profit or loss. Similarly IAS 7 requires all interest and dividends received should be shown as investment category whereas those interest income which is earned from sale to customers, should be shown in operating category in statement of profit or loss. Such mismatch would create confusion and make financial statements principally inconsistent.

14. Question 14—other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

ED is an attempt to consolidate disclosure requirement in relevant standards in one place. It will add to complication and operational difficulties due do delinking of disclosure

requirement from relevant accounting standard. This may be good from professional firm's vested interest in complication but not from simplification and ease of operation need of clients' view-point.

Drafted by the Committee of the following:

Prof. N. M. Khandelwal	Convener
Prof. G. Soral	President, Indian Accounting Association
Dr. Shilpa Lodha	Member