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## Article

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Proposal for improved financial statements under IFRS

Kjell Magne Baksaas<sup>\*1</sup> and Tonny Stenheim<sup>1</sup>

**Abstract:** The benefits that users gain from financial statements depend on clear and concise presentation of the underlying economics. The current IFRS regulation on presentation of primary financial statements suffers from several flaws. This paper identifies and analyzes these flaws using illustrative examples from large accounting firms. Based on this discussion we present a set of alternative financial statements. The paper concludes with proposed modifications of the current financial statements under IFRS.

**Subjects:** Financial Accounting; Financial Statement Analysis; International Accounting

**Keywords:** Primary financial statements; statement of financial performance; statement of financial position; decision usefulness; business model; presentation

**JEL:** M48; G15

### 1. Introduction

The purpose of financial statements is to communicate economic information (IASB, 2018a). The benefits of financial information depend on clear and concise presentation of the underlying

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### PUBLIC INTEREST STATEMENT

The benefits that users gain from financial statements depend on clear and concise presentation of the underlying economics. The current IFRS regulation on presentation of primary financial statements suffers from several flaws. This paper identifies and analyzes these flaws using illustrative examples from large accounting firms. Based on this discussion we present a set of alternative financial statements. The paper concludes with proposed modifications of the current financial statements under IFRS.

economics with focus on understandability and comparability. It is a paradox that IFRS carefully regulates the recognition and measurement of accounting items along with additional disclosures, but devotes far less attention to how these items should be presented in the financial statements. This is rather surprising given that the decision usefulness of financial information not only depends on the quality of recognition and measurement of accounting items but strongly depends on the classification and presentation of these items. Moreover, the general trend towards digitalization (Bhimani & Willcocks, 2014; CFA Institute, 2016; Efimova & Rozhnova, 2018) should enable accounting systems, which have the capacity and capability to produce improved presentations at a low cost.

In the accounting literature, there is a growing interest and discussion about presentation, in particular in relation to disclosures (Elkins & Entwistle, 2018; Hellman, Carens, & Gutierrez, 2018; Beyer, Cohen, Lys, & Walther, 2010; EFRAG, the ANC and FRC, 2012, IASB, 2019a<sup>1</sup>). Moreover, IASB, the international standard setter, has an ongoing project on primary financial statements (2018c). Still, there seems to be a need for a discussion on what characterizes high-quality presentations, and the extent to which these presentations can be made available within the constraints of efficient information production. The reporting entity is responsible for the communication process (IASB, 2018a; KPMG, 2016, Thornton, 2016; BDO, 2018). However, IASB has the responsibility to provide regulations that contribute to effective comparability, understandability, and clarity across entities and countries. This paper identifies and discusses some of the main flaws and limitations of current IFRS regulation of financial statements (IAS 1), and proposes an alternative classification of financial statement items.

The paper is structured as follows: First, we give an overview of current IFRS regulation of financial statements along with all relevant ongoing IFRS projects on financial statement regulation. Second, we pinpoint flaws and limitations in the current IFRS regulation on presentation, supported by an analysis of illustrative examples of primary financial statements for the year 2015 and the year 2018 from the largest accounting firms. Our investigation includes illustrative examples of “Statement of financial position”, “Statement of financial performance”,<sup>2</sup> and “Statement of cash flows” from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. In the final part of the paper, we conclude with a modified version of the current financial statements under IFRS.

## 2. Regulation of financial statements under IFRS

### 2.1. Current regulation of financial statements

The financial statement regulation under IFRS is basically found in IAS 1 *Presentation of financial statements and accounting policies*. According to the standard’s prescriptions, a complete set of financial statements consists of statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, and notes with a summary of significant accounting policies and other additional disclosures (IAS 1.10). The specific outline of these statements is not regulated in detail. Thus, the structure and the aggregation level at which information is presented are at the entities’ own discretion. Still, there are limitations to this discretion. IAS 1.29 states that: “An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial”. In particular, entities must pay attention to liquidity, time horizon, and measurement bases, when deciding the aggregation level of accounting items (IAS 1.59). The standard includes a list of items that must be disclosed separately, if material, in the statement of financial position (IAS 1.54). Details on the order, grouping, and subtotals are left to the entities to decide. Two overall formats are available for statement of income: classification of items by nature or by function. The standard only requires four items to be disclosed separately in the statement of income, that is, revenue (IAS 1.34), financial costs, profit or loss of associates and joint ventures accounted for according to the equity method, and tax expenses (IAS 1.82). Details on the order, grouping, and subtotals are basically left at the entities’ discretion.

If the entity changes accounting principles or presentation format, the standard requires a disclosure to be made of the financial position at the beginning of the preceding period (IAS 1.40A). IAS 7 *Cash Flow Statements* include additional regulation of the statement of cash flows. This statement must be structured into four sections: cash flows from operating activities, cash flows from investing activities, cash flows from financing activities and finally a section with cash. The nature of IAS 7 is descriptive as it gives examples on cash flows which belong to each of the four sections. Two main formats, however, are optional: the direct and the indirect method (IAS 7.18). Regulation of financial statements is also found in some other IFRS-standards such as IFRS 5 (IFRS 5.30 to 41), IFRS 15 (IFRS 15.105 to 109) and IFRS 16 (IFRS 16.47 to 50). For details, consult these standards. Some standards also allow entities to either disclose information as part of the financial statements or as additional disclosures.

IASB has recently made amendments to IAS 1 and IAS 8 (2018: effective from 2020) in order to clarify the concept of “materiality”. Our findings in appendix A indicates that materiality is an important issue in primary financial statements. Across all the illustrative examples, accounting items are presented on separate lines in the statement of financial positions even though the amounts are less than 0,5% of total assets. This is also the case when it comes to accounting items in statement of comprehensive income. Amounts that counts less than 0,5% of total revenues are disclosed on separate lines. In our opinion these lines are immaterial.

## **2.2. The process of developing a new regulation of financial statements**

IASB and FASB, the US standard setter, had an ambition that IFRS and US GAAP standards should converge into one set of accounting standards. One of their projects has dealt with a joint regulation of financial statements. In 2001, both standard setters developed independently a project on new regulation of financial statements, and three years later, they merged these into one joint project. A discussion paper, entitled “Preliminary Views on Financial Statement Presentation” was published in 2008 (IASB, 2008). The standard setters recognized that the exercise of tracking the impact of transactions and economic events across various financial statements is challenging. A follow-up of this discussion paper was published in 2010: “Staff Draft of Exposure draft” (IASB, 2010b). According to this paper, all financial statements should be structured in (i) a business section, with two subsections, operating and investing, (ii) a financing section, (iii) an income tax section, (iv) a discontinued operation section, and finally (v), a multi-category transaction section. The draft suggests unified classification criteria of accounting items across financial statements based on function, nature and measurement method (paragraph 47). This project was put on a hold in 2010. In the meantime, IASB has initiated a project on better communication in financial reporting (IASB, 2019a). As part of this project, IASB has launched a subproject on “Primary Financial Statements” (IASB, 2018c), which has a more narrow scope, focusing on targeted improvements to the statement(s) of profit or loss and other comprehensive income and to the statement of cash flows. Some of the issues lacking in the paper are addressed in this project (IASB, 2018c).

The earlier version of the conceptual frameworks under IFRS lack any guidance to presentation and additional disclosure (IASB, 2010c). The current IFRS conceptual framework (IASB, 2018a), however, contains a chapter (chapter 7) on presentation and additional disclosures. The draft emphasizes that the fundamental consideration when it comes to presentation is the unit of account (IASB 2018 paragraph 4.51). The presentation format should be derived from a concept of similarity, information that share similar characteristics should be presented together, a concept of aggregation, one or various aggregation levels, and a concept of comparability, information should be comparable between entities and reporting periods. When classifying an item (asset, liability, equity, income or expense), the entity must consider, among other things, what characteristics that are important for the entity’s business activities, the nature of the item, its role (function) in the business activities, and how it is measured. In our opinion, this last section about objectives and principles is the one that is least developed in the IFRS conceptual framework.

### 3. Financial statements and decision usefulness

The overall purpose of financial reports is to provide decision useful information (Scott, 2015). Information is decision useful if the information can help accounting users to make better and more informed decisions. IAS 1.7 states that “General purpose financial statements (referred to as ‘financial statements’) are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.” The IFRS conceptual framework states that the primary users are capital providers, that is, existing and potential shareholders and debtholders (IASB 2018 paragraph 1.2 to 1.5).

Since decision usefulness is the metric towards which accounting alternatives should be elaborated, which also includes various ways in which accounting information can be presented, it is useful for the purpose of this paper to make a closer look at what is meant by decision useful information. First, we present the valuation purposes (the ex-ante role) of financial accounting information and second, the stewardship purposes (the ex-post role) (Beyer et al., 2010).

#### 3.1. Valuation purposes

The users need information useful to form predictions of future cash flows in order to make investment decisions. The financial report is not intended to present entity value estimates as such, but to provide information useful for valuation purposes (IASB, 2018a paragraph 1.7). In theoretical terms, fair value equals the present value of future cash flows where cash flows and risk parameters are based on expectations of market participants. The amounts, the points in time where cash flows will occur and the uncertainty inherent in these cash flows will all be embedded in the fair value estimates. However, valuation usefulness of the financial reports is not dependent on the disclosure of fair value information. Historical cost information will hold prediction capabilities given a stable environment.

The importance of the predictive ability of the financial reports was demonstrated in a project led by FASB on users’ needs. FASB interviewed various users about their information needs (FASB, 2005). The interviews underpinned the users’ need of forward-looking information and, in particular, information useful to forecast cash flows for the next 2–3 years.

The literature demonstrates the usefulness of financial statements in cash flow prediction. Barth, Cram, and Nelson (2001) present a model, which demonstrates how accrual accounting helps in the prediction of future cash flows. They reveal that the disclosure of various types of accruals increase the possibility for high-quality cash flow prediction. The quality of these predictions, however, hinges on the disclosure. If the financial statements fail to disclose each type of accruals, high-quality prediction of future cash flows will be much harder to accomplish.

Some accounting items, however, have little or no predictive value. This is, for instance, the case for accounting items related to sold or liquidated businesses (Kvaal, 2008). IFRS 5 gives important instructions on the presentation of discontinued operations. The same lack of predictive value goes for non-recursive items, i.e., items that only occur once or a few times in an entity’s life. When doing investment analysis, the capital invested, such as the working capital, is of particular interest which part of the total capital is related to business activities and not (Gjesdal, 2007). Along with working capital, capital employed, defined as the sum of equity and the interest-bearing liabilities, is of interest when doing investment analysis.

#### 3.2. Stewardship purposes

Managers are appointed by the shareholders to act on their behalf. The shareholders (and debtholders) provide capital and the managers are supposed to act in a way such that the shareholders (and debtholders) receive a reasonable rent on their investment (Jensen & Meckling, 1976). Still, there is a risk that the managers act in their self-interest rather than in the interests of the shareholders (and debtholders). The agency-theory explains why such opportunism occurs and what mechanisms that may prevent such opportunism. The financial report plays an essential role

as an instrument when controlling and monitoring principal-agent relationships, in particular when it comes to the manager-capital provider relationships. This point was also emphasized by accounting users in the FASB's User Advisory Council in 2003 (FASB, 2005, section 2 paragraph 9). The current IFRS conceptual framework clearly points out stewardship purposes as one of the two primary purposes of financial reports (IASB, 2018a paragraph 1.2c and paragraph 1.18 to 1.22).

Gjesdal (1981) shows that financial reports must be adapted with the purposes of accounting information in mind. He demonstrates analytically that it is difficult or even impossible to meet both the valuation and stewardship purposes in one single financial report. This means that entities must make alternations and compromises in order to present financial reports, thereby financial statements, that meet the valuation or the stewardship purpose. Referring to a laboratory experiment, Anderson, Hodder, Leslie, and Hopkins (2015) argue that fair value estimates enable the users to perform analysis of endogenous and exogenous factors. As stated by Anderson et al. (2015, p. 100): "Collectively, our results suggest that investors' stewardship decisions are improved because fair value information more transparently provides the information required to properly consider the opportunity costs associated with managers' actions and disentangle endogenous actions by managers from exogenous market forces that are outside of managers' control, and thus mitigate correspondence bias." Still, it can be argued that this will depend on users getting sufficient information about both historical cost and fair value estimates.

When using financial reports for stewardship purposes, the accounting users want to disentangle the effect of the managers' dispositions (endogenous causes) from external market factors outside managers' control (exogenous causes). When assessing the managers' actions and decisions, the accounting users will need information on the intent or the purpose of acquiring an asset or a liability. Is the asset part of the operating cycle (for sales and delivery of goods and services, or input in production), or is it obtained for investment purposes? For the latter purpose, the managers' intent is to achieve gains from exogenous fluctuations. Given that intent, a fair value estimate will probably be most relevant also for stewardship purposes.

#### 4. Flaws and limitations in financial statements

The purpose of financial statements is to help managers to communicate economic information and to improve decision usefulness (IASB 2018). As an illustration, the large accounting firms Grant Thornton (2016) and KPMG (2016) named their publications on financial statements "Telling your story" and "Room for improvement," respectively. IASB has acknowledged the importance of this issue and has emphasized "Better communication in financial reporting" as one out of four focal topics in the work plan 2017 to 2021 (IASB, 2016, p. 2019). As a "bigger picture": "Financial reporting is not just about technical compliance, but also effective communication" (KPMG, 2018, p. 4).

The current financial statements suffer from several communication flaws. First, financial statements are generally very standardized in their formats in order to minimize their cost of preparation. A standardization that leads to uniformity may harm decision usefulness as little entity-specific adjustments are made to the financial statements. Second, the financial statements are generally not aligned with the entities' business models. Lastly, the various statements are weakly aligned with each other. IASB and FASB have summarized the criticism of financial statements in a joint discussion note (IASB, 2008 section 1.11 to 1.17) which we refer to below.

The different financial statements classify the items according to different criteria. There is a lack of cohesive objective, in the meaning of "linkage" or "articulation", between financial statements (Moehrle et al., 2010). Under current regulation, it is difficult for an external reader to follow an item or transaction across the financial statements. The statement of profit or loss is structured according to nature or function, the statement of financial position has structured the items in current and non-current (or according to liquidity), and the statement of cash flows is structured



into operational, investment and financial activities. It seems that this issue is not sufficiently addressed in the IASB project on primary financial statement (2018c).

There exists no guidance of presentation item by item. This results in different variants and inconsistent solutions in practice that makes it difficult to analyze the activities of the entities. Our investigation of the illustrative examples from the large accounting firms demonstrates this problem (appendix A). As a result of the lack of guidelines of the order of accounting items in each section of the statements, the users have to search for them, which is time-consuming and inefficient.

There are too many options in the standards. Direct and indirect method for cash flow analysis is an example. PwC (2007) reports that investors and analysts in interest-bearing securities are least satisfied with the present financial statements. They criticize in particular the statement of cash flows.

The users report that the present statements are too aggregated. The main problem is that items with different characteristics and measurement methods are combined, especially in the statement of financial position. Items measured at fair value and historical cost are reported on the same line. Kvaal (2008) calls for a clear separation between interest-bearing liabilities and other obligations. Current presentation of costs is also too aggregated. Some of the challenges with too much aggregated information are probably solved for the statement of profit or loss by the segment disclosures in IFRS 8.

There were also comments on subtotal “operating profit” and presentation of “other comprehensive income”. We include these in section 4.4.

#### **4.1. Undesirable standardization**

The current IFRS regulation of financial statements offers significant discretion when it comes to structure and content of the financial statements. The lack of specific, detailed regulation is based on an assumption of non-opportunistic managers, who make disclosure decisions in the intent to inform and not mislead accounting users.

We argue that without regulations, other criteria than decision usefulness could be significant for the practice of financial statement preparation. A common observation is that financial statements turn out to be “boilerplates” as a result of uncritical and unintended standardization. This standardization is sometimes turned to disinformation if economic activities that are dissimilar are presented as if they were similar. Uniformation might be harmful for the decision usefulness because it will lead to the disclosure of less entity-specific information. There might be at least three forces that leads to standardization.

One is the entity's intent to make financial statements easier to read and understand and compare the financial statements of other entities. With limited regulation, there is a danger that implementation of the accounting principles in the standard, leads to less comparability between entities in the same industry, between different industries, and between jurisdictions/countries both in the same industry and between industries. Several studies have demonstrated that IFRS is implemented differently across countries (Kvaal & Nobes, 2010; Lourenço, Sarquis, Branco, & Pais, 2015; Nobes, 2011; SEC, 2011). IASB does not seem to take these results into account. They write in the Basis for Conclusions to the IFRS conceptual framework: “Hence, if entities conduct the same type of business activities, the Board expects that those activities would be reflected in a similar manner in the entities’ financial statements.” (BC 0.30). However, Demmer, Pronobis, and Yohn (2016) find that in countries that enforce the implementation of IFRS, there is a significantly better financial statement-based compliance.

Second, and more importantly, uniformity might be driven by the entity's desire to keep the preparation costs at a minimum. When accounting users are not focusing on and critical to the details in the statements, unfavorable practice may emerge.

Third, standardization might be a result of standard formats, for instance, used to fulfill reporting obligations to national authorities, often statistical authorities. If the same templates are not used for the financial statements, the entity has to transform the figures. Credit rating is to a large extent based on standardized information that may lead to undesirable standardization. Moreover, the large accounting firms publish financial statement illustrative examples that may be seen as best practices. We have undertaken an analysis of IFRS example statements from the six large accounting firms (see appendix A for details). Most of them use a functional statement of profit or loss, and a standardized, traditionally structured statement of financial position.

Each entity has to make their templates for financial statements based on the public financial statement templates. Our investigation (see appendix A) also demonstrates that from 2015 to 2018 the primary statements in the illustrate examples from the large accounting firms, have few changes.

#### 4.2. Lack of business model focus

Economic information about the entities' ordinary business activities is important when making assessments of the management's performance (accounting information for control purposes) and when making forecasts of future economic performance (accounting information for valuation purposes) (Edwards & Bell, 1961; Gjesdal, 2007; ICAEW, 2010; Penman, 2011). Leisenringa, Linsmeiera, Schipper, and Trottc (2012, p. 339) argue that the business model focus can effectively be used to convey management's intent for the use, disposition, or settlement of items, without necessarily linking to recognition and measurement. Dichev (2017, p. 13) points out that the focus of a "for-profit entity is that it invests cash in a business model" and argues for an income-based approach. A European study of financial entities indicates increased value relevance from a wide disclosure of their business models (Mechellia, Ciminia, & Mazzocchettiba, 2017). When presenting the ordinary business activities' contribution to profit or loss, the working capital and other investments necessary for financing business activities, and cash flow contributions from these activities, are important sources of information (See Figure 1). In the perspective of extended integrated reporting, it is even more important with a business model approach (Burke & Clark, 2016).

For a retail entity, the main focus will be on accounting items that relates to the commodity cycle. Likewise, for a manufacturing entity, accounting items that relate to the production cycle will be of most interest for the accounting users. IFRS refers to the main business as the normal

**Figure 1. Weak connection between accounting items concerning business model.**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	STATEMENT OF FINANCIAL POSITION	STATEMENT OF CASH FLOWS
Revenue	Non-current assets	Operation activities
Operating expenses and other items	Current assets	Investment activities
Finance expense	= Total assets	Financing activities
= Profit before tax	Equity	Cash/cash equivalents
Tax expense	Non-current liabilities (including provisions)	Analyses Business activities (i.e. item strongly related to business modell)
Discontinued operation	Current liabilities	
= Profit	= Total liabilities	
Other comprehensive income	= Total equity and liabilities	
= Total comprehensive income		



operating cycle of the entity (IAS 1.70). The accounting items included depend on the entity's business model (IAS 1.34 use the term "ordinary activities"). Bloomfield et al. show that with better structure and classification, the users "are better able to identify the underlying operating structure of an insourcing entity and an outsourcing entity (...)" (2015 page 525). And Linsmeier (2016) suggests differentiating operating activities from non-operating activities.

EFRAG (2015) states that there is no universally defined meaning of the term "business model". It is generally understood as an entity's core activities or its revenue-generating operations. Similar assets and liabilities may be managed in different ways following different business decisions, which results in different streams and timings of cash flows from assets and liabilities. EFRAG (2015) lists the following groups of business models:

- "Price change" business models. These entities are trading in the same market as their recurring operation. Fair value measurement will give useful information.
- "Transformation" business models. Marshall and Lennard (2014) described these as "value-added" businesses. This involves the production of goods and services via inputs or the commodities bought in one market and sold in another market. Examples are manufacturing entities and retailers. Cost-model measurement will give useful information.
- "Long-term investment" business models. These entities perform management with focus on cash flow from assets. Examples are real estate companies. Fair value measurement will give useful information.
- The "liability driven" business models. Entities with such business models typically take on long-term obligations. This type of business model is similar to business models found in bank and finance industry, and is totally different from the ones above. We will not focus on such entities in this article. The presentation of financial information in these industries must be solved independently from other industries.

Basis for Conclusions to the IFRS conceptual framework (IASB, 2018b) includes a discussion on "business activities" (BC 0.29-BC 0.33). Because of various meanings of the term "business model", they decide to use "business activities" as the term. But IASB concludes that "it should not be included as an overarching concept" (ibid BC 0.33). With respect to classification, the Board refers to the IFRS conceptual framework paragraph 7.7 (IASB, 2018a). We think that this paragraph does not give an adequate guidance on classification according to business activities, especially concerning the items that are not part of ordinary business activities and strongly related to the business model.

Business model in a financial statement context might be understood as accounting items that represent primary operational activities of the entity's continuing business model and items most important for the income-generating business of producing and delivering goods and services (IAS 40.5). The model can be simple or complex, and contain just one model or several parallel models. In IFRS 9, "Business Model for managing the financial assets" is one of the main parameters which influence classification (no.4.1 and B4.1.1-B4.1.26). Furthermore, the classification also determines whether the financial assets should be measured at fair value or amortized cost. The business model is typically either that "cash flows will result from collecting contractual cash flows, selling financial assets or both" (IFRS 9.B4.2.1A).

When analyzing classification in more detail, we can start by making clear what is not the main business. The purpose of equity and interest-bearing liabilities is to provide capital. Therefore, financing is not part of the main business. It is a support activity that should be specified separately. For most entities, direct investments will not be part of the main business. Distinction between operating and investing activities is therefore particularly important (Bloomfield, Hodge, Hopkins, & Rennekamp, 2015). The background for such investments could be excess liquidity, to take advantage of favorable market conditions or other reasons. Such

investments will generally have a return profile different from that of the main business. Investment entities, however, will have investment activities as their main business. Below we analyze the presentations from the perspective of the three general functions: operating activities, investments activities, and financing activities.

The present financial statements do not build on a clear and concise classification concept.

#### 4.3. The statement of financial position

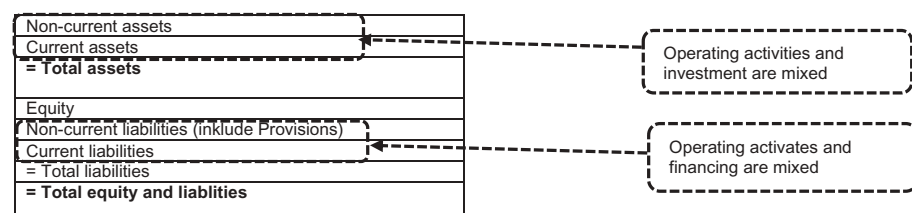
Under current IFRS regulation, the asset side of the statement of financial position is structured into non-current assets and current assets. Some of the assets are related to the main business, that is, operating activities, others are not. Assets that are acquired as part of the business model or expected to be realized within 12 months after reporting date are classified as current assets (IAS 1.66). Items of the statement of financial position that are related to the business model, and that are not owner-used fixed assets, are short-term items and non-interest bearing items. IAS 1 uses the term operating cycle in conjunction with “the net assets that are continuously circulating as working capital” (IAS 1.62). The operating cycle is related to the business. As defined, the operating cycle is neither related to investing activities on the asset side nor financing activities on the debt side. Deferred tax has to be classified as non-current (IAS 1.56). Bauman and Shaw (2016) indicate, based on a study of US-firms, that such classification adversely affects the usefulness of financial statements for equity investors.

Financial liabilities are interest-bearing liabilities. IAS 1.54 m requires financial liabilities to be presented separately. Still, regarding classification of liabilities, there is a lack of regulation on the presentation according to financing or operating purposes. Barker (2010a) addresses the importance of this issue. All illustrative examples present interest-bearing loans/borrowings separately in statements of financial position (see appendix A). There is an ongoing development of creative solutions and products to hide debt financing from key figures and ratios. Reporting true entity financing is thereby increasingly more complicated. «Supplier chain financing» also known as «supplier finance» or «reverse factoring» is put on the agenda as a classification challenge by ESMA (2015). Debt can be presented as supplier debt, while it is in fact bank debt (Pettersen, 2017). To present such financing as payables (short-term debt) is problematic. Thus, there is lack of regulation on the presentation of interest-bearing liabilities.

The classification of assets and liabilities is not coherent (IAS 1.58 and 59). Assets shall be classified according to nature and liquidity, and analogously for liabilities as amount, nature and timing. We illustrative this in Figure 2:

For many entities, it is not possible to estimate the capital tied up in working capital or capital employed. However, for many analysts, working capital ratio is important. Working capital ratio is also often used in bank loan covenant claims. The illustrative example from Deloitte (2018) is the only one in our investigation that presents subtotal “Net current assets”. IAS 1.59 states: “The use of different measurement bases for different classes of assets suggests that their nature or function differs”, and therefore presentation should be on separate lines. Such classification is not in use in the illustrative examples of financial statements presented by the largest accounting firms. Taken together, the regulation of statement of financial position has little focus on

Figure 2. Mixed classification in statement of financial position.



separating items related to business model from items with investment, financing or other purposes.

The new accounting standard on revenues IFRS 15 has introduced several new lines in statement of financial position (IFRS 15.105 and B21). The illustrative examples from the large accounting firms have increased from two to eight lines. It is surprising to us that several of the new lines have an amount lower than 0.5% of total assets. We do not think such presentation was intended by IASB, with reference to the materiality amendment (IASB, 2018d).

#### **4.4. The statement of profit or loss and other comprehensive income**

The concept of profit or loss is defined as equity changes over the reporting period that is not caused by capital contributions and capital distributions. Barker (2010b) pointed out that the IFRS conceptual framework has no definition of profit. The definition of income and expenses (IASB, 2018a CF 4.68 and 4.69) is defined as changes in net assets. Theoretically, this is a problem with recycling of some of the items in comprehensive income to profit or loss at a later stage.

Under current IFRS regulation, the entities are required to present sales revenues in the statement of profit or loss (IAS 18.7). Sales revenues are from the business model activities, however, not if the business model consists of investment activities. Furthermore, the users need sales revenues to be split on their main sources. Under current IFRS regulation, it is not required to specify sales revenues in sale of goods, commissions from affiliated businesses or other income from services. The illustrative example financial statement from EY (2015) has, as the only one, split revenues into three lines according to their source. IAS 1.34 uses the term «main revenue-generating activities». Cost of sales (function), and raw materials and consumables use (art) for goods sold will in most instances only have items from the business model activities. For the remaining items, no attempt is made to distinguish different activities from purposes. The primary classification criterion is the art of the items. Operating profit tries to exclude financing items, without being consistent. For instance, annual adjustments in provisions due to discounting (IAS 37.60).

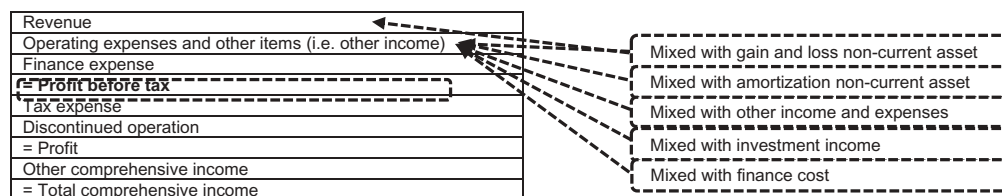
Items related to non-current assets influence operating profit. These can be income-increasing items such as gain from sales of non-current assets, or income-decreasing items such as write-downs and loss from sales of non-current assets. To avoid blurring the picture too much, gains and losses on non-current assets are presented net. The statement of cash flows provides information on the cash flows from these transactions.

Current IFRS regulation has no requirements to specify operating profits (IAS 1.85, BC55-BC56). In addition, there is a lack of detailed regulation about separate presentation of finance costs (IAS 1.82b). This makes analysis of the business operation more difficult. Moreover, as a result of the lack of regulation, the finance costs can be included in various accounting items. As an example, supply chain financing/reverse factoring has become a popular finance source (ESMA, 2015). Thus, cost of goods sold may contain finance costs.

IASB has in its presentation project explored a requirement to present EBIT and/or operating profits. Each entities can add sub-totals, but there are some limitations. PwC. (2015) states that EBITDA is only allowed when expenses are presented by nature. They argue that the statement of profit or loss has to be presented by nature or by function. Mixing art and functional presentation is not allowed. Depreciation and amortization are expenses by nature and not by function. “Where an entity presents its expenses by function, it will not be possible to show depreciation and amortization as separate line items in arriving at operating profit” (ibid p.10).

To illustrative the argument above, see Figure 3:

**Figure 3. Mixed classification and lack of clarity in statement of profit or loss.**



Prior to the regulation of other comprehensive income, a criticism was that the users did not include in their analysis items recorded directly against the equity. The users argue that such items do have some influence on future cash flows. The following section elaborates on these flaws (IASB, 2008). In current IAS 1.10A, the entity can choose between a single statement of profit or loss and other comprehensive income or two separate statements. Thinggaard et al. (2006) argue that “net income is on average more relevant than comprehensive income, which may favour a two-statement approach statement”. Comprehensive income seems to attract too much attention, for instance in the illustrative financial statements. The illustrative statement of profit or loss and other comprehensive income from KPMG (2018) is presented on one and a half pages, profit or loss in a half page and other comprehensive income in one page. Deloitte (2015) presents the statement of profit or loss by nature related to continued operations on just half a page, but the section with other comprehensive income is presented on a full page. Deloitte (2018) presents the statement of profit or loss by nature on one page, but the section with other comprehensive income is presented on two full pages. IASB will explore “better ways to communicate information about other comprehensive income (OCI)” (IASB, 2016).

Taken together, the regulation of statement of profit or loss has little focus on separating items related to business model from items with investment, financing, or other purposes.

#### 4.5. The statement of cash flows

The statement of cash flows in IAS 7 distinguishes between cash flows from operating activities, investing activities and financing activities. The presentation of cash flows from operating activities seems to be a presentation structured by the entities’ business model. However, this presentation is blurred and appears as a residual format of items. Everything that is not pure investing or financing activities is reported as cash flows from operating activities. This suggests that cash flows from investing and financing activities are most important in this statement. We argue the opposite that the overall purpose of decision usefulness suggests that cash flows from operating activities are the most important for the readers. In addition, classification of interests received or paid and dividends received, are optional.

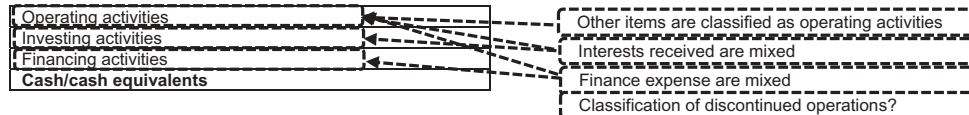
Using the indirect method when calculating cash flows from operating activities, the statement will present changes in important items of financial position related to the main business, such as goods, customers, or suppliers. The statement does not offer more information for analysis of the main business and its operating cycle.

For an illustration of the argument above, see Figure 4:

Classification of financial items is an unclarified area. IAS 7.33 states: « (...) there is no consensus on the classification of these cash flows for other entities.” A quick search through all IFRS and IAS standards shows that the term “no consensus” is only used in IAS 7 Statement of cash flows.

Research provides evidence that the entities take advantage of the flexibility in classifying interest paid, interest received, and dividends received. *“In analyzing the consequences of reporting flexibility, we find some evidence that the market’s assessment of the persistence of operating cash flows and accruals varies with the firm’s classification choices and the results of certain OCF*

**Figure 4. Mixed classification in statement of cash flows.**



*prediction models are sensitive to classification choices.*” (Gordon, Henry, Jorgensen, & Linthicum, 2017 page, p. 839). Research also provides evidence suggesting that this flexibility gives the management opportunity over time to switch classification of interest paid. Baik, Cho, Choi, and Lee (2016 page, p. 348) argue that this flexibility impair the comparability of the statement of cash flows. Our investigation (see appendix A) demonstrates the lack of consistent practice.

In sum, we argue that the different statements classify items by different criteria. This makes it difficult for the users to understand how the reported figures are related. Additionally, there is no guidance for financial statement presentations line by line. This leads to different variants and inconsistent solutions, making it difficult to analyze the entities’ business model.

### 5. Alternative classifications in the financial statements

In this section, we present a suggestion for alternative classification in the financial statements. We argue that the present primarily statements should be continued: statement of financial performance,<sup>3</sup> statement of financial position, statement of cash flows and statement of changes in equity. Our purpose when suggesting these alternatives has been to develop statements that better meet the needs for decision useful information of accounting users. We propose the following aggregated structure in both financial performance and statement of financial position:

- (1) Business model
  - (a) Operating activities (ordinary main business)
  - (b) Investing activities
  - (c) Discontinued operations and secondary activities/random or other income and expenses
- (2) Distribution
  - (a) Financing
  - (b) Tax
  - (c) Equity
- (3) Other comprehensive income

Within each subsections, we propose a disaggregation of the items by nature. In the statement of financial position, the items are listed by liquidity. In the statement of financial performance, we suggest one exception from the principles above (See Figure 5). It is important for the payroll area to have a format structured by nature. We take this into account by proposing that salary related to the investing activities are included in employee benefit expenses for the main business. Financing has the distinctive feature that it bears interests. This include the amount to reflect the passage of time when present value is used. Thus, we get all finance costs presented in one place.

In our opinion, the standard setters should not intend to define detailed classification rules, rather, the business model should direct the classification. This means that different entities can have different business models and thereby different classification for the same type of asset or liability. For instance, two real estate properties can be nearly identical, but one is used by the owner, and the other is an investment property.

We argue it is essential to present “*Operating profit or loss before depreciation from the main business*” in the statement of financial performance and the coherent “*Net working capital in the operating cycle of*

**Figure 5. Proposed alternative financial statements with indicated linkage between the statements.**

Section	Statement of financial position	Statement financial performance
<b>Business model</b>		
Operating activities	I) Current asset in business activities <ul style="list-style-type: none"> <li>↳ Inventories</li> <li>↳ Trade receivables</li> <li>↳ Other and prepayment</li> </ul>	I) Revenue <ul style="list-style-type: none"> <li>↳ Sales of goods</li> <li>↳ Rendering of services</li> <li>↳ Rental income</li> </ul>
		II) Cost of sales <ul style="list-style-type: none"> <li>↳ Changes in inventories</li> <li>↳ Raw materials and consumables used</li> <li>↳ Employee benefit expenses</li> </ul>
		<b>Σ A) Gross profit</b>
	II) Not interest-bearing liabilities in the business activities <ul style="list-style-type: none"> <li>↳ Payables (not interest-bearing)</li> <li>↳ Employee benefits</li> <li>↳ Deferred income</li> <li>↳ Provision (not present value)</li> </ul>	III) Other expenses in business activities <ul style="list-style-type: none"> <li>↳ Employee benefit expenses <ul style="list-style-type: none"> <li>- Pension cost</li> </ul> </li> <li>↳ Other expenses</li> </ul>
	<b>Σ A) Net working capital in business activities (I-II)</b>	<b>Σ EBITDA</b>
	Non-current asset in use in business activities	Depreciation
		Non-current asset in use in business activities <ul style="list-style-type: none"> <li>↳ Sales price from disposal</li> <li>↳ Amortization</li> <li>↳ - Booked value disposal</li> </ul>
	<b>Σ Capital employed in business activities</b>	
Investing activities	Asset and liabilities in investing activities	Income and cost from investing activities
	Cash and short-term investment	Finance income short-term investment
	Non-Current / Long-term investment <ul style="list-style-type: none"> <li>↳ Equity instrument measured at fair value</li> <li>↳ Liabilities instrument measured at fair value</li> <li>↳ Instrument measured at cost</li> <li>↳ Investment property</li> </ul>	Non-current financial investing and investment property <ul style="list-style-type: none"> <li>↳ Gross income and finance income</li> <li>↳ Revaluation</li> </ul>
Discontinued operation (and others)	Asset and liabilities Discontinued Operation	Profit or loss Discontinued Operation
	<b>Σ Capital employed</b>	<b>Σ Profit to distribution</b>
<b>Distribution</b>		
Financing	Interest-bearing liabilities (and financing asset) <ul style="list-style-type: none"> <li>↳ Current interest-bearing liabilities</li> <li>↳ Non-current interest-bearing liabilities</li> <li>↳ Provisions (indirect financing asset due to NPV (Net present value)</li> </ul>	Financing cost <ul style="list-style-type: none"> <li>↳ Interest current liabilities</li> <li>↳ Interest non-current liabilities</li> <li>↳ Interest cost NPV</li> </ul>
		<b>Σ = Profit before tax</b>
Tax	Short term tax liability Deferred tax assets Deferred tax	Income tax
Equity	<b>Σ IX) Equity</b>	<b>Σ = Profit (To the owner)</b>
<b>Other comprehensive income</b>		Other comprehensive income
		<b>Σ = Comprehensive income (To the owner)</b>
	<b>Information: Total asset (IAS 1.9)</b>	

the main business” in the statement of financial position. In our view, it is important for users of financial reports to get information about operating activities or ordinary activities based on the business model. Then, cash flows from the main business, which is an important key figure, can easily be calculated by “Operating profit or loss before depreciation” added to change of “Net working capital in the operating cycle”. Those who use financial statements as basis for valuation generally need information about capital employed. In our proposed model this figure is presented. We also suggest that the entities can present gross sales revenue also for sale of fixed assets and investments. There is no reason for only presenting net gains or losses as we do today. Items estimated at fair value should be presented within respective sections in the statement of financial position on separate lines. Similarly, value adjustments should appear on separate lines. The accounting users will probably evaluate these fair value adjustment differently.

IAS 1.9 says that total assets and total liabilities should be disclosed to satisfy the objective of the financial reporting. To improve the users’ understanding of the relation between the statements, we suggest a reconciliation statement or disclosure (inspired by IASB, 2010b) (see Figure 6). We argue that the statements of cash flows and changes in equity in this case can be more high-level.

## 6. Concluding comments

The present regulation of the financial report does not take the users’ needs for information about the entities’ ordinary main business model sufficiently into consideration. This leads to lack of



**Figure 6. Reconciliation statement or disclosure.**

	Statement of financial position 1.1.	Cash flow only affect financial position	Statement financial performance				Statement of financial position 31.12.
			Cash flow	Fair value adjustments	Accruals	Cross section (others)	
Business							
Revenue							
Operating cost							
Fixed assets		Purchase	Disposal	Revaluation	Booked value sold asset Depreciation Amortization		
Operating							
Investing		New investment	Financial income Disposal	Revaluation	Book value of sold asset		
Financing		New/ increase loan Repayment	Financial cost				
Discontinued operation							
Tax							
Equity		Issuance of share/ Deposit share	Dividends				

understanding, clarity, and ability to compare entities. Users suffer from missing information and need to use an excessive amount of time to investigate the primary financial statements.

The classifications in the statement of profit or loss, financial position, and cash flows are neither uniform nor coordinated. Currently, there is so little focus on the ordinary main business model that the entities' actual economic development and status can be disguised. We propose that the profit or loss item *“Operating profit or loss before depreciation from the main business”* (EBITDA) should be presented in the statement of financial performance, and that *“Net working capital in business activities”* should be presented in the statement of financial position. Users of financial statements should easily be able to identify *“fixed operating assets related to the main business”* so that capital employed in the main business can be calculated.

Our investigation of illustrative examples from the large accounting firms shows that only small changes have taken place from 2015 to 2018. There are still many immaterial lines in the primary financial statements and an over-focus on “Other comprehensive income”. The introduction of IFRS 15 in 2018 has not provided a better presentation and understanding of revenues and the business model in the statements of financial performance.

In our view, the time is now ripe for a discussion about presentation. However, any changes are costly, and in the next few years, many entities will probably be forced to review and evaluate their presentation practices. First, IASB has a project on primary financial statements. Second, digital presentation with XBRL mapping will lead to changes and efforts towards compliance. Third, many entities will extend their financial reporting to integrated reporting. Then, a clear cross-reference between the statements is needed. Fourth, the disclosure initiative will focus on good and effective communication without overload of information.

It is our hope that all these changes will lead to more understandable, clearer and more comparable primary financial statements.

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## Notes

1. The project: "Better Communication in Financial Reporting" includes Primary Financial Statements and to Disclosures Initiative projects.
2. IASB (2018c) renamed "Statement of profit or loss and other comprehensive income". We will use "Statement of profit or loss and other comprehensive income" when we comment current regulation, and "Statement of financial performance" when we suggest improved regulation.
3. IASB (2018c) renamed statement of profit or loss and other comprehensive income.

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	BDO (2015 and 2018)	Deloitte (2015 and 2018)	EY (2015, 2018a and 2018b) <sup>5)</sup>	Grant Thornton (2015 and 2018)	KPMG (2015 and 2018)	PwC (2015 and 2018)
<b>Statement of financial position</b>						
a) one or more examples	One	3) Two, alt 1 and alt 2	One	One	One	One
b) number of lines:						
- assets	16 lines	22 lines	13 lines	16 lines	17 lines	24 lines
- liabilities	13 lines	21 lines	16 lines	14 lines	15 lines	13 lines
- added more lines (IAS 1.55) than minimum in IAS 1.54 and IFRS 15.105 for assets and liabilities	Yes, five more lines	Yes, 12 more lines	Yes, six more lines <sup>6)</sup>	Yes, seven more lines	Yes, seven more lines	None <sup>7)</sup>
- the number of lines with amount less than 1 % of "Total assets" (all years)	Assets: 7 lines Liabilities: 4 lines	NA <sup>3)</sup>	Assets: 3 lines Liabilities: 2 lines	Assets: 1 lines Liabilities: 2 lines	Assets: 2 lines Liabilities: 6 lines	Assets: 4 lines Liabilities: 2 lines
c) Classification basis (IAS 1.60): - Current and non-current.	Yes, current first	Yes, Alt 1: assets: non-current first, liabilities: current first <sup>4)</sup> Alt 2: non-current first	Yes, non-current first	Yes, non-current first	Yes, non-current first	Yes, non-current first
- Liquidity basis order	No	No	No	No	No	No
d) The order of lines within the section non-current assets - closely following IAS 1.54 <sup>1)</sup>	Yes <sup>9)</sup>	Yes	Yes	No	No	Yes
- A different order of presentation	No	Yes, intangible assets, fixed assets, investment, accruals	No	Yes, intangible assets, fixed assets, investment, accruals	Yes, fixed asset, intangible assets, investment, accruals	No
e) The order of lines within section current assets - closely following IAS 1.54 <sup>1)</sup>	Yes Inventories, receivables, investments, cash	Yes Inventories, investments, receivables, cash	Yes Inventories, receivables, accruals, cash	No, Asset held for sale, Inventories, receivables, investments, cash	Yes Inventories, investments, receivables, cash	No, Inventories, receivables, investments, cash
- Assets and Liabilities "Held for sales" included in current assets/current liabilities	Yes, as the last line in current. In addition insert a subtotal before the line	Yes, as the last line in current. In addition insert a subtotal before the line	Yes, as the last line in current. In addition insert a subtotal before the line	Yes, first line in current asset. (No subtotal before the line)	Yes, as the last line in current. In addition insert a subtotal before the line	Yes, as the last line in current. In addition insert a subtotal before the line

(Continued)



<b>(Continued)</b>						
	<b>BDO (2015 and 2018)</b>	<b>Deloitte (2015 and 2018)</b>	<b>EY (2015, 2018a and 2018b)<sup>5)</sup></b>	<b>Grant Thornton (2015 and 2018)</b>	<b>KPMG (2015 and 2018)</b>	<b>PwC (2015 and 2018)</b>
f) The order of lines within section liability - closely following IAS 1.54 <sup>1)</sup>	Payables, loans, investment liabilities, tax, accruals	Payables, loans, investments liabilities, accruals	Payables, loans, provisions, accruals	Liabilities "held for sales", provisions, loans, payables, taxes, investments liabilities, accruals	Taxes, loans, provisions, payables, accruals	Payables, taxes, loans, investment liabilities, accruals
- interest-bearing loans/borrowings presented separately in current liabilities	Yes	Yes	Yes	Yes		Yes
g) Totals presented: - Total Assets	Yes	Yes	Yes	Yes	Yes	Yes
- Total equity and liabilities	No	Alt 1: No Alt2: Yes	Yes	Yes	Yes	No
- other subtotals	"Net assets" before equity	Alt 1: "Net current assets" and "Net assets"	No	No	No	"Net assets" before equity
h) IFRS 15 presentation format						
- separate lines for "Contract assets"/ "Contract liabilities" (IFRS 15.105)	Yes, as current	Yes, both as current and non-current. In assets both contract asset and contract costs	Yes, as current	No	Yes, as current	Yes, as current. In addition Other non-current assets
- separate lines for "Right of return assets"/"Refund liabilities" (IFRS 15.B21)	No	Yes, as current	Yes, as current	No	No	No
<b>Statement of profit or loss and other comprehensive income</b>						
a) one or more examples	Two, alt 1 and alt 2	Two, alt 1 and alt 2	One main, but an alternative is presented in appendix	One	One	One
b) presented number of lines before "Profit before tax"						
- analyzed by art	12 lines	18 lines		13 lines		

(Continued)

<b>(Continued)</b>						
	<b>BDO (2015 and 2018)</b>	<b>Deloitte (2015 and 2018)</b>	<b>EY (2015, 2018a and 2018b)<sup>5)</sup></b>	<b>Grant Thornton (2015 and 2018)</b>	<b>KPMG (2015 and 2018)</b>	<b>PwC (2015 and 2018)</b>
- analyzed by function	11 lines	17 lines	11 lines		11 lines	11 lines
c) IAS 1.99: Expenses analyzed by - nature	Yes, (in alt 2)	Yes, (in alt 2)	No (but in appendix)	Yes	No	No
- function	Yes, (in alt 1)	Yes, (in alt 1)	Yes	No	Yes	Yes
d) Specification of revenues (IFRS 15 <sup>8)</sup> )	One line	One line	Into two lines (in 2015: three lines)	One line	One line	One line
e) Presentation of finance income		In First line after "revenue"	First in finance section	Last in finance section	First in finance section	First in finance section
f) Subtotals presented - Gross profit	Yes (in alt 1)	Yes (in alt 1)	Yes	IA	Yes	Yes
- Shown profit from operations	Yes, in both	No <sup>2)</sup>	Yes	Yes	Yes	Yes
- Added subtotal lines	No	No	No	No	"Net finance costs"	"Net finance costs"
- "Profit from continuing operation" presented	Yes, in both in alt 1 and alt 2	Yes, in both in alt 1 and alt 2	Yes	Yes	Yes	Yes
g) Presentation of discontinued operation	Both alt: One line, as last line before "Profit"	Both alt: One line, as last line before "Profit"	One line, as last line before "Profit"	One line, as last line before "Profit"	One line, as last line before "Profit"	One line, as last line before "Profit"
h) IAS 1.49: Statement of profit or loss and statement of other comprehensive income (OCI) as	one statement in alt 1, two statements in alt 2	one statement in alt 2, two statements in alt 1	two statements	two statements	one statement	two statements
i) Number of lines in OCI	9 lines in alt 1, and 10 lines in alt 2	28 lines in alt 1, 29 lines in alt 2	10 lines	11 lines	17 lines	15 lines
- how many lines with amounts less than 0,5 % of "Revenues" (all years)				9 lines	16 lines	11 lines
<b>Statement of cash flows</b>						
a) one or more examples	One	Two alt	One	One	One	One
Operating activities: (IAS 7.18) - direct method	No	Yes (alt 2)	No	No	No	No

(Continued)

<b>(Continued)</b>						
	<b>BDO (2015 and 2018)</b>	<b>Deloitte (2015 and 2018)</b>	<b>EY (2015, 2018a and 2018b)<sup>5)</sup></b>	<b>Grant Thornton (2015 and 2018)</b>	<b>KPMG (2015 and 2018)</b>	<b>PwC (2015 and 2018)</b>
- indirect method	Yes	Yes (alt 1)	Yes	Yes	Yes	Yes, but not shown in the statement. Presented in a note.
- indirect method, first line item	Profit for the year	Profit for the year	Profit before tax, specified on continuing and discontinuing operation	Profit before tax	Profit for the year	Not specified in the statement
c) Number of lines						
- number of lines indirect method: adjusted profit to cash flows	13 lines	18 lines	14 lines	2 lines	13 line	Not specified in the statement
- number of lines for investment activities	9 lines	12 lines	8 lines	10 lines	12 lines	14 lines
- number of lines for financing activities	8 lines	10 lines	8 lines	5 lines	13 lines	11 lines
d) Classification of						
- interest income and dividends (IAS 7.31)	Investing activities	Investing activities	Operating activities. Separate line after subtotal "Cash generated from operations"	Investing activities	Investing activities	Splits investing activities and operating activities. (Separate line after subtotal "Cash generated from operations")
- interest paid (IAS 7.31)	Financing activities	Operating activities. Separate line after subtotal "Cash generated from operations"	Operating activities. Separate line after subtotal "Cash generated from operations"	Financing activities	Operating activities. Separate line after subtotal "Cash generated from operations"	Operating activities. Separate line after subtotal "Cash generated from operations"
- tax (IAS 7.35); Operating activities. Separate line after subtotal "Cash generated from operations"	Yes	Yes	Yes	Both operating activities and investing activities	Yes	Yes

(Continued)

<b>(Continued)</b>						
	<b>BDO (2015 and 2018)</b>	<b>Deloitte (2015 and 2018)</b>	<b>EY (2015, 2018a and 2018b)<sup>5)</sup></b>	<b>Grant Thornton (2015 and 2018)</b>	<b>KPMG (2015 and 2018)</b>	<b>PwC (2015 and 2018)</b>
- discontinued operations	Not specified	Not specified	Not specified	Separate line after "Net cash from continuing operation"	Not specified	Not specified
d) Subtotal added						
- "Operating cash flows before movements in working capital"	Yes, shows the number, but without label	Yes	No	No	Yes, shows the number, but without label	No
- "Cash generated from operation/ operating activities" (before interest paid and income tax paid)	Yes	Yes	Yes, shows the number, but without label	No	Yes	Yes
- "Net cash from continuing operation"	No	No	No	Yes	No	No

1) IASB has presented a list of assets in IAS 1.54. In our opinion, this paragraph does not determine a strict order in which the assets should be presented. But in the illustrative examples, this order is used. BDO comments: "IAS 1.57 states that IAS 1 does not prescribe the order or format in which an entity presents items, and that paragraph 54 simply lists items warrant separate presentation. Therefore, other formats and layouts may be appropriate under certain circumstances." We observe an unclear classification within current assets (declining liquidity) and non-current assets (first tangible assets and deferred tax at the end)

2) Deloitte does not include operating profit or other subtotal between gross profit and profit before tax.

We have investigated illustrative examples from 2015 to 2018 and commented on majority changes.

3) Deloitte has changed their illustrative example "International GAAP Holding Limited" from 2015 to 2018. In 2018 the presentation has no numbers, just empty tables. The statement of financial position is presented with two alternatives in 2018 and the category non-current assets are regrouped.

4) Deloitte (2018) "Consolidated statement of financial position" at 1 presents the items in the following order:

Non-current assets  
 Current assets  
 = Total assets  
 Current liabilities  
 = Net current assets  
 Non-current liabilities  
 = Net assets  
 Equity

5) EY (2018b) is an "Alternative format. Illustrative consolidated financial statement". This alternative is oriented around disclosure and the four primary statements are presented in the same way as their ordinary example.

6) EY presents an illustrative example with total asset 145 198. In current assets, they have presented a separate line for "Prepayment" with only 244 as amount, in order to meet the disaggregation requirements in IAS 1.55. In current liabilities, they have presented a separate line for "Government grants" with only 149 as amount, in order to meet the disaggregation requirements in IAS 1.55 and IAS 20.24. We believe that these immaterial figures are not good examples of disaggregation.

7) PwC argues that new lines are according to IFRS 7.8 and IFRS 15.105.

8) The implementation of IFRS 15 resulted in no changes or added lines of revenues.

### Appendix A. An investigation of the large accounting firms' examples of financial statements

The five largest accounting firms have published illustrative examples of IFRS financial statements. We have analyzed the primary statements found as illustrative examples in these publications: Statement of financial position, statement of profit or loss and other comprehensive income, and statement of cash flows. Some of the large accounting firms present additional examples for some sectors, such as banking, insurance, investment funds, real estate, petroleum, and mining. We have not examined the illustrative examples for these sectors.



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