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Primary Financial Statements
Key findings on current practice

Introduction

1 In January 2017, the EFRAG Secretariat provided EFRAG TEG members with a summary of the research work conducted on the *Primary Financial Statements* project. At that meeting, EFRAG presented summarised the key findings related to the presentation practice on a sample of 34 European listed companies.

2 In subsequent meetings, the EFRAG Secretariat made additional analysis to help the discussions with EFRAG TEG. This paper summarises the key findings of these different analysis.

3 At this stage, we have excluded companies that belong to the insurance industries, banks and financial conglomerates. However, EFRAG Secretariat is currently analysing the financial statements of a sample of European listed banks and plans to present its findings in a future meeting.

Key findings from EFRAG's initial research activities

Statement of financial performance

4 When analysing the **statement of financial performance** we noted that:

(a) the majority of the companies presented their analysis of expenses using the classification based on their function. The remaining companies, either used a classification based on their nature or a combined approach by mixing the nature and function presentation. A few companies only included a subtotal named operating profit without disaggregation;

(b) the majority of companies did not include an explicit reference to the term non-recurring, exceptional, non-core items or extraordinary on the face of the statement of financial performance (one company used the term "exceptional", one other the term "non-core items" and six other used the term "non-recurring"). Nonetheless, many companies provided information about non-recurring, exceptional or non-core items in their notes. The nature of the line items included, among others, restructuring costs, profit and loss on disposal of assets, impairment of assets, losses on derivatives, and litigation related expenses;

(c) most of the companies had at least 4 subtotals including profit before tax, profit for the year and:

(i) *Gross profit*: all the companies that presented their analysis of expenses by function presented this subtotal;

(ii) *Operating profit*: this subtotal was used by the majority of the companies, however their calculation and definition varied;

(iii) *Profit before interest and tax or EBIT*: Only 12% of the companies made explicit reference to EBIT. Nonetheless, in many cases the term "operating profit" was similar to EBIT;

(iv) *Finance results*: companies varied in their approach to presenting this as a separate subtotal;

(d) all the companies used two statements to present their comprehensive income;

(e) the presentation of results of associates and joint ventures varied. In most cases, the presentation of results of associates and joint ventures was within profit before tax. However, there were cases where the line item (net of tax) was included within total revenue and other income. There were also other cases where a separate subtotal was created;

(f) in some cases, the number of line items was limited and disaggregation level was low. In particular we noted that 23% of companies presented less than 10 line items (excluding subtotals);

(g) in general companies did not present an adjusted "earnings per share" figure at the bottom of the statement of financial performance. However, there was one case where an entity presented basic and diluted earnings per share before non-recurring items; and

(h) only one company presented an 'investment income' line item in their statement of financial performance which was placed below operating income and above finance costs – this line was further disaggregated in the notes. Most of the other companies included a mixture of finance and investment items within a 'finance income/expense' subtotal.

Statement of financial position

5 When analysing the **statement of financial position** EFRAG Secretariat did not identify major inconsistencies in terms of structure and disaggregation. All the entities separated the presentation of assets and liabilities by current and non–current, used subtotals for total assets, total liabilities and equity. Most of the entities (82%) did not present subtotals and totals other than those required by IAS 1 and level of disaggregation did not vary significantly. Nonetheless, we noted that:

(a) some entities presented line items referring "other" in the statement of financial performance. In some cases these line items represented more than 10% of net assets. In 10 cases, we were able to find disclosures about the nature of such line items. However, there was 3 cases where we did not find additional information within disclosures; and

(b) the level of disaggregation of Total Equity varied. A number of companies only presented 'equity attributable to owners of the parent' and 'non-controlling interest' without further disaggregation. Those that provide additional disaggregation rarely present separate components of equity for OCI.

Statement of cash flows

6 When analysing the **statement of cash flows** we noted that:

(a) the presentation of interest and dividends in the statement of cash flows varies. The majority of the companies (60%) presented interest received from debt investments, dividends received from equity investments, and dividends received from joint ventures or associates in operating activities, while the others used investing activities; and

(b) the starting point for determining net cash flow from operating activities varies (the indirect method). For example, entities used either "profit or loss", "profit before tax", "operating profit" or "net income".