

STAFF PAPER

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REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Draft discussion paper: Elements of the statement of Comprehensive Income		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

This paper has been written in response to comments received on AP 3B *Draft discussion paper: Elements – Definition of elements* at the February 2013 IASB meeting. The analysis in this paper will be included in the Elements section of the discussion paper.

Elements of the statement of comprehensive income**What does this section cover?**

This section describes the elements of the statement of comprehensive income namely income and expense.

Why is this section important? What problems will this section help address?

Very few problems have been identified with the existing definitions of income or expense. However, some have suggested that the revised Conceptual Framework should define different types of income and expense. This section discusses whether definitions should be used to differentiate:

- (a) Revenue from gains and expenses from losses;

- (b) Items of income and expense that should be reported in profit or loss from items of income or expense that should be reported in other comprehensive income (OCI).

What are the staff recommendations¹?

The staff recommend leaving the existing definitions of income and expense largely unchanged.

The staff do not recommend defining different types of income or expense.

1. The existing Conceptual Framework states that the elements of the statement of comprehensive income are income and expense. The definitions of income and expense are as follows:
 - (a) Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
 - (b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.²
2. These elements provide users with information about some of the changes in an entity's resources and in claims against the entity.³ This is part of the information that users need to assess the entity's prospects for future net cash inflows, and to assess how efficiently and effectively the entity's management have discharged their responsibilities to use the entity's resources.⁴

¹ In the final discussion paper this section will be replaced by a section outlining the IASB's preliminary views.

² 4.25

³ QC2

⁴ OB4

3. Some have questioned whether an expense arises when an entity issues an equity instrument in exchange for services. This question is important for determining the appropriate treatment of share based payments (for example share options granted to employees). The staff note that when an entity issues equity instruments in exchange for an asset, the entity acquires that asset (and recognises it if the recognition criteria are met). Similarly, when an entity issues equity instruments in exchange for receiving services, the services received are an asset: when the entity consumes that asset, it recognises an expense. In many cases, an entity consumes that asset immediately; if so, the entity recognises the expense at the same time as it recognises the related increase in equity.⁵ The staff believe that the revised Conceptual Framework should confirm this conclusion, which the IASB reached when it developed IFRS 2 *Share-based Payment*.
4. The staff have identified few other problems with the existing definition of income and expense (other than some minor drafting changes that may be required, mainly as a result of any changes to the other elements). However, some have suggested that the revised Conceptual Framework should define different types of income or expense. The following sections discuss whether different definitions should be used to differentiate:
- (a) Revenue from gains and expenses from losses;
 - (b) Items of income and expense that should be reported in profit or loss from items of income or expense that should be reported in other comprehensive income (OCI).

Differentiating gains from revenue and expenses from losses

5. The existing Framework distinguishes two categories of income:
- (a) Revenue which arises in the course of the ordinary activities of an entity; and

⁵ Basis for Conclusions on IFRS 2, paragraphs BC45-BC53

- (b) Gains which represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of the entity.
6. Similarly the existing Framework distinguishes two categories of expense:
- (a) Expenses that arise in the course of the ordinary activities of an entity; and
 - (b) Losses which may, or may not, arise in the course of the ordinary activities of the entity.
7. The existing Framework notes that:
- (a) gains are no different in nature from revenues (they both represent increases in economic benefits); and
 - (b) that losses are no different in nature from expenses (they represent decreases in economic benefits).

Hence, the Framework does not treat these four categories as separate elements. However, the Framework does state that gains are usually presented separately from other income and losses are usually presented separately from other expenses. In addition the Framework notes that gains (losses) are often reported net of related expenses (income).

8. If differentiating gains from revenue and losses from expenses is useful, then it could be argued that, gains and revenue, losses and expenses should each be defined as separate elements of the statement of financial performance.
9. However, the staff note that to do this it would be necessary to more clearly define the difference between the four elements. This would require the IASB to define operating activities. However, the staff question whether this would solve any significant accounting problem. Consequently, we recommend leaving the discussion of the difference between gains and revenue and expenses and losses largely unchanged.

Differentiating items that should be reported in profit or loss from items that should be reported in OCI

10. Some have suggested that the reporting of financial performance could be improved if the Conceptual Framework defined separate elements for:
 - (a) income (expenses) that should be reported in profit or loss; and
 - (b) income (expenses) that should be reported in OCI.
11. The staff note that, the IASB will have to answer exactly the same questions in defining separate elements of income or expense as in defining separate categories for reporting financial performance (ie when should a change in an asset or liability be reporting in OCI and when should it be reported in profit or loss?).
12. However, there are disadvantages to using different definitions of income and expense to describe what should be reported in OCI and what should be reported in profit or loss.
 - (a) It is potentially inconsistent with an approach that provides guidance about when an item *could* be reported in OCI (rather than when it *must* be reported in OCI). AP 5B *Draft discussion paper: Presentation in the statement of comprehensive income – profit or loss and OCI* recommends providing guidance about when an item *could* be included in OCI.
 - (b) Defining separate elements for use in profit or loss and OCI may not be straight-forward, particularly if the IASB would like to report only a component of a change in an asset or liability in OCI rather than profit or loss (for example, changes in the fair value of an asset or liability arising from changes in interest rates).
13. Consequently, the staff recommend that the IASB do not attempt to define separate element of income or expense to describe what should be reported in profit or loss and what should be reported in OCI.

Questions for the IASB

Question

Does the IASB agree that:

(a) the existing definitions of income and expense should be left largely unchanged;

(b) the revised Conceptual Framework should not define different types of income or expense?