

Lecture 4 Reporting Financial Performance

Statement of Financial Performance

The report that measures the success of a company's operations for a specific time period has many names

- **Income statement** (ASPE)
- Two versions under IFRS
 - Two separate statements: Statement of profit or loss and Statement of comprehensive income
 - One combined statement: **Statement of financial performance** (per the newly issued IFRS Conceptual Framework)

Comprehensive income

= net income + other comprehensive income (like unrealized gains/losses on revaluation of property, plant, and equipment under the revaluation model)

Other comprehensive income

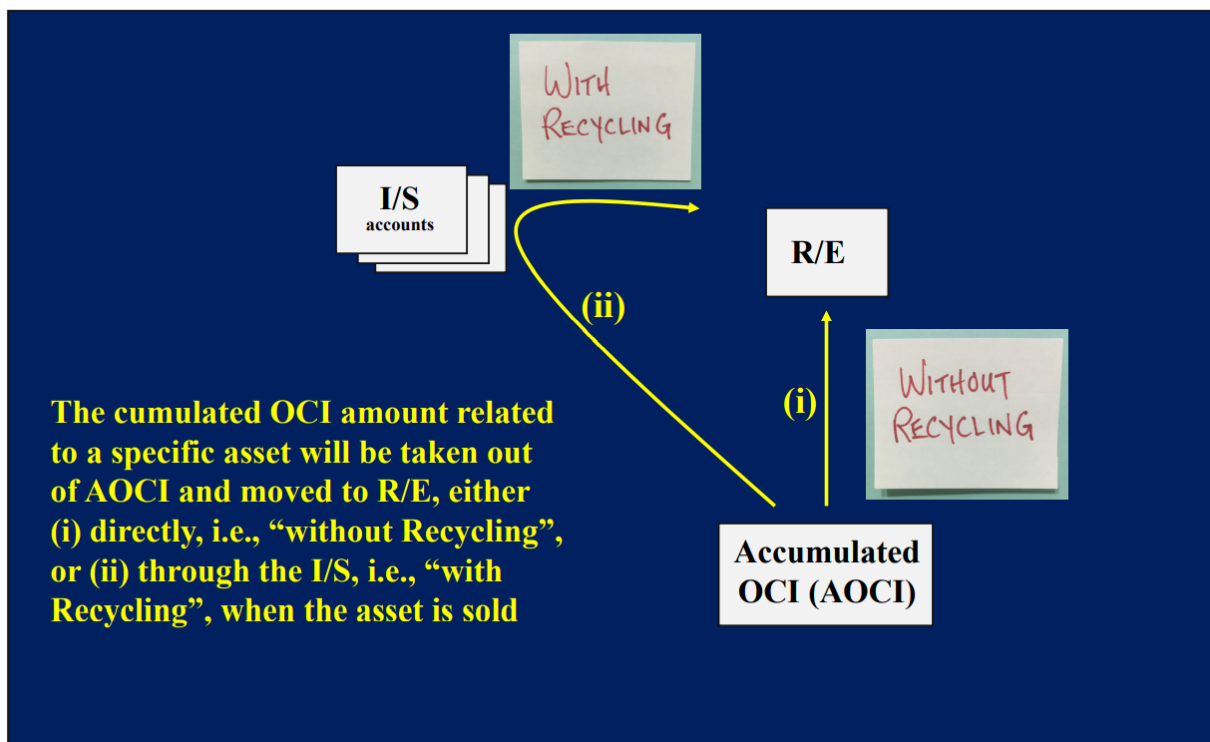
Includes unrealized gains or losses on certain securities, certain foreign exchange gains or losses, and other gains and losses as defined by IFRS

Some items are **recycled**: recognized first in OCI, then reclassified later to net income (gain on some investments classified as FV-OCI are first booked to OCI and then booked to net income when impaired or sold)

OCI is closed to an equity account on the SFP called Accumulated Other Comprehensive Income (AOCI)

When the underlying asset is sold ... IFRS only

29



(1) Unrealized Gain on a PP&E asset (cost model, measurement at historical cost)	not recognized, same for IFRS and ASPE
(2) Gain/Loss on Disposal of a PP&E asset (cost model, measurement at historical cost)	all go through Income, same for IFRS and ASPE
(3) Loss on Writedown of Obsolete Inventory	
(4) Impairment Loss on Asset Held for Sale	
(5) Realized Gain/Loss on a FV-NI Investment	
(6) Unrealized Gain/Loss on a FV-NI Investment	For these OCI items, IFRS requirement is:
(7) Unrealized Gain/Loss on a FV-OCI Investment in Debt Securities	
(8) Unrealized Gain/Loss on a FV-OCI Investment in Equity Securities	
(9) Revaluation Surplus (recorded as OCI item) from the revaluation of a PP&E asset	without Recycling

Retained Earnings Statement (ASPE)

Beg RE + Net income – Dividend Declared = End RE

Correction error retrospective

一律要调整 Retained Earning

STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 2020

Balance, January 1, as reported		\$1,050,000
Correction for understatement of net income in prior period (inventory error) (net of taxes of \$12,000)		50,000
Balance, January 1, as adjusted		1,100,000
Add: Net income		360,000
		1,460,000
Less: Cash dividends	\$100,000	
Less: Stock dividends	200,000	300,000
Balance, December 31		<u>\$1,160,000</u>

Statement of Changes in Equity (IFRS)

Consolidated statements of changes in equity

(Cdn thousands)	Attributable to equity holders						Non-controlling interest	Total equity
	Share capital	Contributed surplus	Retained earnings	Foreign currency translation	Available for-sale assets	Total		
Balance at January 1, 2017	\$1,862,646	\$216,213	\$3,019,872	\$ 156,411	\$3,229	\$5,258,371	\$ 157	\$5,258,528
Net earnings (loss)	—	—	(204,942)	—	—	(204,942)	224	(204,718)
Other comprehensive income (loss)	—	—	(6,216)	(44,070)	5,837	(44,449)	(10)	(44,459)
Total comprehensive income (loss)	—	—	(211,158)	(44,070)	5,837	(249,391)	214	(249,177)
Share-based compensation	—	13,960	—	—	—	13,960	—	13,960
Stock options exercised	6	(1)	—	—	—	5	—	5
Restricted and performance share units released	—	(5,360)	—	—	—	(5,360)	—	(5,360)
Dividends	—	—	(158,297)	—	—	(158,297)	—	(158,297)
Balance at December 31, 2017	\$1,862,652	\$224,812	\$2,650,417	\$ 112,341	\$9,066	\$4,859,288	\$ 371	\$4,859,659

Multiple Step income Statement

MULTIPLE-STEP INCOME STATEMENT SECTIONS

1. Continuing Operations

a. Operating section. A report of the **revenues and expenses** of the company's principal operations.

i. Sales or Revenue. A subsection presenting sales, discounts, allowances, returns, and other related information. Its purpose is to arrive at the net amount of sales revenue.

ii. Cost of Goods Sold. A subsection that shows the cost of goods that were sold to produce the sales.

iii. Selling Expenses. A subsection that lists expenses resulting from the company's efforts to make sales.

iv. Administrative or General Expenses. A subsection reporting expenses for general administration.

b. Non-Operating section. A report of revenues and expenses resulting from the company's secondary or auxiliary activities. In addition, special gains and losses that are infrequent and/or unusual are normally reported in this section. Generally these items break down into two main subsections:

i. Other Revenues and Gains. A list of the revenues earned or gains incurred from non-operating transactions, and generally net of related expenses.

ii. Other Expenses and Losses. A list of the expenses or losses incurred from non-operating transactions, and generally net of any related income.

c. Income Tax. A short section reporting income taxes on income from continuing operations.

2. Discontinued Operations. Operating income or loss from operations that are discontinued plus gains or losses resulting from the disposition of a part of the business (net of taxes).

3. Other Comprehensive Income. Under IFRS, other gains/losses that are not required by primary sources of GAAP to be included in net income. This section includes all other changes in equity that do not relate to shareholder transactions (net of taxes).

Discontinued Operation

- Discontinued operations includes separate components that have been disposed of or are held for sale

The business component must have operations, cash flows and financial elements that are clearly distinguishable from the rest of the enterprise

Separate financial information is critical so gains or losses from discontinued operations can be measured

The component must be a major line of business or a geographical area—however what is "major" is a matter of judgement

is part of a single co-ordinated plan


Subsidiary acquired exclusively with a view to resale

Assets held for Sale

- Criteria for an asset to be considered "held for sale"
 - Authorized plan to sell exists
 - Asset available for immediate sale
 - Active search for a buyer
 - Sale is probable within a year
 - Asset is reasonably priced and actively marketed
 - Changes to the plan are unlikely

Measurement and Presentation

Income from continuing operations		\$XXX	
Discontinued operations			
Loss from operation of discontinued division (net of tax)	\$XXX		
Loss from disposal of division equipment (net of tax)	XXX	XXX	
Net income		<u>\$XXX</u>	
Earnings per share			
Continuing operations		\$X.XX	
Discontinued operations		<u>(X.XX)</u>	
Net earnings per share		<u>\$X.XX</u>	



- Depreciation is not recognized on held for sale assets
- Remeasured at lower of carrying value and fair value net of cost to sell
- Once asset is written down, subsequent gains can be recognized only up to the amount of original loss
- Presented separately on balance sheet
 - Under A S P E, held for sale asset retains original classification as current or non-current
 - Under I F R S, held for sale assets generally classified as current

Sale Revenue