**Advanced Profitability Analysis**

**Learning Outcomes**

After completing this module, students will be able to:

1. Explain the format of the consolidated income statement and consolidated statement of comprehensive income.
2. Correctly disclose discontinued operations in the consolidated income statement.
3. Calculate basic and diluted earnings per share based on income from continuing operations and net income.
4. Recognize the correct amount of sales contract revenue at the appropriate time.
5. Analyze an interim financial report and management, discussion & analysis.

**Introduction**

There is much more to financial statement analysis than calculating a 5-year trend of some key financial ratios with an industry average or benchmark. The interim and annual financial reports corporations issue are complex documents based on 61 IFRS Standards and Interpretations and 12 Canadian Securities Administrators (CSA) National and Multilateral Instruments. Financial analysts must thoroughly understand these complex documents and how different financial statement items are recognized and disclosed to assess a firm’s performance. This module examines profitability, including the structure of a complex income statement, consolidated earnings, continuing income, comprehensive income, discontinued operations, revenue recognition, earnings per share, and interim financial reporting.

**1.1 | Consolidated Income Statement**

**Consolidated Statement of Comprehensive Income (IAS 1)**

A consolidated statement of profit or loss, also called the income statement, includes the revenues, expenses, gains, and losses of a parent company and its subsidiaries. A subsidiary is another legal entity that a parent company controls. Control exits when the parent owns over 50% of the outstanding shares. If a parent does not own 100% of its subsidiaries, other investors are entitled to a portion of the net income. Net income attributable to the equity holders of the company is what the owners of the parent company are entitled to, while the non-controlling interest is owed to the other investors. Until the parent company decides to distribute net income to its shareholders as dividends, it is free to invest the net income as appropriate, and other non-controlling investors have little input. This is referred to as the economic entity perspective since net income represents the resources the parent company controls, not what it is legally entitled to. IFRS adopts an economic instead of a legal perspective to provide investors with a better measure of a company’s financial strength.

**Exhibit 1: Format of a Consolidated Income Statement**

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| **Renfrew Enterprises****Consolidated Income Statement****For the Year Ending December 31, 2023****(CAD ‘000)** |
| Sales  |  | 817,000 |
| Cost of sales |  | 450,000 |
| Gross profit |  |  367,000 |
| Operating expenses |  |  |
|  Selling, general, and administration | 120,000 |  |
|  Research and development | 75,000 | 195,000 |
| Operating income from continuing operations |  | 172,000 |
| Other revenue and gains |  |  |
|  Financing income | 15,000 |  |
|  Income from associates & joint ventures | 10,000 |  |
|  Gain on disposal of securities | 8,000 | 33,000 |
| Other expenses and losses |  |  |
|  Financing expense | 17,000 |  |
|  Restructuring charges | 8,000 | 25,000 |
| Income from continuing operations before taxes |  | 180,000 |
|  Income taxes |  | 72,000 |
| Income from continuing operations |  | 108,000 |
| Loss from discontinued operations |  | 30,750 |
| Net income (loss) |  | 77,250 |
| Attributable to: |  |  |
|  Equity holders of the company |  | 68,250 |
|  Non-controlling interests |  | 9,000 |
|  |  |  |
| Earnings per share |  |  |
| Basic earnings (loss) per share |  |  |
|  Continuing operations |  | 0.97 |
|  Discontinued operations  |  | (0.30) |
|  Total |  | 0.67 |
| Diluted earnings (loss) per share |  |  |
|  Continuing operations  |  | 0.93 |
|  Discontinued operations  |  | (0.29) |
|  Total |  | 0.64 |

Operating income from continuing operations or “the line” is the income a company earns from its ongoing business activities. It excludes the “other revenues and gains” and “other expenses and losses” unrelated to the business’s regular business activities and any discontinued operations. This provides an income measure before interest and taxes that is more representative of its future earnings potential. As discussed, companies often attempt to move non-operating revenues and gains above “the line” and non-operating expenses and losses below “the line” to improve their financial performance.

Earnings per share are part of a consolidated income statement and are based on consolidated net income attributable to the equity holders of the company. Basic and diluted earnings per share are calculated using income from continuing operations and net income to isolate the effect of discontinued operations. This gives analysts a better indication of a company’s future earnings potential.

IFRS requires companies to present each material class of items (i.e., accounts) either on the consolidated income statement or in the explanatory notes – it can require specific items to be disclosed separately regardless of their size. Explanatory notes describe the items presented, give a breakdown of the amounts disclosed and provide information about items not included in the statements.

Companies should retain the same presentation and classification of items each period, so users are not confused unless IFRS requires a change in accounting treatment, or the company feels a new format gives more reliable and relevant information to users. Revenues, expenses, gains, and losses should not be netted against each other unless required or permitted by IFRS, so important information is not hidden from users. Typical income statement items include:

* Sales
* Cost of sales
* Selling and administration
* Research and development
* Depreciation and amortization
* Write-downs of inventory and reversals
* Impairments of PP&E and reversals
* Revaluation of PP&E
* Gains/losses on disposal of PP&E
* Restructuring charges and reversals
* Financing income
* Gains or losses on the disposal of financial assets
* Gains or losses on financial assets carried at fair value
* Share of profits of associated companies and joint ventures
* Litigation settlements
* Financing costs
* Income taxes
* Discontinued operation

The consolidated statement of comprehensive income can be shown separately or combined with the consolidated income statement. It reconciles net income with total comprehensive income, providing a complete measure of a company's earnings for the period by including additional items not found on the income statement.

**Exhibit 2: Format of a Consolidated Statement of Comprehensive Income**

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| **Renfrew Enterprises****Consolidated Statement of Comprehensive Income****For the Year Ending December 31, 2023****(CAD ‘000)** |
| Net income | 77,250 |
| Items that may be reclassified as net income |  |
|  Translation of foreign operations | (4,500) |
|  Cash flow and other hedges | (2,785) |
|  Available-for-sale financial assets | 320 |
|  Revaluation of PP&E and intangible assets | 5,870 |
| Items that are never reclassified to net income |  |
|  Remeasurement of defined benefit plans | 3,430 |
| Total comprehensive income | 79,585 |
|  |  |
| Attributable to: |  |
|  Equity holders of the company | 70,245 |
|  Non-controlling interest | 9,340 |

Comprehensive income incorporates unrecognized gains and losses net of tax related to applying market-to-market and fair value accounting and other IFRS accounting policies. When the unrealized gains and losses are finally realized, they are reclassified as net income except for defined benefit plans. IFRS assumes that defined benefit plans like pensions continue indefinitely and are never settled.

The concept of comprehensive income is relatively new. As more assets and liabilities are recorded at their fair value instead of historical cost, frequent gains and losses cause net income to become more variable. By including these unrealized gains and losses in comprehensive income, net income is stable, providing a more useful performance measure for investors. The difference between net income and total comprehensive income is generally small, so recording unrealized gains and losses as comprehensive income until realized has limited value for users.

A consolidated income statement for the current and previous reporting periods must be presented together so users can better assess a company's performance. More than two income statements can be provided, but they must be complete and prepared under IFRS. Comparative information is also required for the other financial statements, including the consolidated statement of financial position or balance sheet, the consolidated statement of changes in equity, and the statement of cash flows.

**1.2 | Discontinued Operations (IFRS 5)**

A discontinued operation is a component of a business sold in the current reporting period or is being held for sale. A component is a cash-generating unit or group of cash-generating units that can be clearly distinguished, both operationally and financially, from the rest of the company and usually represents a major product line, geographical area, or subsidiary. Discontinued operations are presented just before net income at the bottom of the income statement. All revenues and expenses from discontinued operations are removed from income from continuing operations.

Income from continuing operations 108,000

Loss from discontinued operations 30,750

Net income 77,250

As discussed, financial analysts focus on income from continuing operations as it provides a better measure of a company’s future earnings, as discontinued operations have been removed.

Selling a business component usually takes considerable time if a company hopes to get the best possible price. Firms may publicly announce their intention to sell a component but may not complete the transaction before the end of the reporting period. These planned sales can still be classified as held for sale and treated as discontinued operations if deemed highly probable. IFRS defines probable as being more likely than not to occur (i.e., over 50%), but demands a higher probability for business components held for sale. They require:

* + Management with the authority commits to a formal disposal plan;
	+ An active program to sell the asset has been initiated;
	+ Assets are available for immediate sale in their current condition;
	+ The asking price is reasonable compared to the component’s fair value;
	+ Sale is probable within the year, but periods beyond one year are allowed if the reasons are beyond management’s control and the company remains committed to the transaction;
	+ It is unlikely significant changes to the plan will be made or the plan will be withdrawn; and
	+ Shareholder approval is highly probable.

Discontinued operations classified as held for sale are returned to continuing operations if the sale is no longer highly probable. Assets a company plans to abandon can only be classified as discontinued operations when abandoned.

Without these stricter rules, companies often classify poorly performing business components as held for sale to improve their income from continuing operations in the current reporting period. They reverse their decision to sell the components in the following period once they have addressed any operational issues or found other ways to hide their poor financial performance from financial analysts. Some companies also try to improve their performance by disguising regular business activities that are losing money as discontinued operations.

Discontinued operations are reported separately on the income statement as the net of:

* + Pre-tax profit or loss of the discontinued operations;
	+ Pre-tax gains or losses on the sale of the discontinued operations; and
	+ Related income taxes.

A loss should be recognized for any initial or subsequent write-down to fair value minus selling costs. A gain should be recognized for any subsequent increase in fair value, but not an amount above the cumulative loss previously recognized.

The net cash flows from the discontinued operation’s operating, investing, and financing activities should be presented separately on the cash flow statement for the current and prior periods to demonstrate their future impact. The assets and liabilities of the discontinued operations held for sale should be shown separately as current assets and liabilities for current and prior periods, as they will be settled within the year.

**1.3 | Revenue Recognition (IFRS 15, 41)**

As discussed, companies devote considerable resources to playing the “earnings game,” where they intentionally inflate or smooth their earnings to increase management compensation, meet loan requirements, and avoid the scrutiny of their board of directors and stock markets by regularly meeting or exceeding analysts’ earnings forecasts. IFRS 15 Revenue from Contracts with Customers was introduced in 2018 to help curb these abuses by providing more detailed guidance and examples of how revenue should be recognized. The revenue recognition process is divided into five steps.

**Step 1 - Identify the Contract**

A customer sales contract should be recognized if 1) there is a binding agreement where each party’s rights and the payment terms are identified, 2) it is probable that the customer has the intention and ability to pay for the goods or services, and 3) neither party can terminate the unperformed contract without compensating the other party. If a contract meets these criteria initially, it should not be reassessed in the future unless there is a significant change, such as the customer’s ability or intention to pay. If the criteria are no longer met, the contract should be reversed. If a contract does not meet these criteria initially, it should be regularly reassessed and recognized if the conditions are later met. Contracts entered at or near the same time with the same customer can be combined into a single contract if they have the same commercial objective, the consideration to be paid for one contract is dependent on the other, or the goods or services promised in the contracts make up one performance obligation. Contract amounts should be adjusted for any agreed-upon modifications to the price or scope of the agreement.

**Step 2 - Identify Performance Obligations**

Sales contracts should be divided into distinct performance obligations. These obligations are promises to transfer goods and services or bundles of goods and services to customers who can benefit from them separately or when combined with other resources. Examples of distinct performance obligations include:

**Exhibit 3: Distinct Performance Obligations**

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| --- |
| Sale of goods produced by an entity (i.e., inventory of a manufacturer) |
| Resale of goods purchased by an entity (i.e., merchandise of a retailer) |
| Resale of rights to goods or services purchased by an entity (i.e., tickets resold by an entity acting as a principal) |
| Performing a contractually agreed-upon task(s) for a customer |
| Providing a service of arranging for another party to transfer goods or services (i.e., unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides |
| Providing a service of arranging for another party to transfer goods or services to a customer (i.e., acting as an agent of another party) |
| Granting rights to purchase goods or services to be provided in the future that a customer can resell or provide to its customers (i.e., an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer) |
| Constructing, manufacturing, or developing an asset on behalf of a customer |
| Granting licences |
| Granting options to purchase additional goods or services |

Source: IFRS 15

**Step 3 - Determine the Transaction Price**

The transaction price is what a company expects to receive in exchange for goods and services transferred to a customer. The price is adjusted for 1) variable consideration such as trade discounts, cash discounts, product returns, sales allowances, price concessions, incentives, performance bonuses, or penalties, 2) subsidized customer financing, 3) non-cash consideration given by the customer, and 4) consideration paid directly to the customer.

Variable consideration should be estimated as the expected value or most likely amount. The expected value is the probability-weighted amount a company expects to receive and may be appropriate if it has several similar contracts. The most likely amount is the single most probable price in a range of possible prices and is used when the contract only has a limited number of outcomes.

If payment is deferred, revenue is measured at the present value of the future cash flows using an appropriate discount rate. The increase in value of the receivables each year due to the passage of time (i.e., the company is discounting the payments for one less year) is recorded as interest revenue.

Non-cash consideration paid by a customer is measured at its fair value. This includes when a customer contributes goods or services such as materials, labour, and equipment to complete a contract.

Consideration paid directly to the customer or other parties to whom the goods or services are resold will reduce the transaction price. Examples include coupons and vouchers.

**Step 4 - Allocate the Transaction Price to the Performance Obligations**

The transaction price is allocated to the different performance obligations in the sales contract by prorating the transaction price using the standalone selling price of the goods and services in each performance obligation. If a standalone price for each performance obligation is not available, it is estimated using:

* Market estimates based on competitor prices adjusted for any cost or margin differences;
* Expected costs to produce the goods or services plus an appropriate profit margin; or
* The total transaction price of the sales contract minus the portion of the transaction price allocated to the other performance obligations.

A company provides a discount if it sells bundles of goods and services to customers at less than their regular, standalone selling prices. Any discounts should be allocated proportionately among all performance obligations unless the discounts can be accurately traced to the specific performance obligations that used these discounted goods or services. Variable consideration and any subsequent changes in the transaction price are also allocated proportionately unless they can be traced to specific performance obligations. The weights used to allocate the transaction price remain the same over the life of the sales contract, so subsequent changes in the standalone selling prices are not recognized.

**Step 5 - Recognize Revenue as Performance Obligations are Fulfilled**

Sales contract revenue is recognized at a point in time when the seller satisfies a performance obligation and the customer gains control of the goods or services and can direct their use and gain any benefits. This is indicated when:

* a legal obligation exists for the customer to pay for the good or service;
* legal title for the good or service is transferred to the customer;
* the customer has taken physical possession of the good or service;
* risks and rewards of ownership of the good or service have passed to the customer; or
* the customer has accepted the asset.

Sales contract revenue is recognized over time when the seller fulfills the performance obligation gradually and at least one of the following conditions is met:

* the customer simultaneously receives and consumes the benefit from the good or service provided by the seller;
* contract performance creates or enhances an asset that a customer controls; and
* the asset has no alternative use, and the seller has the right to payment for the work completed.

Sales contract revenue is recognized over time based on the seller’s progress in fulfilling the performance obligation using different input or output methods, whichever best measures the company’s progress in satisfying the performance obligation. Output methods recognize revenue based on the estimated benefits to customers using completion to date, appraisals of results, milestones reached, time elapsed, and units produced or delivered. Input methods recognize revenue based on the seller’s efforts using labour hours incurred, costs incurred, or machine hours to total expected inputs.

Revenue should not be recognized over time if progress cannot be reasonably estimated, but revenue equal to the costs incurred to date is recognized if the seller expects to recover these costs. All direct costs relating to obtaining or fulfilling a sales contract are capitalized and amortized against the revenue consistent with how the contract revenue was recognized. Indirect costs that cannot be traced to a sales contract should be expensed immediately. An impairment loss should be recognized if the contract’s costs exceed the remaining contract consideration, but these impairment losses can be reversed if conditions change.

**1.4 | Earnings Per Share** (**IAS 33)**

**Basic Earnings Per Share**

Basic earnings per share (BEPS) is the consolidated profit or loss earned over a reporting period attributable to the ordinary equity holders of the parent company, divided by the weighted average number of ordinary shares. Ordinary shares, more typically called common shares, are subordinate or paid after all other classes of equity instruments, such as preferred shares, when distributing dividends. BEPS is calculated separately based on income from continuing operations and net income. This shows the effect of discontinued operations on net income and gives financial analysts a better indication of future earnings.

$$BEPS Continuing Operations= \frac{Continuing income-Preference share dividends}{Weighted average number of common shares}$$

$$BEPS Net Income= \frac{Net income-Preference shares dividends}{Weighted average number of common shares}$$

The amount of preference share dividends deducted from profit or loss includes:

* + Dividends prescribed on cumulative preferred shares, regardless of whether they are paid;
	+ Dividends declared on non-cumulative preferred shares;
	+ Dividends on preferred shares are sold at a discount or premium;
	+ Costs of the induced conversion of preferred shares into common shares; and
	+ Gains or losses on the repurchase of preferred shares.

Preferred share dividends are usually cumulative, meaning payment may be delayed to a subsequent reporting period. Still, dividends in arrears must be paid in full before any common share dividends can be distributed. Preferred shareholders can usually vote like common shareholders if their dividends are in arrears, so companies have an incentive to pay them on time. Non-cumulative preferred dividends are only deducted if declared, as they do not go into arrears if unpaid. Some companies sell increasing-rate preferred shares that may sell at a discount or premium initially. These amounts are amortized using the effective interest rate method and treated as preference share dividends. Companies may induce early conversion of preferred shares into common shares by providing more favourable conversion terms, such as awarding additional common shares or making an extra cash payment. These costs are included in preference share dividends. When preferred shares are repurchased, the amount paid above the preferred shares' carrying value is classified as preference share dividends.

Preferred shares must be classified as equity, not debt, for their dividends to be deducted. Preferred shares with required payments are classified as debt under IFRS because of their higher risk. Only preferred shares where the dividend payment can be delayed indefinitely are classified as equity.

The number of common shares is calculated on a weighted average basis to reflect the buying and selling of shares during the reporting period. Starting with the number of common shares outstanding at the beginning of the reporting period, all changes are prorated by days, although reasonable approximations are acceptable. Authorized shares are the number of shares a company can sell, while issued shares are the number of shares that have been sold. Outstanding shares are the number in circulation, which is the number of issued shares less treasury shares. When outstanding shares are repurchased, they are either cancelled or held as treasury shares, which can be resold more quickly. Treasury shares do not have a vote or pay dividends, so they are excluded from calculating basic EPS.

**Exhibit 4: Prorating Changes in the Number of Common Shares**

|  |  |
| --- | --- |
| **Transactions** | **Effective Date** |
| New shares issued for cash | Date of issuance |
| New shares issued with the passage of time | Date of issuance |
| Reinvestment of dividends by common shareholders | Date when dividends are reinvested |
| Repurchase or resale of shares | Date of repurchase or resale |
| Stock splits, reverse splits, and stock dividends | Beginning of the reporting period |
| Rights, warrants, call options | Date of exercise |
| Conversion of debt or preferred shares | Date when interest or dividends cease to accrue |
| New shares in place of interest or principal payments | Date when interest or dividends cease to accrue |
| Settlement of a liability | Settlement date |
| Asset acquisition | Date of acquisition |
| Business combination | Date of acquisition |
| Services rendered | As services are rendered |
| Contingently issuable shares | When all conditions are satisfied |
| Contingently returnable shares | Not treated as outstanding until no longer subject to recall |

Stock splits, reverse splits and stock dividends are prorated at the beginning of the reporting period, regardless of when they occurred, since the number of shares changes without a corresponding change in resources. Companies use these transactions to maintain the share price in a desired tradeable range and are of no value to shareholders. When presenting comparative financial statements that compare this year’s performance to previous years, any stock splits, reverse splits, and stock dividends occurring this reporting period should be accounted for retrospectively in these periods. Also, if these transactions occur after the current year-end but before the distribution of the annual report, they should be accounted for retrospectively in all previous periods.

**Diluted Earnings Per Share**

Diluted earnings per share (DEPS) is a “what if” analysis which shows how BEPS is affected if a company’s rights, warrants, and options are exercised, or its convertible preferred shares or bonds are converted. The numerator in the BEPS formula increases by the after-tax amount of any interest or dividends on these securities, as they would no longer be paid, and the denominator increases by the common shares issued. Securities are analyzed separately when calculating DEPS. They are only included in the calculation of DEPS if they are dilutive, which means they lower BEPS from Continuing Operations. Securities that are anti-dilutive or increase BEPS from Continuing Operations are excluded. The dilutive effect of each security is determined using the Treasury Stock or If Converted Method.

**Rights, Warrants, and Options.** The Treasury Stock method assumes all rights, warrants, and options are exercised at the beginning of the reporting period or when the securities were issued in the current period. The proceeds raised are used to purchase shares at the average price during the reporting period. If the incremental shares after these two hypothetical transactions are positive, the rights, warrants, and options are “in the money” and are likely to be exercised. Adding these positive incremental shares to the denominator will lower BEPS, which is dilutive.

**Convertible Preferred Shares and Bonds**. The If Converted Method assumes all conversions occur at the beginning of the reporting period or when the securities were issued in the current period. Any preference shares dividends or after-tax interest expense not paid are added to the numerator, and the new shares are included in the denominator. If the ratio of these two amounts is below BEPS from Continuing Operations, it is dilutive.

The cumulative impact of all dilutive securities is measuredafter determining the positive incremental shares for the rights, warrants, and options, and the ratio for each convertible security. First, the positive incremental shares are added, as increasing the denominator will always lower BEPS from Continuing Operations. Then, one at a time, the most dilutive to the least dilutive convertible securities are included until BEPS from Continuing Operations stops falling. This process results in the most conservative DEPS and is called anti-dilutive sequencing.

**1.5 | Interim Financial Reporting (IAS 34)**

The annual financial report is the primary source of information about a company’s performance, describing successes and failures, generating new earnings and cash flows, the strength of the balance sheet, and potential liquidity problems. In today’s dynamic economy, investors and creditors demand more timely information, so regulators require companies to provide an interim financial report every three, six, and nine months in Canada.

Under the CSA’s NI 51-102 Continuous Disclosure Obligations, companies must file an annual report consisting of the consolidated financial statements and explanatory notes within 90 days of the financial year-end. Interim reports are filed within 45 days of quarter-end. Interim reports cover the first three quarters of the financial year, and the annual report encompasses all four quarters – there is no interim report for the 4th quarter. Interim reports do not have to be audited because of time constraints and the added expense, but firms should disclose this to users. An auditor’s opinion must be provided if the interim reports are audited.

IFRS regulates the information included in interim reports. A company may provide condensed interim financial statements and select explanatory notes instead of a complete set of financial statements and notes as in the annual report. This helps meet the tight submission deadline for interim reports, reduces compliance costs, and avoids duplicating information already provided in the previous annual report. The focus of condensed interim reports is on explaining significant events and transactions occurring since the last annual filing. Companies can still complete full financial statements and notes in the interim reports if they have enough time and feel the cost is justified after assessing the value of the additional information provided to users. The interim financial statements and comparable information should be presented as follows:

**Exhibit 5: Presentation of Interim Financial Statements**

|  |  |
| --- | --- |
| Statement of financial position | End of the current interim financial periodEnd of the preceding financial year |
| Statement of profit or loss or other comprehensive income | Interim financial period for the current financial yearComparable interim financial period for the preceding financial yearYear-to-date period for the current financial yearComparable year-to-date period for the previous financial year |
| Statement of changes in equity | Year-to-date period for the current financial yearComparable year-to-date period for the preceding financial year |
| Statement of cash flows | Interim financial period for the current financial yearComparable interim financial period for the preceding financial yearYear-to-date period for the current financial yearComparable year-to-date period for the preceding financial year |

Condensed financial statements must have, at minimum, the same headings and sub-totals as the most recent annual report, so they are easier to compare. As discussed, the selected explanatory notes only update the information provided in the last annual report. Typical events and transactions reported include:

* Asset write-downs and reversals;
* Restructuring charges and reversals;
* Acquisition and disposal of property, plant, and equipment;
* Commitments to purchase property, plant, and equipment;
* Litigation settlements;
* Corrections of accounting errors in prior periods;
* Change in business or economic conditions that affect the fair value of financial assets and liabilities;
* Loan breaches or defaults;
* Related party transactions; and
* Changes in contingent assets and liabilities.

Other disclosures include:

* Statement that the same accounting policies are being followed or if any changes have occurred;
* Explanation of the seasonal or cyclical nature of interim operations;
* Unusual items affecting the value of assets, liabilities, net income, and cash flows;
* Changes in estimated amounts reported in prior periods;
* Issuance, repurchase, and repayment of debt and equity securities;
* Dividends paid;
* Segmented information;
* Events after the interim period that have not been accrued in the financial statements of the current interim period;
* Changes in business composition, including mergers and acquisitions, losing or gaining control of subsidiaries, other long-term investments, restructuring charges, or discontinued operations; and
* BEPS and DEPS.

The same accounting policies are used to prepare the interim reports as in the previous annual report, unless new policies are adopted in the interim period. Revenue and cost recognition policies must be applied each quarter as if it were a standalone reporting period. Revenues and costs cannot be averaged to compensate for seasonal, cyclical, or random sales variations over the year.

NI 51-102 requires an interim Management, Discussion, and Analysis (MD&A) to be included with the interim reports in the first three quarters. The interim MD&A updates previous disclosures about business strategy, performance drivers, risks, etc., in the last annual MD&A. It also discusses the company’s performance relative to previously disclosed short-term and long-term goals using the condensed interim financial statements and comparative information.