
Workshop on IFRS 18 *Presentation and Disclosure in Financial Statements*

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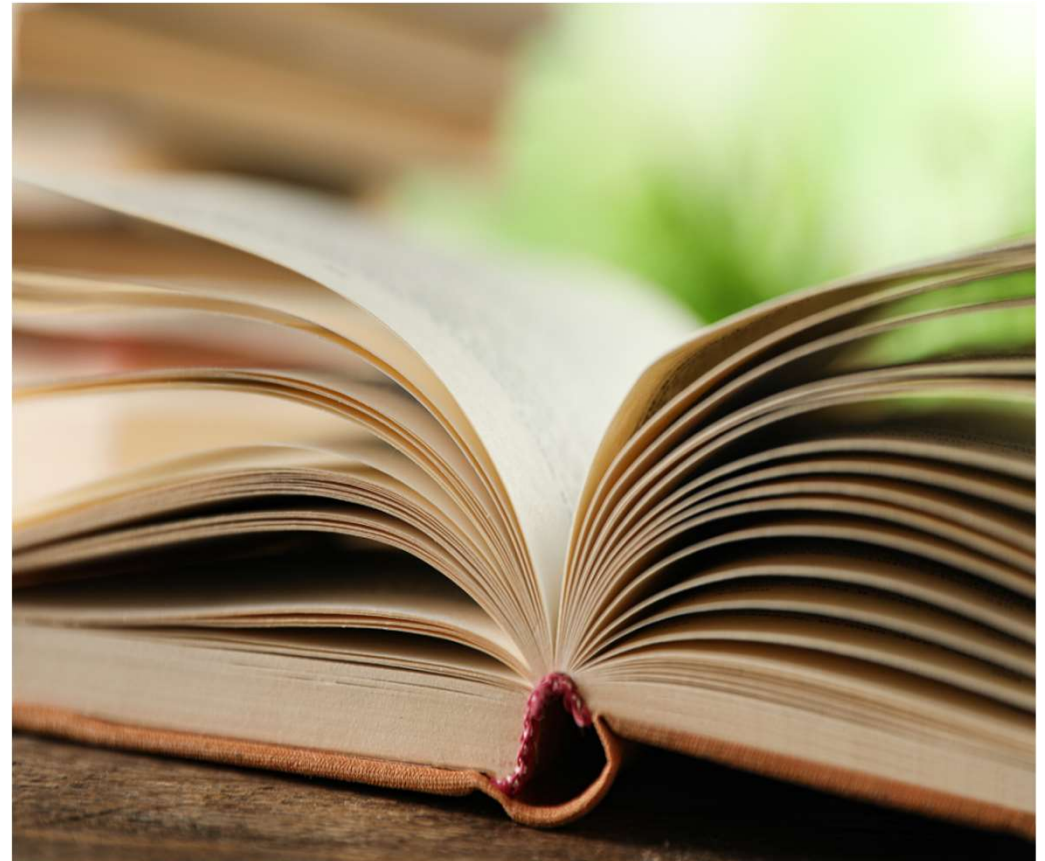
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Purpose of this workshop



Objective of this workshop

- Provide an overview of IFRS 18 – *Presentation and Disclosure in Financial Statements*
- To highlight main changes to the statement of profit or loss and other presentation and disclosure requirements relevant to teaching
- To stimulate academic research that will be useful for the post-implementation review of IFRS 18



Polling questions

Question 1A

- The reason for your interest in this session on IFRS 18 is:
 - teaching
 - research
 - both

Question 1B

- What is your level of knowledge about the changes introduced by IFRS 18?
 - I have not followed the project
 - I have seen some updates
 - I have followed the project closely

Project Overview



Helicopter view

New IFRS Accounting Standard to improve reporting of financial performance

Responds to investors' demand for better information about companies' financial performance



Improves how information is communicated in the financial statements



Gives investors a better basis for analysing and comparing companies' performance

IFRS 18 – the new requirements



New required subtotals in statement of profit or loss, including 'operating profit'



Disclosures about management-defined performance measures (MPMs)



Enhanced requirements on grouping of information (aggregation and disaggregation)

Better information for better decisions

– increases comparability, transparency and usefulness of information



Effective date: 1 January 2027

Categories and subtotals



Polling questions

Question 2A

- Would you expect **share of profit of associates accounted for using the equity method** to be in the operating category of the statement of profit or loss?
 - Yes
 - No

Question 2B

- Would you expect **interest expense on pension liabilities** to be in the operating category of the statement of profit or loss?
 - Yes
 - No

Question 2C

- Would you expect **unusual income and expenses** to be in the operating category of the statement of profit or loss?
 - Yes
 - No

Categories and subtotals in the statement of profit or loss

Investors' concerns

- Difficulty comparing financial performance because companies' statement of profit or loss vary in content and structure

IFRS 18 introduces

- Three new defined categories to provide a consistent structure of the statement of profit or loss:
 - operating
 - investing
 - financing
- Two new required subtotals to enable analysis:
 - operating profit
 - profit before financing and taxes

New required subtotals

Operating profit

Gives a complete picture of a company's operations

Profit before financing and income taxes

Gives a picture of a company's performance before the effects of its financing

Statement of profit or loss

Revenue

Cost of sales

Gross profit

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Goodwill impairment loss

Other operating expenses

Operating profit

Share of profit or loss of associates and joint ventures

Other investment income

Profit before financing and income taxes

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities and provisions

Profit before income taxes

Income tax expense

PROFIT

Operating

Investing

Financing

What is in the operating category?



Income and expenses:

- All income and expenses from a company's operations, regardless of whether they are volatile or unusual in some way
- Including from its main business activities



Works for all business models

Provides complete picture of company's operations

What is in the investing category?



Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity

- rental income and remeasurements of investment property
- interest income and fair value changes on financial assets, such as debt securities
- dividends and fair value changes on non-consolidated equity investments



Income and expenses from non-consolidated subsidiaries, associates and joint ventures



Income and expenses from cash and cash equivalents

What is in the financing category?

All income and expenses from liabilities from transactions that involve only the raising of finance



- Receipt and return of cash or company's own shares
- Reduction in financial liability
- E.g., bank loans

Interest expense and effects of changes in interest rates from other liabilities

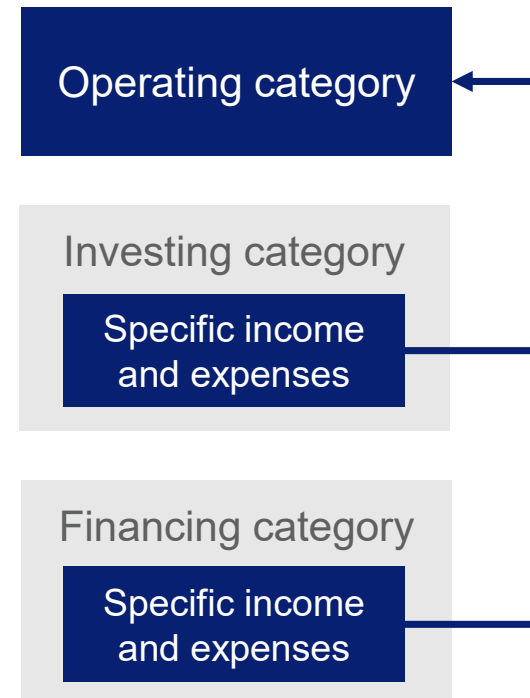


- Lease liabilities
- Defined benefit pension liabilities

Requirements for specific companies

- For some companies, financing and investing activities are their main business activities – for example banks and insurers
- These companies include income and expenses in their operating profit that for other companies would be included in the investing or financing categories*

* See slides 42–44 for more information on the requirements for companies with specified main business activities.



Statement of profit or loss - financing and investing as main business activities

Interest revenue

Interest expense

Net interest income

Fee and commission income

Fee and commission expenses

Net fee and commission income

Net trading income

Net investment income

Credit impairment losses

Employee benefits

Depreciation and amortisation

Other operating expenses

Operating profit

Share of profit of associates and joint ventures

Interest expenses on pension and lease liabilities

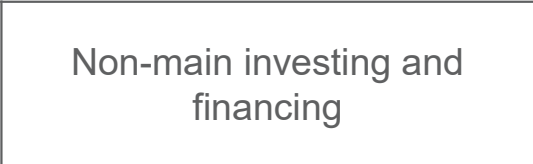
Profit before income taxes

Income tax expense

PROFIT



Operating



Non-main investing and
financing

Statement of profit of loss - insurance as a main business activity

Insurance revenue

Insurance service expenses

Insurance service result

Investment income

Credit impairment losses

Insurance finance expenses

Net financial result

Other operating expenses

Operating profit

Share of profit or loss of associates and joint ventures

Profit before financing and income taxes

Interest expense on borrowings and pension liabilities

Profit before income taxes

Income tax expense

PROFIT

Operating

Investing

Financing

Questions?



Management-defined performance measures



Polling questions

Question 3A

- Are non-GAAP measures adequately explained by companies today?
 - Yes
 - No

Question 3B

- Do you think information on non-GAAP measures belongs in financial statements?
 - Yes
 - No

Management-defined Performance Measures (MPMs)

Investors' concerns

- Investors find MPMs useful but they have concerns about lack of transparency of how these measures are calculated

Examples of alternative performance measures (APMs) or non-GAAP measures used today

- Adjusted operating profit
- Adjusted profit or loss
- Adjusted EBITDA
- Free cash flow
- Return on equity

Management-defined Performance Measures (MPMs)



Subtotals of income and expenses not required or specifically exempted by IFRS Accounting Standards



Included in **public communications outside financial statements**



Measures that communicate **management's view** of a company's financial performance

Disclosures for MPMs

IFRS 18 introduces requirements to disclose in a single note

- **Reconciliation** back to IFRS-defined subtotal
- Explanation of **why** the MPM is reported
- Explanation of **how** the MPM is calculated
- Explanation of any **changes** to the MPM



What might a reconciliation look like?

	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of PP&E	MPM
Other operating income		-	-	(1,800)	
Research and development expenses		1,600	-	-	
General and administrative expenses		-	3,800	-	
Goodwill impairment loss		4,500	-	-	
Operating profit / Adjusted operating profit	57,000	6,100	3,800	(1,800)	65,100
Income tax expense		-	(589)	297	
Profit from continuing operations / Adjusted profit from continuing operations	32,100	6,100	3,211	(1,503)	39,908
Profit attributable to non-controlling interests		305	161	-	

Calculating the income tax effects – possible methods

1

statutory
tax rate(s)

2

pro rata allocation
of tax

3

other method
if it gives better
information

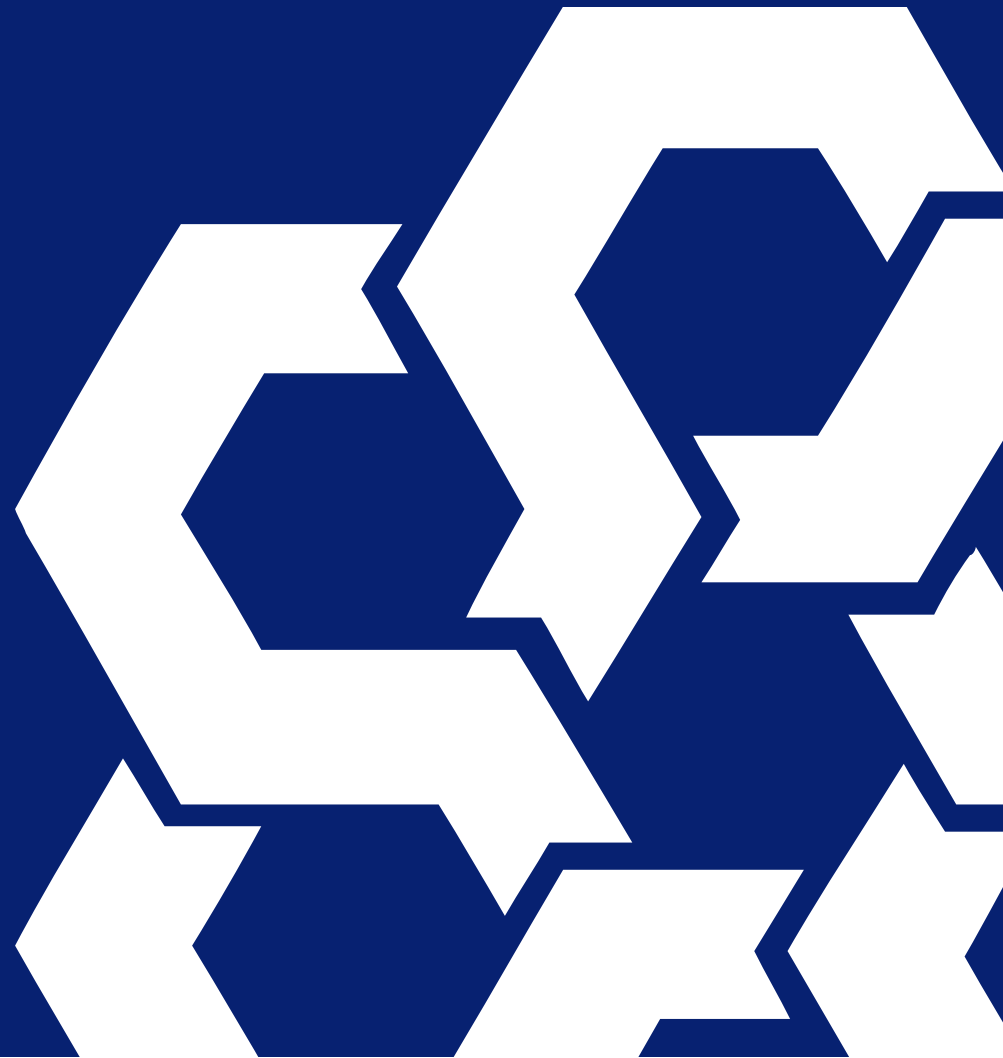
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Disclosures of how tax effects calculated
— required for each reconciling item if more than one method is used

Questions?



Grouping – aggregation and disaggregation – of information



Polling question

Question 4

- How should a company decide what line items of income or expense to present in the statement of profit or loss?
 - Based on materiality
 - Based on a higher threshold than materiality

Grouping – aggregation and disaggregation – of information

Investors' concerns

- some companies don't provide enough detailed information
- important information is obscured

IFRS 18 introduces

- enhanced requirements for grouping of information, including requirements for presenting and disclosing operating expenses
- guidance on whether information should be in the primary financial statements or the notes
- disclosures about items labelled as 'other'

Roles of the primary financial statements and the notes

Primary financial statements (PFS)



Statement of
financial
position
(balance sheet)



Statement of
profit or loss
(income
statement)



Statement
presenting
comprehensive
income



Statement of
changes in
equity



Statement of
cash flows



Notes to the
financial
statements

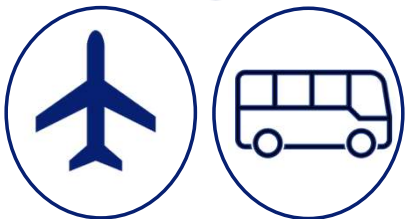
Role is to provide **useful structured summaries** of a company's
assets, liabilities, equity, income, expenses and cash flows

Role is to
provide further
material
information and
supplement PFS

Aggregation, disaggregation and meaningful labels



Aggregate based on shared characteristics



Single dissimilar characteristic can be enough to disaggregate if resulting information is material



Use meaningful labels

- use the label 'other' only when unable to find a more informative label
- label as precisely as possible (eg 'other operating expenses')

Disclosure of specified expenses by nature

Disclose the amounts included in each line item in the operating category of the statement of profit or loss for

Depreciation	Amortisation	Employee benefits	Specified impairments	Write-down of inventories
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Qualitative explanation is required to be disclosed if part of the amount disclosed has been included in the carrying amount of assets

Specified expenses by nature note

(in currency units)	20X2	20X1
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
Total depreciation	31,200	29,330
Research and development expenses	13,840	12,690
Total amortisation	13,840	12,690
Cost of sales	61,640	57,175
Selling expenses	7,515	7,110
Research and development expenses	6,545	6,750
General and administrative expenses	8,920	5,825
Total employee benefits	84,620	76,860
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
Total impairment loss	6,100	1,500
Cost of sales	2,775	2,625
Total write-down of inventories	2,775	2,625

The amounts disclosed are those recognised as expenses in the statement of profit or loss for the year, except for depreciation and employee benefits.

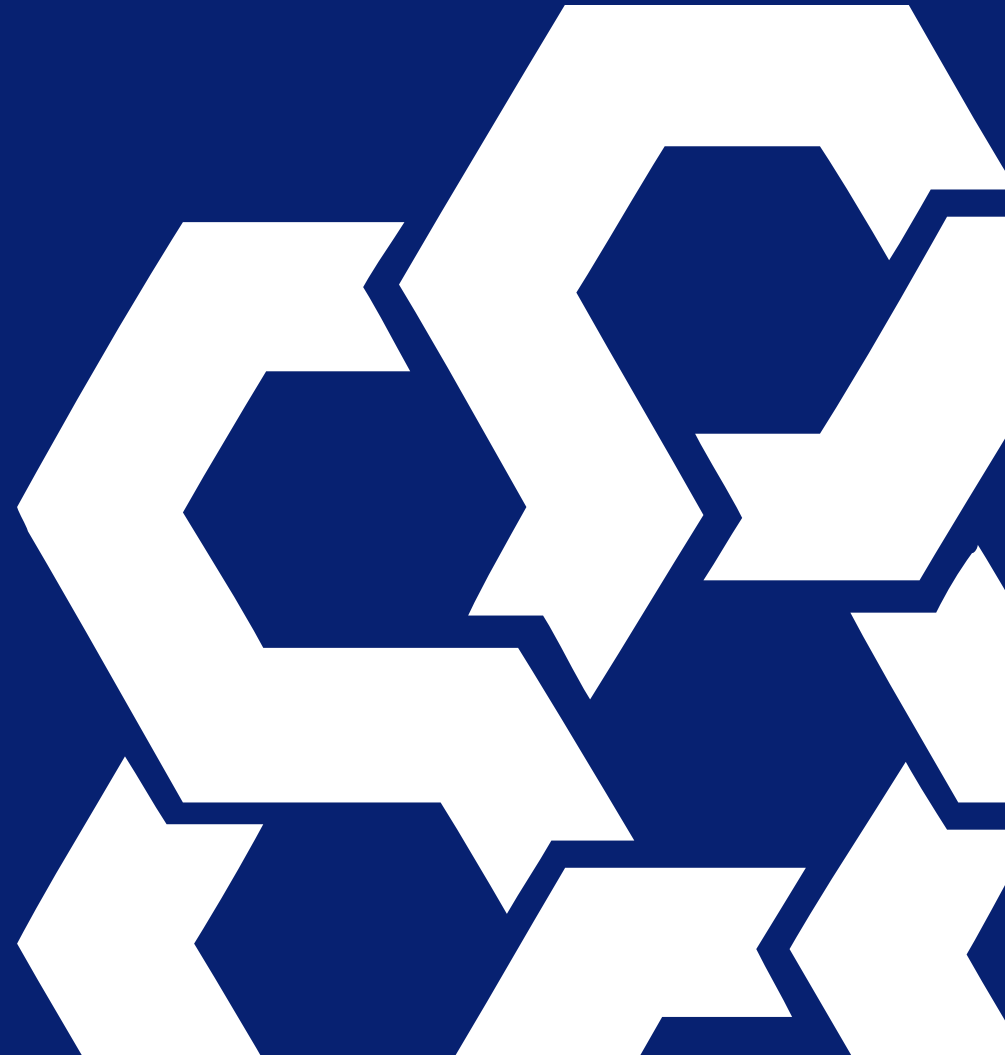
The amounts disclosed for depreciation are the charge for the year, calculated in accordance with IAS 16 *Property, Plant and Equipment*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

The amounts disclosed for employee benefits are the costs incurred for the year, including pension costs, for employee services, calculated in accordance with IAS 19 *Employee Benefits*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

Questions?



Digital reporting



Improving digital reporting

Investor needs	Current practice	Likely effects of IFRS 18
Comparable across companies and periods	Diversity in tagging data	Reduced diversity in reporting practices will in turn reduce diversity in tagging data
Company-specific	Company-specific information tagged using extensions or not tagged at all	MPMs in a single note are more likely to be tagged New elements will reduce need for company-specific extensions
Availability in an easily usable format	Use intermediaries or spend time understanding XBRL calculations and making adjustments to data to make it comparable	Enhanced comparability across companies Easier extraction of information about MPMs
Consistently available	Diversity in reporting practice	Defined subtotals consistently available for all companies
Free from errors	Tagged information is not free from errors	No significant effect on the number of errors

Package of requirements and effective date



What does the IASB's new package of requirements include?

IFRS 18 *Presentation and Disclosure in Financial Statements*



- Replaces IAS 1 *Presentation of Financial Statements*
- **New** presentation and disclosure requirements
- Related requirements brought forward from IAS 1 with limited wording changes
- Will not change how companies recognise and measure items in the financial statements



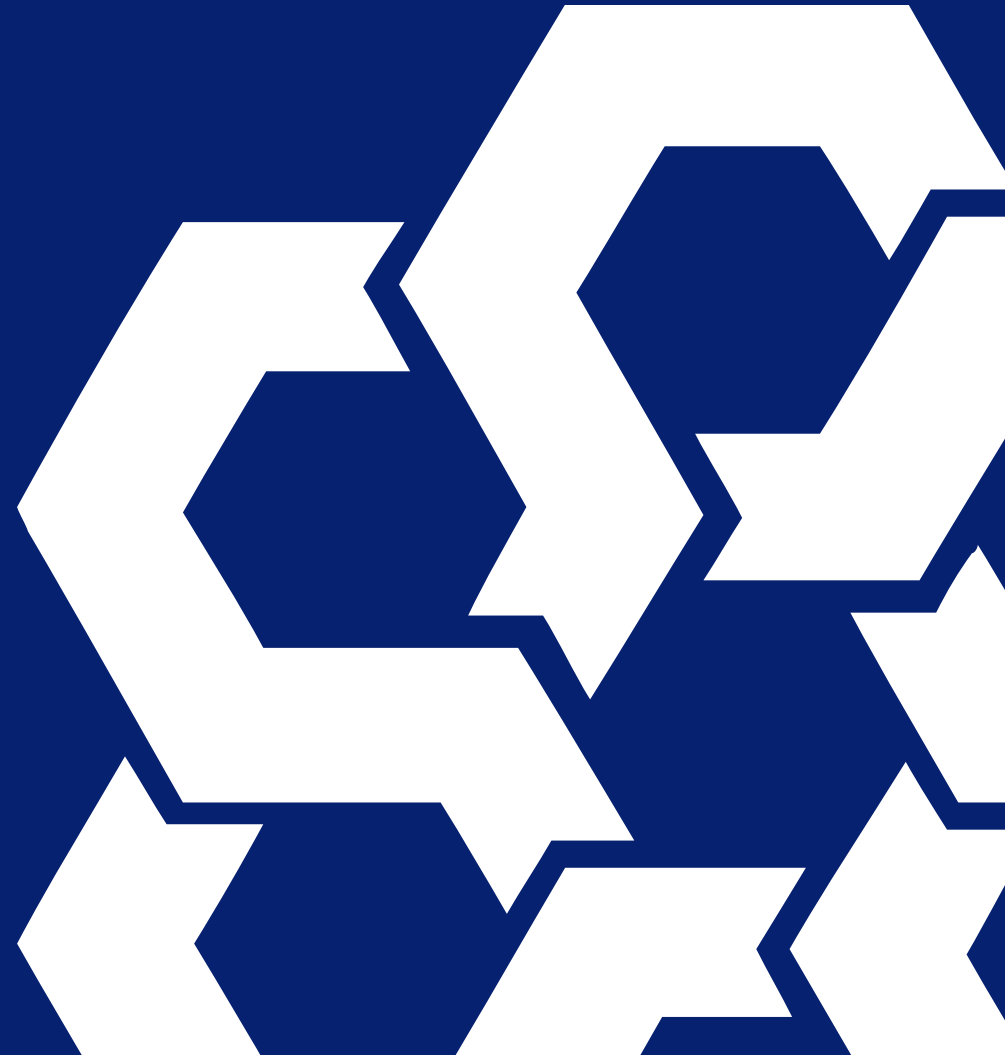
Amendments to other IFRS Accounting Standards, including limited amendments to IAS 7 *Statement of Cash Flows*

When will IFRS 18 come into force?



- 1 January 2027
- Early application permitted
- Applied retrospectively and in interim financial statements

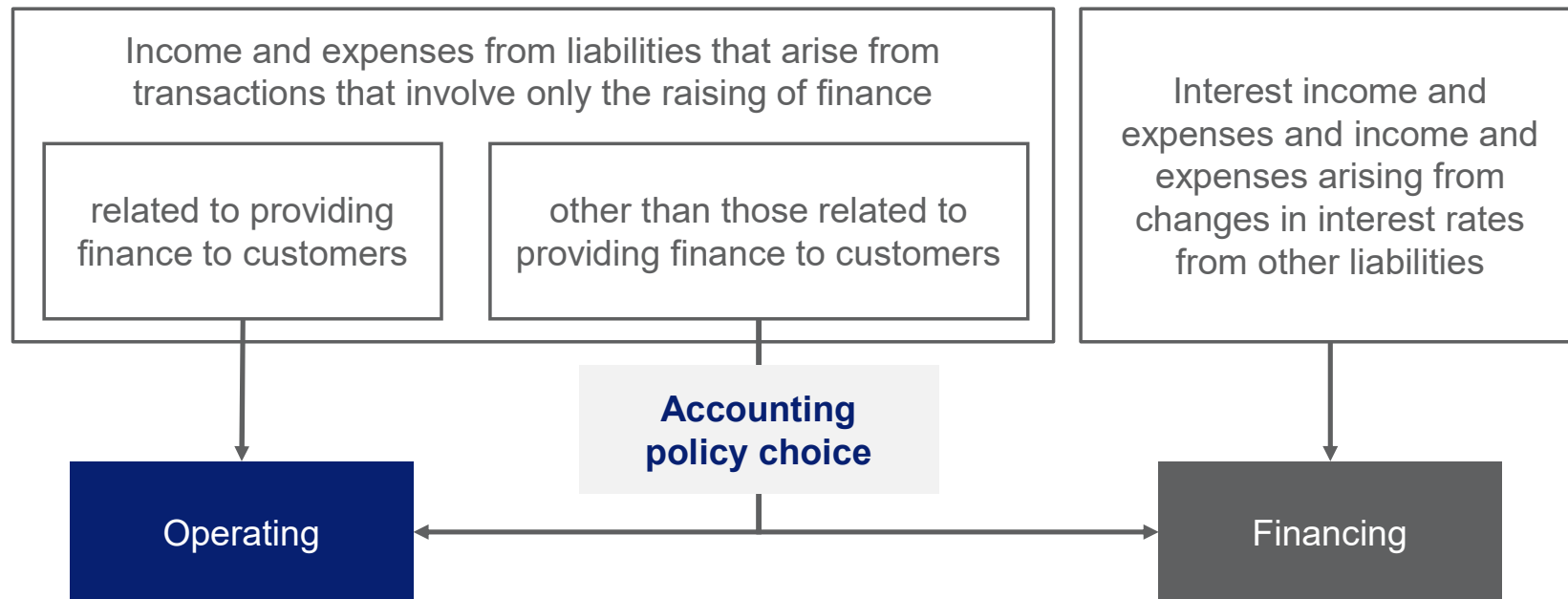
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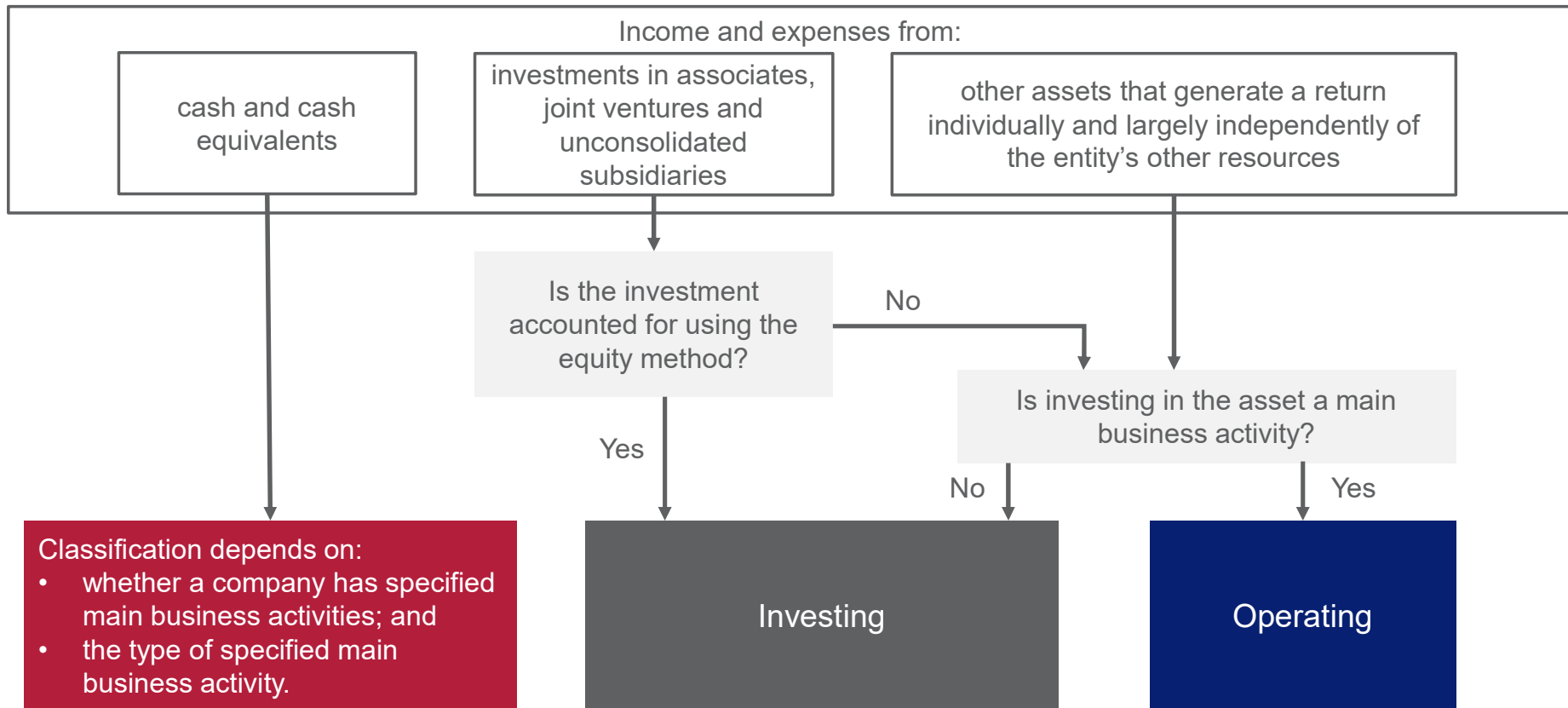
Appendix



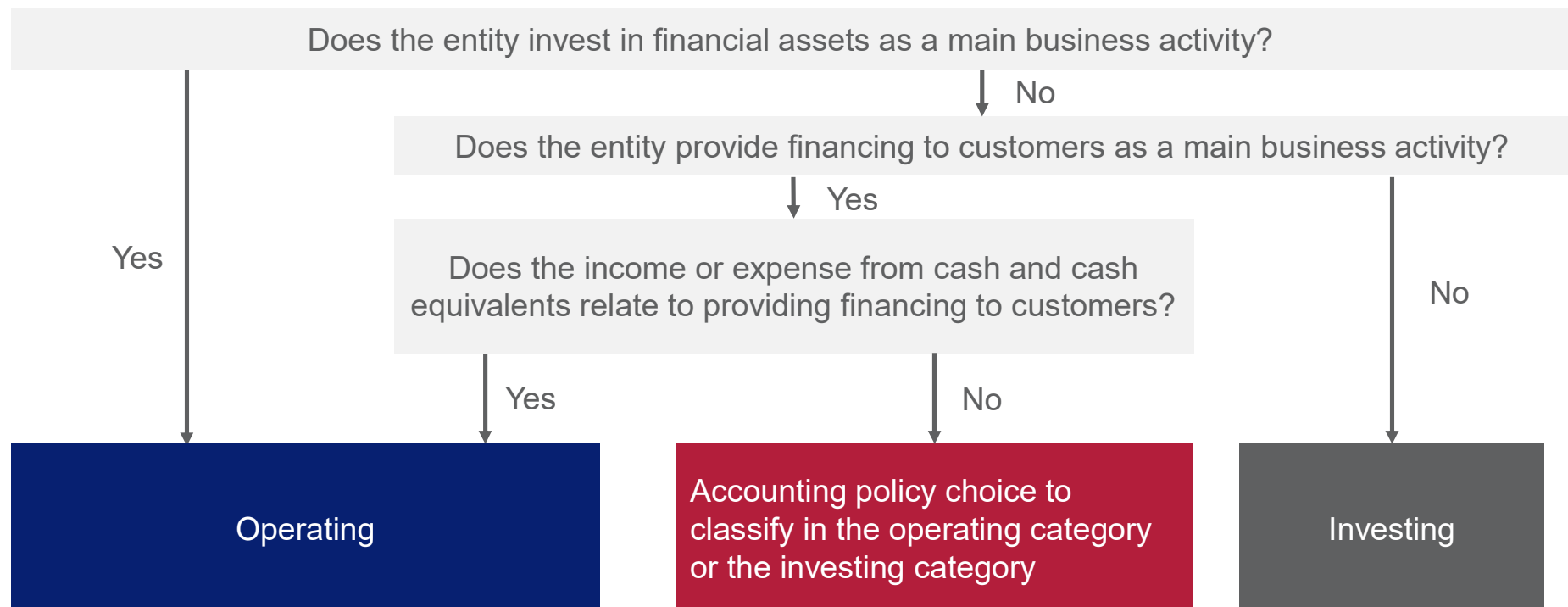
Classification of specific income and expenses by entities that provide financing to customers as a main business activity



Classification of specific income and expenses by entities that invest in assets as a main business activity



Classification of income and expenses from cash and cash equivalents by entities with specified main business activities



Limited changes to the statement of cash flows



Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

Cash flows	Entities without specified main business activities	Entities with specified main business activities
Interest received	Investing activities	A single category for each item—operating, investing or financing categories
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

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