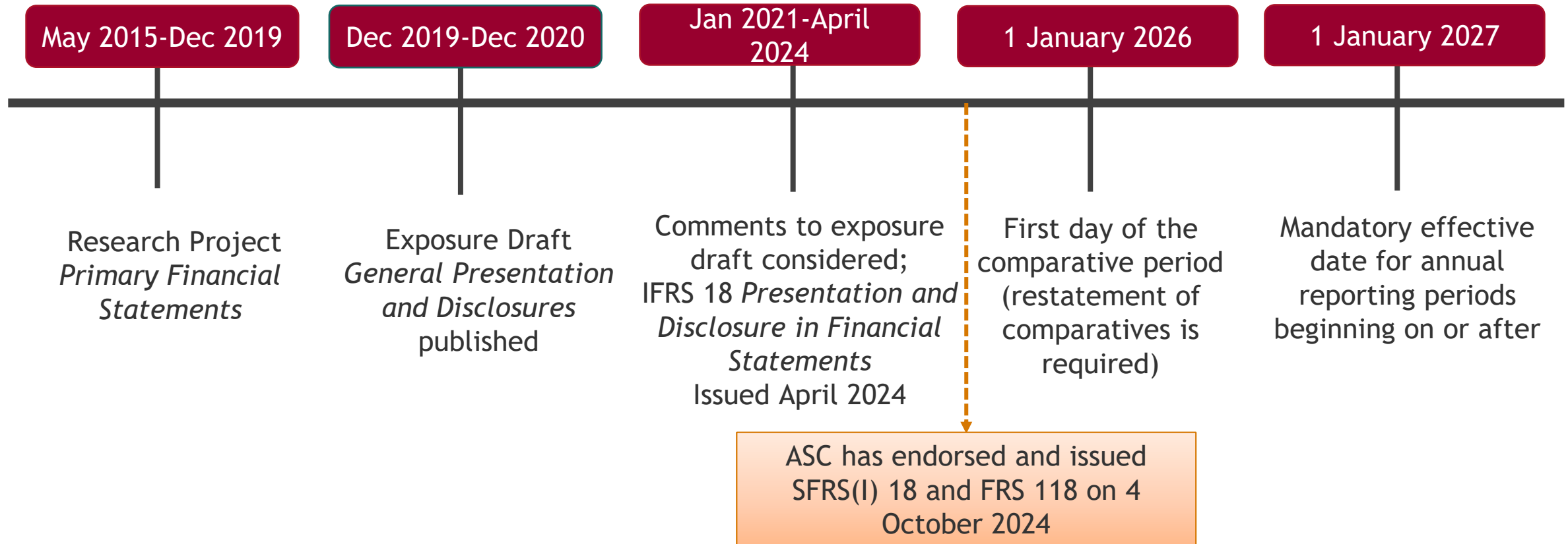


# IFRS 18 *PRESENTATION AND DISCLOSURE* *IN FINANCIAL STATEMENTS*

*Deep Dive*



# INTRODUCTION OF IFRS 18





IFRS18	
Objective (IFRS 18.1)	IFRS 18 sets out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.
Scope (IFRS 18.2)	An entity shall apply this Standard in presenting and disclosing information in financial statements prepared in accordance with IFRS accounting standards.
Effective Date (IFRS 18.C1)	<p>An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2027.</p> <p>Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.</p>

A hand holding a magnifying glass over a blurred city night scene with bright lights.

# AGENDA

## IFRS 18 *Presentation and Disclosure in Financial Statements*

- ▶ Categories in the statement of profit or loss
  - The investing category
  - The financing category
  - The income taxes category
  - The discontinued operations category
  - The operating category
  
- ▶ Other changes:
  - Roles of primary financial statements and the notes
  - Aggregation and disaggregation
  - Management-defined performance measures (MPMs)
  - Other miscellaneous changes
  
- ▶ Transition and effective date

# REFRESHER: WHAT ARE THE BIGGEST AREAS OF CHANGE INTRODUCED BY IFRS 18?



# IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

A high-level summary

## Primary Financial Statements (PFS)

Structured summaries of entity's:

Assets, liabilities, equity, income, expenses and cash flows.

## Statement of Profit or Loss

- Statement of cash flows
- Statement of financial position

- Statement of comprehensive income
- Statement of changes in equity

Key changes

Limited changes

No changes



Cross referencing between line items in the PFS and notes



Amounts in the Notes linked to the PFS

## Notes to the PFS

Provide **material information** necessary to understand line items presented in the PFS. Disclose material information if not presented in the PFS.

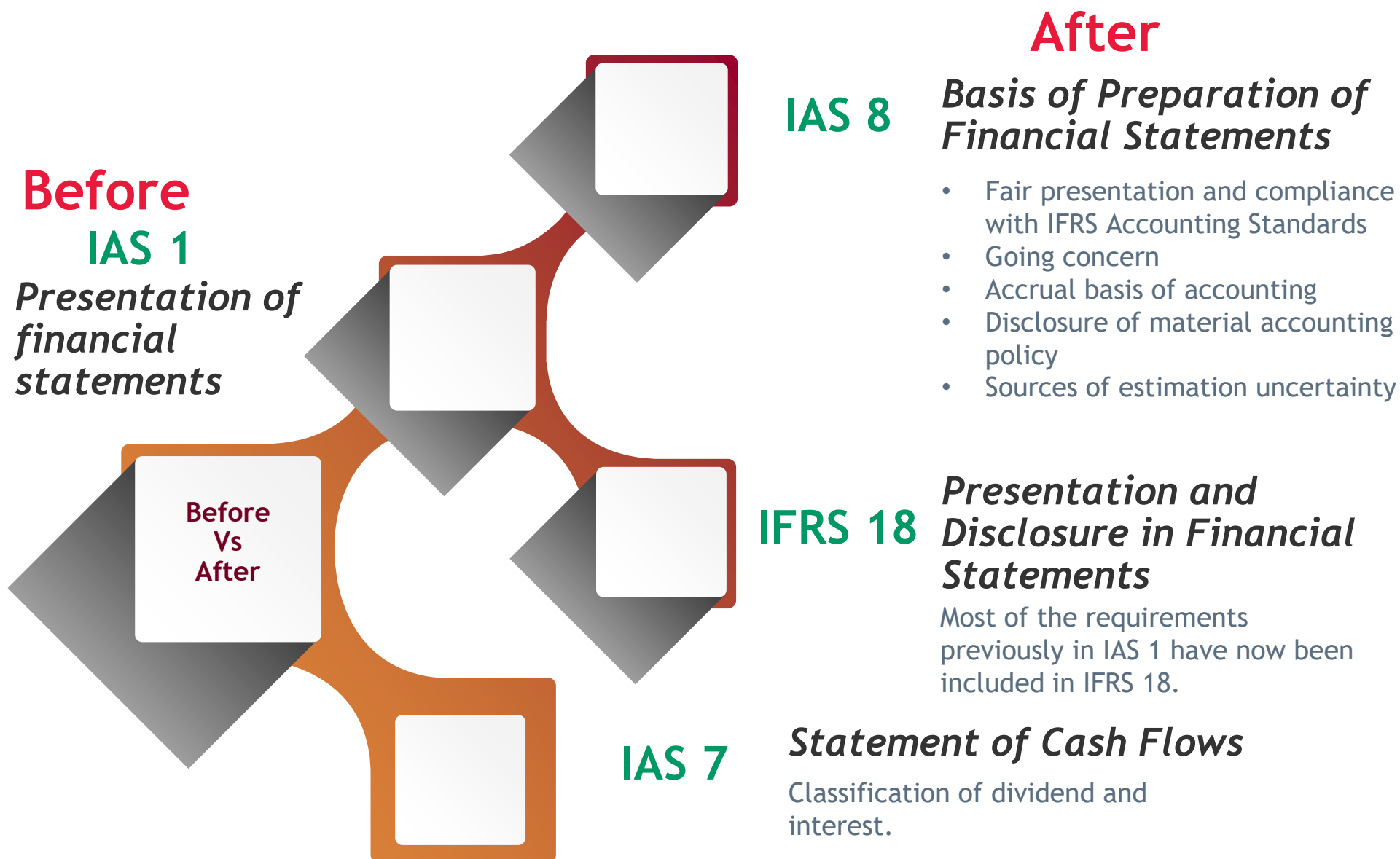
## Disclosures introduced/amended

- Management defined performance measures
- Specified expenses by nature
- Nature of expenses included in function line item
- Information related to specified main business activities

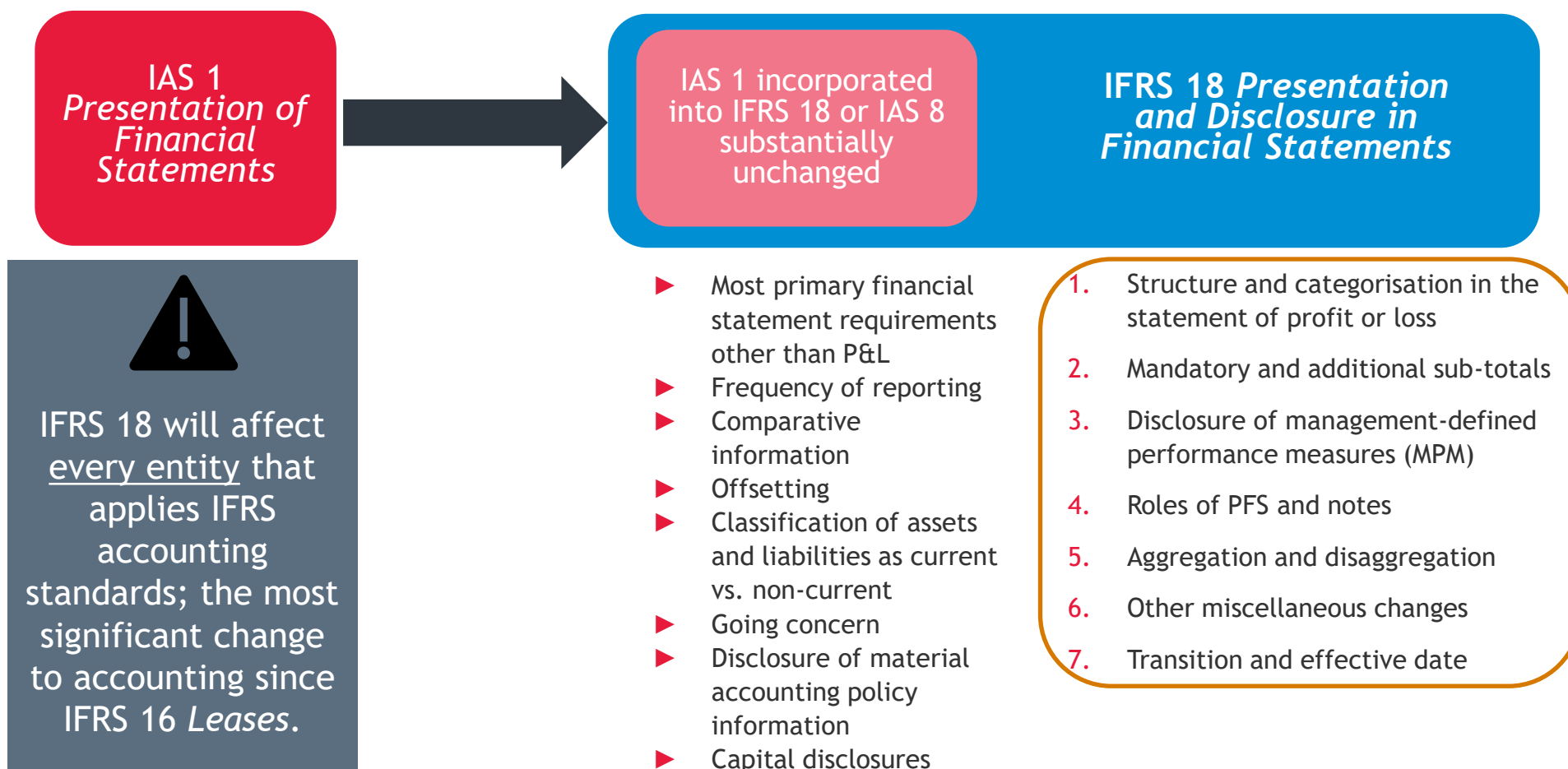
## Disclosures carried forward

- Basis of preparation of financial statements
- Material accounting policy information
- Sources of estimation uncertainty
- Capital management and other disclosures
- Information relating to liabilities with right to defer settlements subject to compliance with covenants > 12 months after reporting date

# BIGGEST AREAS OF CHANGE INTRODUCED BY IFRS 18



# BIGGEST AREAS OF CHANGE INTRODUCED BY IFRS 18





# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

## New requirements

### Categories in the statement of profit or loss

Investing	Income and expenses from: <ul style="list-style-type: none"><li>• Investments in associates, joint ventures and unconsolidated subsidiaries</li><li>• Cash and cash equivalents</li><li>• Other assets that generate a return individually and largely independently of the entity's other resources (e.g., rental income from investment properties)</li></ul>
Financing	<ul style="list-style-type: none"><li>• Income and expenses from liabilities that arise from transactions that involve only the raising of finance (e.g. interest expense);</li><li>• Certain interest income and expenses arising from changes in the interest rates (e.g. interest expense arising from the unwinding of the discount on an asset retirement obligation in the scope of IAS 37).</li></ul>
Income tax	Income tax expense and income arising from the application of IAS 12 <i>Income taxes</i> .
Discontinued operations	Income and expenses from discontinued operations arising from application of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .
Operating	Residual category if income and expenses are not classified into other categories.

# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

Example of a profit or loss statement for a corporate entity

Line item		Classification
Revenue	XXX	Operating
Cost of sales	XXX	
Gross profit	XXX	
Other operating income	XXX	
Selling expenses	XXX	
Research and development	XXX	
General and administrative	XXX	
Operating profit	XXX	Mandatory specified sub-total
Fair value gains on equity instruments	XXX	Investing
Share of profit from joint venture	XXX	Investing
Profit before financing and income taxes	XXX	Mandatory specified sub-total
Interest expense on borrowings and lease liabilities	XXX	Financing
Profit before income taxes	XXX	Additional sub-total
Income tax expense	XXX	Income Tax
Profit from continuing operations	XXX	Additional sub-total
Loss from discontinued operations	XXX	Discontinued operations
Profit	XXX	Mandatory total

# EXCEPTIONS FOR ENTITY WITH A SPECIFIED MAIN BUSINESS ACTIVITY

## Definition and examples

To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a *specified main business activity* - that is a main business activity of:

- a) *Investing in particular types of assets, referred to hereafter as investing in assets; or*
- b) *Providing financing to customers.*

(IFRS 18: 49)

Examples of entities that have specified main business activity: (IFRS 18: B31 &B32)

### Investment entities (IFRS 10)

An entity that:

- a) Obtains funds from one or more investors
- b) Commits to invest solely for returns from capital appreciation, investment income or both
- c) Measures and evaluate substantially all of its investments on a fair value basis

### Invest in assets

- Investment entities as defined by IFRS 10;
- Investment property companies; and
- Insurers.

### Provide financing to customers

- Bank and other lending institutions;
- Entities that provide financing to customers to enable those customers to buy the entity's products;
- Lessors that provide financing to customers in finance leases.

# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

Changes in profit or loss statement for a corporate entity with specified main business activity

Line item		Classification
Revenue	XXX	Operating
Cost of sales	XXX	
Gross profit	XXX	
Other operating income	XXX	
Selling expenses	XXX	
Research and development	XXX	
General and administrative	XXX	
Operating profit	XXX	Mandatory specified sub-total
Fair value gains on equity instruments	XXX	Investing
Share of profit from joint venture	XXX	Investing
Profit before financing and income taxes	XXX	Mandatory specified sub-total
Interest expense on borrowings and lease liabilities	XXX	Financing
Profit before income taxes	XXX	Additional sub-total
Income tax expense	XXX	Income Tax
Profit from continuing operations	XXX	Additional sub-total
Loss from discontinued operations	XXX	Discontinued operations
Profit	XXX	Mandatory total

For entities with specified main business activities, certain income and expenses classified in the investing and financing categories may be classified in the operating category if criteria are met.

# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

## Common questions



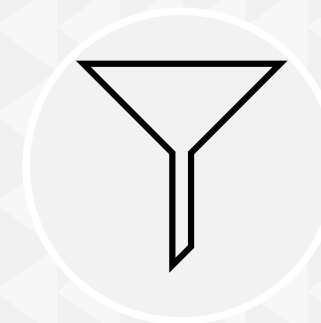
Question: Are the five categories labelled in the statement of profit or loss?

**Answer:** No; but categorisation is required to calculate mandatory sub-totals.



Question: Are the operating, investing and financing categorisation requirements consistent with IAS 7?

**Answer:** No.



Question: How is the operating category defined?

**Answer:** Operating is the residual category; items are categorised as operating if not categorised into one of the other four categories.

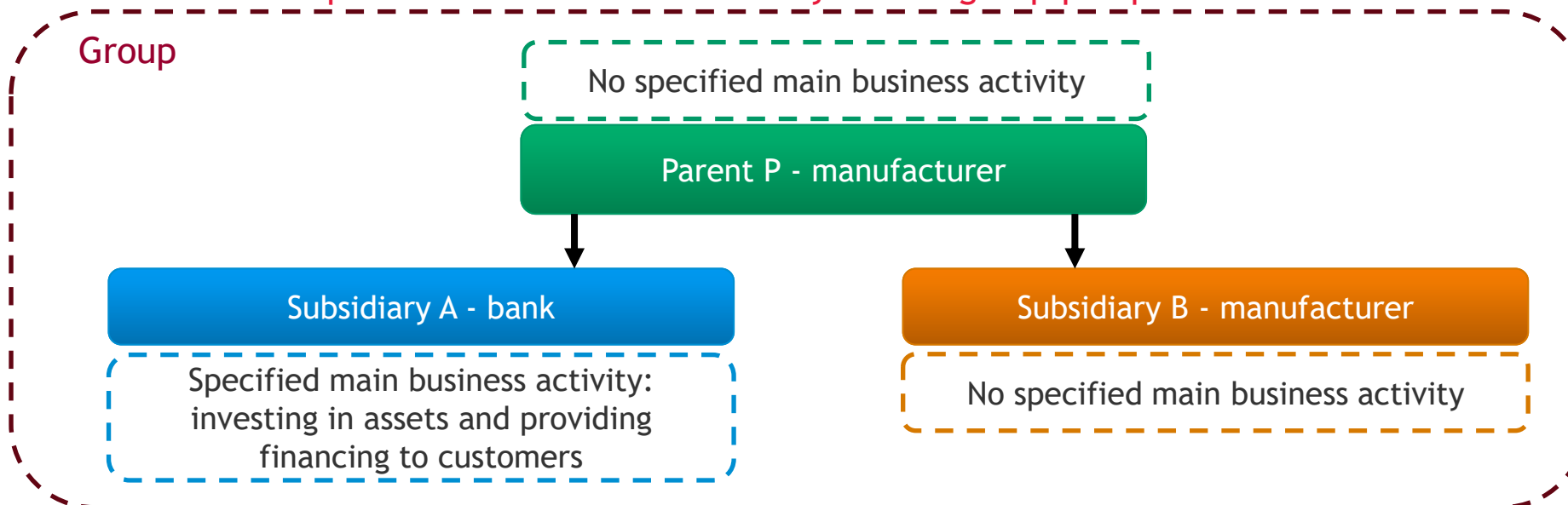


# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

## Common questions

Continuing assessment. If change, reflect prospectively

How to assess the specified main business activity from a group perspective?



### Assessment always at:

- Reporting entity level (i.e. Company/ individual entity or Group)
- Might have different outcome

### When making assessment:

- ▶ Sources of evidence that entity may use:
  - Certain subtotal (i.e., net interest income) being used to measure its operating performance
  - Operating segment
- ▶ Materiality consideration

At consolidated level, Parent P assessed that it has no specified main business activity as:

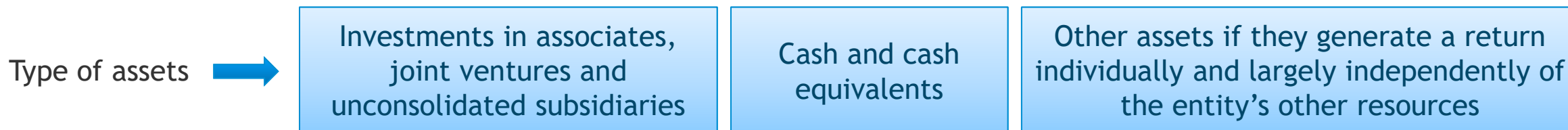
- Operations of Parent P and Subsidiary B are significantly larger than Subsidiary A;
- Subsidiary A is not a reportable segment as per IFRS 8.

Therefore, interest income and expenses of Subsidiary A would be reclassified from operating category to investing and financing categories at the consolidated level.

# THE INVESTING CATEGORY

# INVESTING CATEGORY - IFRS 18.53 AND 18.54

Categories in the statement of profit or loss



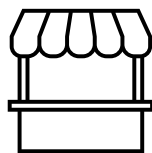
## Specified income and expenses



Income generated by the assets



- Interest
- Dividend
- Rental income



Income and expense from initial and subsequent measurement



- Depreciation
- Impairment losses and its reversal
- Fair value gain or loss



Incremental expenses directly attributable to the acquisition and disposal of the assets



- Transaction costs on financial assets as FVTPL
- Costs to sell assets like broker commissions

# SPECIFIC MAIN BUSINESS ACTIVITIES - QUICK REMINDER

Categories in the statement of profit or loss

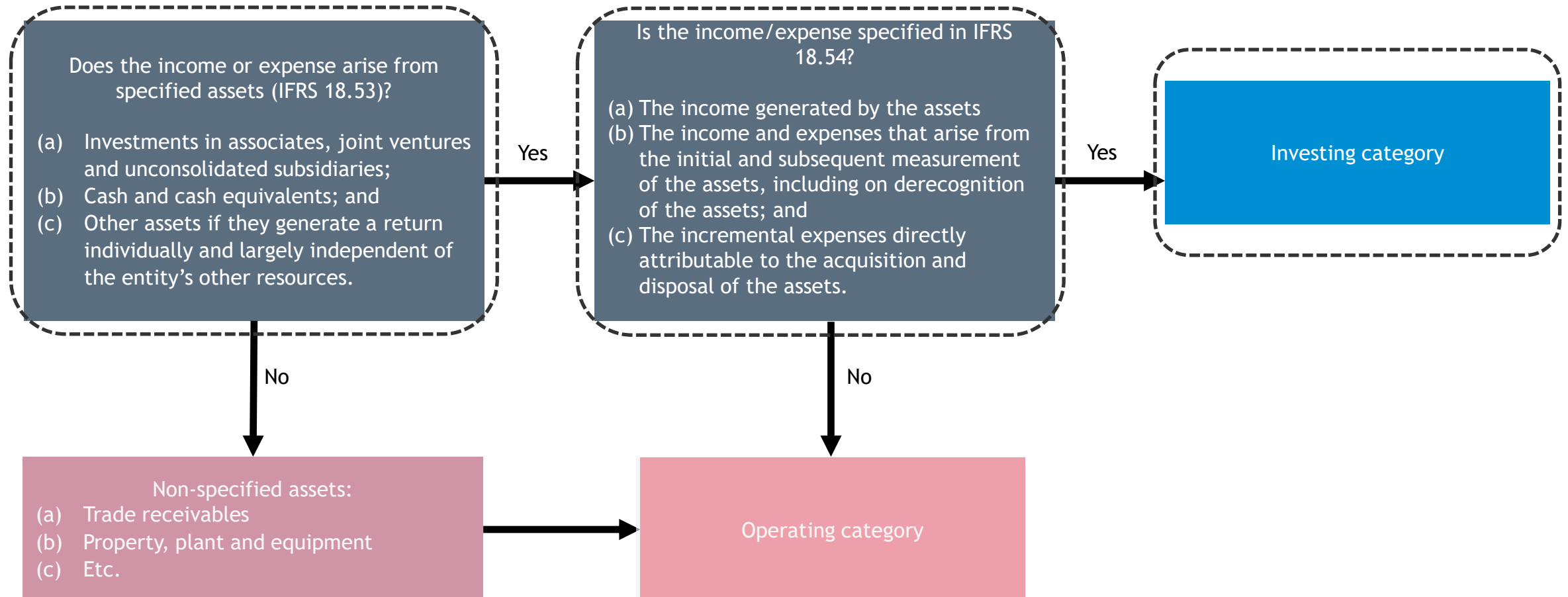
► IFRS 18 requires the following items of income and expense to be classified in the investing category (with an exception for certain entities):

- The share of profit of associates and joint ventures accounted for using the equity method
- Income and expenses from cash and cash equivalents
- Income and expenses from other assets if they generate a return individually and largely independent of the entity's other resources (e.g. certain financial assets)

No exception; always classified in investing category if equity method is applied (IFRS 18.55(a))

Exception to the classification principles for the investing and financing categories if the entity has specified main business activities.

# CRITERIA TO CLASSIFY INCOME AND EXPENSES FOR ENTITIES WITHOUT SPECIFIED MAIN BUSINESS ACTIVITIES



# CLASSIFICATION OF DEPRECIATION IN INVESTING CATEGORY

Categories in the statement of profit or loss

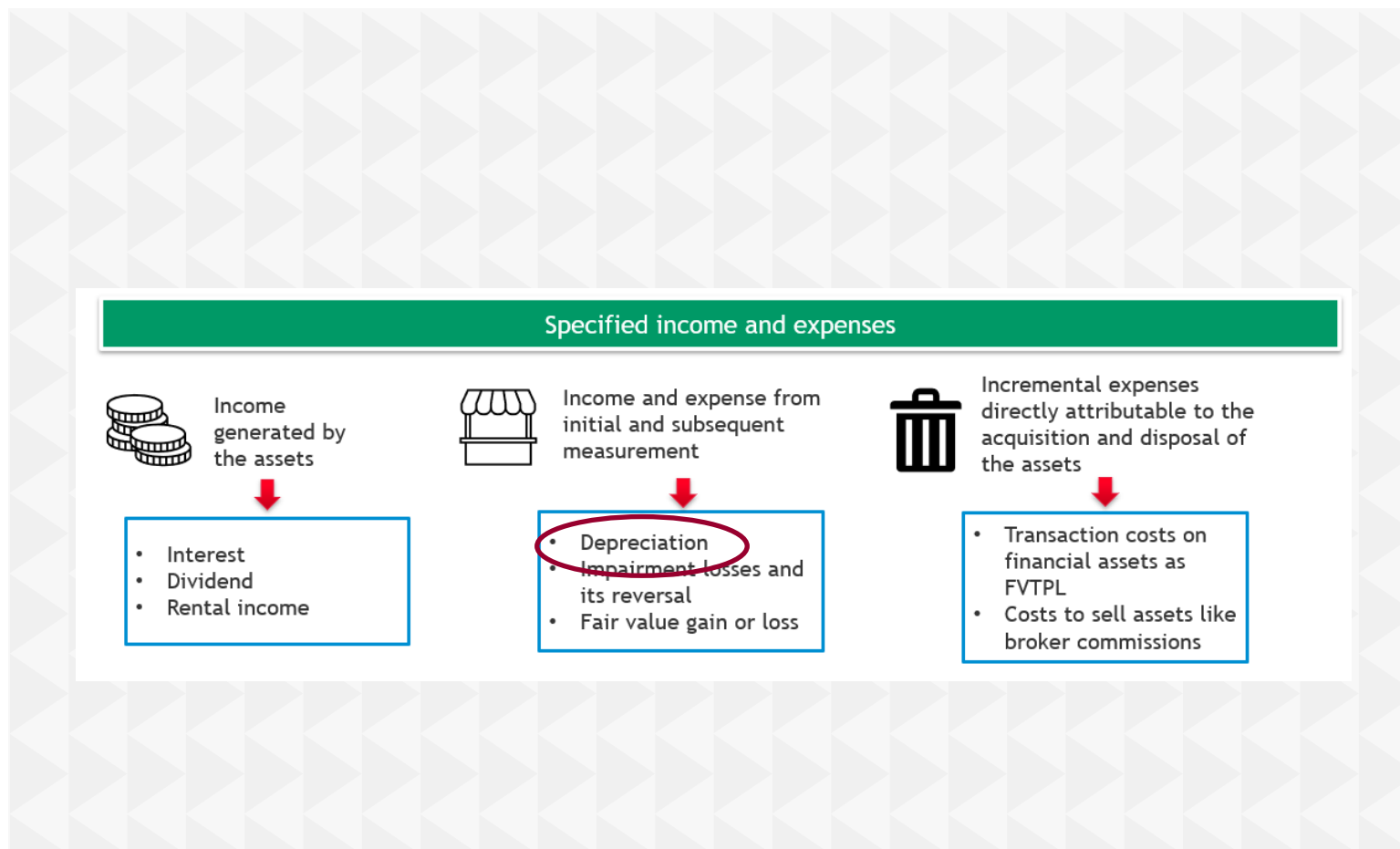
## Note:



*Depreciation represents 'income and expenses that arise from the initial and subsequent measurement of the assets.'*

For entities without specified main business activities:  
Depreciation relating to

- Assets meeting one of the IFRS 18 criteria - classified under **investing category**
- Otherwise - classified under **operating category**





# INVESTING CATEGORY

## Polling Question 1

### Fact pattern - Example A

- Entity A owns an item of property, plant and equipment that it uses to manufacture widgets.
- Entity A also owns a building that it rents out to tenants to earn rental.
- Entity A accounts for the building as investment property in the scope of IAS 40 *Investment Property*, and applies the cost model for measurement.
- Entity A does not have specified main business activities.

### Question:

What should be the categorisation of depreciation on the (a) property, plant and equipment and (b) investment property?

- A. (a) Operating, (b) Operating
- B. (a) Operating, (b) Investing
- C. (a) Investing, (b) Investing
- D. Accounting policy choice

# INVESTING CATEGORY

## Polling Question 2

### Fact pattern - Continued from Example A

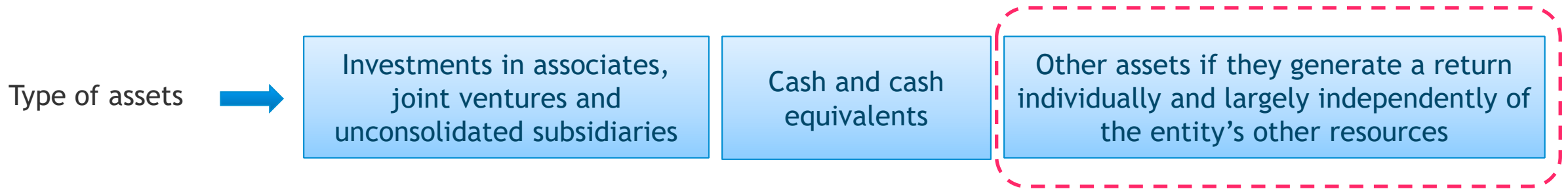
- Entity A owns an item of property, plant and equipment that it uses to manufacture widgets.
- Entity A also owns a building that it rents out to tenants to earn rental.
- Entity A accounts for the building as investment property in the scope of IAS 40 *Investment Property*, and applies the cost model for measurement.
- Entity A does not have specified main business activities.
- Entity A incurs **cleaning and maintenance fees on the investment property**

### Question:

What should be the categorisation of cleaning and maintenance fees on the investment property?

- A. Operating
- B. Investing
- C. Accounting policy choice

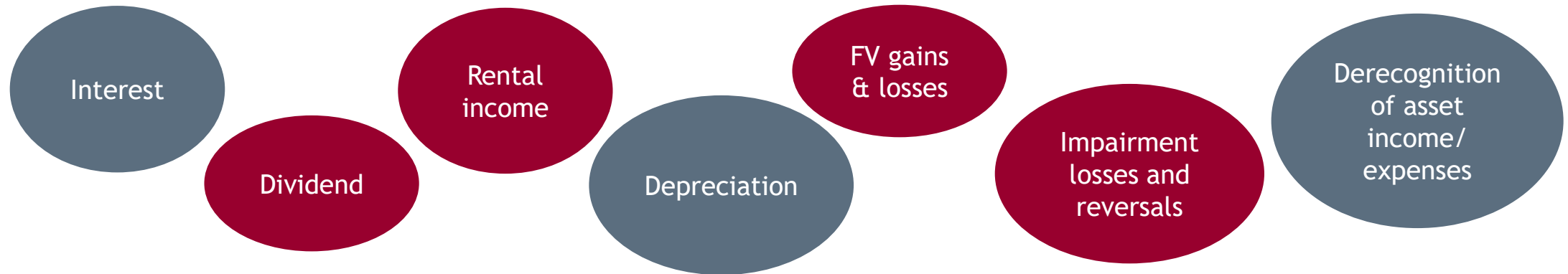
# INVESTING CATEGORY: OTHER ASSETS



*Other assets if they generate a return individually and largely independently of the entity's other resources* is the broadest of the three types of specified assets mentioned in IFRS 18.53.



Income and expenses arising from such assets typically include (IFRS 18.54 and B47):

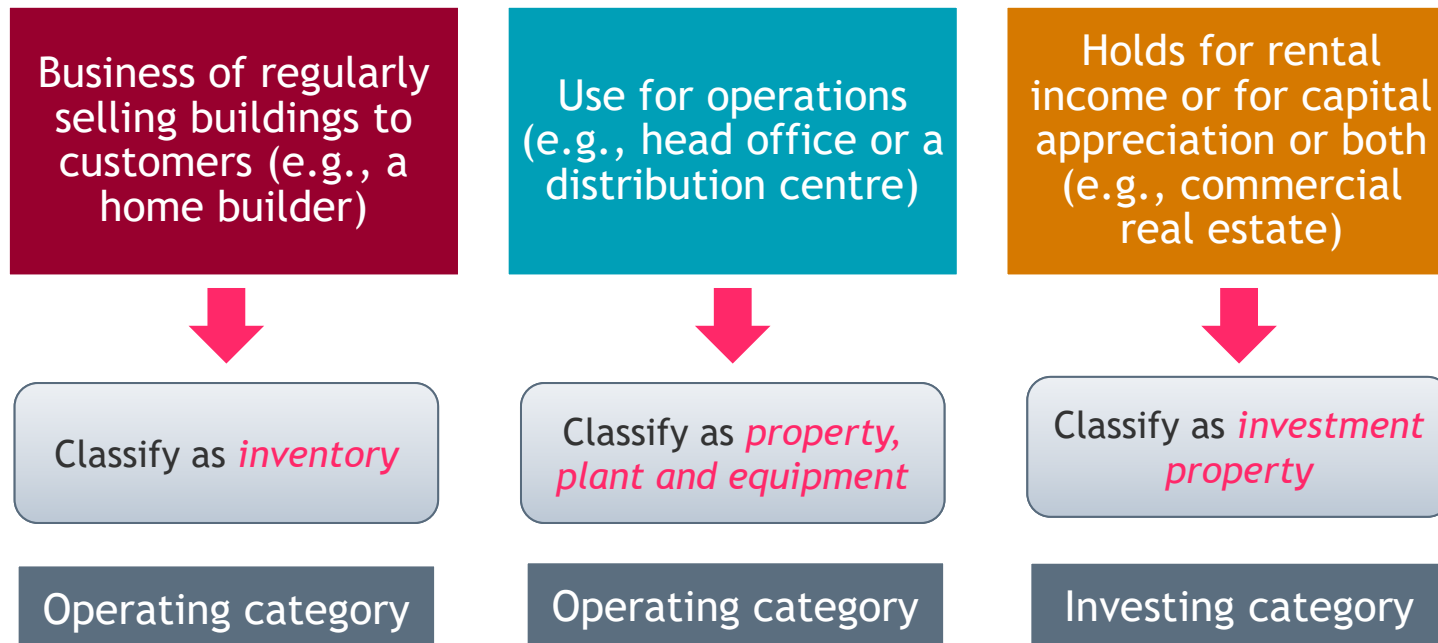


# INVESTING CATEGORY: OTHER ASSETS

Categories in the statement of profit or loss

Classification in the statement of financial position may determine whether that asset generates a return individually and largely independent of the entity's resources.

Example: Entity A owns a building. The entity has the following options to use the building:



# INVESTING CATEGORY: OTHER ASSETS

## Polling Question 3

### Fact pattern

- Entity H is a manufacturer and produces widgets.
- Entity H has loaned CU500 to a related party, Entity I, to provide that entity with financing.
- Entity H does not regularly make loans and does not have specified main business activities.
- Entity H has recorded interest income on the loan granted to Entity I.
- Entity J is a financial institution and issues loans to borrowers as its main business activities
- Entity J has loaned CU700 to a borrower to construct a new facility.
- Entity J has recorded interest income the loan

### Question:

How should the interest income of Entity H and Entity J be categorised in statement of profit or loss?

- A. Entity H: Operating, Entity J: Investing
- B. Entity H: Investing, Entity J: Operating
- C. Both entities: Operating
- D. Both entities: Investing
- E. Accounting policy choice

# DERECOGNITION OF ASSET AND REMEASUREMENT OF ASSET HELD FOR SALE

## Categories in the statement of profit or loss

Income and expenses from derecognition of an asset shall be included in the **same category** as it classified the income and expenses before its derecognition

Gains and losses arising from the	Classification of income and expenses from derecognition (no specified main business activities)
Disposal of property, plant and equipment	Operating category
Disposal of investment property	Investing category
Remeasurement of an associate previously accounted for using the equity method on the step acquisition of a subsidiary	Investing category



# DERECOGNITION OF ASSET AND REMEASUREMENT OF ASSET HELD FOR SALE

## Categories in the statement of profit or loss

Income and expense from IFRS 5:

- ▶ Classification of asset held for sale; or
- ▶ Remeasurement of the asset once classified as held for sale

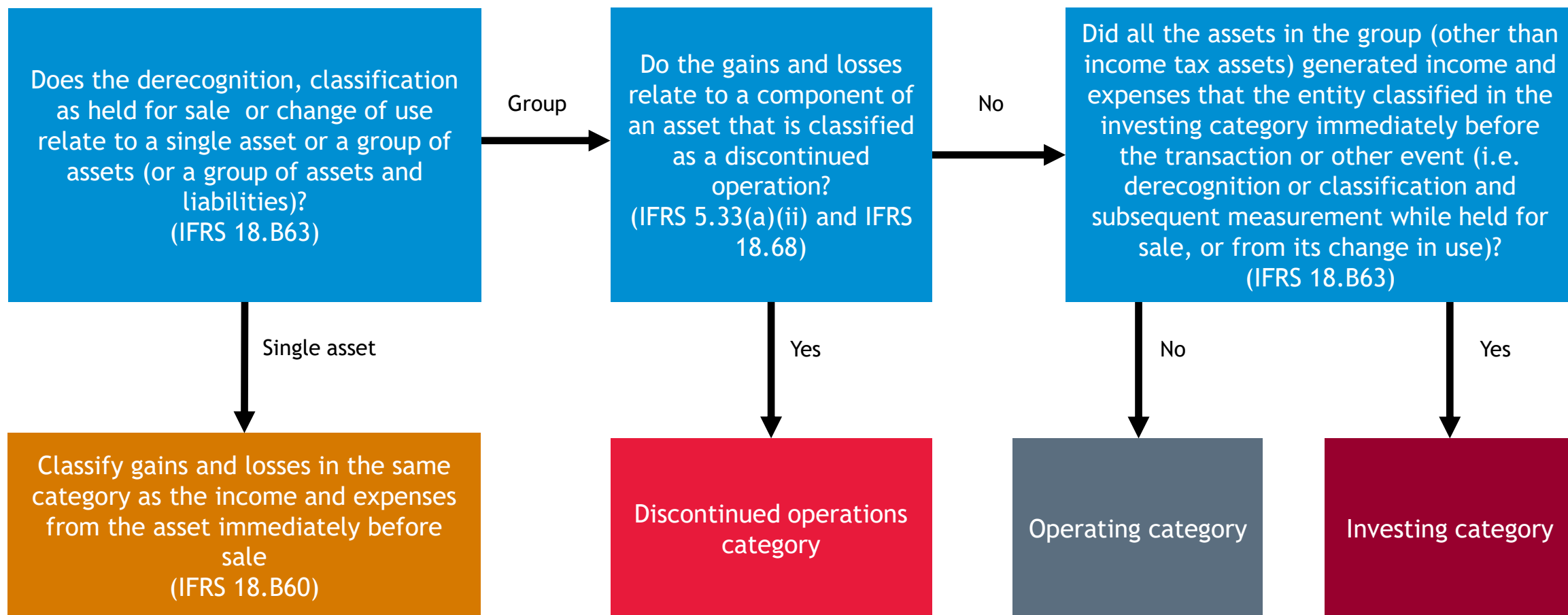
Same classification as income and expenses before its derecognition

Gains and losses arising from the remeasurement of asset classified as held for sale	Classification of income and expenses (no specified main business activities)
Property, plant and equipment Intangible assets	Operating category
Investment property	Investing category

Not necessarily classified in the discontinued operation category, unless it is a group of assets where discontinued operation is met.

# DERECOGNITION OF AN ASSET: PRACTICE AID FLOW-CHART

Categories in the statement of profit or loss



# CHANGE IN THE USE OF AN ASSET

An entity uses certain property, plant & equipment at the office building



March 202X

Property, plant & equipment  
used as the Head office of  
Entity A



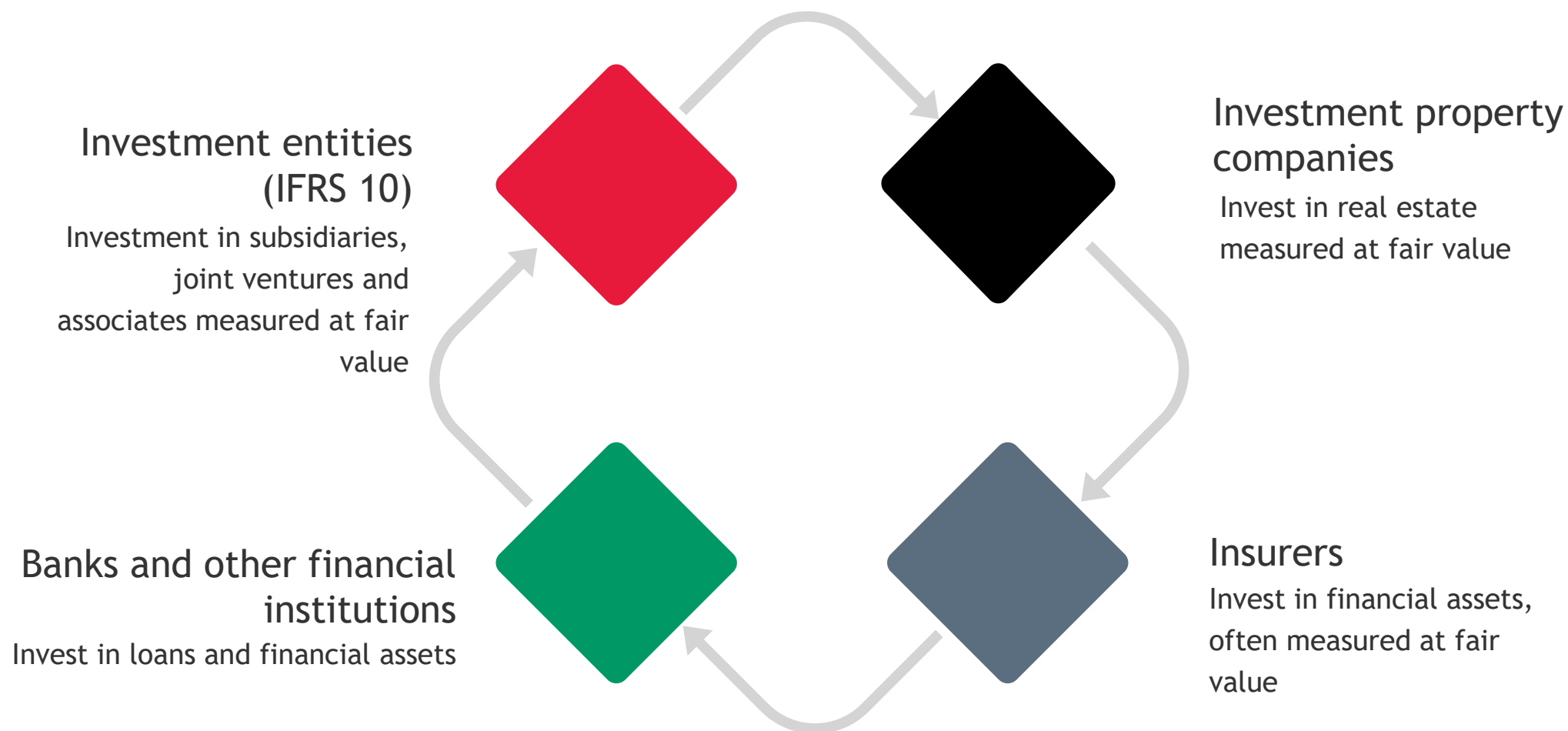
October 202X

Head Office now rented out  
as investment property

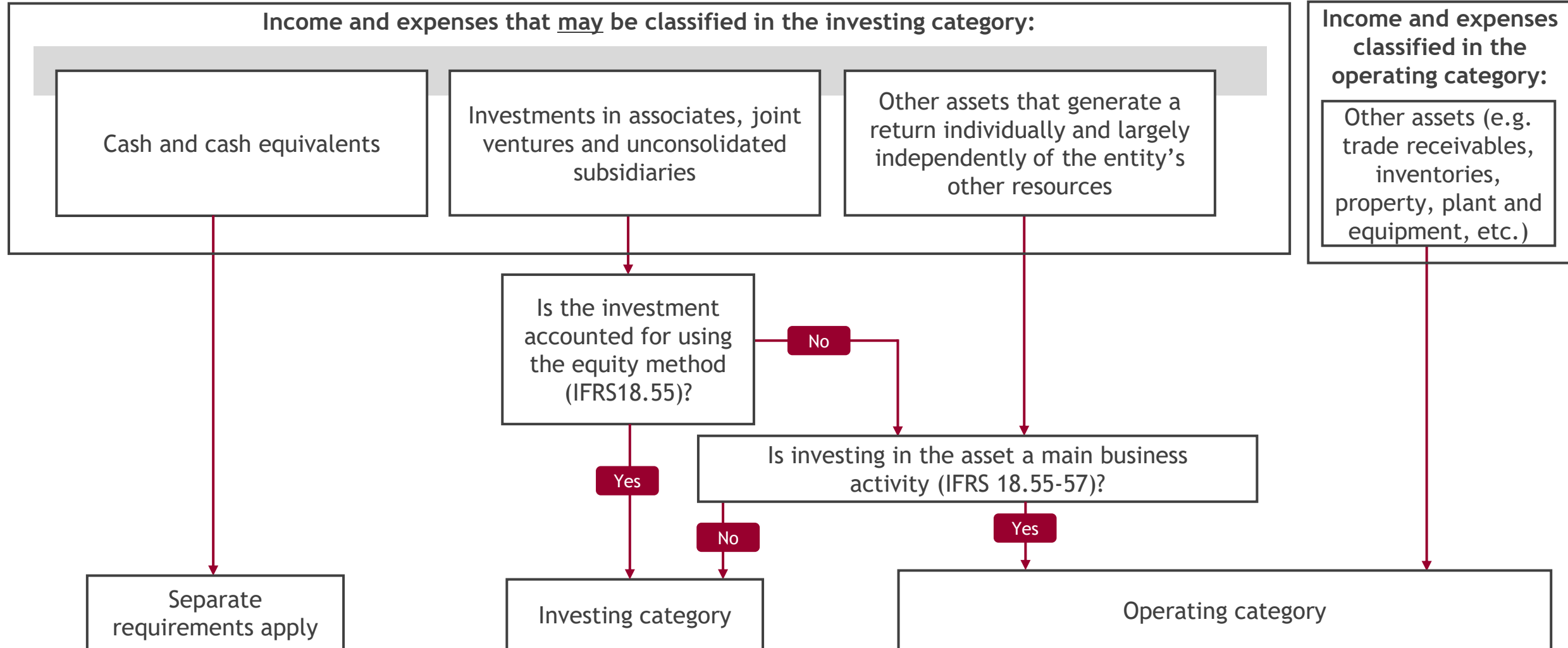
**Income and expenses are classified in operating category until the date of the reclassification to investment property and further classified in investing category with exception of group of assets.**

# INVESTING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY

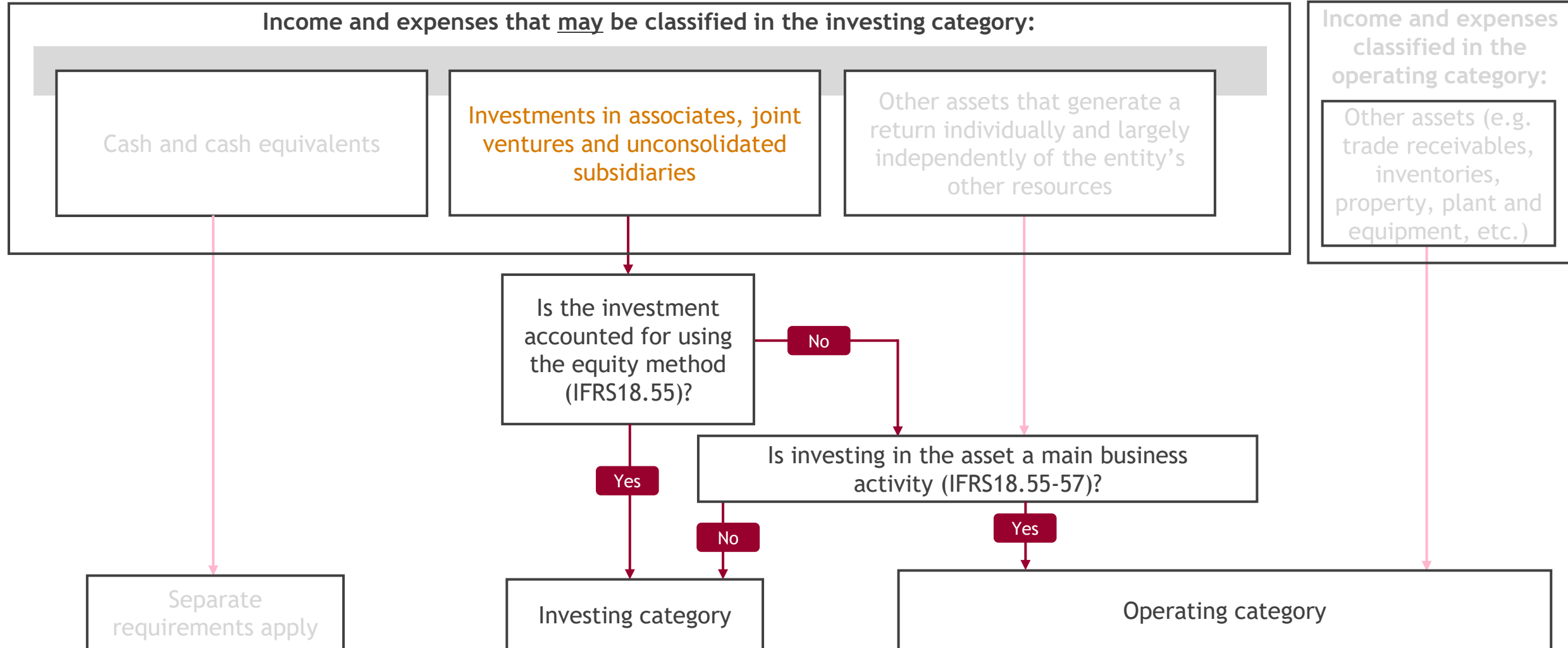
## Examples



# INVESTING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY

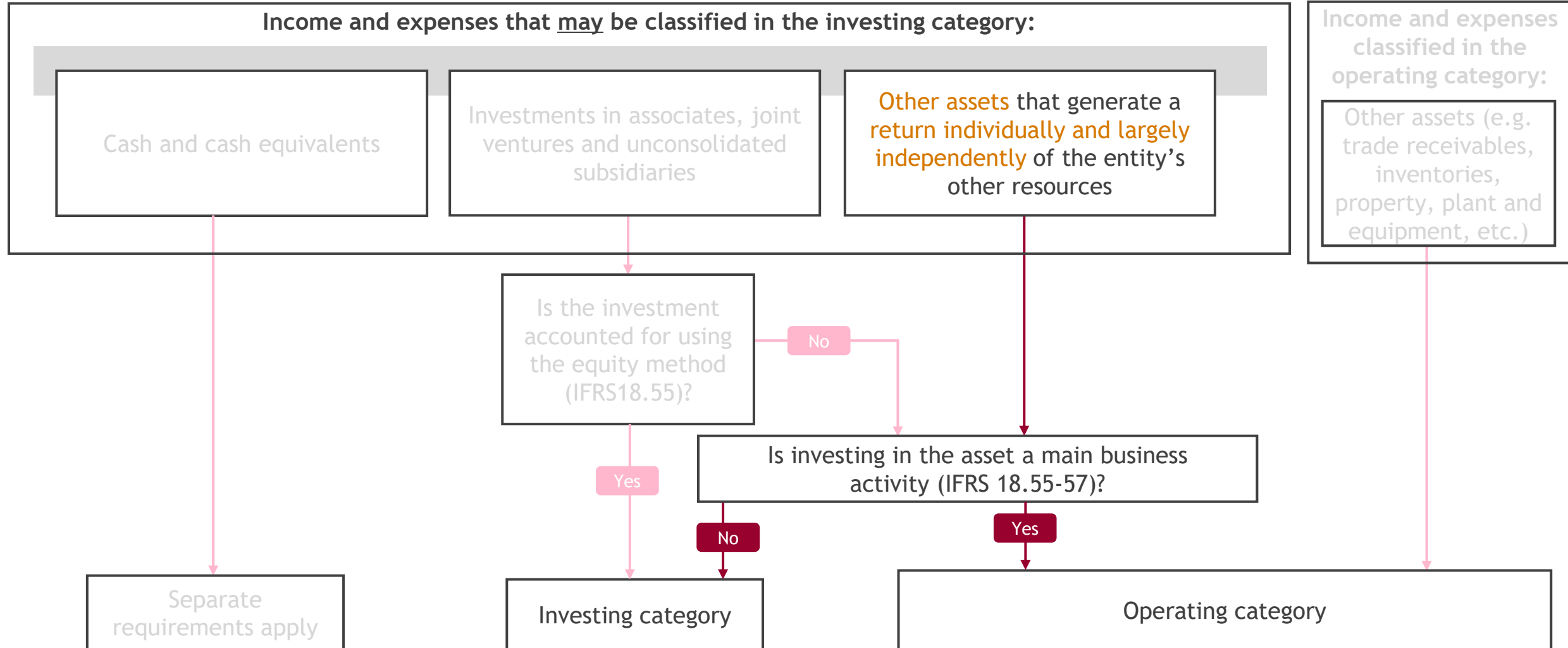


# INVESTING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY

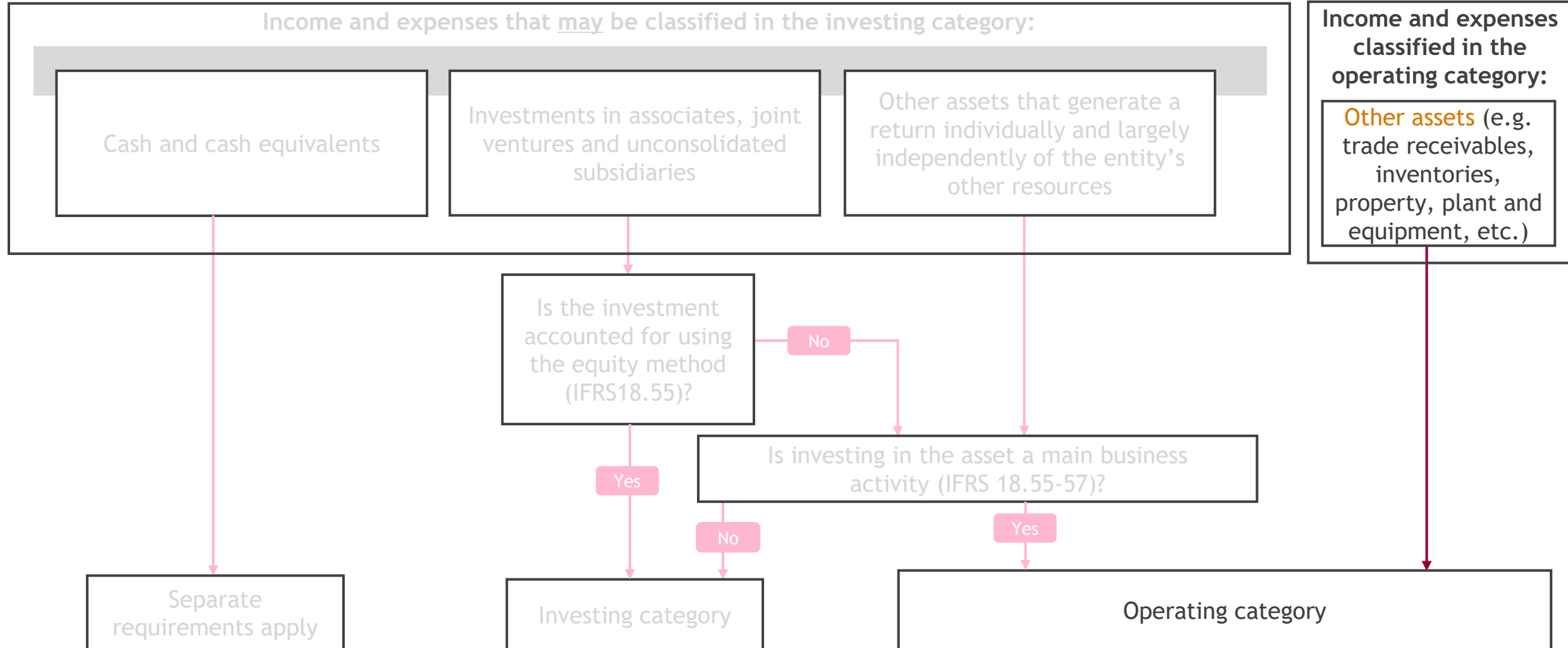




# INVESTING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY



# INVESTING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY

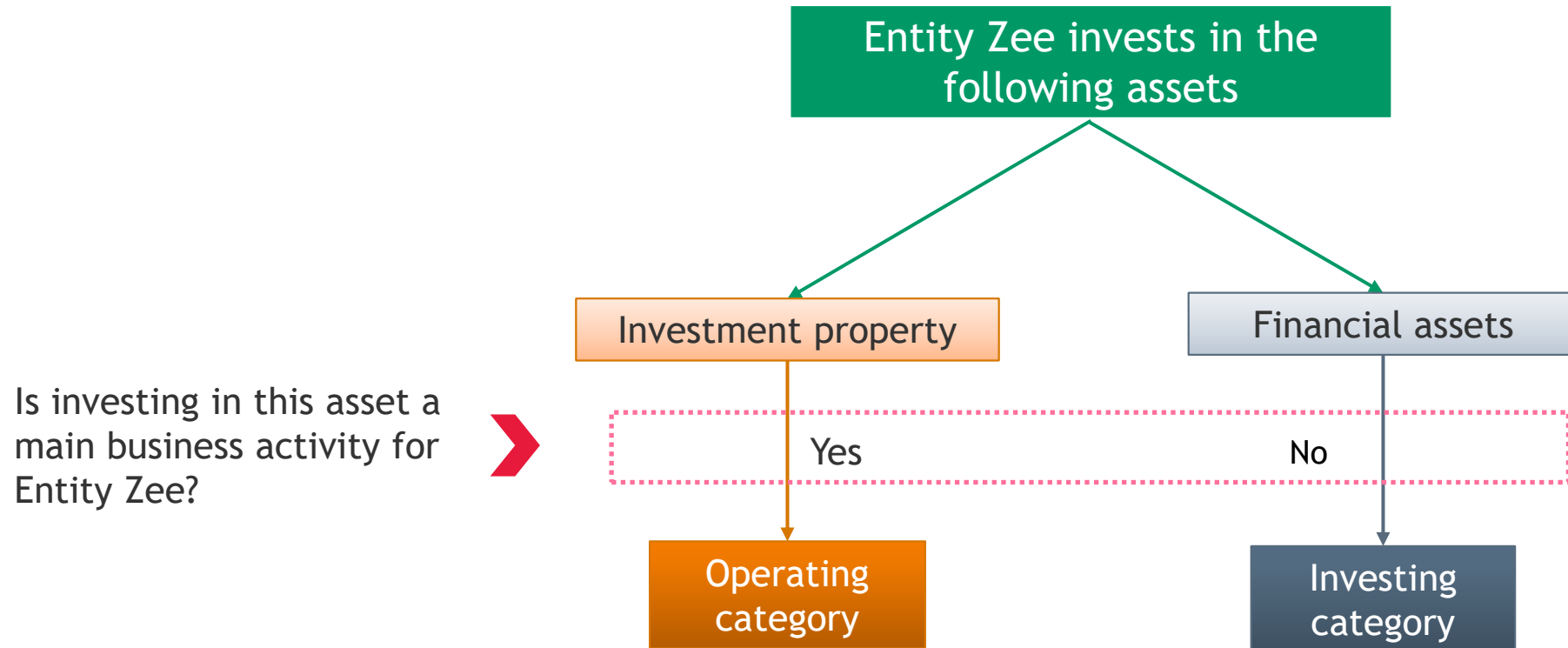


# INVESTING CATEGORY: MAIN BUSINESS ACTIVITY

Classification of income and expenses from multiple classes of assets

Entity may have more than one main business activity, and possible to have more than one specified main business activity.

For example:







BREAK

# THE FINANCING CATEGORY



# CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS

Financing category - which items of income and expenses? IFRS 18.60-61

- Examples of the income and expenses from liabilities identified to be classified in the financing category are:

## Liabilities arising from raising of finance

- debt instruments settled in cash such as debentures, loans, notes, bonds and mortgages,
- certain supplier finance arrangement liabilities

- income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities; and
- the incremental expenses directly attributable to the issue and extinguishment of the liabilities—for example, transaction costs.

## Other liabilities

- payables for goods or services and contract liabilities,
- lease liabilities,
- defined benefit pension liabilities,
- certain provisions (decommissioning / asset restoration or litigation)

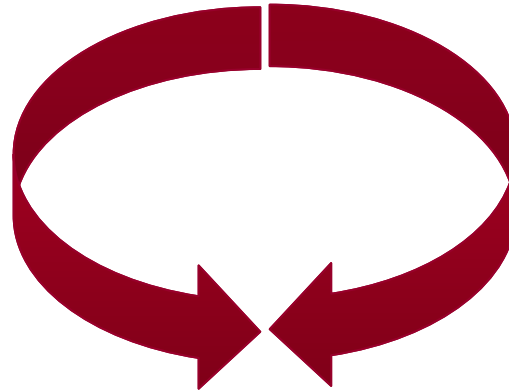
- **interest income and expenses**, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards; and
- **income and expenses** arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards.

# FINANCING CATEGORY - IFRS 18.60 AND 18.61

Examples of the income and expenses from liabilities identified to be classified in the financing category are:

## Liabilities arising from raising of finance

- debt instruments settled in cash such as debentures, loans, notes, bonds and mortgages,
- certain supplier finance arrangement liabilities



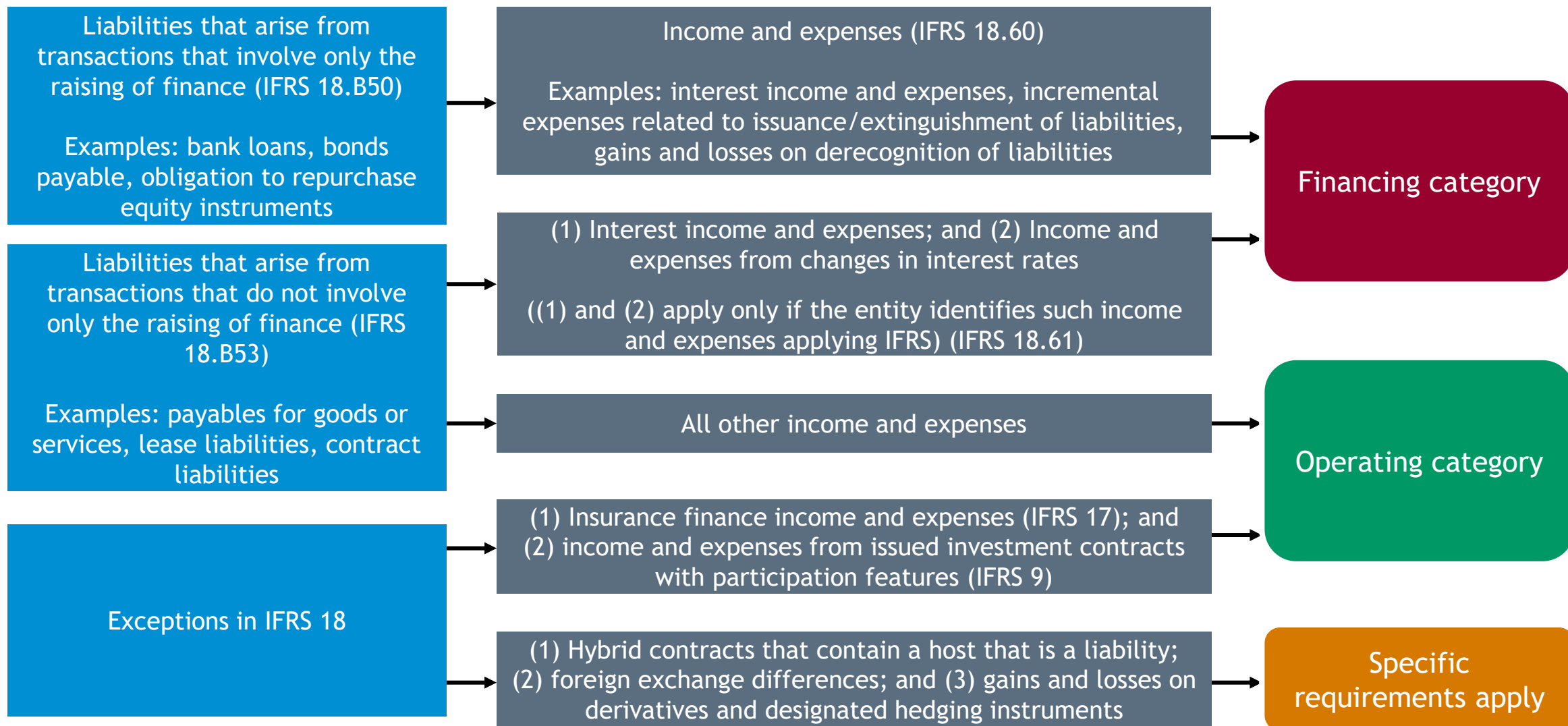
## Other liabilities

- payables for goods or services and contract liabilities,
- lease liabilities,
- defined benefit pension liabilities,
- certain provisions (decommissioning / asset restoration or litigation)

### Exceptions from classification as financing:

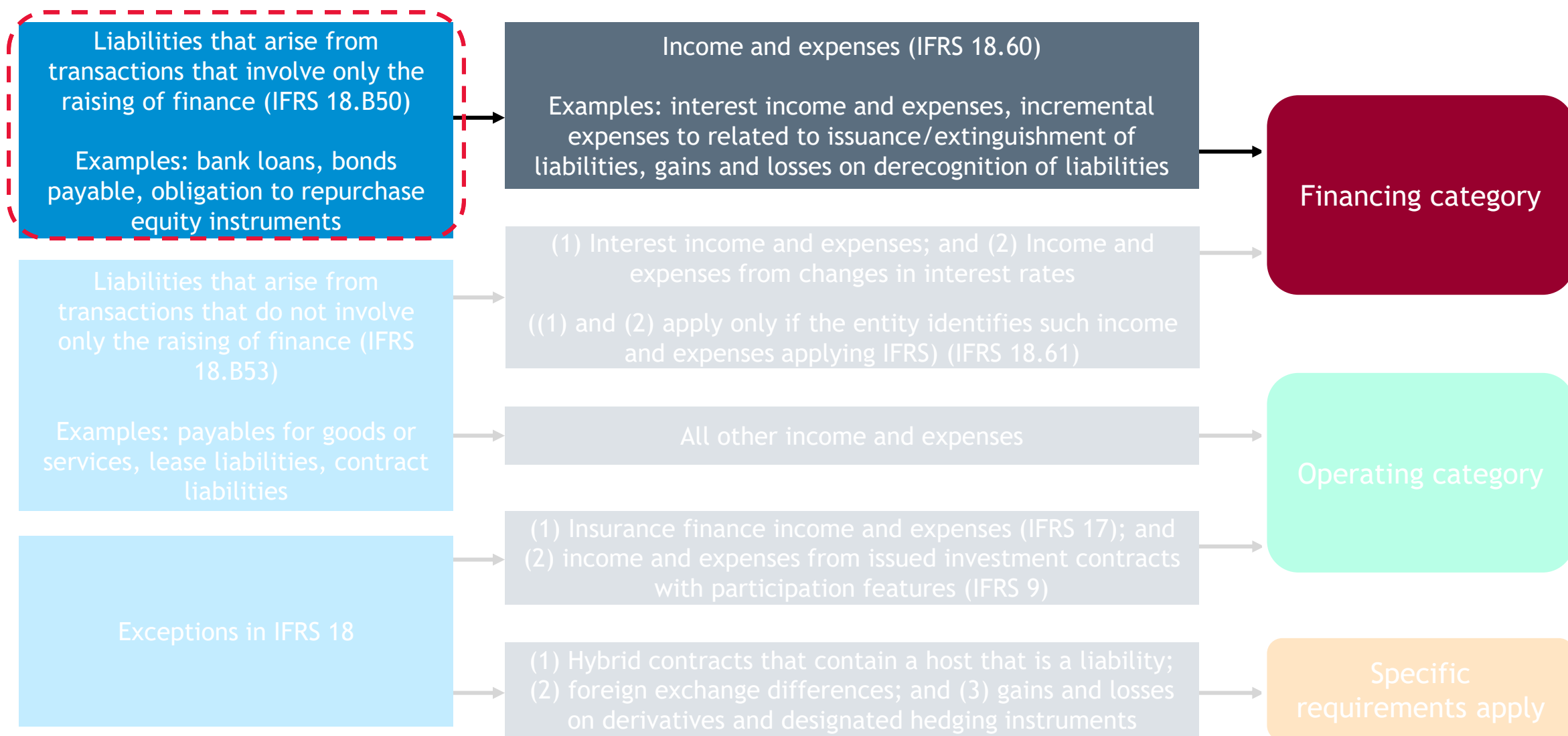
- Classification of gains and losses on derivatives and designated hedging instruments.
- Income and expenses from issued investment contracts with participation features recognised applying IFRS 9 *Financial Instruments*.
- Insurance finance income and expenses included in the statement of profit or loss applying IFRS 17 *Insurance Contracts*.
- Entities with specified main business activities.

# FINANCING CATEGORY: PRACTICE AID

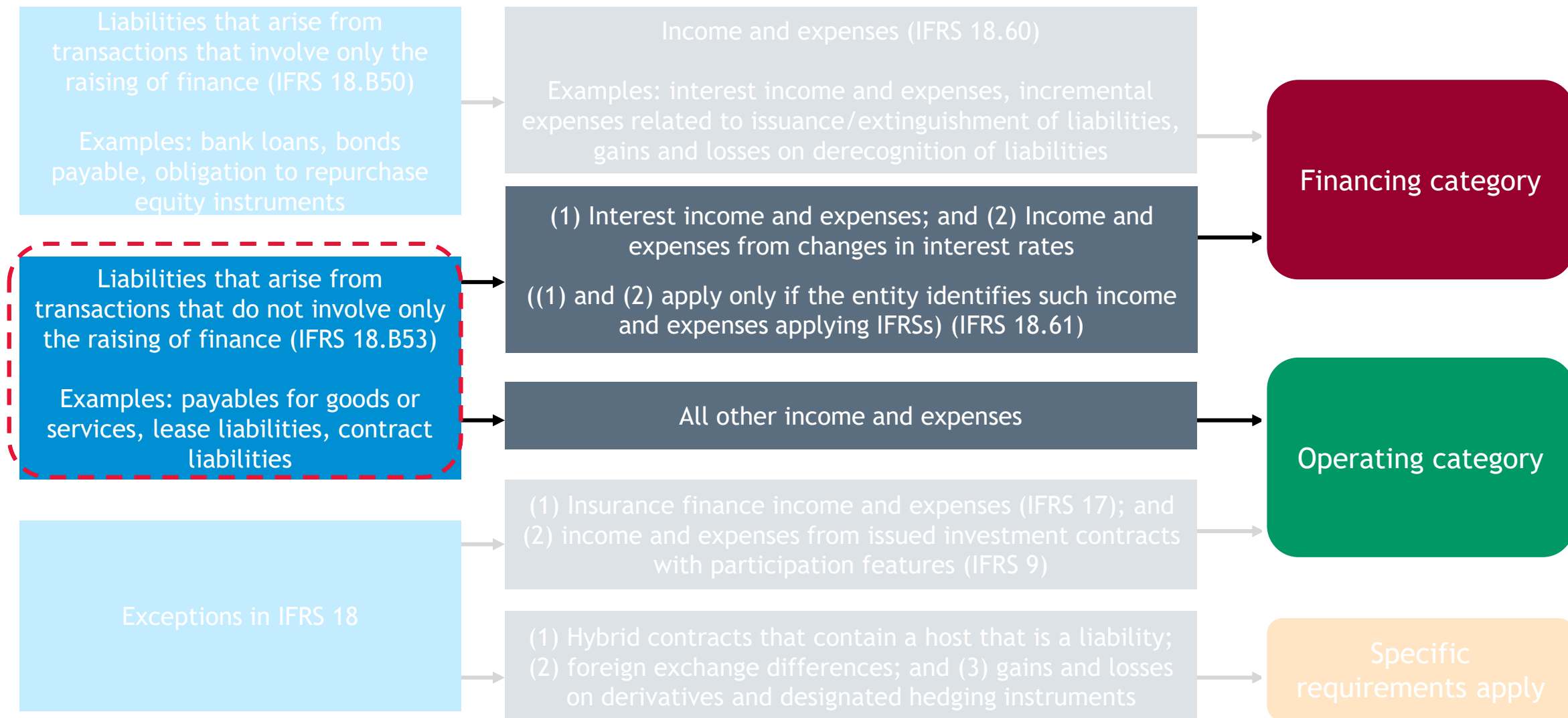




# FINANCING CATEGORY: PRACTICE AID



# FINANCING CATEGORY: PRACTICE AID



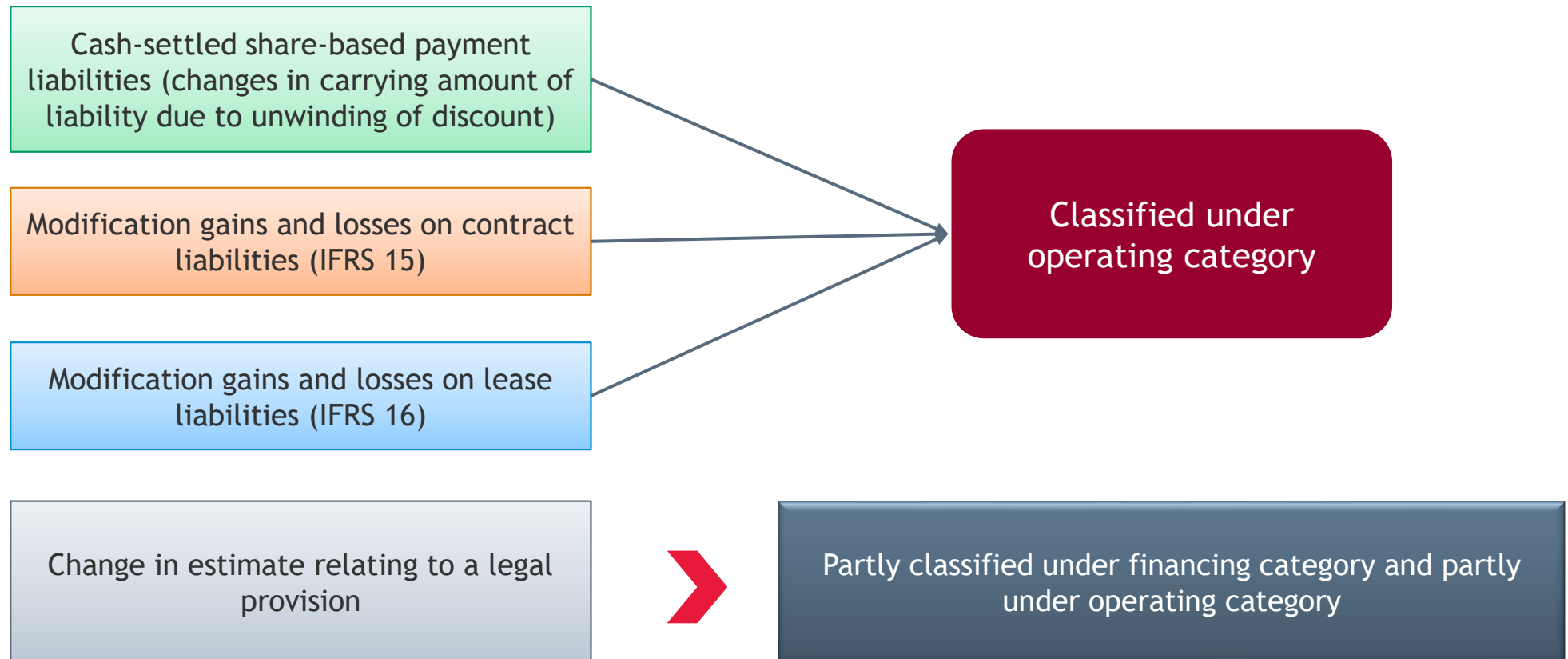
# OTHER LIABILITIES - NOT INVOLVED IN RAISING OF FINANCE

- Examples of liabilities that arise from transactions that do not involve only the raising of finance, with income and expenses being classified in financing category:

Liabilities that arise from transactions that do not involve only the raising of finance	Specified income and expenses classified in the financing category
Payables for goods or services that will be settled in cash (IFRS 9)	Interest expenses on payables arising from the purchase of goods or services, applying IFRS 9
Contract liabilities (IFRS 15)	Interest expenses on a contract liability with a significant financing component as specified by IFRS 15.
Lease liabilities (IFRS 16)	Interest expenses on lease liability, applying IFRS 16
Defined benefit pension liabilities (IAS 19)	Net interest expense (income) on a net defined benefit liability (asset), applying IAS 19
Decommissioning or asset restoration provisions (IAS 37)	The increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate on provisions, applying IAS 37
A litigation provision (IAS 37)	

# OTHER LIABILITIES - NOT INVOLVED IN RAISING OF FINANCE

- ▶ Income and expenses relating to liabilities that arise from transactions that do not involve only the raising of finance - *NOT classified in the financing category*



# OTHER LIABILITIES - NOT INVOLVED IN RAISING OF FINANCE

Changes in estimate relating to a legal provision (IAS 37)

- Partly classified under financing category and partly under operating category

## Fact pattern - Illustration A

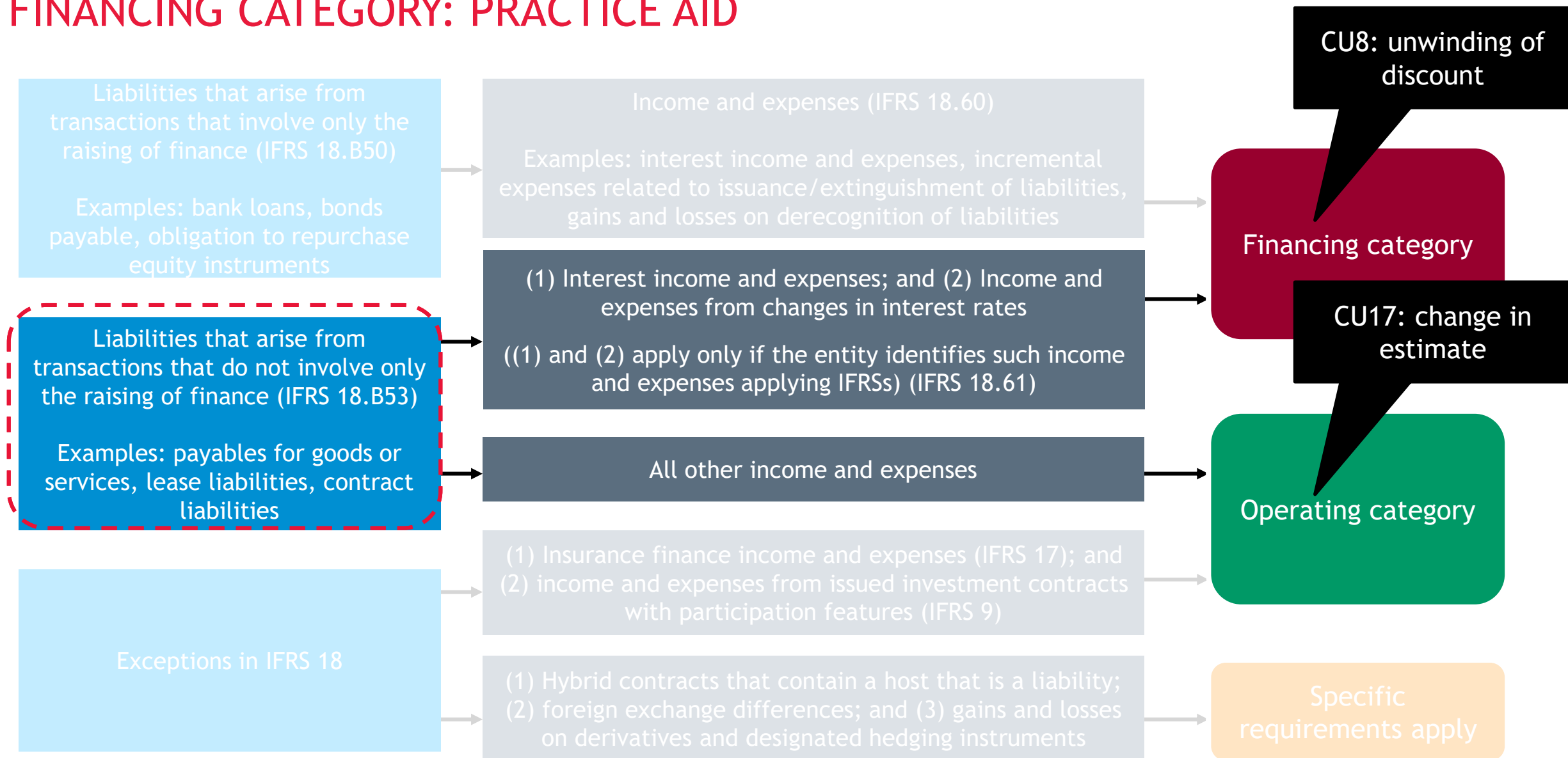
- Entity B, with a financial year-end of 31 December 20x7, has recognised a provision of CU100 as of that date for a legal settlement.
- The provision reflects the time value of money, as settlement is not expected until after 20x9.
- As at 31 December 20x8, Entity B has revised its best estimate for the legal settlement, and the carrying amount of the provision is now CU125.
- Assume this total CU25 change in carrying amount comprises of:
  - CU8 reflecting the unwinding of the discount as time passes; and
  - CU17 reflecting a change in the best estimate of the legal settlement.

What will be the category in the statement of profit or loss - of the changes in the carrying amount - the unwinding of the discount and change in the estimate?

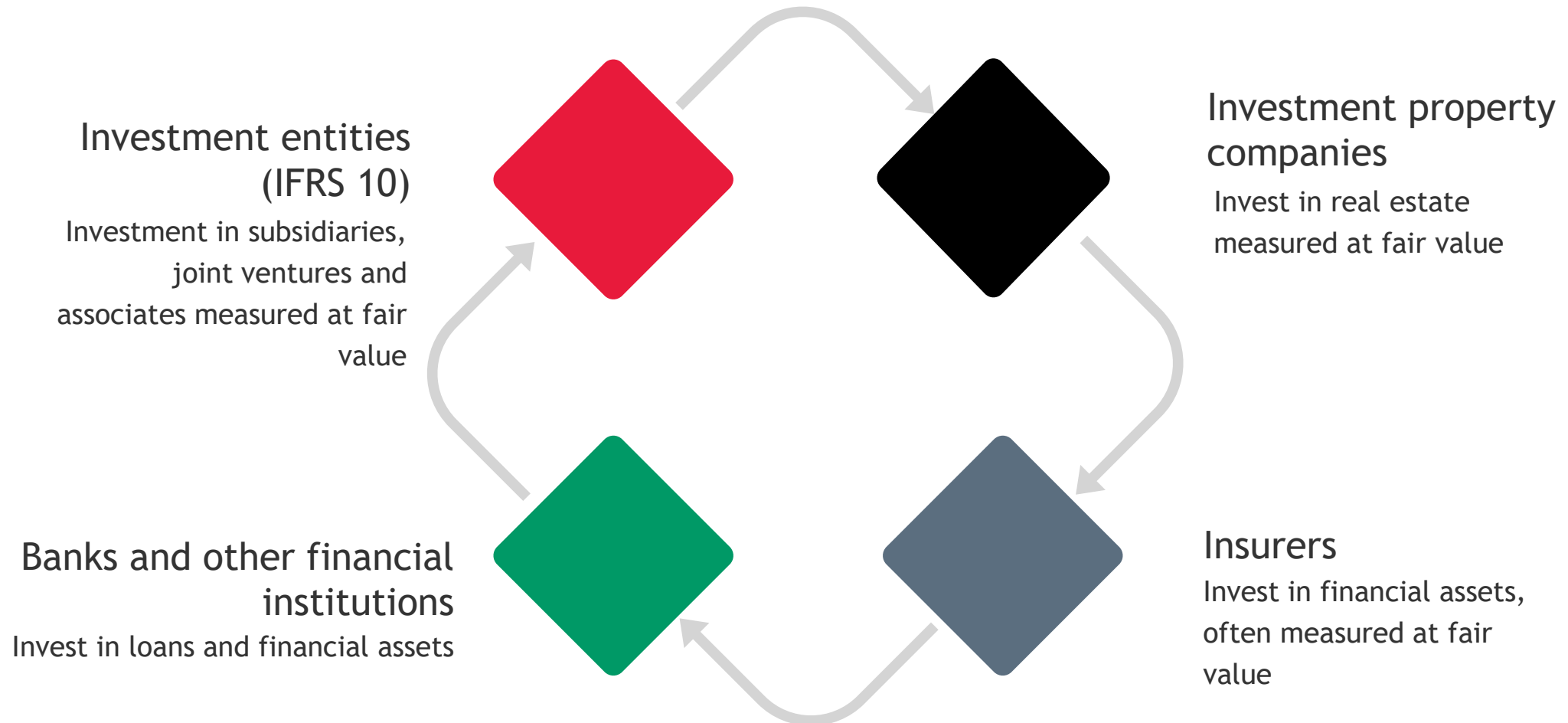
Profit or loss	20x8	20x7
<b>Operating category</b>		
Provision for legal settlement	17	100
<b>Financing category</b>		
Effects of unwinding - provision for legal settlement	8	-

PV of legal expenses (as estimated in 20x7)	108
Revised estimation for settlement of legal expense in 20x9	125
Additional provision charged to profit or loss in 20x8	17

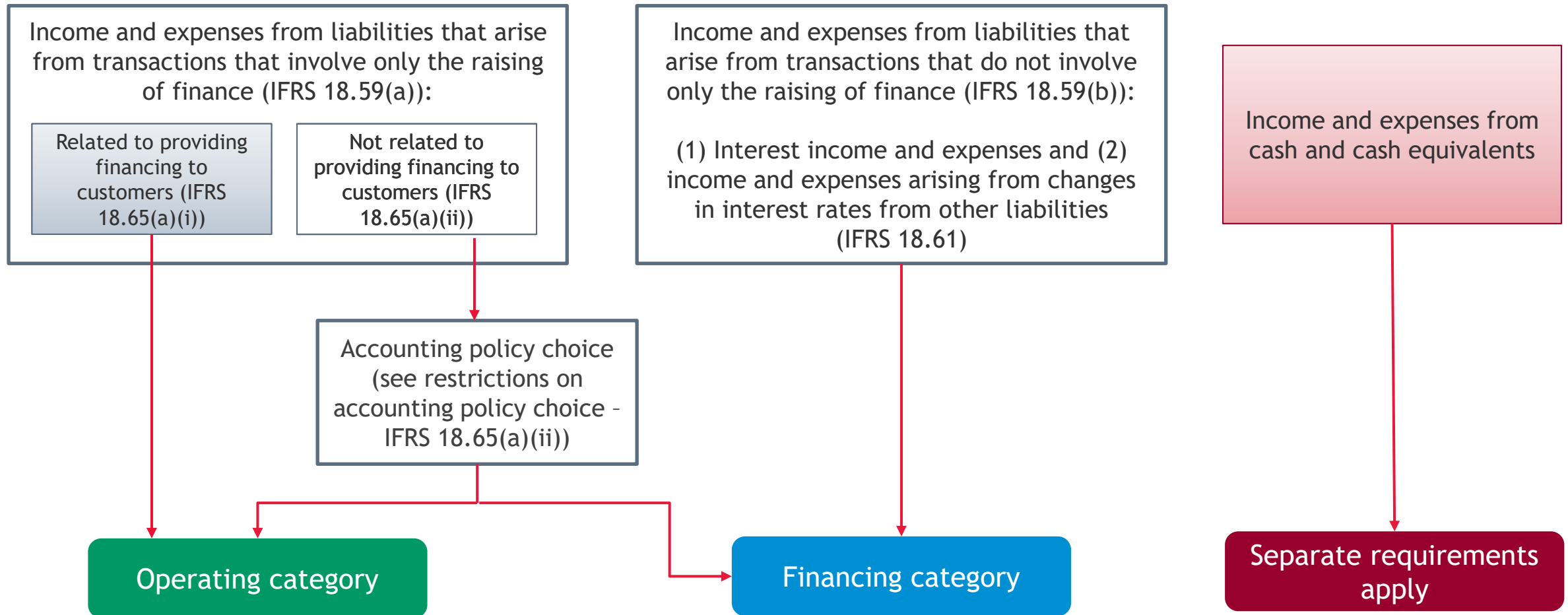
# FINANCING CATEGORY: PRACTICE AID



# FINANCING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY



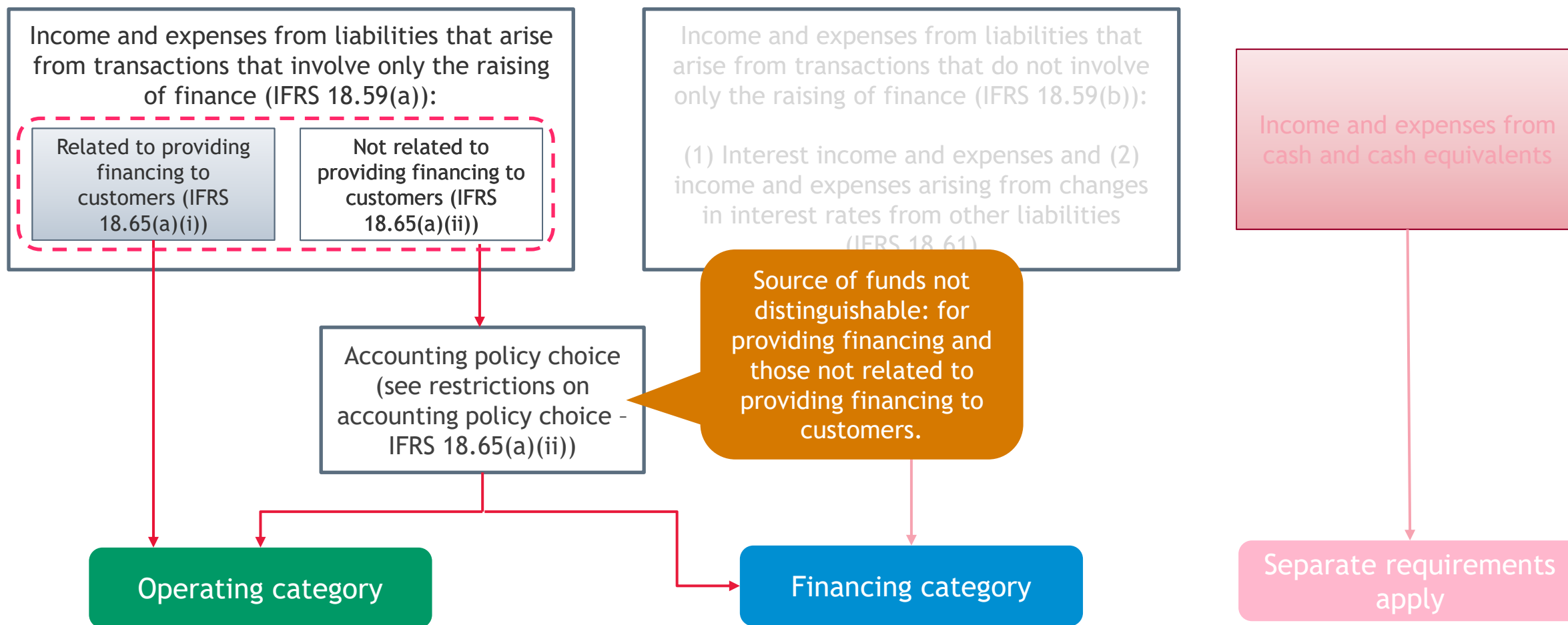
# FINANCING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY



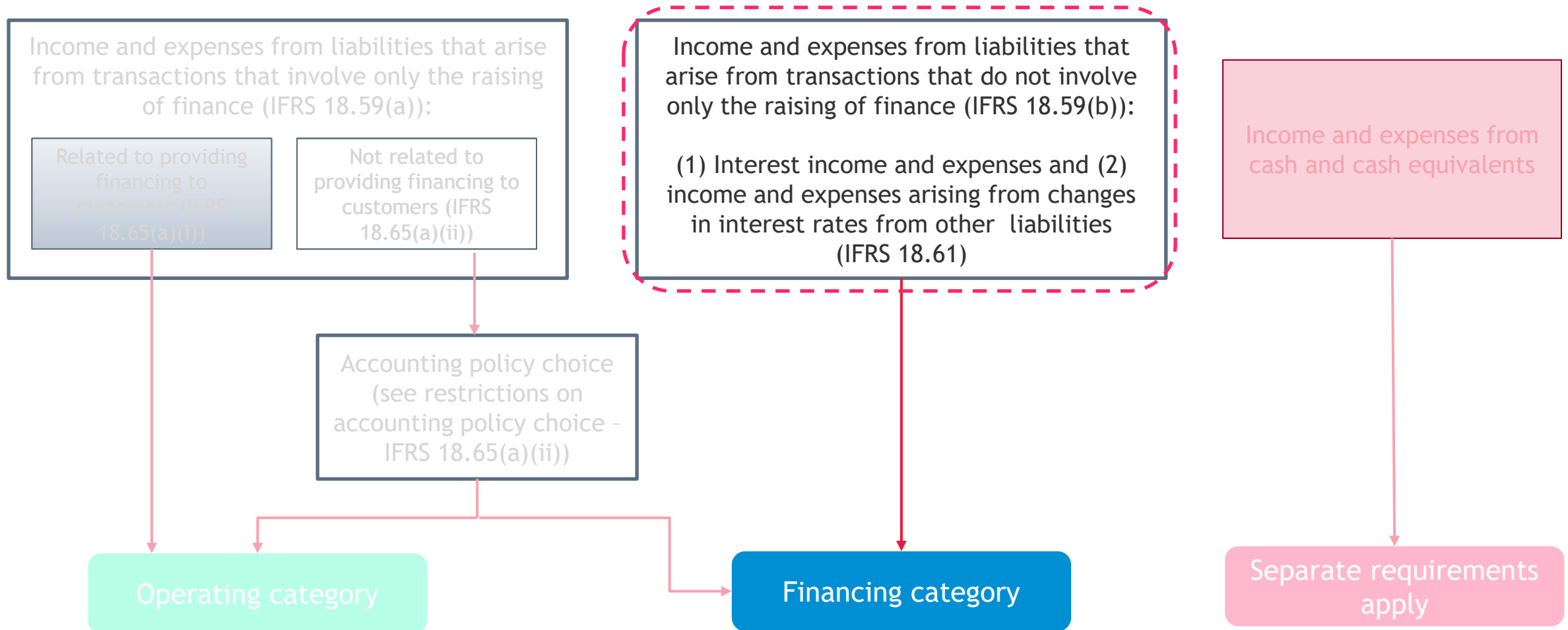


# FINANCING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY

## Traditional lender



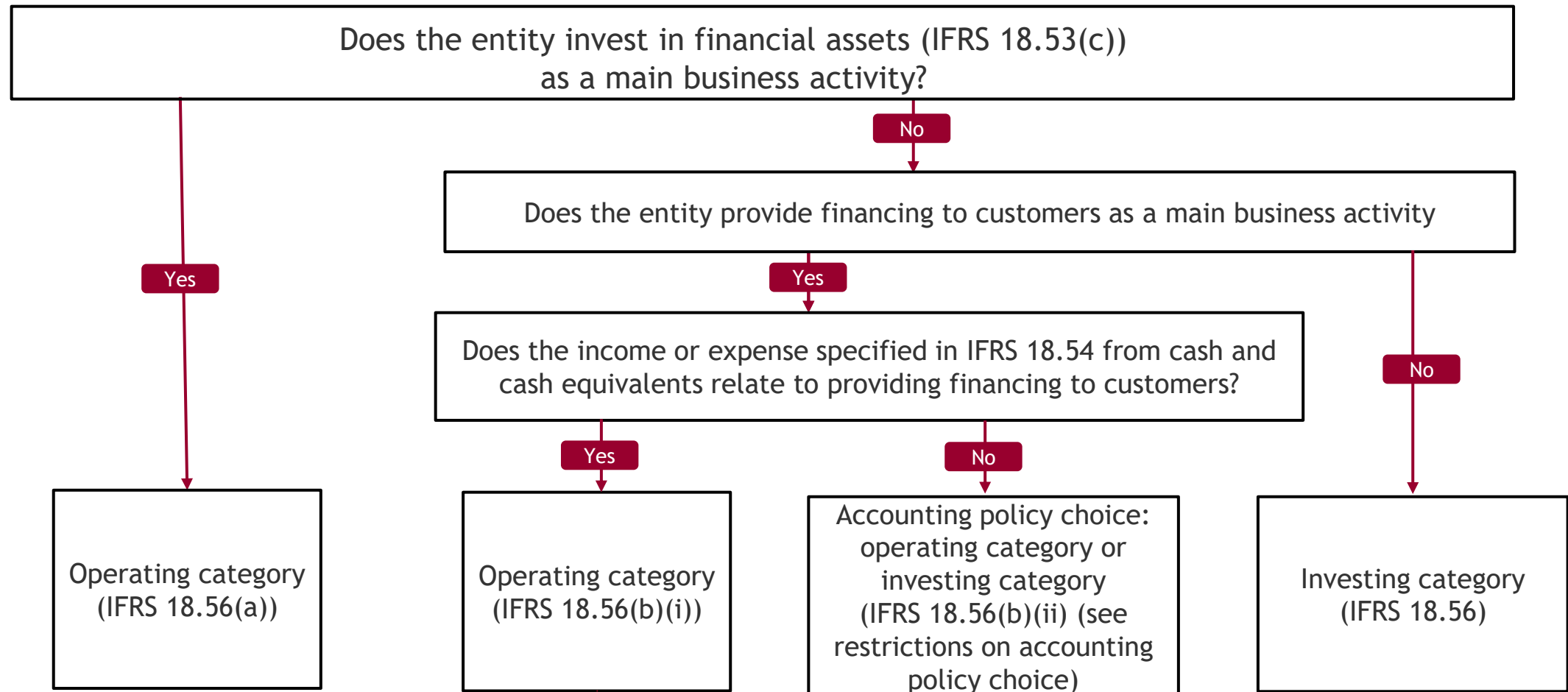
# FINANCING CATEGORY: SPECIFIED MAIN BUSINESS ACTIVITY



# SPECIAL CONSIDERATIONS: CASH AND CASH EQUIVALENTS

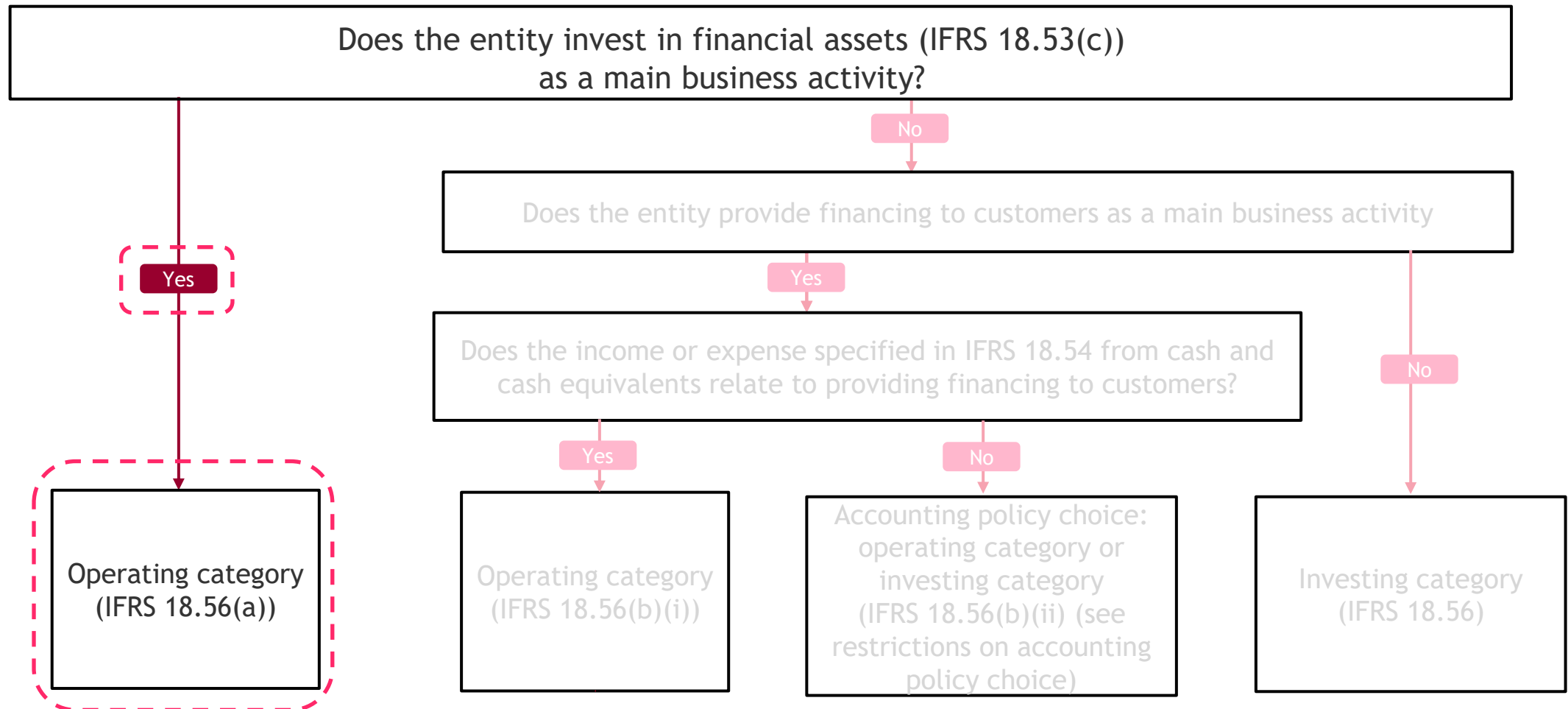
# CASH AND CASH EQUIVALENTS

Categories in the statement of profit or loss

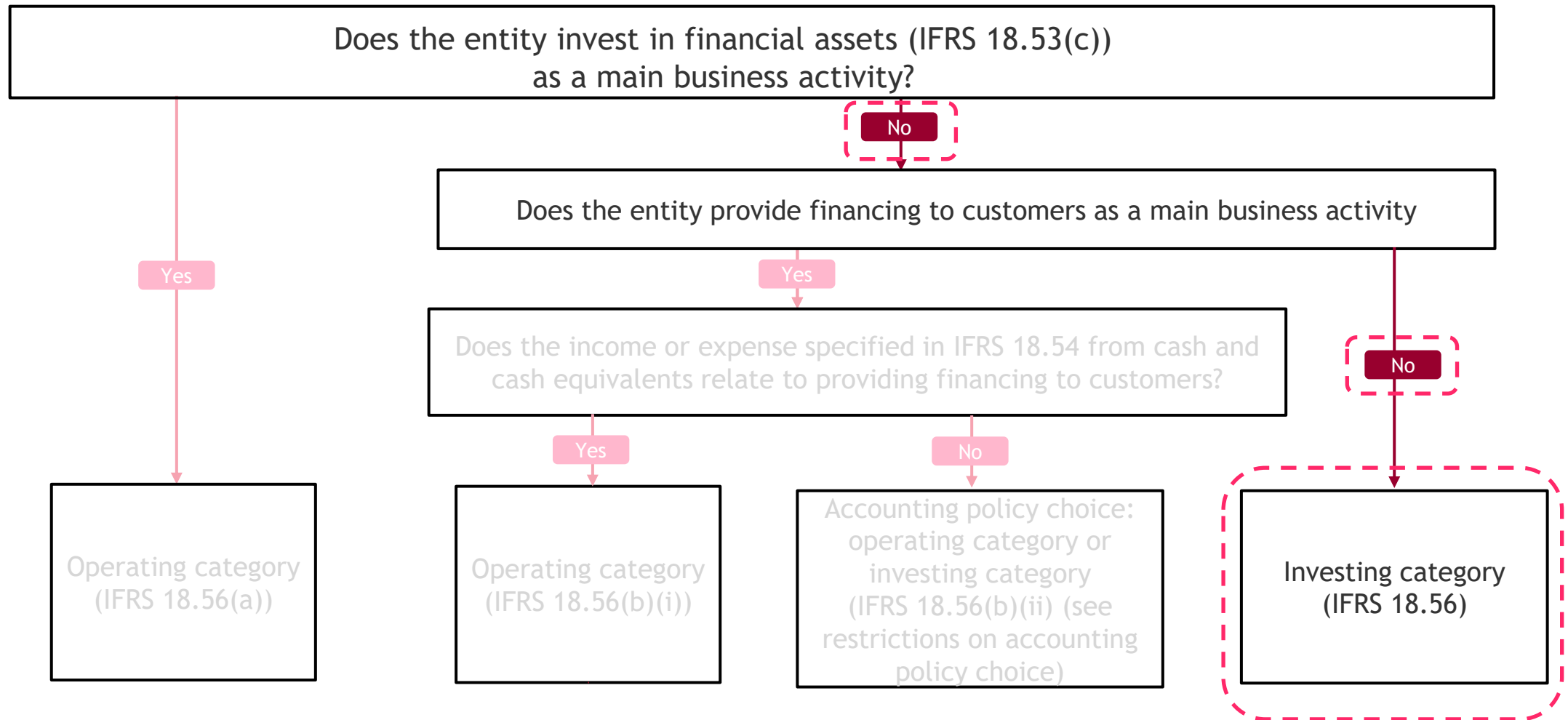


# CASH AND CASH EQUIVALENTS

## Investment fund

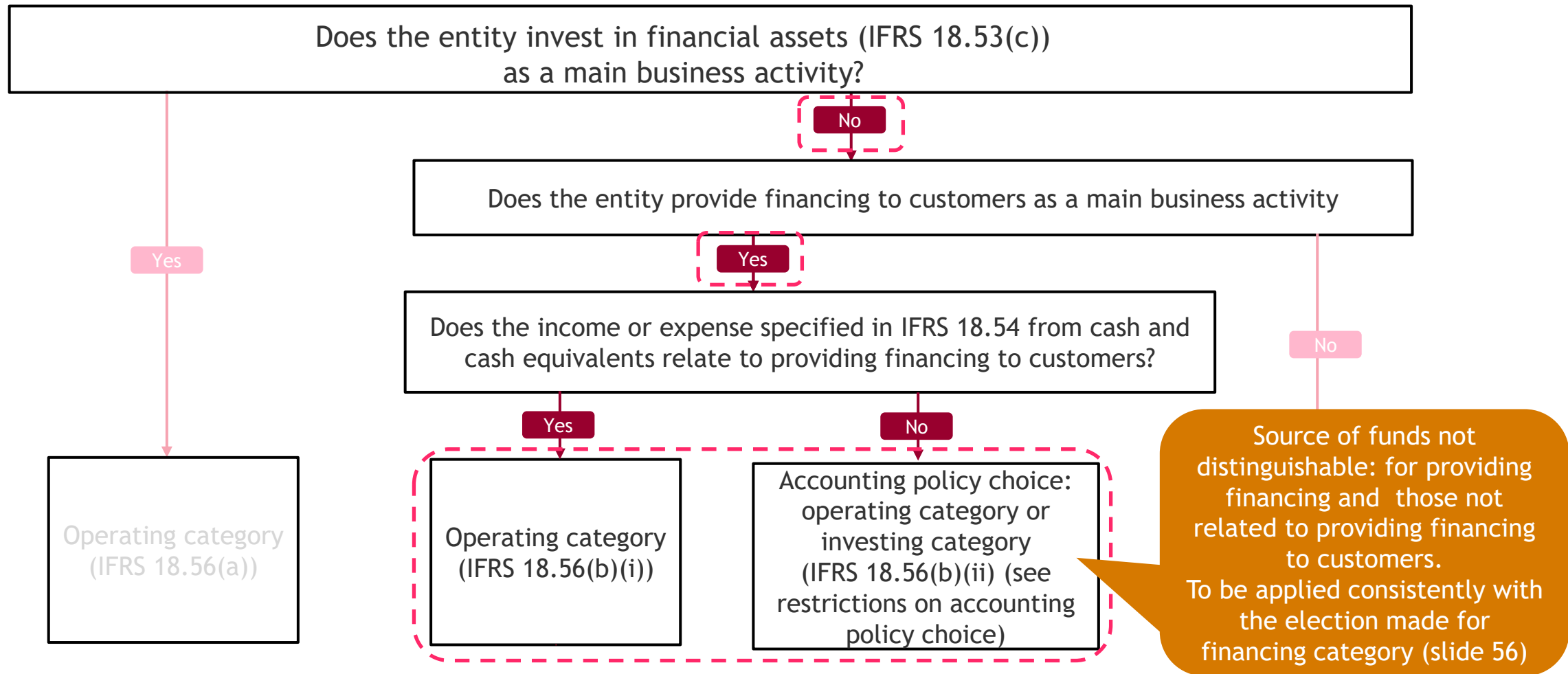


## CASH AND CASH EQUIVALENTS



# CASH AND CASH EQUIVALENTS

## Provider of finance



## SPECIAL CONSIDERATIONS: OTHER AREAS



# FOREIGN EXCHANGE, DERIVATIVES AND HYBRID CONTRACTS

## Other areas of classification complexity



### Classification of foreign exchange gains and losses

Requirement to classify foreign exchange gains or losses in the same category as the associated income and expense (e.g. foreign exchange on trade receivables in the operating category).

Exemption for 'undue cost or effort' (IFRS 18.B68).



### Classification of income and expenses from derivatives

Complex requirements depending on whether derivative is used for hedge accounting, whether it relates to the raising of finance, specified main business activities, etc.

See Figure 5 in IFRS 18 IE.



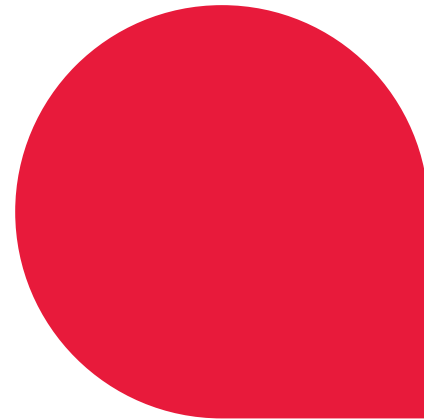
### Classification of income and expenses from hybrid contracts with host liabilities

Complex requirements depending on whether the embedded derivative is required to be separated, whether the contract arises from the raising of finance, etc.

See Figure 4 in IFRS 18 IE.

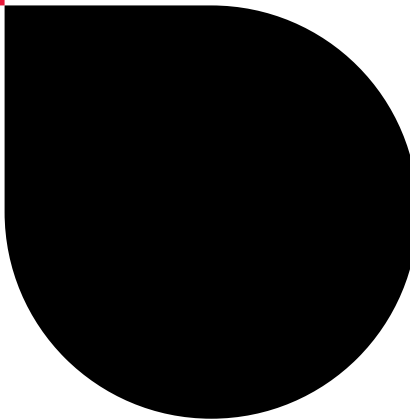
# THE INCOME TAXES CATEGORY

# INCOME TAXES CATEGORY



## Income taxes in scope of IAS 12

Current and deferred tax income and expenses including write down of deferred tax assets; effect of uncertain tax positions (INT IFRS 23)



## Foreign exchange on taxes (IAS 21)

Foreign exchange differences on taxes owed in a currency other than the entity's functional currency

# THE DISCONTINUED OPERATIONS CATEGORY

# DISCONTINUED OPERATIONS CATEGORY



## IFRS 5

Present a single line item in the statement of profit or loss for discontinued operations



## IFRS 5.33(a)

1. The post-tax profit or loss of discontinued operations
2. The post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation

# DISCONTINUED OPERATIONS CATEGORY

## Polling Question 4

### Fact pattern

- Entity G plans to dispose off their distribution centre and therefore classifies it as an asset held for sale.
- The distribution centre does not meet the requirements of IFRS 5 to be presented as a discontinued operation.
- The distribution centre consists of building and various pieces of equipment.
- IFRS 5 requires the assets to be measured at the lower of its cost and fair value less costs to sell.
- There is an impairment loss that needs to be recognised in the statement of profit or loss in accordance with IFRS 5.

### Question:

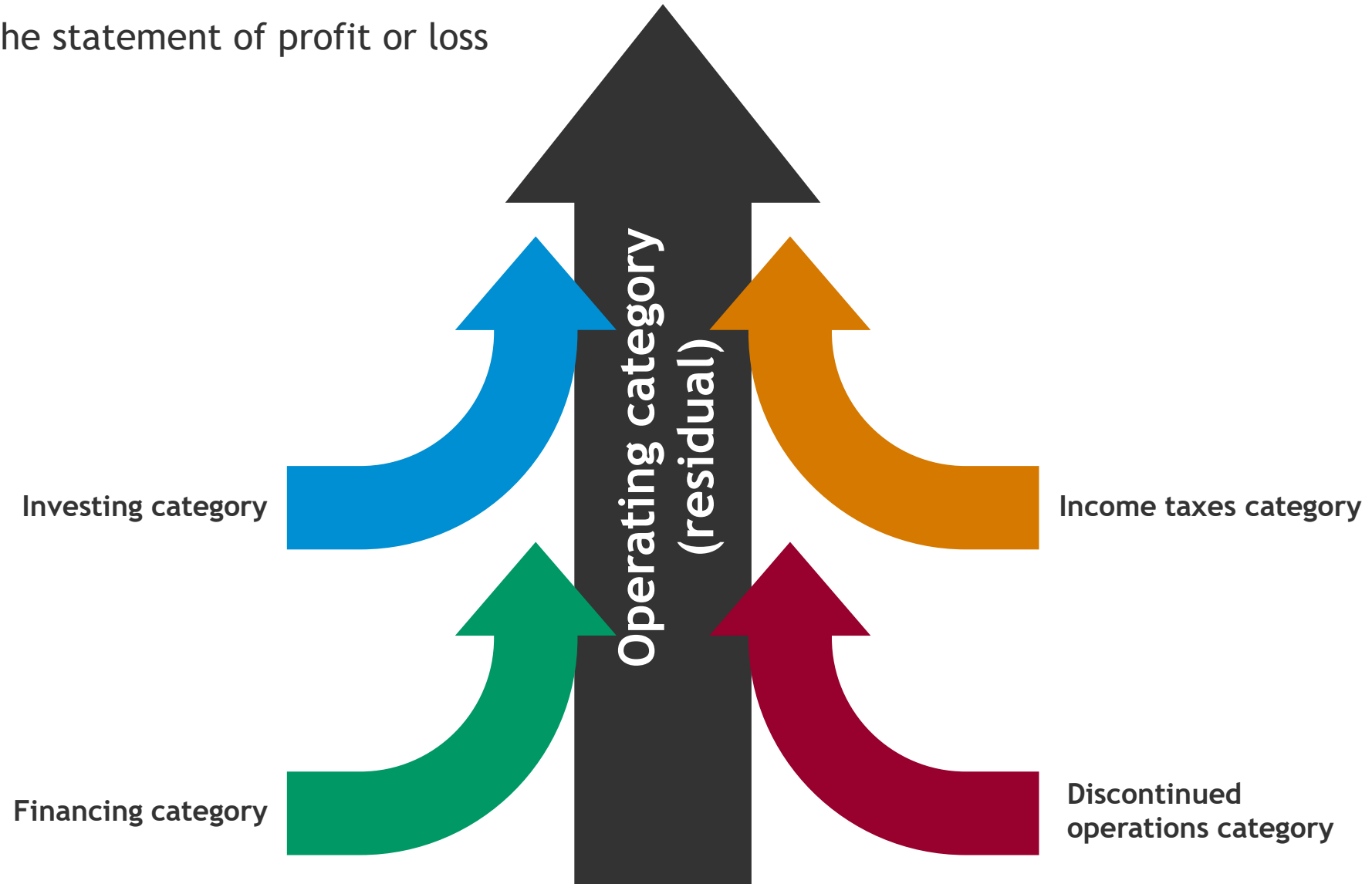
Which category should this loss be included in the statement of profit or loss?

- A. Discontinued operation category
- B. Investing category
- C. Operating category

# THE OPERATING CATEGORY

# OPERATING CATEGORY

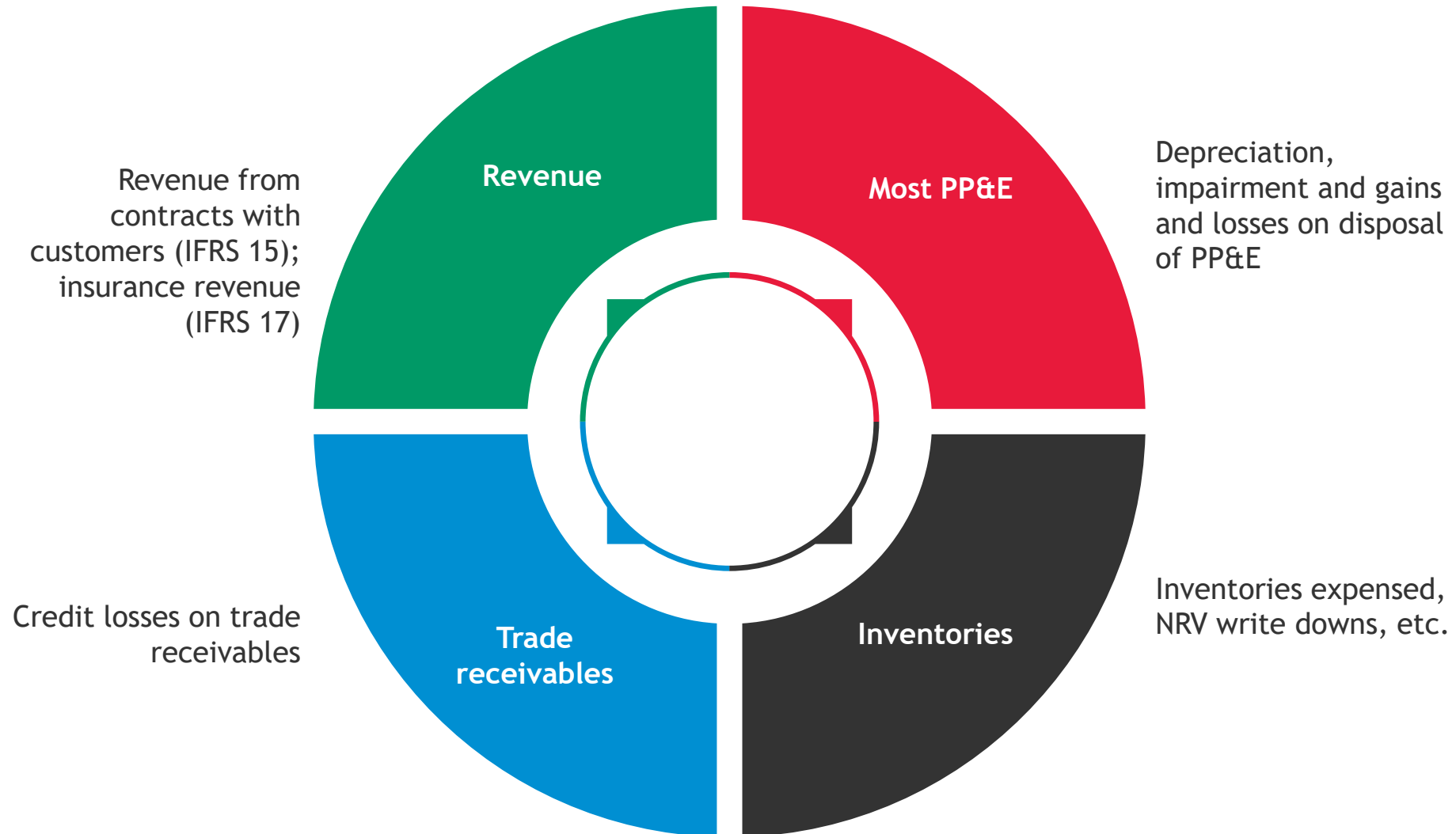
Categories in the statement of profit or loss





# ASSETS THAT DO NOT GENERATE AN INDEPENDENT RETURN

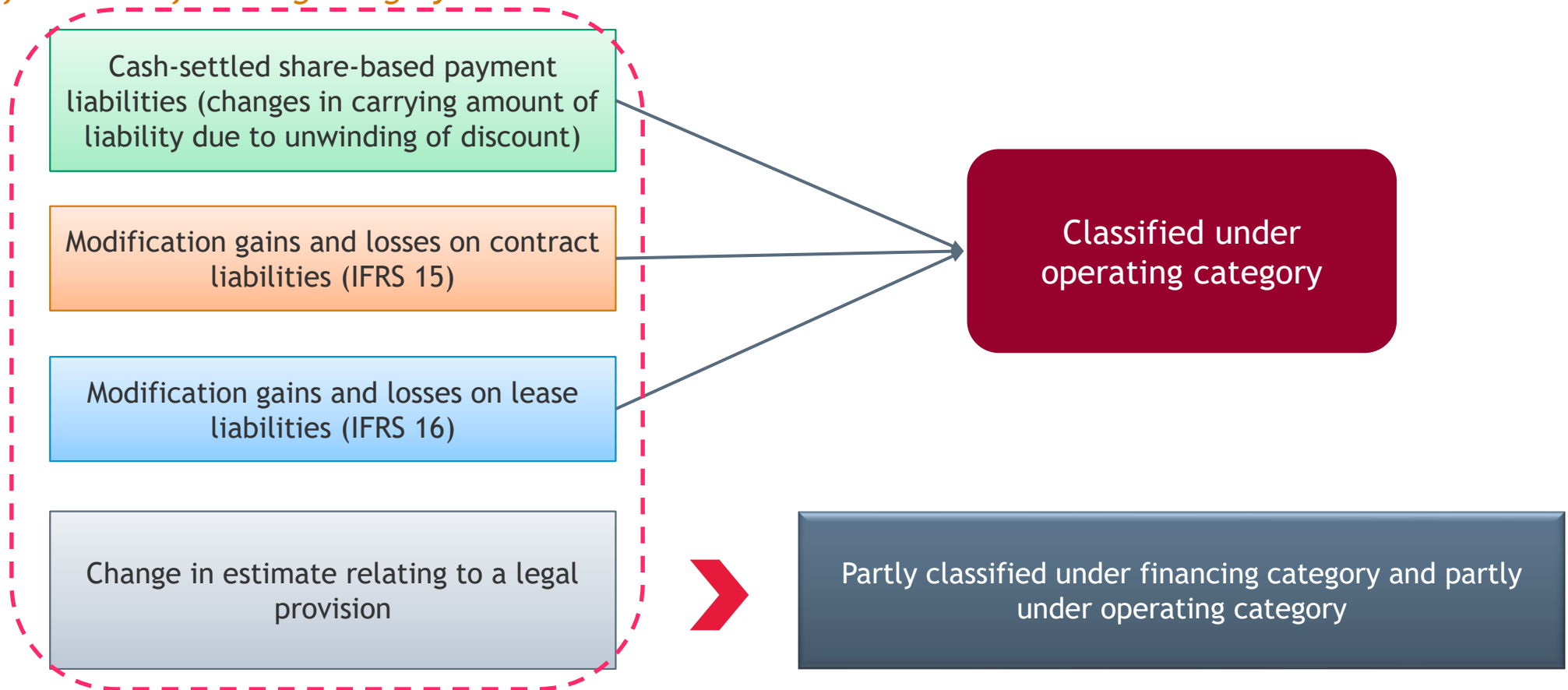
Operating category



# NON-PURE FINANCING LIABILITIES

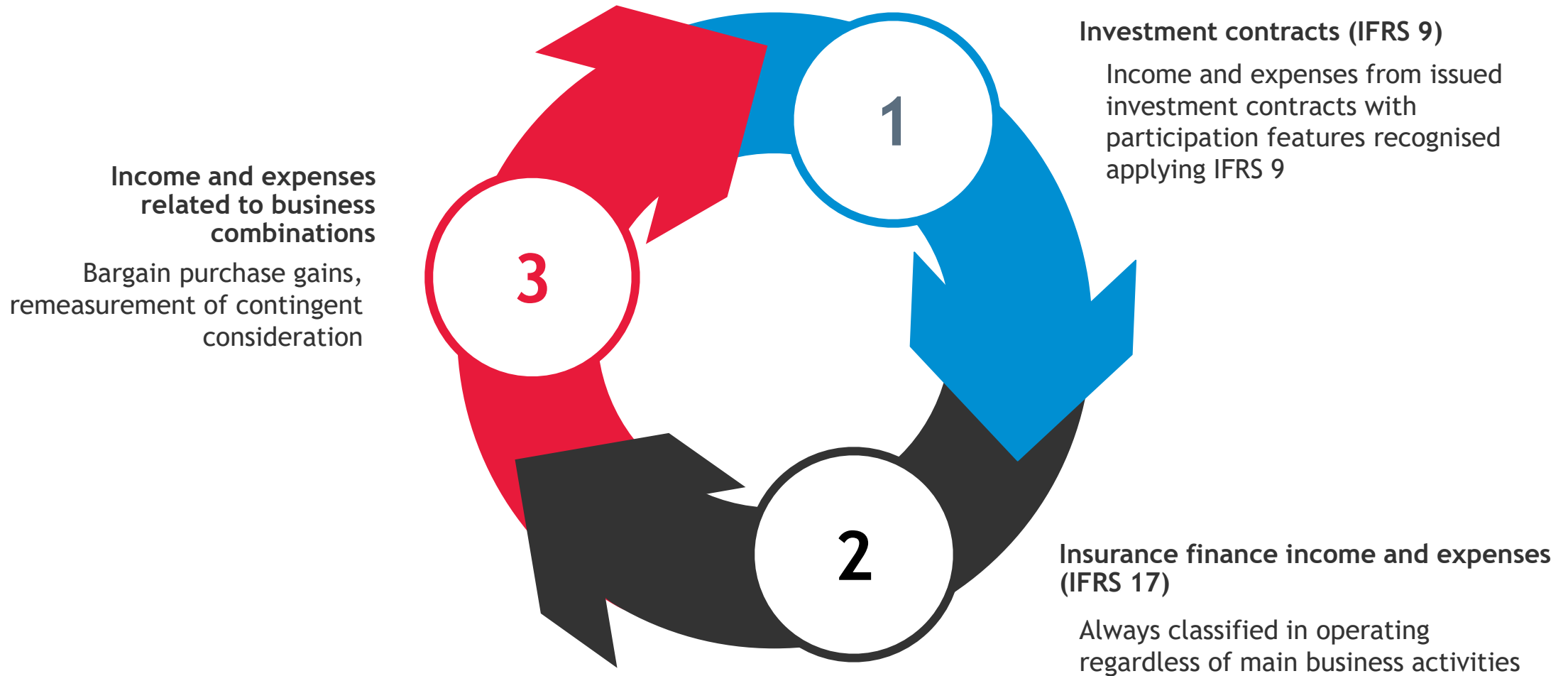
What other items could be included in operating category?

- ▶ Income and expenses relating to liabilities that arise from transactions that do not involve only the raising of finance - *NOT classified in the financing category*



# OPERATING CATEGORY

Other items



# MANDATORY AND ADDITIONAL SUB-TOTALS IN THE STATEMENT OF PROFIT OR LOSS

# MANDATORY SUB-TOTALS



## Operating profit

The total of all income and expenses classified in the operating category.



## Profit or loss before financing and income taxes

The total of operating profit or loss and all income and expenses classified in the investing category.

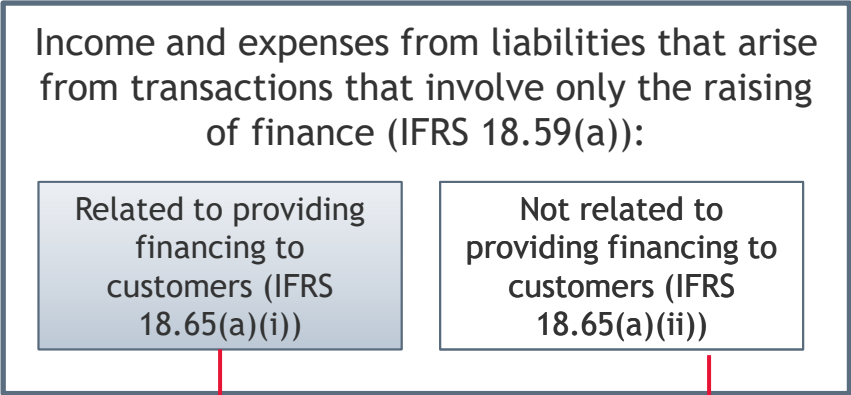
# MANDATORY SUB-TOTALS

Prohibition for entities that provide financing to customers as a main business activity

IFRS 18.73: prohibited from having ‘profit or loss before financing and income taxes’, as it no longer meets the definition

**“Profit or loss before financing and income taxes”**

The total of operating profit or loss and all income and expenses classified in the investing category.



Accounting policy choice (see restrictions on accounting policy choice - IFRS 18.65(a)(ii))



Line item	
Revenue	
Cost of sales	
Gross profit	
Other operating income	Include financing element
Selling expenses	
Research and development	
General and administrative	
Operating profit	
Fair value gains on equity instruments	Different subtotal to be used
Share of profit from joint venture	
Profit before financing and income taxes	
Interest expense on borrowings and lease liabilities	
Profit before income taxes	
Income tax expense	
Profit from continuing operations	
Loss from discontinued operations	
Profit	

## ADDITIONAL SUB-TOTAL CRITERIA (IFRS 18.24)

All criteria listed below must be met for additional sub-totals/ line items presented



Comprise amounts recognised and measured in accordance with IFRS Accounting Standards;



Be compatible with the statement structure created by the requirements listed in paragraph 22;



Be consistent from period to period; and



Be displayed no more prominently than the totals and subtotals required by IFRS Accounting Standards.

# ROLES OF PRIMARY FINANCIAL STATEMENTS AND THE NOTES



# ROLE OF PRIMARY FINANCIAL STATEMENTS (PFS)



## Role of PFS

Provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows.

Determine whether separate line items require:

- Present additional line items separately in a PFS if required for useful structured summary beyond an accounting standards requirements.
- No need to present line items separately in a PFS if not essential for a useful structured summary - even if required by an accounting standard.

## What are structured summaries

1. No definition of 'structured summaries' in IFRS 18
2. Structured summaries designed to make financial information comparable and understandable
3. Judgement applied in determining useful structured summaries depending on specific circumstances

# ROLE OF PRIMARY FINANCIAL STATEMENTS (PFS)



## Overview

Obtain an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows



## Comparison

Making comparison between entities and between reporting periods for the same entity



## Additional information

Identifying items or areas where users of financial statements wish to seek additional information in the notes

# ROLES OF THE NOTES



The role of the notes is to provide material information

To enable users to understand line items presented in the PFS

- ▶ Disaggregation of line items
- ▶ Description of the characteristics of line items
- ▶ Information about methods, assumptions and judgements used

To supplement the primary financial statements with additional information

- ▶ Information specifically required by an accounting standards
- ▶ Information additional to that specifically required by an accounting standards

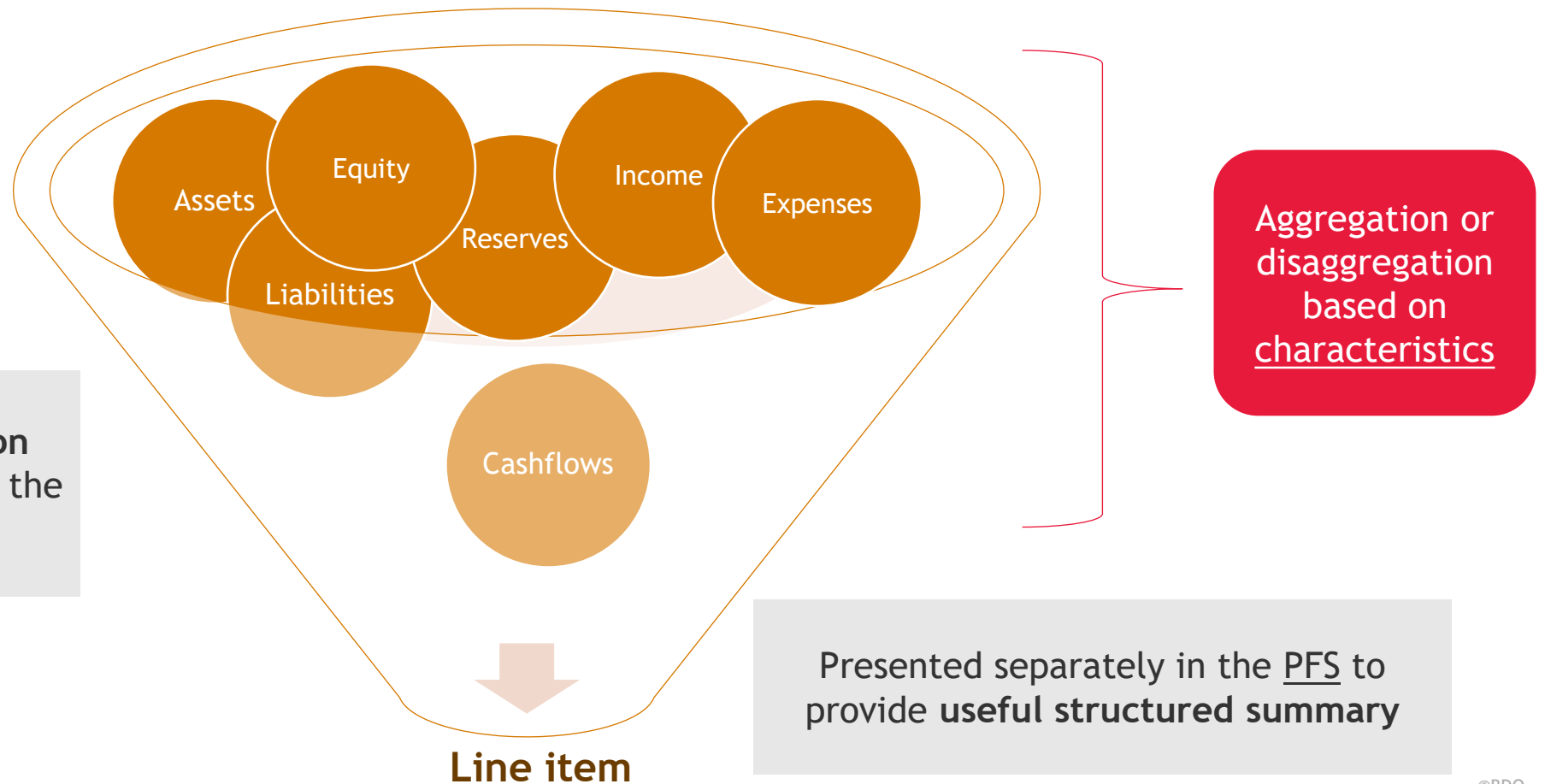
# AGGREGATION AND DISAGGREGATION

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Judgement

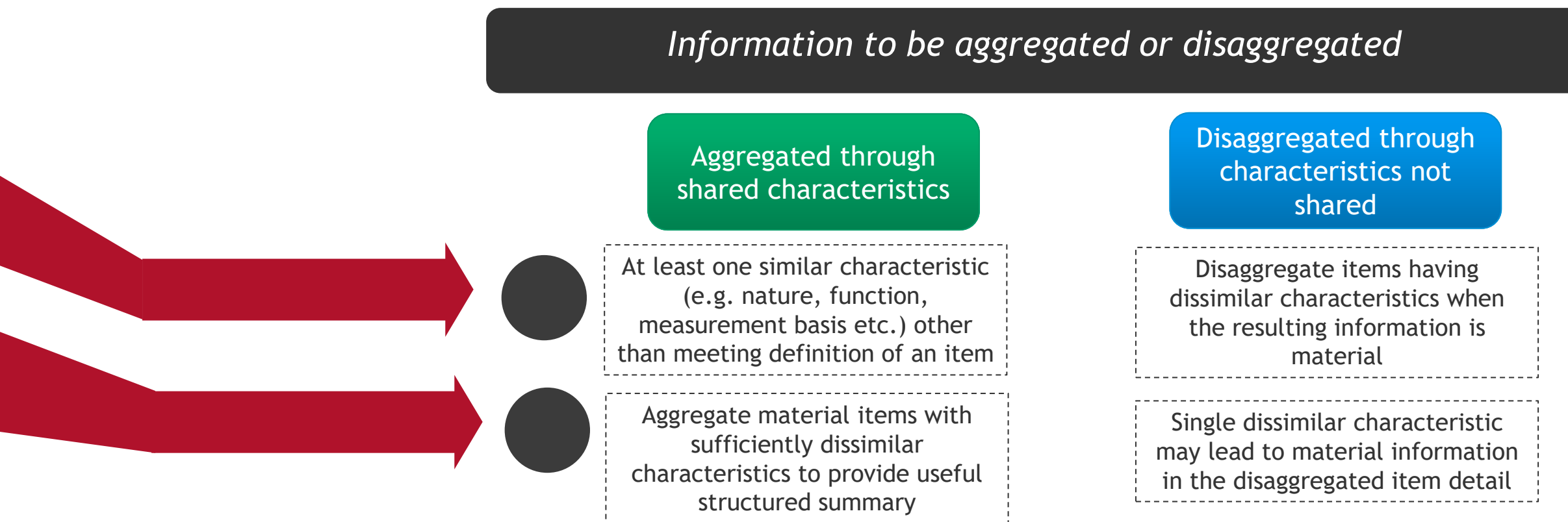
## Principles of aggregation and disaggregation

Large number of transactions and other events



# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Judgement



*Note: Aggregation and disaggregation applied to items should not obscure material information*

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Basis to aggregate or disaggregate information in PFS and Notes



## General characteristics

- Nature of the items
- Function or role
- Measurement basis
- Size
- Geographical location
- Tax effects



## Statement of Profit or Loss

- Frequency or recurring/non-recurring
- Timing of the occurrence of the income/expense



## Statement of financial position

- Liquidity
- Duration and timing of recovery and settlement
- Restrictions on the use of asset or transferability of liability

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Nature vs. function in the statement of profit or loss



## General characteristics

- Nature of the items
- Function or role
- Measurement basis
- Size
- Geographical location
- Tax effects

Nature	Function
Salaries	Cost of sales
Depreciation	Administration
Utilities	Marketing

Mixed basis of presentation
Cost of sales
Depreciation (not included in cost of sales)
Salaries (not included in cost of sales)



# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Disclosure requirements when function or mixed basis is used

Function		IFRS 18.83 reconciliation - totals of:	Line item x (e.g. cost of sales)	Line item y (e.g. other operating expenses)	Total
Cost of sales		Depreciation (IAS 16, IAS 40, IFRS 16)	xxx	xxx	xxx
Administration			xxx	xxx	xxx
Marketing			xxx	xxx	xxx
Mixed basis of presentation		Employee benefits (IAS 19) and share-based payments to employees (IFRS 2)	xxx	xxx	xxx
	Cost of sales				
	Depreciation (not included in cost of sales)				
	Salaries (not included in cost of sales)				
		Impairment losses and reversals (IAS 36)	xxx	xxx	xxx
		Write-down and reversals of write-down (IAS 2)	xxx	xxx	xxx

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

## Example/ Illustration



Entity PineTech Solutions Ltd. operates in software development and cloud infrastructure. In its statement of profit or loss, as per IAS 1, the entity used to report 'operating expenses' on an aggregated basis. Extract of SPL as below:

Revenue xxx  
Other operating income xxx  
Operating expenses (xxx)  
Operating profit xxx



Entity PineTech Solutions Ltd. incurs different types of employment benefit expenses for its employees, including -

- Monthly salaries/wages,
- Annual bonuses,
- Social security contributions
- Pension costs (defined contribution)
- Gratuity costs (defined benefit)

As per IFRS 18

Statement of profit or loss (extract)	Note	CU
Revenue		XXX
Othe operating income		<u>XXX</u>
Employee benefit expenses	<u>4.5</u>	XXX
Travel expenses		XXX
Cost of software packages		XXX
Consultancy and professional charges		XXX
Depreciation and amortisation expenses		<u>XXX</u>
Operating profit		XXX

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

## Example/ Illustration

Statement of profit or loss (extract)	Note	CU
Revenue		XXX
Other operating income		<u>XXX</u>
Employee benefit expenses	<u>4.5</u>	XXX
Travel expenses		XXX
Cost of software packages		XXX
Consultancy and professional charges		XXX
Depreciation and amortisation expenses		<u>XXX</u>
Operating profit		XXX



Notes to the financial statements Note 4.5		CU
<b>Short term employment benefits</b>		XXX
Salaries including bonus		<u>XXX</u>
Contractor's costs		XXX
Social security costs		XXX
<b>Post employment benefits</b>	4.5.1	XXX
Contribution to defined contribution plans		XXX
Contribution to gratuity fund		<u>XXX</u>
<b>Total employee benefits</b>		XXX

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

## Basis of aggregation and disaggregation

Large number of individual transactions and events aggregated



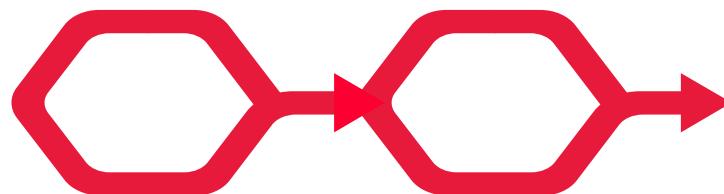
Items presented or disclosed must have proper **label and description**



**Aggregation** may include a mix of

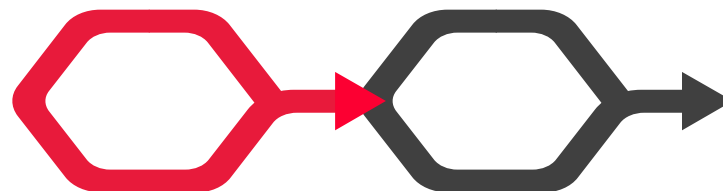
- material information
- immaterial information

### AGGREGATION OF INFORMATION



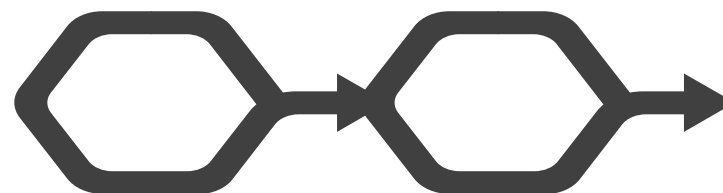
Material information

Other material information



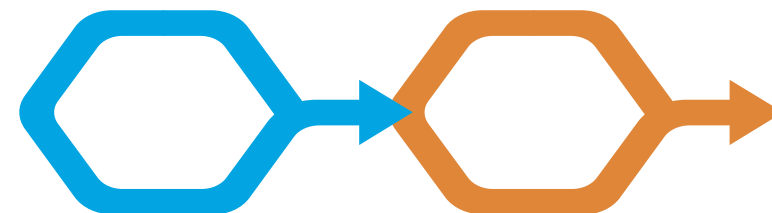
Material information

Immaterial information



Immaterial information

Other Immaterial information



Aggregate to summarise information

Disclose in notes, information about each item



Disclose information about disaggregated items (only if immaterial information obscures material information)

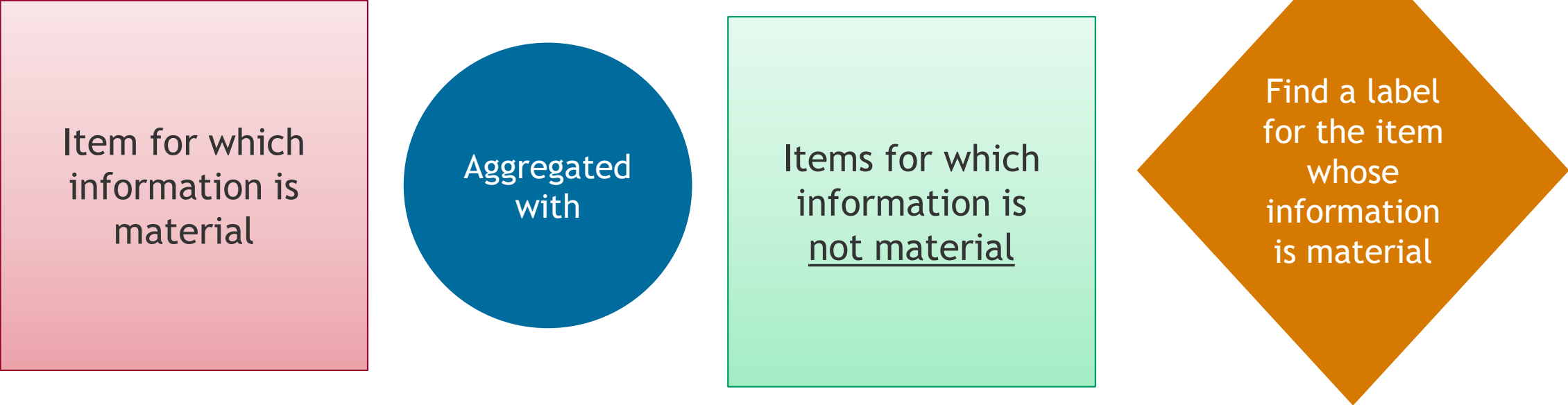


No requirement to disclose information about disaggregated items (subject to IFRS 18.B26(b))

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Presentation or disclosure as “OTHER”

An entity shall label items presented or disclosed as ‘other’ only if it cannot find a more informative label



Item for which  
information is  
material

Aggregated  
with

Items for which  
information is  
not material

Find a label  
for the item  
whose  
information  
is material

# PRINCIPLES OF AGGREGATION AND DISAGGREGATION

## Presentation or disclosure as “OTHER” - Illustrative example

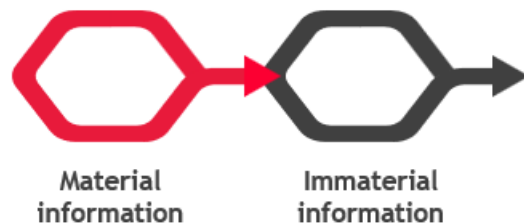
QNR Limited presents miscellaneous expenses in its Statement of Profit or Loss for the year ended 31 December 2027 and is considering using the label ‘other expenses’.

### Other expenses - CU5,900

This line item includes:

- |                                  |                     |
|----------------------------------|---------------------|
| - Loss on disposal of equipment  | CU 3,000 (material) |
| - Inventory write-downs          | CU 800 (immaterial) |
| - Other minor operating expenses | CU 700 (immaterial) |

If an item which is material and is aggregated with immaterial items, ***finds a label that best describes the material item...***



Therefore, QNR Limited could instead label it as “loss on disposal of equipment and other expenses”.

# STATEMENT OF FINANCIAL POSITION

# STATEMENT OF FINANCIAL POSITION

Presentation of line items





# STATEMENT OF CASH FLOWS

# STATEMENT OF CASH FLOWS

## Key changes to note

1

### **‘Operating profit’ as the starting point**

The amended IAS 7 once effective, will require entities to use ‘operating profit’ subtotal as the starting point for determining cash flows from operating activities under the indirect method.

2

### **Eliminate flexibility**

Prior to IFRS 18, cash flows from interest and dividends received is either classified in operating or investing cash flows.

3

### **Entities without specified main business activities**

Classify interest paid as financing activities, and interest and dividends received as cash flows from investing activities.

4

### **Entities with specified main business activities**

Classification of dividends received, interest paid and received will be in line with how related income and expenses are presented in the profit or loss statement.

5

### **Single category approach**

If dividend or interest income/expenses are classified across multiple categories in the statement of profit or loss, an entity must choose one of the categories to consistently classify related cash flows in SCF.

# STATEMENT OF CASH FLOWS

Comparison of IAS 7 requirements before and after IFRS 18 implementation

Entities without specified main business activities		
Cash flow items	IAS 7 (as per current standards)	IAS 7 (amended under IFRS 18)
Interest paid	Operating or financing	Financing
Interest received	Operating or investing	Investing
Dividends received	Operating or investing	Investing
Dividends paid	Operating or financing	Financing

# STATEMENT OF CASH FLOWS

Comparison of IAS 7 requirements before and after IFRS 18 implementation

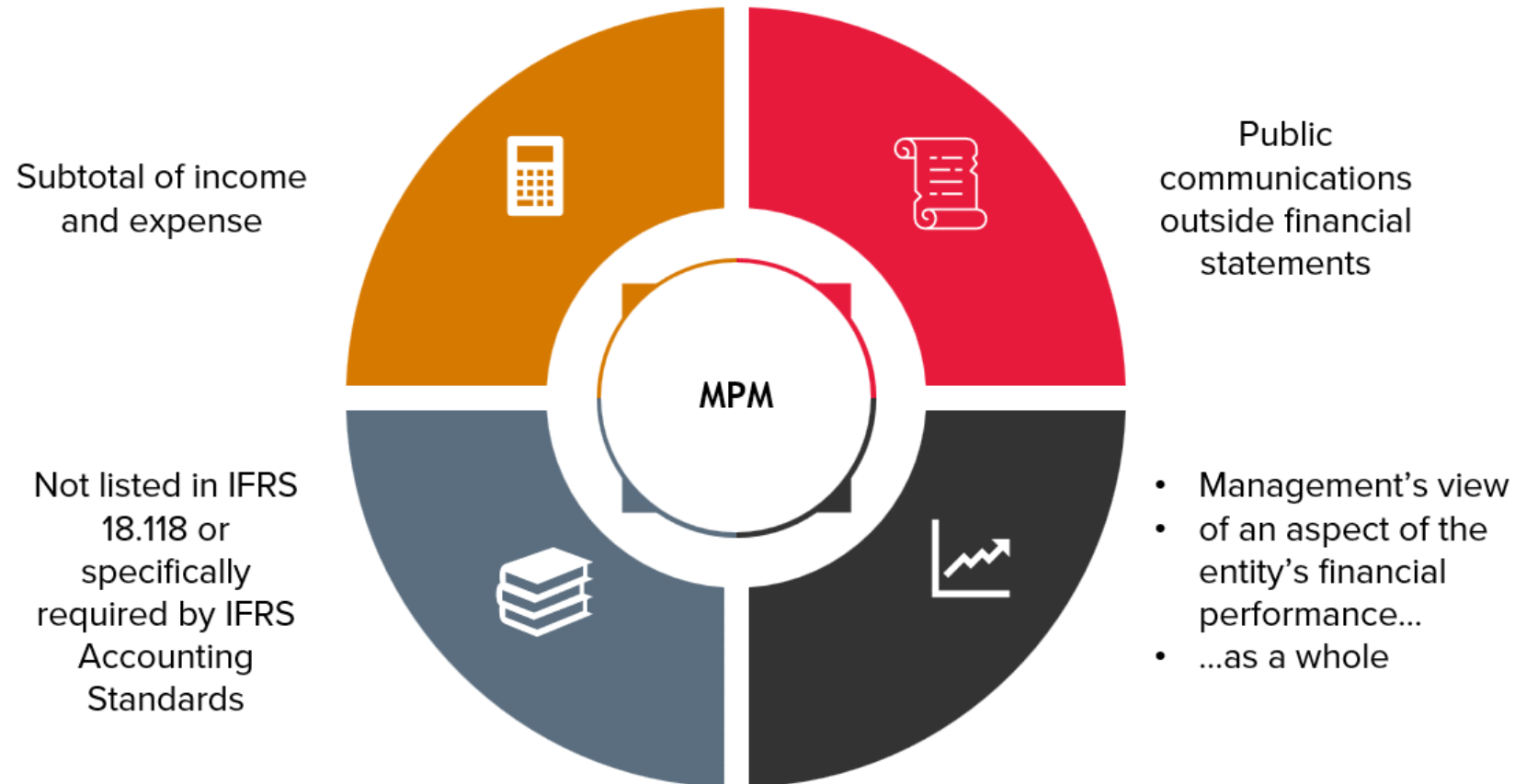
Entities <u>with</u> specified main business activities		
Cash flow items	IAS 7 (as per current standards)	IAS 7 (amended under IFRS 18)
Interest paid	Operating or financing	A single category for <u>each</u> item - operating, investing or financing  (no 'splitting' for each item in the statement of cash flows)
Interest received	Operating or investing	
Dividends received	Operating or investing	
Dividends paid	Operating or financing	Financing

# MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs)

# MANAGEMENT-DEFINED PERFORMANCE MEASURES

Identify management-defined performance measures

## Four components of the definition of an MPM



# MANAGEMENT-DEFINED PERFORMANCE MEASURES

## Four components of MPM

Subtotal of income and expense



Nature (IFRS 18.B116)	Example
Subtotals of only income or only expenses	<ul style="list-style-type: none"><li>Adjusted revenue</li><li>Employee benefit expenses, excluding share-based payment expenses</li></ul>
Assets, liabilities, equity or combinations of these elements	<ul style="list-style-type: none"><li>Net working capital</li></ul>
Financial ratios	<ul style="list-style-type: none"><li>Debtor turnover ratio</li><li>Debt to equity ratio</li></ul>
Measures of liquidity or cash flows	<ul style="list-style-type: none"><li>Free cash flows</li></ul>
Non-financial performance measures	<ul style="list-style-type: none"><li>Product recall rate</li><li>Gross revenue per retail location</li></ul>

Not listed in IFRS 18.118 or specifically required by IFRS Accounting Standards



### Subtotal that are commonly used and exclude from the scope of MPM (IFRS 18.118)

- Gross profit or loss (revenue minus cost of sales) and similar subtotals
- Operating profit or loss before depreciation, amortization and impairments within the scope of IAS 36
- Operating profit or loss and income and expenses from all equity accounted for investments
- For an entity with specified main business activity and applies IFRS 18.73 (accounting policy election), a subtotal comprising operating profit or loss and all income and expenses classified in the investing category
- Profit or loss before income taxes
- Profit or loss from continuing operations

# MANAGEMENT-DEFINED PERFORMANCE MEASURES

## Four components of MPM

IFRS 18 does not define public communications, but it provides examples of what public communications would be considered in the scope of IFRS 18:

Included in public communications	Excluded from public communications
<ul style="list-style-type: none"><li>• Management commentary</li></ul>	<ul style="list-style-type: none"><li>• Oral communications</li></ul>
<ul style="list-style-type: none"><li>• Press releases</li></ul>	<ul style="list-style-type: none"><li>• Written transcripts of oral communications</li></ul>
<ul style="list-style-type: none"><li>• Investor presentations</li></ul>	<ul style="list-style-type: none"><li>• Social media posts</li></ul>



Public communications outside financial statements

IFRS 18 presumes a subtotal of income and expenses that it uses in public communication to reflect management’s view of entity’s performance, but this presumption can be rebutted if the entity demonstrates the subtotal does not reflect management’s view and is used for another purpose. (IFRS 18.119, 120, B124-B131)

- Careful consideration and assessment required



- Management’s view
- of an aspect of the entity’s financial performance...
- ...as a whole



# MANAGEMENT-DEFINED PERFORMANCE MEASURES

What are the disclosure requirements for MPMs?

Disclose information about MPMs in a **single note** to the financial statements.

Any change, addition or termination of MPMs are required to be explained, disclosed and recalculated

- ▶ Statement that the MPMs provide management's view of any aspect of the entity's financial performance and are **not** necessarily comparable to MPMs of other entities.
- ▶ Description of the aspect of financial performance, that it communicates, including **how** it is calculated and **why** management believes the MPM provides useful information about the entity's financial performance.
- ▶ **Reconciliation** between the MPM and the most directly comparable subtotal listed in IFRS 18 or total or subtotal required by IFRS Accounting Standards.
- ▶ Determination of effect on **non-controlling interest** and **income tax effect** for each item disclosed in the reconciliation by calculating:
  - ▶ Statutory tax rate
  - ▶ Reasonable pro rata allocation of current and deferred tax, or
  - ▶ Any other method that achieves a more appropriate allocation in the circumstances

# MANAGEMENT-DEFINED PERFORMANCE MEASURES

## Illustration example of an MPM reconciliation

(in thousands of CU)						
			Adjusting items			
20X2		IFRS	Impairment losses	Restructuring expenses	Gains on disposals of property, plant & equipment	Management defined performance measures
Other operating income					(1,800)	
Research and development expenses			1,600	–	–	
General and administrative expenses			–	3,800	–	
Goodwill impairment loss			4,500			
<b>Operating profit/Adjusted operating profit</b>		<b>57,000</b>	6,100	3,800	(1,800)	<b>65,100</b>
Income tax expense			–	(589)	297	
<b>Profit from continuing operations/Adjusted profit from continuing operations</b>		<b>32,100</b>	6,100	3,211	(1,503)	<b>39,908</b>
Profit attributable to non-controlling interests			305	161	–	
Impairment expenses	Impairment losses incurred in 20X2 did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.					
Restructuring expenses	The restructuring expenses in 20X2 are related to XYZ Group's restructuring programme 'Apollo 20X2'. These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of 20X2, which was 15.5%.					
Gains on disposals of property, plant and equipment	The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of 20X2, which was 16.5%					

# MANAGEMENT-DEFINED PERFORMANCE MEASURES

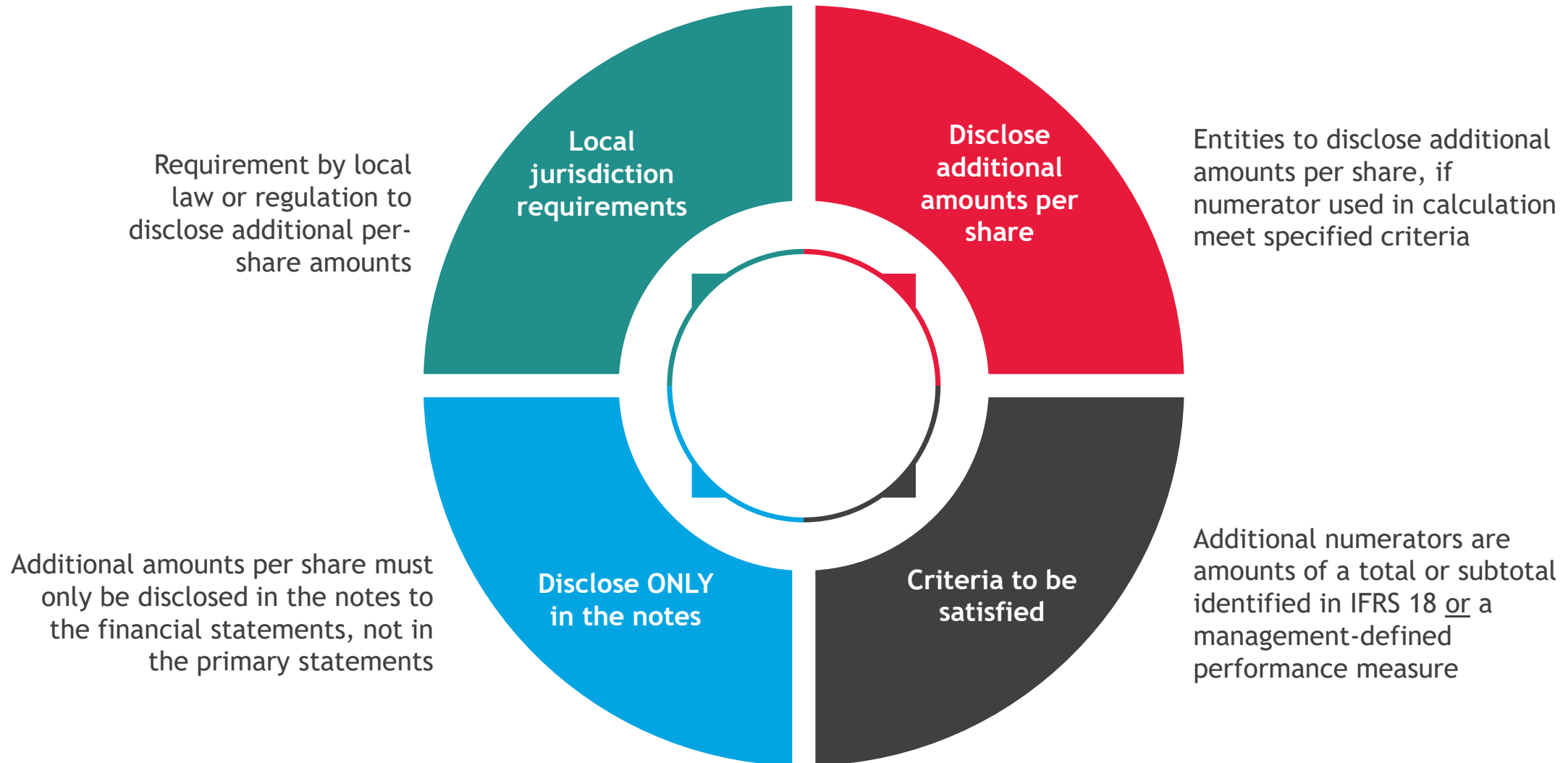
## Illustration example of an MPM reconciliation

(in thousands of CU)						
			Adjusting items			
20X1		IFRS	Impairment losses	Litigation expenses	Gains on disposals of associates and joint ventures	Management defined performance measures
Research and development expenses			1,500	–	–	
General and administrative expenses			–	3,500	–	
<b>Operating profit/Adjusted operating profit</b>		<b>51,800</b>	1,500	3,500	–	<b>56,800</b>
Share of profit and gains on disposal of associates and joint ventures			–	–	(2,200)	
Income tax expense			–	–	319	
<b>Profit from continuing operations/Adjusted profit from continuing operations</b>		<b>29,925</b>	1,500	3,500	(1,881)	<b>33,044</b>
Profit attributable to non-controlling interests			75	–	–	
Impairment losses	Impairment losses incurred in 20X1 did not yield any tax benefits because they were not eligible for tax deductions in Country E.					
Litigation expenses	Litigation expenses incurred in 20X1 did not yield any tax benefits because they were not eligible for tax deductions in Country F					
Gains on disposals of associates and joint ventures	The tax effect of gains on disposal of associates and joint ventures is calculated based on the statutory tax rate applicable in Country G at the end of 20X1, which was 14.5%.					

# INTERACTION WITH OTHER ACCOUNTING STANDARDS

# IAS 33 EARNINGS PER SHARE

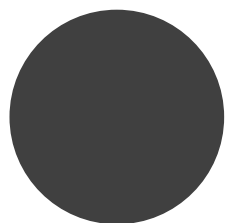
## Key points to note



# IAS 33 EARNINGS PER SHARE

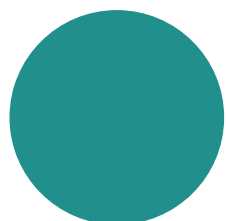
Comparison - before and after IFRS 18 becomes effective

## BEFORE



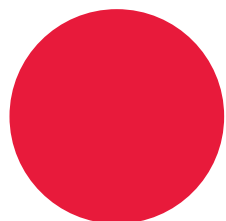
### Disclosure of additional per share amounts

Entities could disclose additional per-share amounts based on various performance measures, but there were limited guidance



### Deletion of IAS 33.73

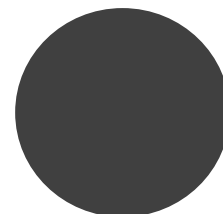
Permission to disclose additional 'per share' amounts; more strict requirements post-IFRS 18; see IAS 33.73B and 73C.



### Flexibility in reporting and inconsistent information

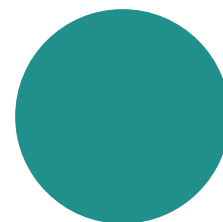
There was flexibility in presenting additional EPS measures, which could lead to inconsistencies

## AFTER



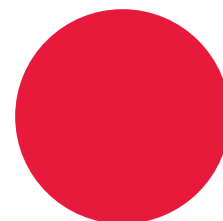
### Disclosure of additional per share amounts

Specific criteria for an entity to disclose additional basic and diluted EPS figures only if the numerator is: (a) A total or subtotal specified in IFRS18 (e.g., operating profit) (b) common sub-total listed in IFRS 18 (c) A MPM as defined by IFRS 18.



### Addition of IAS 33.73B and 73C

IAS 33.73B and 73C have been introduced to provide detailed guidance on the calculation and disclosure of additional EPS measures.



### Standardised and transparent information

The presentation is standardised and includes transparent disclosures leading to better understanding and comparability across industries

# IAS 33 EARNINGS PER SHARE

## Illustrative example

ABC Ltd. is applying IFRS 18 for the first time for the year ended 31 December 2027.

The weighted average ordinary shares (basic): 1,000,000  
The weighted average shares (diluted): 1,020,000  
Profit attributable to ordinary shareholders: CU10,000,000

### Before: Prior to the application of IFRS 18

Basic EPS: CU10.00

Diluted EPS: CU9.80

MPM disclosures must also be provided (IFRS 18.121-125)

### After: As per IAS 33 (as amended by IFRS 18)

ABC Ltd. presents the following additional per-share amounts using a management performance measure (MPM), *Adjusted Operating Profit*:

#### Reconciliation of operating profit:

- Profit attributable to shareholders	CU10,000,000
- (Add) Restructuring costs	<u>CU2,000,000</u>
- Adjusted Operating profit	CU 12,000,000

#### EPS based on operating profit (MPM)

EPS type	Numerator (CU)	Shares	EPS
Adjusted basic EPS	12,000,000	1,000,000	CU12.00
Adjusted diluted EPS	11,800,000	1,020,000	CU11.57

# IAS 34 INTERIM FINANCIAL REPORTING

## Key points to note

Once effective, **IFRS 18** requires entities to disclose information about **Management Performance Measures (MPMs)** in the notes to the condensed interim financial statements

- The **scope of these disclosures** will be the **same** as those required in the full annual financial statements, regardless of the **form or content** of the interim reports.
- The MPM disclosures in interim reports need to ensure users receive **transparent and timely information** for analysing an entity's performance





# IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

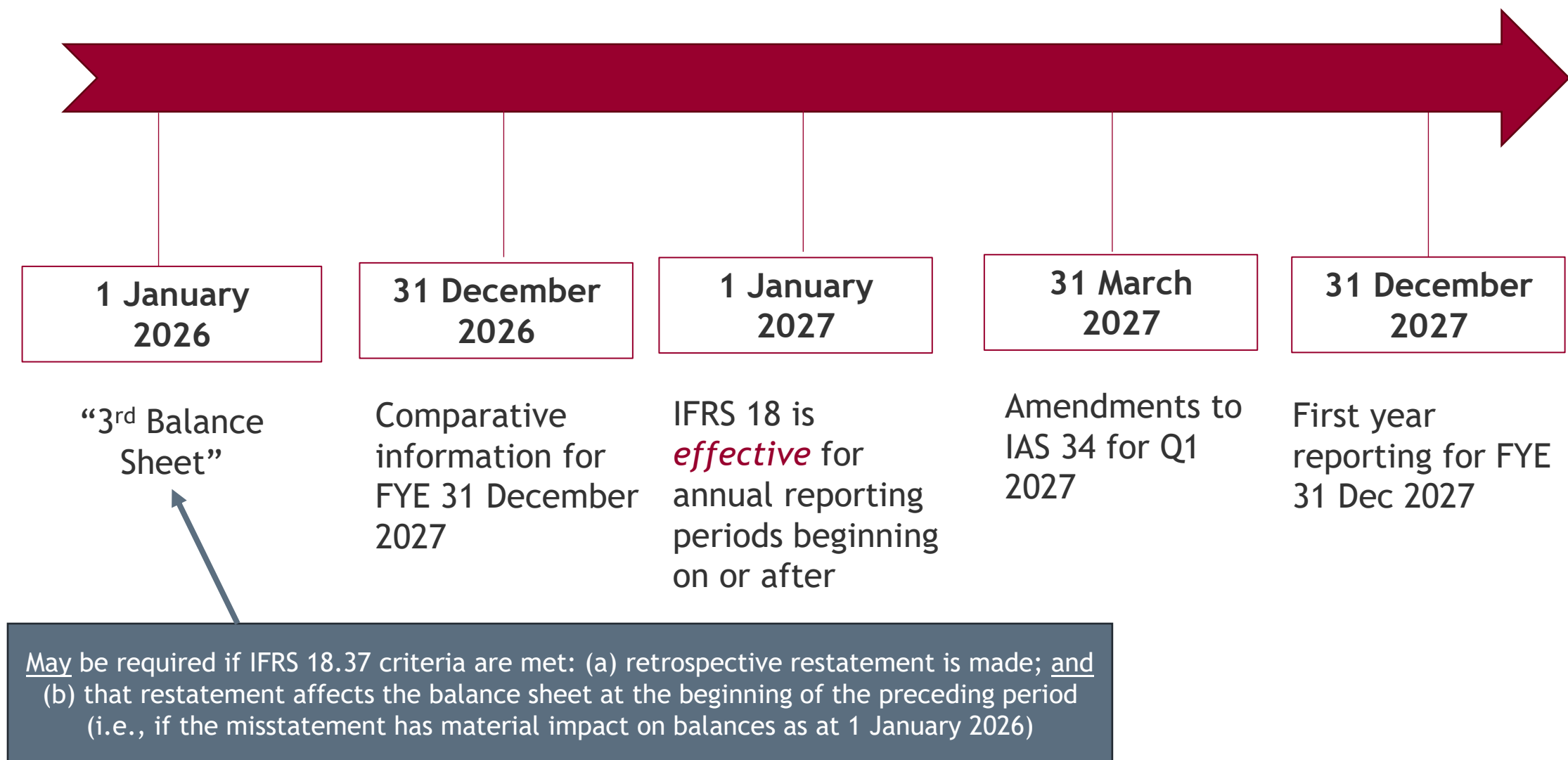
## Key points to note

- ▶ At the date of the initial application of IFRS 18, entities eligible under IAS 28.18 (e.g. venture capital firms) may change measurement of associates/joint ventures from equity method to fair value through profit or loss (FVTPL) in accordance with IFRS 9 *Financial Instruments*.
  - Note that a change in the **opposite direction** (fair value through profit or loss to equity method) **is not permitted**
- ▶ The change must be applied retrospectively in accordance with IAS 8, restating prior periods as needed.
- ▶ Entities applying IAS 27.11 shall make the same change in their separate financial statements.



# TRANSITION AND EFFECTIVE DATE

# TRANSITION AND EFFECTIVE DATE



# DISCLOSURE IN ANNUAL FINANCIAL STATEMENTS

## Transition to IFRS 18

IAS 1 comparative
Line item X
Line item Y
Line item Z
Operating profit

IFRS 18 year-end
Line item X
Line item Y
Operating profit
Line item Z

For comparative period

**IFRS 18.C3**  
Reconcile the restated amounts presented applying IFRS 18 vs. IAS 1 (e.g. Changes to groupings, sub-totals, etc.)

# DISCLOSURE IN INTERIM FINANCIAL STATEMENTS

## Transition to IFRS 18

IAS 1 comparative
Line item X
Line item Y
Line item Z
Operating profit

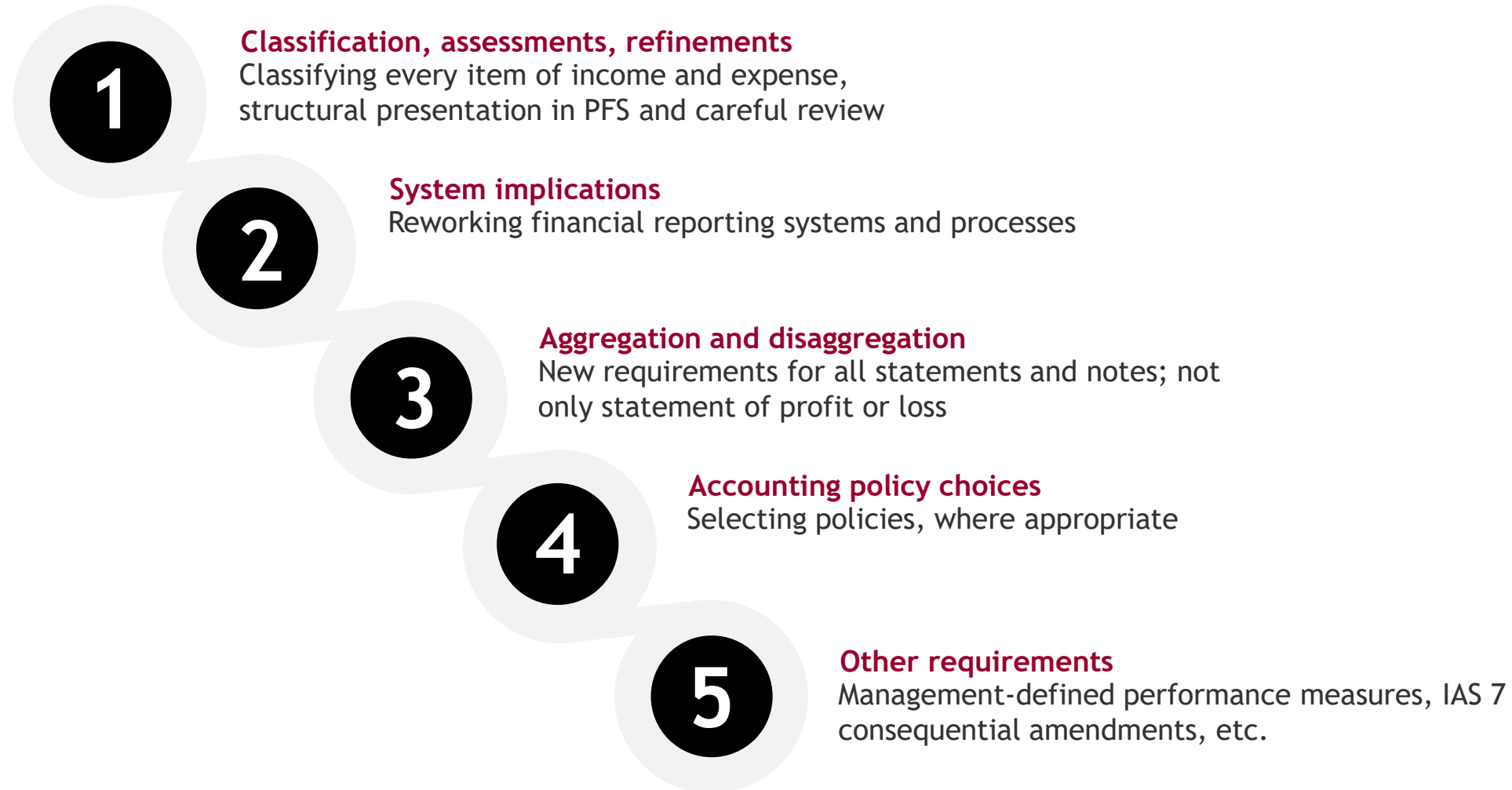
IFRS18 Q1
Line item X
Line item Y
Additional sub-total (based on expectation of year-end)

For comparative period

**IFRS18.C4**  
Present totals and sub-totals expected to be used when the annual financial statements are prepared (overrides IAS 34 requirements)

# WORK EFFORT AND PREPARATION

## Transition to IFRS 18



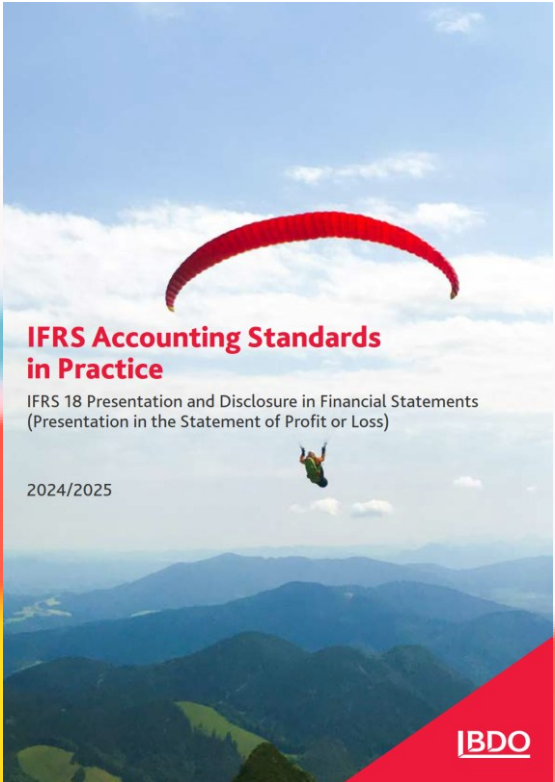
# RESOURCES AVAILABLE

IFRS 18 is coming

Resource
<a href="#">IFRS 18 published</a> - web article
<a href="#">IFRS 18 IFR Bulletins</a>
<a href="#">IFRS 18 At a Glance</a>
<a href="#">IFRS 18 In Practice - Presentation in Statement of Profit or Loss</a>
<a href="#">IFRS 18 - Introductory training</a>
More to come...



IFRS 18 Presentation and Disclosure in Financial Statements	
NAME	DURATION
E-Learning Courses	
IFRS 18 (Course 1): General Requirements	n/a
IFRS 18 (Course 2): Statement of profit or loss	n/a
IFRS 18 (Course 3): Statement presenting comprehensive income	n/a
IFRS 18 (Course 4): Statement of financial position	n/a
IFRS 18 (Course 5): Statement of changes in equity	n/a
IFRS 18 (Course 6): Notes and management-defined performance measures	n/a









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