

IFRS 18

Presentation and Disclosure in Financial Statements

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1

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2

2

Introduction

4

Role of the primary financial statements

To provide **structured summaries** of a reporting entity's recognised assets, liabilities, equity, income, expenses and cashflows that are **useful** for:



Obtaining an understandable overview



Making comparisons between entities, and between reporting periods for the same entity

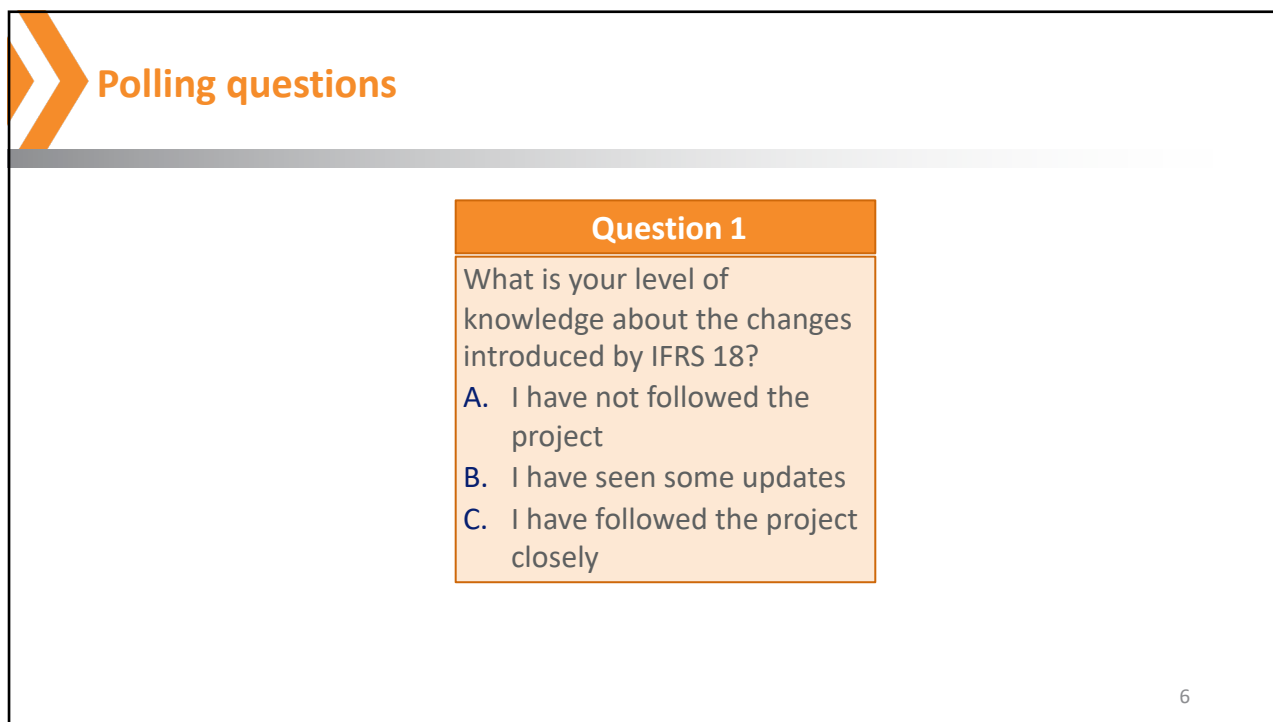


Identifying items/areas about which users wish to seek additional information in the notes

An entity will use the role of primary financial statements to determine what **material** information to present in the primary financial statements.

5

5



Polling questions

Question 1

What is your level of knowledge about the changes introduced by IFRS 18?

- A. I have not followed the project
- B. I have seen some updates
- C. I have followed the project closely

6

6





 **Project Overview**

7

Overview

An 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

8

8

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

9

9



Categories and subtotals

10



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?

- A. Yes
- B. No

Question 2B

Would you expect **interest expense on pension liabilities** to be in the operating category of the statement of profit or loss?

- A. Yes
- B. No

Question 2C

Would you expect **unusual income and expenses** to be in the operating category of the statement of profit or loss?

- A. Yes
- B. No

11

11

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

12

12

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



13

13

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

14

14

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

15

15

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

16

16

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

Operating category

Investing category

Specific income
and expenses

Financing category

Specific income
and expenses

17

17

Assessment of main business activities

Role of main business activities is limited to assessing whether entity either:

- **invests** as a main business activity; or
- **provides financing to customers** as a main business activity

An entity uses **judgement** to assess its main business activities **based on evidence**.

For example:

- Operating performance measures, such as net interest income and net financial result, used to explain operating performance externally
- A reportable segment or operating segment that comprises a single business activity and performance of that segment is an important indicator of the entity's operating performance

18

18

Statement of profit or loss For a bank

Interest revenue
Interest expense
Net interest income
Fee and commission income
Fee and commission expenses
Net fee and commission income
Net trading income
Credit impairment losses
Employee benefits
Depreciation and amortization
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

19

19

Statement of profit of loss For an insurance company

<p>Insurance revenue</p> <p>Insurance service expenses</p> <p>Insurance service result</p> <p>Investment income</p> <p>Credit impairment losses</p> <p>Insurance finance expenses</p> <p>Net financial result</p> <p>Other operating expenses</p> <p>Operating profit</p> <p>Share of profit or loss of associates and joint ventures</p> <p>Profit before financing and income taxes</p> <p>Interest expense on borrowings and pension liabilities</p> <p>Profit before income taxes</p> <p>Income tax expense</p> <p>PROFIT</p>	<div style="background-color: #a64d59; color: white; padding: 10px; text-align: center; margin-bottom: 5px;">Operating</div> <div style="background-color: #7f7f7f; color: white; padding: 10px; text-align: center; margin-bottom: 5px;">Investing</div> <div style="background-color: #7f7f7f; color: white; padding: 10px; text-align: center;">Financing</div>
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20

20





Management-defined performance measures

21

Polling questions

Question 3A

Are non-GAAP measures used in your country?

- Yes
- No

Question 3B

Do you think they are properly defined?

- Yes
- No

Question 3C

Do you think information on non-GAAP measures belongs in financial statements?

- Yes
- No

22

22

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

23

23

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

24

24

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



25

25

Example of a reconciliation

	IFRS	Impairment losses	Restructure expense	Gain on disposal of PPE	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 NCI		305	161	-	26

26

Calculating the income tax effects – possible methods

25

1

Statutory tax rate(s)

2

Pro-rata allocation of tax

3

Other method if it gives better information

+

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

27

27



Grouping – aggregation and disaggregation – of information

28



Polling question

28

Question 4

How should a company decide what line items of income or expense to present in the statement of profit or loss?

- A. Based on materiality
- B. Based on a higher threshold than materiality

29

29

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'

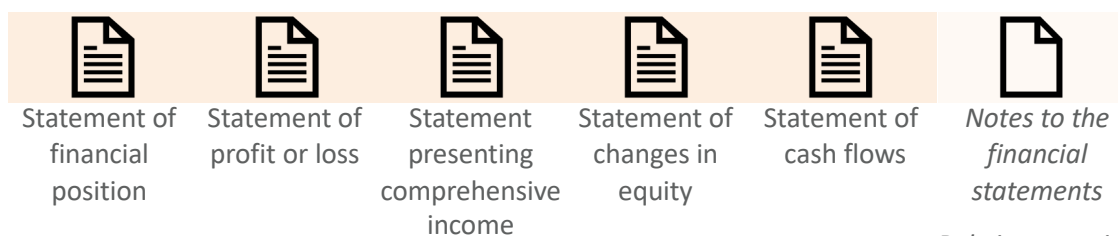
30

30

Roles of the primary financial statements and the notes

30

Primary financial statements (PFS)



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

Role is to provide further **material** information and supplement PFS

31

31

Aggregation, disaggregation and meaningful labels

31



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')

32

32

Disclosure of specified expenses by nature

32

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

Qualitative explanation is required to be disclosed if part of the amount disclosed has been included in the carrying amount of assets

33

33

Presentation of operating expenses

13

Companies are permitted to present **some line items** in the operating category by nature (for example goodwill impairment loss) and **others by function**

Statement of profit or loss

Revenue
 Cost of sales
 Gross profit
 Other operating income
 Selling expenses
 Research and development expenses
 General and administrative expenses
 Goodwill impairment loss
 Other operating expenses
 Operating profit or loss

Operating

34

34

Specified expenses by nature note

33

(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.

35

35



Statement of cash flows

36



Limited changes to the statement of cash flows

45



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	

37

37



Digital reporting

38



Improving digital reporting

36

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 more likely to be tagged New elements reduce need for company-specific extensions
Availability in easily useable format	Use intermediaries or time with XBRL calculations and making adjustments make it comparable	Enhanced comparability Easier extraction of information about MPMs
Available	Diversity in reporting practice	Subtotals available for all

39

39



Package of requirements and effective date

40

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

38



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

41

41

When will IFRS 18 come into force?

39



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

42

42

Thank you

44