

# IFRS 18

## Presentation & Disclosure in Financial Statements

FICA Technical Workshop

Sigatoka

Saturday 09 March, 2024

# Poll Question 1

Please scan the QR Code **on the screen** to answer the question

# Outline & Overview of the Session

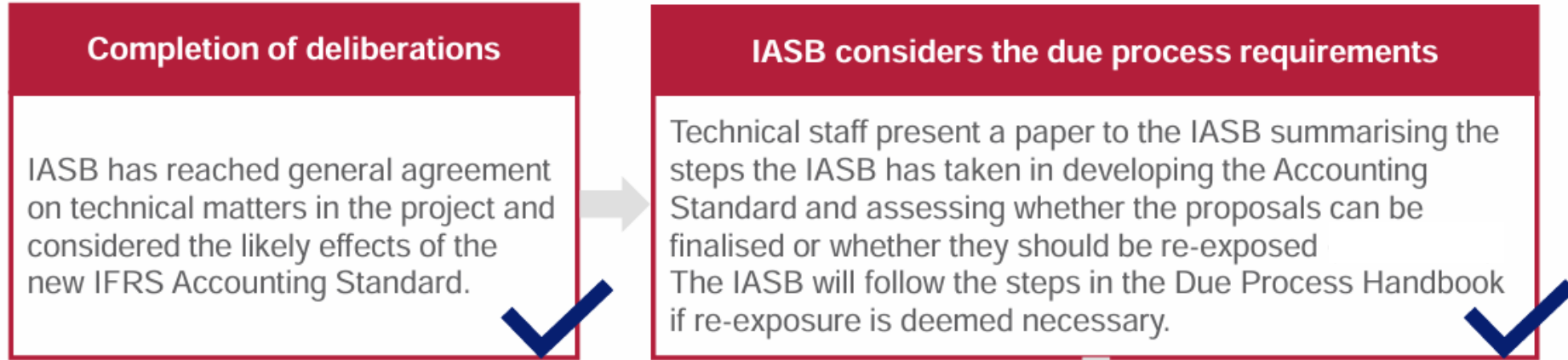
1. Discuss the **status** and **summary** of IFRS 18
2. Review relevant guidance from the **conceptual framework**
  - Informs IFRS 18
3. Analyse the main **disclosure requirements** in IFRS 18 and how they affect:
  - a) PNL Statement
  - b) Cash Flow Statement
  - c) Notes to the Financial Statements

# IFRS 18

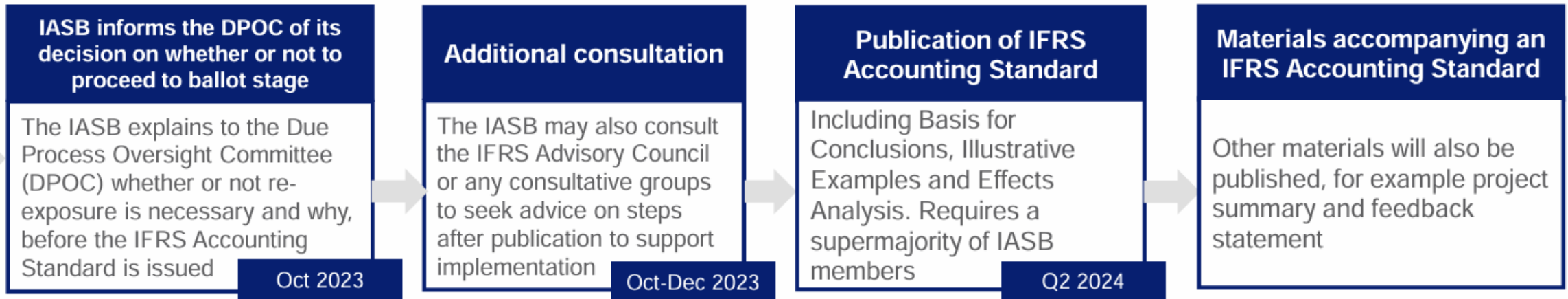
## Status & Summary

# Status of IFRS 18

## Overview of the IASB's due process



IFRS Accounting Standard is prepared for balloting



# Summary of IFRS 18

Outcome of IASB's Primary Financial Statements Project

The Primary Financial Statements Project will improve the quality of financial reporting, including digital reporting, through

Presentation of  
**defined subtotals**  
in statement of  
profit or loss  
to improve  
**comparability**

Disclosures about  
**management-  
defined  
performance  
measures**  
(MPMs)  
to provide  
**transparency**

Enhanced  
requirements for  
**aggregation and  
disaggregation**  
to provide  
**useful  
information**

# IASB Conceptual Framework

## Guidance on General Purpose Financial Reports

# General Purpose Financial Reports

## Primary users [1.2]

1. Present and potential investors
2. Lenders
3. Other creditors

## Purpose [1.2]

Use information to **make decisions** about

1. buying, selling or holding **equity** or **debt instruments**
2. providing or settling **loans** or **other forms of credit** or
3. exercising **rights to vote on**, or **otherwise influence, management's actions** that affect the use of the entity's economic resources



# Useful Information - Fundamental Characteristics

## 1. Relevance

... capable of **making a difference in the decisions made by users** ...  
[based on] predictive value, confirmatory value, or both. [2.6-2.10]

## 2. Faithful representation

a) **Complete**

b) Neutral

c) free from error

- GPFRs can't provide all the information users may need to make economic decisions. They will need to consider pertinent information from **other sources** as well. [1.6]

# Useful Information - Enhancing Characteristics

## 1. Comparability

Information about a reporting entity is more useful if it can be compared with **similar information about other entities** ... enables users to identify and understand similarities in, and differences among, items. [2.24-2.25]

## 2. Understandability

Classifying, characterising and **presenting information clearly and concisely** makes it understandable ... reports are prepared for users who have a reasonable knowledge of business & economic activities and who review and analyse the information diligently [2.34-2.36]

## 3. Verifiability

## 4. Timeliness

# IFRS 18 Requirement 1

## Subtotals & Categories

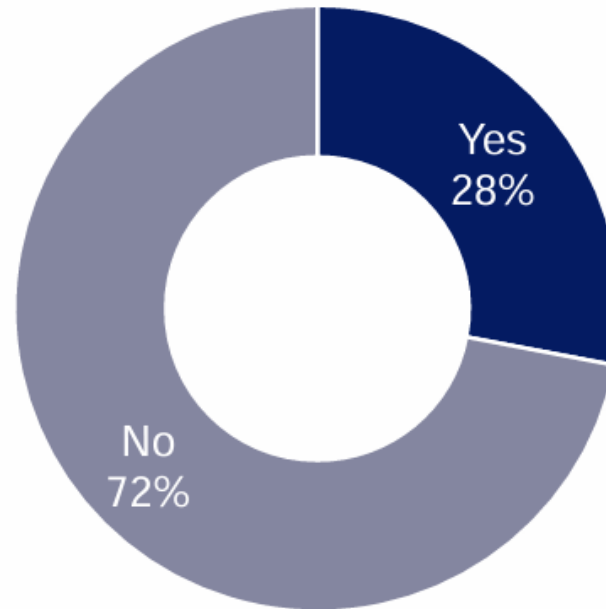
# Current Requirements

No subtotals defined by IFRS Accounting Standards between 'revenue' and 'profit or loss'

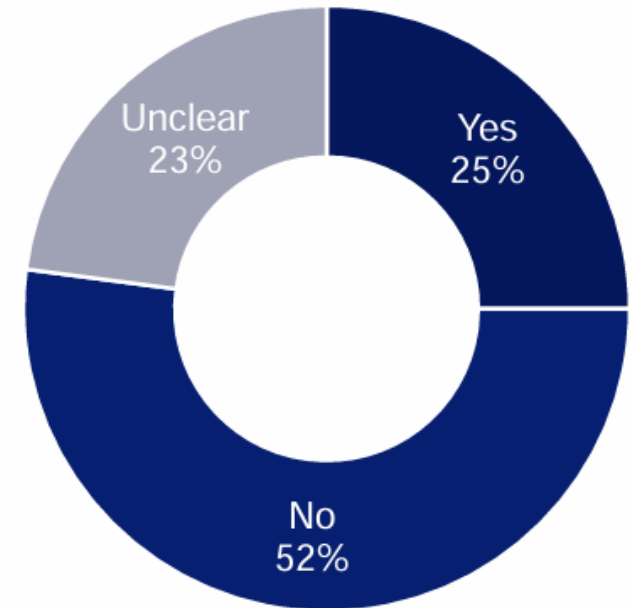
**Companies calculate subtotals in different ways**

- In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, **using at least nine different definitions**

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



# New Subtotals

IFRS 18 requires entities to present the subtotals:

1. Operating profit or loss
  2. Profit or loss before financing and income tax
  3. Profit or loss
- unless doing so reduces effectiveness of PNL in providing a useful structured summary of the entity's income and expenses

New subtotals structure the PNL into **categories**

- IFRS 18 **doesn't require presentation of category headings**

# Newly-defined Categories

IFRS 18 requires income and expense items to be classified into categories in the PNL statement

1. Operating
2. Investing
3. Financing
4. Income tax (already required)
5. Discontinued Operations (already required)

Classification may differ for entities that **provide financing to customers** or **invest in assets** as a **main business activity**

➤ Investment and/or financing items may be “operating” for them

# Example of Revised PNL

## Statement of profit or loss – general corporate

Revenue

Cost of goods sold

**Gross profit**

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Other operating expenses

**Operating profit**

Share of the profit from associates and joint ventures

Other investment income

**Profit before financing and income tax**

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities

**Profit before tax**

Income tax expense

**Profit for the year**

Operating

Investing

Financing

*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*

# Operating Category

Includes income and expenses **not classified in other categories**

- a) From a company's operations including from its **main business activities**
- b) Also includes **volatile** and **unusual** income and expenses

Works for all business models

- Provides **complete** picture of company's operations



# Investing Category

1. Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity , including:
  - a) rental income and remeasurements of investment property
  - b) interest income and fair value changes on financial assets
  - c) dividends and fair value changes on non-consolidated equity investments
2. Income and expenses from subsidiaries, associates & joint ventures
3. Income and expenses from cash and cash equivalents

# Financing Category

1. All income and expenses from liabilities from transactions that involve only the **raising of finance**
  - a) Receipt and return of **cash or company's own shares**
  - b) Reduction in **financial liability** e.g. bank loans
  
2. **Interest expense** and effects of changes in interest rates from other liabilities
  - a) Lease liabilities
  - b) Defined benefit pension liabilities

# Foreign Exchange Differences

Classified in same category as income or expenses giving rise to the gain or loss e.g.

Exchange Difference on	Classification
Receivables for the <b>sale of goods</b>	Operating
<b>Cash</b> and cash equivalents	Investing
Foreign currency denominated <b>debt issued</b>	Financing
Income taxes	Income tax

1. For other liabilities, use judgement to determine whether FOREX differences relate to amounts classified in the **financing** category or **another category**
2. If classifying FOREX differences in each category will involve **undue cost or effort**, they are classified in the **operating category**.

# Application & Review

## Activity 1

1. Study the financial information provided
2. Identify the changes required to comply with IFRS 18

## IFRS 18 Requirement 2

Management-defined performance measures

# Management-defined performance measures

MPMs are financial measures:

1. Used in **public communications** outside financial statements
2. Communicate **management's view** of an aspect of an entity's financial performance
  - Provision to rebut this presumption with **reasonable** and **supportable** information

# Scope of MPM within IFRS 18

What are management-defined performance measures?

## Performance measures

### Financial performance measures

#### Subtotals of income & expenses

##### MPMs

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

##### IFRS-Specified

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

##### Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt

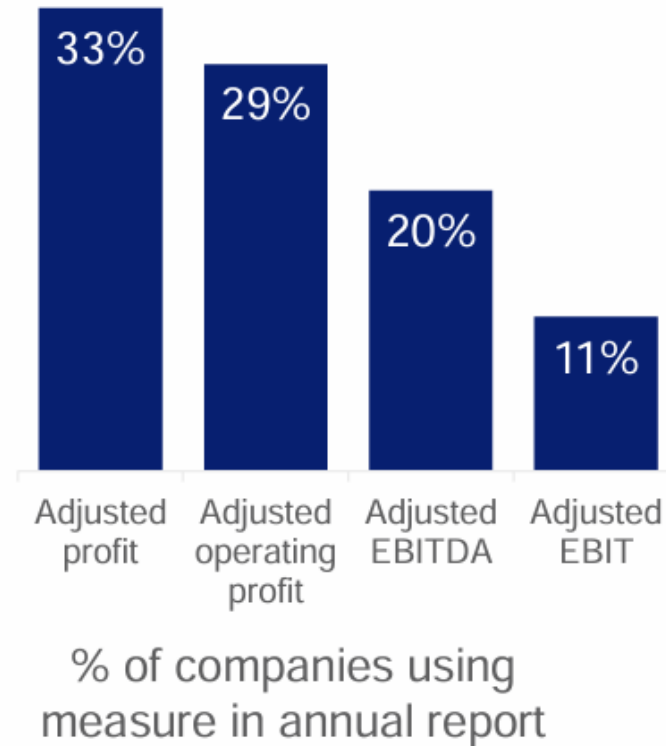
##### Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

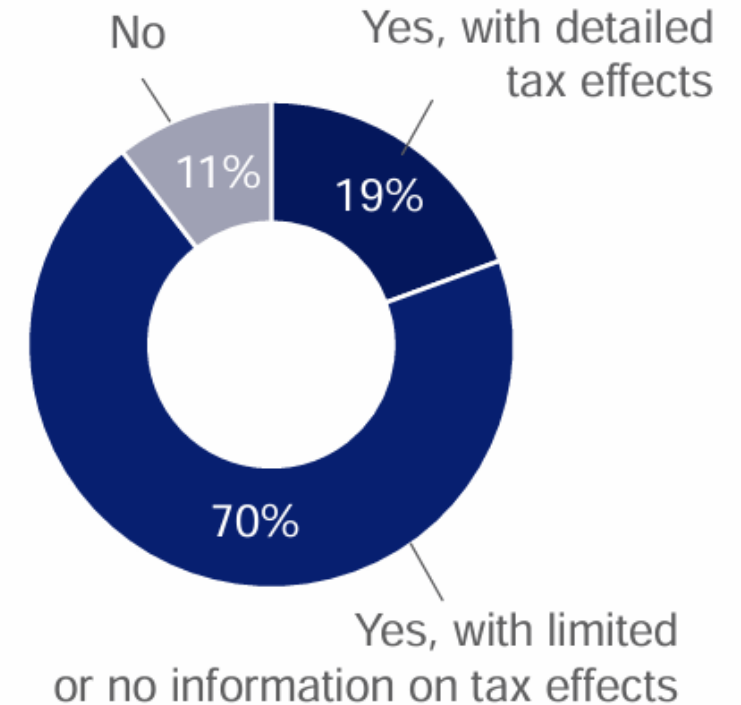
# Current Disclosures

- Many companies provide performance measures defined by management in communications with investors
- Investors have said such measures can provide useful information, but should be used in a more transparent and disciplined way

Common management-defined performance measures



Is a reconciliation provided to a measure specified by IFRS Accounting Standards?





# MPM Required Disclosures

In a single note, provide:

1. Reconciliation to the most directly comparable specified subtotal/total
2. Explanation of MPM calculation and how it provides useful information
3. Statement that MPM provides management's view and is not comparable to MPM of other entities
4. Explanation of and reasons for changes to MPMs
5. Disclose how income tax effects are calculated

# Example of a Reconciliation

<b>Operating profit (IFRS-specified)</b>	<b>41,270</b>	<b>Tax</b>	<b>NCI</b>
Restructuring in Country X (incl. in employee benefits)	5,400	(900)	1,020
Revenue adjustment (incl. in revenue)	6,200	(1,550)	-
<b>Adjusted operating profit (MPM)</b>	<b>52,870</b>		



## Most directly comparable subtotal/total specified by IFRS Accounting Standards:

- operating profit, profit before financing and income tax
- gross profit (and subtotals similar to gross profit)
- profit before tax, profit from continuing operations, profit or loss
- total other comprehensive income, comprehensive income
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method
- operating profit and income and expenses in the investing category (specific entities only)

# IFRS 18 Requirement 3

Aggregation & disaggregation

# Current Disclosures

## Investors' concerns

- Some companies don't provide enough detailed information
- Important information is obscured

## IFRS 18 introduces

- Enhanced requirements for grouping of information
- Guidance on whether information should be in the primary financial statements or the notes
- Disclosures about items labelled as 'other'

# Demarcation of Roles

## Role of primary financial statements

Provide a **useful structured summary** for:

### Fundamental

- **obtaining an understandable overview** of the entity's assets, liabilities, equity, income, expenses and cash flows
- **making comparisons** between entities and reporting periods
- **identifying items or areas** about which users may wish to seek additional information in the notes

## Role of the notes

**Provide further information** necessary to understand items included in primary financial statements

**Supplement the primary financial statements** with other information to meet the objectives of financial statements

### Enhancing

# Aggregation & Disaggregation

## Principles for aggregation and disaggregation

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

Application guidance on when disaggregation:

- in the primary financial statements would result in a **useful structured summary**
- in the notes would result in **material information**

## Aggregating items and using meaningful labels

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')

Additional disclosures required if aggregated amounts of immaterial items are sufficiently large that users might question whether the amount includes material items

# Addressing Possible Materiality

Provide an explanation that

- a) The amount doesn't include any items for which information would be material
- b) the amount consists of **several unrelated immaterial items** with an indication of the:
  - i. **nature**
  - ii. **amount**of the **largest item**

# Other Specific Requirements

1. Disclose the following expenses by **nature**, including amounts included in each line item in the PNL:

- a) Depreciation
- b) Amortization
- c) Employee benefits
- d) Specified impairments
- e) Write-down of inventories

Amounts disclosed are not required to be expense amounts — qualitative explanation required if part of the amount disclosed has been included in the carrying amount of assets

2. Present **operating expenses** by **nature** or by **function**

➤ mixed presentation permitted



# Example of Disclosure Note

## Specified expenses by nature note

(in currency units)	20X2	20X1
Cost of goods sold	23,710	21,990
Research and development expenses	2,518	2,596
General and administrative expenses	4,975	4,975
<b>Total depreciation</b>	<b>31,203</b>	<b>29,561</b>
Research and development expenses	13,842	12,693
<b>Total amortisation</b>	<b>13,842</b>	<b>12,693</b>
Cost of goods sold	61,646	57,174
Selling expenses	7,514	7,111
Research and development expenses	6,547	6,750
General and administrative expenses	5,421	5,824
<b>Total employee benefits</b>	<b>81,128</b>	<b>76,859</b>
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
<b>Total impairment loss</b>	<b>6,100</b>	<b>1,500</b>
Cost of goods sold	2,775	2,625
Other operating expenses	–	4,900
<b>Total write-down of inventories</b>	<b>2,775</b>	<b>7,525</b>

This table shows the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line item in the statement of profit or loss.

Each amount disclosed for depreciation and employee benefits includes both amounts that have been recognised as an expense in the reporting period and amounts that have been included in the carrying amount of inventory and property, plant and equipment.

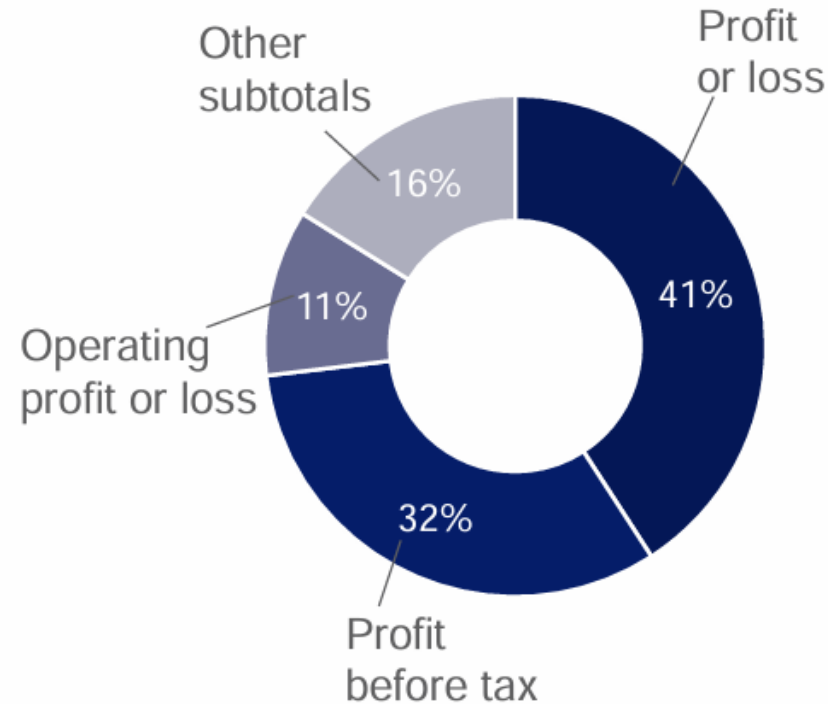
# IFRS 18 Requirement 4

## Cash Flow Statement

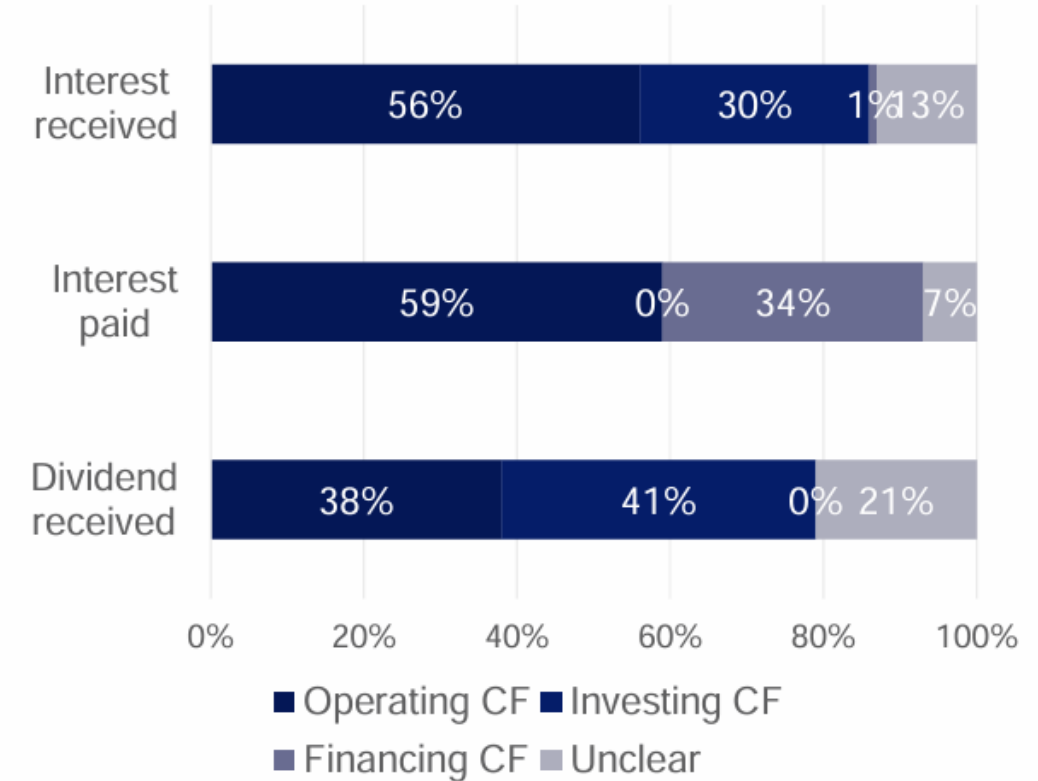
# Current Disclosures

Classification and presentation options in the statement of cash flows make it difficult to compare companies' cash flows

Starting point for the indirect method



Classification of interest and dividends



# New Requirements

1. Operating profit or loss subtotal to be the **starting point for the indirect method** of reporting cash flows from operating activities
2. Specified classification for Interest and Dividends

Cash Flows	General classification	Entities with specified main business activities
<b>Interest received</b>	Investing	Single category (either Operating, Investing or Financing)
Interest paid	Financing	
<b>Dividends received</b>	Investing	
Dividends paid	Financing	Financing

# Poll Question 2

Please scan the QR Code **on the screen** to answer the question

# Poll Question 3

Please scan the QR Code **on the screen** to answer the question

# Poll Question 4

Please scan the QR Code **on the screen** to answer the question

# Implementation

IFRS 18 will be effective from 1 January 2027

All requirements applied at the same time by all entities from the effective date, unless an entity elects to **apply the requirements earlier**

1. **Restate for comparative periods** in interim and annual financial statements
2. **Reconciliation of PNL statement** for the immediately preceding comparative period



# References & Additional Material

This presentation draws on the following material developed by IASB

Video (10 minutes) featuring IASB Technical Staff

<https://www.youtube.com/watch?v=vGvDacmd8OU>

Slide Pack, prepared by IASB staff

<https://www.ifrs.org/content/dam/ifrs/meetings/2023/october/eeg/ap-1-primary-financial-statements-october-2023-eeg.pdf>

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