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IFRS Adviser Alert

Executive summary:
Insights into IFRS 18 Presentation and Disclosure in the Financial Statements

Grant Thornton International Ltd has published the first article in its new Insights into IFRS 18 series, entitled A snapshot of IFRS 18's key requirements.

In April 2024, the International Accounting Standards Board (IASB) issued the new accounting standard IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18). IFRS 18 is effective for periods beginning on or after January 1, 2027, with earlier application permitted, and will replace IAS 1 Presentation of Financial Statements, which had been applied for many years.

This new Insights into IFRS 18 series explains the new requirements of IFRS 18, highlighting some of the standard's requirements that are challenging to apply in practice. It also aims to help users of IFRS financial statements understand how financial statements will evolve when the new standard will be applied.

This first article in the series provides a concise snapshot of the key requirements of IFRS 18, including an overview of challenges that could arise during its initial application.

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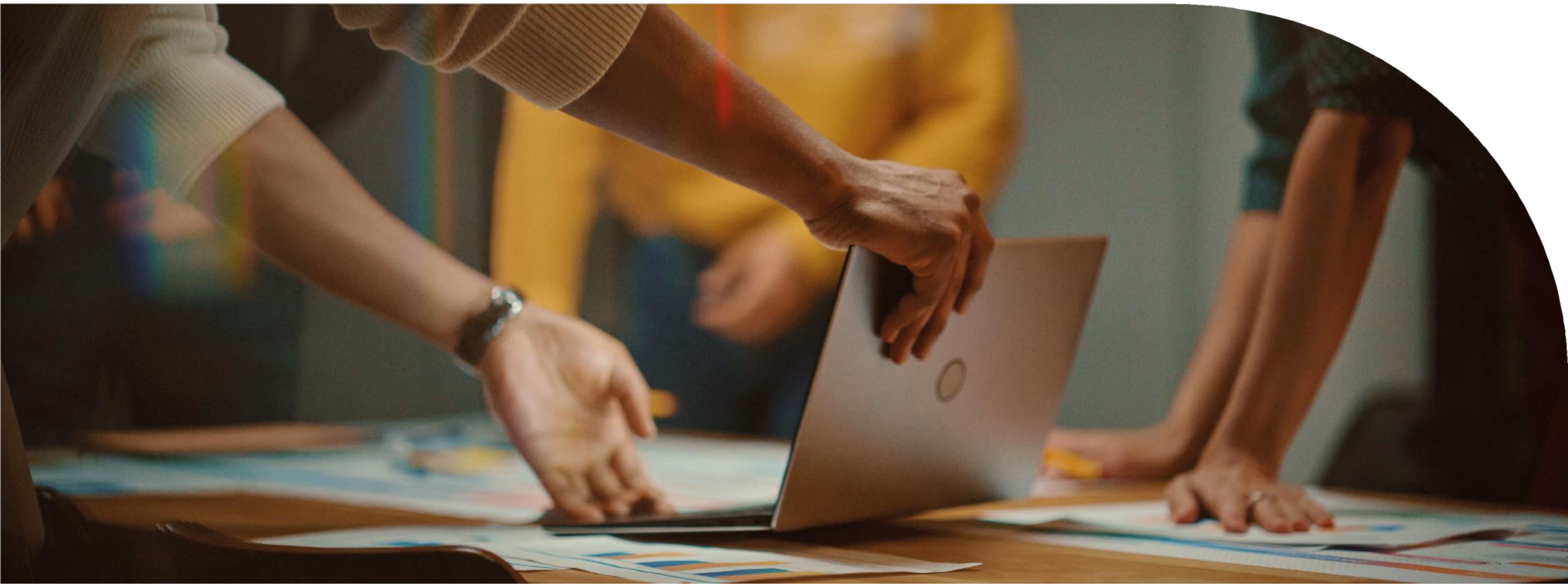
Insights into IFRS 18

A snapshot of IFRS 18's key requirements



Introduction

IFRS 18 'Presentation and Disclosure in Financial Statements' was issued by the International Accounting Standards Board (IASB) in April 2024. IFRS 18 replaces IAS 1 'Presentation of Financial Statements' for annual reporting periods beginning on or after 1 January 2027.

This publication provides a concise snapshot of IFRS 18's key requirements. Our '[Get ready for IFRS 18]' publication goes into more detail, setting out a high-level overview of IFRS 18's new requirements, along with practical insights into the application challenges. Upcoming publications in this series will provide insights into IFRS 18's requirements as well as issues emerging in practice.

What prompted the development of IFRS 18

There was a lack of detailed guidance in IAS 1 on:

- how to classify income and expenses in the statement of profit or loss
- which subtotals to present above 'profit or loss'
- how to group information in the primary financial statements or in the notes.

As a result, varied practices developed, with some entities using their own alternative performance measures (APMs), as well as their own means of aggregating or disaggregating information.

This diversity made analysis and comparisons difficult for investors. In response, IFRS 18 aims to improve consistency and clarity in financial 'performance' reporting.

Why prioritise the transition to IFRS 18?

While entities will inevitably incur costs in complying with IFRS 18 – albeit to varying degrees – the changes offer the benefit of a consistent profit or loss structure. They also present an opportunity to deliver more useful information to users of financial statements, enhancing comparability for investor analysis and potentially fostering increased investment.

It's important to keep in mind that although IFRS 18's focus is on presentation and disclosure, the transition effort should not be underestimated. The Standard's requirements and accompanying application guidance are extensive and may demand a significant level of judgement and implementation effort from entities.

IFRS 18 may result in changes beyond the financial statements

For some entities, the changes to presentation and disclosure in their financial statements may be pervasive and as such, compliance with IFRS 18 may not be an exercise of simply remapping a couple of general ledger accounts, but instead:

- for some entities significant changes to existing systems and processes, and in some cases new systems and processes may be necessary, as IFRS 18's requirements are highly prescriptive and generally apply at the transaction level
- entities with contracts or agreements tied to measures in the statement of profit or loss – such as covenants in banking or loan arrangements, or remuneration policies – may need to assess whether these contracts or agreements require amendment given IFRS 18's new requirements.

Therefore, the advice is to start transitioning early, as conversations may need to be had with multiple stakeholders – both internal and external – including an entity's auditors and in some cases, even jurisdictional regulators.

IFRS 18's transition requirements

For entities preparing financial statements applying IFRS Accounting Standards, IFRS 18 must be applied for the first time for annual reporting periods beginning on or after 1 January 2027. Early adoption is permitted.

IFRS 18 must be applied retrospectively, with IFRS 18 containing specific transition requirements.

Transition requirements may be challenging

Some entities may find IFRS 18's transition requirements challenging, particularly if the information required has not been captured by their systems previously.

When first applying IFRS 18 and restating comparatives, an entity must disclose, for comparative periods, a specific 'IAS 1 to IFRS 18' reconciliation for each line item presented in its statement of profit or loss.

An entity is required to disclose this 'IAS 1 to IFRS 18' reconciliation in **both** its interim **and** annual financial statements.

'IAS 1 to IFRS 18' reconciliation

The 'IAS 1 to IFRS 18' reconciliation required by IFRS 18 is a reconciliation for each line item presented in the statement of profit or loss for the comparative periods between:

- the restated amounts presented under IFRS 18, and
- the amounts previously presented applying IAS 1 'Presentation of Financial Statements'.

Application to interim financial statements

If an entity prepares interim financial statements in accordance with IAS 34 'Interim Financial Reporting', the 'IAS 1 to IFRS 18' reconciliation (described above) is required **regardless** of whether the entity is preparing 'condensed' or 'complete' interim financial statements.

The 'IAS 1 to IFRS 18' reconciliation must be disclosed for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods – being a reconciliation between:

- the restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applies the requirements of IFRS 18 to those periods, and
- the amounts previously presented applying the accounting policies for the comparative period and cumulative comparative period when the entity applied IAS 1.

Exception to general requirement in IAS 34

In addition, an entity must present in its interim financial statements:

- each heading it expects to use in applying IFRS 18, and
- the subtotals required by IFRS 18.

In other words, when first applying IFRS 18, an entity preparing interim financial statements – whether they be 'condensed' or 'complete' interim financial statements – must apply IFRS 18 in full when presenting its statement of profit or loss.

Compliance with IFRS 18's headings and subtotals is required in **all** interims, despite IAS 34's general requirement for 'condensed' interim financial statements to include, at a minimum, the headings and subtotals from the entity's most recent annual financial statements.

Application for annual financial statements

For annual financial statements, the 'IAS 1 to IFRS 18' reconciliation is required for the comparative period immediately preceding the period in which IFRS 18 is first applied.

Current period and earlier comparative periods

Entities may, but are not required to, disclose this 'IAS 1 to IFRS 18' reconciliation for the current period and for earlier comparative periods.

The need to assess the impact of IFRS 18 earlier than expected

Some entities may need to assess the impact of IFRS 18 earlier than expected, to:

- complete the assessment of which income and expenses must be reclassified, to comply with IFRS 18's new requirements
- consider when communication with investors will be necessary, given changes to presentation and disclosure
- assess whether existing systems and processes are adequate to comply with IFRS 18's requirements on transition and going forward.

For entities preparing interim financial statements, the IFRS 18 transition journey may need to start even earlier, to have the required systems and processes in place to provide the information required for the 'IAS 1 to IFRS 18' reconciliation for the comparative periods at the first interim reporting date.

Reconstruction of the statement of profit or loss

IFRS 18 will effectively reconstruct the face of the statement of profit or loss, requiring two new subtotals above the required 'profit or loss' total, dividing the statement into five discrete sections, or 'categories', as illustrated.

Categories in the statement of profit or loss are not aligned with 'activities' in the statement of cash flows

While the three new categories, 'operating', investing' and 'financing' may look familiar, these 'categories' should not be confused with the 'activities' that carry these titles in the statement of cash flows. The meaning of these three new 'categories' required by IFRS 18 in the statement of profit or loss (as summarised in the illustration on page 6), are not aligned with the existing 'activities' required by IAS 7 'Statement of Cash Flows'.

Categories and subtotals in the statement of profit or loss (for entities without specified main business activities):

Statement of profit or loss		Statement of cash flows
“DEFAULT” — I **Operating category** IFRS 18 contains requirements for the presentation and disclosure of operating expenses. While the operating category is effectively a ‘default’ category, income and expenses are only classified in the operating category if they do not meet the requirements for classification in the other categories or are specifically required to be classified in the operating category. Importantly the operating category may include items management considers to be ‘volatile’ or ‘non-recurring’.	Not aligned	Cash flows from operating activities
Operating profit or loss NEW		Net cash from or (used in) operating activities
DEFINED — II **Investing category** contains income and expenses from: • investments in associates, joint ventures and unconsolidated subsidiaries • cash and cash equivalents[1] • other assets that generate a return individually and largely independently of the entity’s other resources	Not aligned	Cash flows from investing activities
Profit or loss before financing and income taxes NEW		Net cash from or (used in) investing activities
DEFINED — III **Financing category** contains income and expenses from liabilities: • that arise from transactions that involve only the raising of finance • that arise from transactions that do not involve only the raising of finance (however, only ‘interest’ income and expenses and income and expenses arising from ‘changes in interest rates’ are classified in financing) IFRS 18 contains specific detailed application guidance for the classification of: • income and expenses from hybrid contracts comprising host liabilities and embedded derivatives, eg a payable with an early prepayment option • fair value gains and losses on derivatives and designated hedging instruments • income and expenses from issued investment contracts with participation features under IFRS 9 ‘Financial Instruments’ • insurance finance income and expenses, included in profit or loss under IFRS 17 ‘Insurance Contracts’	Not aligned	Cash flows from financing activities
IV **Income taxes category**		Net cash from or (used in) financing activities
V **Discontinued operations category**		**Net increase or (decrease) in cash and cash equivalents**
Profit or loss		

IFRS 18 contains specific requirements for the presentation of additional line items and subtotals in the statement of profit or loss, which are only permitted when they are necessary to provide a ‘useful structured summary’ of the entity’s income and expenses, eg a ‘gross profit’ subtotal would be permitted by IFRS 18.

While IFRS 8 ‘Operating Segments’ has not been amended and there is no specific requirement to replicate the presentation of the statement of profit or loss in the segment note, if the updated profit or loss presentation is reported to the chief operating decision maker then the segment note will need to be amended accordingly.

[1] It is important to note that IFRS 18 requires classification of income and expenses from cash and cash equivalents in the investing category. This contrasts with IAS 7, which states that cash equivalents are held to meet short-term cash commitments rather than for investment purposes. This difference arises from the different objectives of these two IFRS Accounting Standards.

Specific requirements for classifying foreign exchange differences

IFRS 18 has very specific requirements for classifying foreign exchange differences.

General classification requirement

IFRS 18's general classification requirement, is for the foreign exchange differences arising from the application of IAS 21 'The Effects of Changes in Foreign Exchange Rates' to follow the classification of the income and expenses from the items that gave rise to them eg foreign exchange differences on a foreign-currency denominated receivable for the sale of goods are classified in the operating category, because the sale of goods are classified in the operating category.

Classification of foreign exchange differences for 'type 2 liabilities' requires significant judgement

For certain transactions that do not involve only the raising of finance ('type 2 liabilities'), an entity may have to classify the associated income and expenses in more than one category.

When this is the case, significant judgement may be required to determine which amount of income or expense the foreign exchange difference relates to, as IFRS 18 requires that the full foreign exchange difference be attributed to, and therefore classified in, only one category in the statement of profit or loss.

Example 1

An entity has a foreign currency denominated payable with extended credit terms, relating to the purchase of services.

Analysis

The entity classifies expenses in more than one category – the expense recognised for the purchased services being classified in the operating category, and interest expense on the payable being classified in the financing category. Here the entity will need to exercise significant judgement to determine which expense the foreign exchange difference relates to.

Statement of profit or loss

Operating category eg cost of sales (consumption of purchased services)	100% OF FOREX
Operating profit or loss	
Investing category	
Profit or loss before financing and income taxes	
Financing category contains income and expenses from liabilities: • that arise from transactions that involve only the raising of finance • **that arise from transactions that do not involve only the raising of finance eg interest expense**	100% OF FOREX
Income taxes category	
Discontinued operations category	
Profit or loss	

For a foreign denominated payable with extended credit terms relating to services the **full foreign exchange difference will have to be attributed** to either:

- the expense for the services, classified in the operating category

OR

- the interest expense, classified in the financing category

Undue cost or effort – relief from the general classification requirements for foreign exchange differences

An 'undue cost or effort' exemption permits classification of affected foreign exchange differences in the operating category when complying with the general requirements would involve 'undue cost or effort'. This is only expected to be available in limited circumstances when the cost or effort is clearly disproportionate to the benefit.

When completing the assessment of undue cost or effort the assessment must be:

- made for each item that gives rise to foreign exchange differences, and
- specific to the facts and circumstances related to each item. Only if the same facts and circumstances relate to multiple items, can the same assessment be applied to each of those items.

If an entity is unable to allocate specific foreign exchange differences to the applicable category without undue cost or effort, the relief above applies only to those specific foreign exchange differences, not to all foreign exchange differences recognised in the statement of profit or loss.

Classification exceptions for entities with specified main business activities

Before classifying income and expenses in the operating, investing and financing categories, an entity must first assess whether it has either, or both, of the two main business activities specified in IFRS 18, which are:

- Investing in the assets specified in IFRS 18 ('Investing in assets')
  - Examples of entities that might invest in assets as a main business activity include investment entities, investment property companies and insurers.
- Providing financing to customers
  - Examples of entities that might provide financing to customers as a main business activity include banks and other lending institutions, entities that provide finance to their customers to enable those customers to buy their products, and leasing companies providing finance leases.

Statement of profit or loss

Operating category

Operating profit or loss

Investing category
- specific income and expenses – that would otherwise be classified in investing – must be classified in the operating category instead, in accordance with IFRS 18's detailed guidance

Profit or loss before financing and income taxes

Financing category
- specific income and expenses – that would otherwise be classified in financing – must be classified in the operating category instead, in accordance with IFRS 18's detailed guidance

Income taxes category

Discontinued operations category

Profit or loss

For entities with either, or both, of the specified main business activities, IFRS 18 requires specific income and expenses to be classified in the operating category that would otherwise be classified in the investing or financing category.

Assessing whether an entity has specified main business activities

Whether an entity has one, or both, of the two main business activities specified in IFRS 18 is not something the entity can just assert, rather it is a matter of fact. Assessing whether an entity has either, or both, of the two specified main business activities requires judgement, based on:

- evidence, in accordance with IFRS 18's detailed requirements and application guidance
- facts at the time; consequently, a change in the outcome of the assessment does not affect prior classifications. Income and expenses are classified prospectively from the date of change, with no reclassification of amounts presented before the date of change.

An entity assesses whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a **whole**.

However, an entity investing in the following assets must assess whether it invests in these assets as a main business activity, on either an **individual** asset basis or using **groups** of assets with shared characteristics:

- associates, joint ventures and/or unconsolidated subsidiaries that are not accounted for using the equity method, and/or
- the other assets specified in IFRS 18 that generate a return individually and largely independently of the entity's other resources (eg investment properties and related receivables).

Classifying income and expenses from cash and cash equivalents requires judgement

While an entity does not need to assess whether investing in cash and cash equivalents is a main business activity, classifying the related income and expenses still requires judgement, as classification is based on whether the entity has one of the two main business activities specified in IFRS 18 – and if so, which one.

Classification of cash flows impacted

For those entities that have either, or both, of the two main business activities specified in IFRS 18, the classification of dividends received, and interest received and paid in the statement of cash flows, under IAS 7, must be determined based on how the corresponding income and expenses are classified under IFRS 18 in the statement of profit or loss.

Mandatory disclosures for management-defined performance measures (MPMs)

Given the prevalence and widely recognised usefulness of APMs, IFRS 18 requires new detailed disclosures in relation to the use of a narrowly defined subset of APMs, which IFRS 18 defines as 'management-defined performance measures' or 'MPMs'.

Definition of an MPM

A subtotal of income and expenses that meets all of the following:

- is used by the entity in public communications outside its financial statements
- is used by the entity to communicate management's view of an aspect of the entity's financial performance as a whole to users of its financial statements
- is **not** listed in IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards

MPM disclosures required in the financial statements – triggering audit requirement

The objective of IFRS 18's new disclosure requirements is to increase the transparency as well as the discipline of the use of MPMs. IFRS 18 requires all of the IFRS 18 disclosures in relation to MPMs to be in the same financial statement note. These requirements apply to both interim and annual financial statements.

Given IFRS 18 requires the MPM disclosures in a single note in the financial statements, if the financial statements are subject to audit, the MPM disclosures will be subject to audit, and therefore subject to a higher level of scrutiny. Management will need to ensure that MPMs are useful to users and are labelled and described in a clear and understandable manner, in accordance with IFRS 18's disclosure requirements.

MPM definition is narrow, but extensive application guidance must be applied

IFRS 18's definition of an MPM (summarised above) is narrow, with the definition restricted to a defined subset of APMs. However, IFRS 18 contains extensive application guidance in relation to each element of the MPM definition, all of which must be applied in determining whether an APM meets IFRS 18's definition of an MPM, and therefore, whether IFRS 18 disclosures are required. As such, judgement may be required, and the assessment must be reperformed each reporting period.

Rebuttable presumption in the definition of MPMs

IFRS 18 includes a rebuttable presumption that a subtotal of income and expenses that an entity uses in public communications outside its financial statements communicates management's view of an aspect of the financial performance of the entity as a whole. If management wishes to rebut this presumption, IFRS 18 requires management to have 'reasonable and supportable information' available to demonstrate the basis for that rebuttal, which may require the exercise of significant judgement.

Examples of MPMs and other performance measures

Performance measures

Subtotals of income and expenses		Other performance measures
MPMs	**IFRS-specified**	
• Adjusted profit • Adjusted operating profit • Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)	• Operating profit • Operating profit before depreciation, amortisation and impairments within the scope of IAS 36 'Impairment of Assets' (OPDAI) **Not MPMs**	• Free cash flow[1] • Return on equity[2] • Net debt • Number of customers • Customer satisfaction **Not MPMs**

[1] As part of its project on the statement of cash flows and related matters, the IASB tentatively decided to propose extending the requirements for MPMs in IFRS 18 to also apply to measures relating to the statement of cash flows not specified in IFRS Accounting Standards (cash flow measures). The proposed requirements would apply to cash flow measures, subject to the definition of an MPM and the applicability of the related disclosure requirements.

[2] Financial ratios are not MPMs – however, a subtotal that is the numerator or denominator in a financial ratio is an MPM, if the subtotal would meet the definition of an MPM if it were not part of a ratio, eg 'adjusted return on equity'

ie $\frac{\text{Adjusted net earnings}}{\text{Shareholders' equity}}$ → numerator = MPM (if it meets the rest of the MPM definition)

IFRS 18's disclosures for MPMs

For APMs that meet IFRS 18's definition of an MPM, IFRS 18 requires an entity to disclose the following information for each MPM – in the single financial statement note:

1. a description of the aspect of financial performance that the MPM communicates, along with an explanation of why management believes that the MPM provides useful information to users about the entity's financial performance
2. how the MPM is calculated
3. a reconciliation between the MPM and the most directly comparable subtotal listed in IFRS 18, or another total or subtotal specifically required by another IFRS Accounting Standard
4. the income tax effect for each item disclosed in the reconciliation of MPMs to IFRS subtotals or totals, along with a description of how the income tax effect is determined
5. the effect on non-controlling interest (NCI) for each reconciling item
6. if the MPM is reconciled to a total or subtotal that is not presented in the entity's statement of financial performance, that total or subtotal must in turn be reconciled to the most directly comparable total or subtotal that is presented in its statement of financial performance. However, disclosure of the income tax effect and the effect on NCI of reconciling items in this 'secondary' reconciliation are not required.

IFRS 18 also includes detailed requirements in relation to changes to MPMs, requiring the restatement of comparative MPM disclosures.

An illustrative disclosure is set out on the following page, which includes references to the requirements 1 to 5 above.

The income tax effect and the effect on NCI are required by IFRS 18 so that users can make any desired adjustments (eg enabling the calculation of a revised 'earnings per share' if required). IFRS 18 provides a simplified approach to calculating the income tax effect, however compliance with these requirements may still prove challenging, particularly if transactions occur in multiple tax jurisdictions.

Illustrative MPM disclosure note (adapted from the IFRS 18 Illustrative examples – Part 1, Note 2, and with annotations added)

Please note that while this illustration is presented in a tabular format, the layout of information is not specified by the Standard. We have also not included comparatives, however IFRS 18 will require comparatives to be disclosed.

Management-Defined Performance Measures (MPMs)

The Group reports two MPMs in its public communications: **adjusted operating profit** and **adjusted profit from continuing operations.** These measures are not defined in IFRS Accounting Standards and therefore may differ from similar measures reported by other entities.

(1) To reflect management's view of the Group's financial performance, operating profit and profit from continuing operations are adjusted for income and expense items that are not expected to recur over several future reporting periods. Management believes these adjustments provide useful insight into trends in the Group's underlying profitability.

(2) Items that would be adjusted on this basis would include:

- Impairment losses (or reversals) on property, plant and equipment (including right-of-use assets) and intangible assets (see Note X)
- Restructuring costs (see Note X)
- Non-recurring litigation costs (see Note X) – Litigation costs are assessed on a case-by-case basis – typically, litigation relating to intellectual property disputes, regulatory breaches, or employee claims is classified as non-recurring, on the basis the Group takes proactive measures aimed at preventing such events. (for the purposes of the illustrative disclosure there were no such costs classified as non-recurring in the current year)
- Gains or losses on disposal of property, plant and equipment and intangible assets (see Note X)
- Gains or losses on disposal of subsidiaries, associates, and joint ventures (see Note X)

(3) Reconciliation of MPMs to IFRS total or subtotal:

Management-defined performance measures 20XX (in thousands of CU)

	IFRS	Adjustments: Impairment losses	Restructuring expenses	Gains on disposal of associates and joint ventures	Gains on disposal of PPE	MPM
Other operating income		–	–	–	(X)	
Research and development expenses		X	–	–	–	
General and administrative expenses		X	X	–	–	
Goodwill impairment loss		X	–	–	–	
Operating profit/Adjusted operating profit	**X**	**X**	**X**	–	**(X)**	**X**
Share of profit and gains on disposal of associates and joint ventures		–	–	(X)		
(4) Income tax expense		–	X	X	X	
Profit from continuing operations/ Adjusted profit from continuing operations	**X**	**X**	**X**	**(X)**	**(X)**	**X**
(5) Profit attributable to non-controlling interests		X	–	–	X	

(4) **Determination of income tax effect:**

Impairment losses	Impairment losses recorded in 20XX did not result in any tax benefits, as these losses were not deductible under Country A's tax regulations.
Restructuring expenses	Restructuring costs incurred in 20XX relate to XXX (see Note X). These include redundancy payments for employees in the XXX business unit in Country B. The tax impact of these costs is calculated using the statutory tax rate applicable in Country B as at [year-end 20XX], which was X%.
Gains on disposal of associates and joint ventures	The tax impact of gains from the disposal of associates and joint ventures is determined using the statutory tax rate applicable in Country C as at [year-end 20XX], which was X%.
Gains on disposal of property, plant and equipment	The tax impact of gains from the disposal of PPE is determined using the statutory tax rate applicable in Country D as at [year-end 20XX], which was X%.

IFRS 18's silence on cross-referencing is not necessarily a green light

Entities should exercise caution if considering to simply cross-reference from the financial statements to MPM disclosures made outside their financial statements, as is currently permitted in relation to some risk disclosures in IFRS 7 'Financial Instruments: Disclosures'.

Although IFRS 18 is silent on the use of cross-referencing for MPMs, the overarching objective of including all information in a single financial statement note is to increase transparency and discipline in reporting. Interpretations by auditors or jurisdictional regulators may differ as to whether cross-referencing meets this objective, and some may not interpret IFRS 18's silence as a licence to cross-reference.

Considerable judgement may be required and may affect systems and processes

The process of applying IFRS 18's MPM requirements should not be underestimated, even for those entities reporting in jurisdictions in which APMs are already subject to regulation. Judgement may be required in initially identifying MPMs for disclosure and then complying with the Standard's disclosure requirements. The requirement to disclose the income tax effect, as well as the effect on NCI, for each reconciling item are new requirements for most jurisdictions with existing APM regulations.

Some entities may need to develop new, or change their current systems and processes to:

- identify MPMs as defined in IFRS 18 given the judgement involved
- collect the information required to be disclosed
- consider which period's financial statements the MPMs must be disclosed in – given IFRS 18 requires that MPMs disclosed must relate to the same reporting period as the financial statements.

Aggregation and disaggregation of information in the financial statements

The role of the primary statements versus the notes

While IAS 1 provided principles for aggregating and disaggregating information in the financial statements, in applying IFRS 18, significant judgement may be required to ensure:

- the **primary financial statements** (statements of financial performance, financial position, changes in equity, and cash flows) fulfil their new role as '**useful structured summaries**' to give more useful information to users
- the **notes** provide both **material information necessary for users to understand** the line items in **the primary financial statements** and **to supplement the primary statements with additional information** useful to users of an entity's financial statements in assessing its prospects for future net cash inflows and in assessing management's stewardship of the entity's economic resources.

IFRS 18 requires entities to use these newly defined roles to determine whether to present information in the primary financial statements or in the notes, as well as what material information to present in the primary financial statements. This may involve careful consideration of the existing materiality guidance (as set out in 'IFRS Practice Statement 2 Making Materiality Judgements') alongside these newly defined roles. While straightforward for some items (eg revenue), more judgement may be required for other items.

The Standard also introduces new and enhanced requirements, as well as detailed application guidance for the judgement required in determining whether information must therefore be disclosed on the face of a primary financial statement or in the notes, using the newly defined roles of each.

IFRS 18 also sets out the process entities must use, as well as the basis of aggregation and disaggregation, with IFRS 18 providing two slightly different sets of examples of characteristics to consider for items in the statement of profit or loss and in the statement of financial position. Even a single dissimilar characteristic may result in information about disaggregated items being material.

Additionally, IFRS 18 now requires a separate line item for goodwill on the face of the statement of financial position if it is material.

Presentation and disclosure of operating expenses

IFRS 18 permits entities to classify and present operating expenses on the face of the statement of profit or loss using the characteristics of the nature **and/or** the function of the expenses. Therefore, a mixed presentation is permitted, but only when required to increase relevance or to prevent arbitrary allocations (eg for items like goodwill impairment).

However, judgement is required, as IFRS 18 prohibits arbitrary mixing within a single line item; each must be aggregated using either nature or function, though the same characteristic does not have to be used as the aggregation basis for all line items.

IFRS 18 also includes:

- clearer principles for classifying and presenting operating expenses by nature (eg goodwill impairment losses) and/or function (eg cost of sales)
- principles for labelling resulting line items in a way that clearly identifies what is included in each line item
- disaggregation requirements for expenses classified by **function**, more specifically:
  - mandatory presentation of cost of sales if functional (or mixed) classification is used with cost of sales including total inventory expense per IAS 2 'Inventories'
  - new disclosure requirements, including:
    - a qualitative description of the nature of expenses within each functional line item
    - a single note disclosing totals for five specified expenses by nature: depreciation, amortisation, employee benefits, impairment losses/reversals, and inventory write-downs/reversals.
      For each of these totals, entities must disclose the amount related to each line item in the operating category, as well as a list of any line items outside the operating category that include amounts relating to the total (eg amounts may be included in the investing category).
      If these totals include amounts not recognised as expenses in the period (eg capitalised costs), entities must give a qualitative explanation of this fact, identifying the assets involved.

The use of descriptive labels

IFRS 18 introduces new requirements for the use of descriptive labels. Items presented in the primary financial statements and/or disclosed in the notes must be labelled and described in a way that faithfully represents the characteristics of the item, by providing all descriptions and explanations necessary for users to understand the item. This may require an entity to include the meaning of the terms it uses, and information about how it has aggregated or disaggregated items.

IFRS 18 has specific disclosure requirements depending on whether items are aggregations of amounts for which information is material or not material or a combination of both.

IFRS 18 limits the use of labelling aggregated items as 'other' – the label of 'other' can only be used when an entity cannot find a more informative label.

To support this, IFRS 18 provides examples of how an entity might find a more informative label, as well as application guidance regarding what labels an entity must use if an entity cannot find a more informative label than 'other' (eg using 'other **operating** expenses' instead of 'other expenses' in the statement of profit or loss).

When items for which information is not material are aggregated with other items for which information is not material, and the aggregated amount is sufficiently large that users might reasonably question whether it includes items for which information could be material, further information must be disclosed. This could be, for example, an explanation that there are no items included for which information would be material, or that the amount comprises several items for which information would not be material with an indication of the nature and amount of the largest item.

An item for which information is:		Other items for which information is:	Disclosure requirements:
Material	Could be aggregated with	Material	Disclose information about each item
Material	Could be aggregated with	Not material	Disclose information about disaggregated items only if immaterial information would obscure material information
Not material	Could be aggregated with	Not material	Not required to disclose information about disaggregated items, but must consider if the aggregated amount is sufficiently large, whether a user of the financial statements might reasonably question whether it includes items for which information could be material

Consequential amendments to other IFRS Accounting Standards

Most IFRS Accounting Standards have been amended because of IFRS 18, given it deals with presentation and disclosure in financial statements.

However, the most significant changes have been made to IAS 7, IAS 33 and IAS 34. In addition, certain requirements from IAS 1 have been moved into IFRS 7 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (the latter being retitled to IAS 8 'Basis of Preparation of Financial Statements').

IAS 7 'Statement of Cash Flows'

IAS 7 has been amended to make the statement of cash flows more consistent and comparable:

- The new 'operating profit' subtotal in the statement of profit or loss must be used as the starting point for entities applying the 'indirect method' of reporting cash flows from operating activities, instead of 'profit before tax'. This will remove some reconciling items.
- The presentation alternatives for cash flows related to interest and dividends received and paid are removed. Dividends paid will always be classified in 'cash flows from financing activities' in the statement of cash flows. The classification of dividends received and interest received and paid depends on whether the entity has either of the two main business activities specified by IFRS 18.
- The general presentation and disclosure requirements of IFRS 18 must be applied to the statement of cash flows, including the requirements concerning aggregation and disaggregation and the structure of the notes.

IAS 33 'Earnings per Share'

IAS 33 has been amended, so that entities are now permitted to disclose in the **notes** additional amounts per share using a measure of performance as a numerator different from that required in relation to earnings for basic earnings per share (EPS) and earnings for diluted EPS. However, such a numerator must either be the amount attributable to the ordinary equity holders of the parent entity of a total or subtotal listed in IFRS 18, or an MPM as defined in IFRS 18.

If an entity discloses an additional amount per share, the entity must:

- disclose the additional basic and diluted amounts per share with equal prominence
- calculate the additional amount per share using the weighted average number of ordinary shares determined in accordance with IAS 33 (ie no adjustment permitted to the denominator)
- only disclose the additional amount per share in the **notes**, ie it **cannot** be presented in the primary financial statements
- disclose the information required by IFRS 18, for 'numerators' that are MPMs.

IAS 34 'Interim Financial Reporting'

IAS 34 has been amended to require that:

- when an entity prepares 'condensed interim financial statements', in addition to applying IAS 34, the entity must apply the requirements in:
  - IFRS 18 in relation to the principles of aggregation and disaggregation of information as well as offsetting
  - IAS 8 in relation to fair presentation and compliance with IFRS Accounting Standards, going concern and the accrual basis of accounting
- IFRS 18 MPM disclosures must be made, in both condensed and full iterim financial statements.

It's important to note that IFRS 18 has specific transition requirements for interim financial statements in the first year of applying IFRS 18, covered under 'Transition'.

Entities must apply all these amendments when they first apply IFRS 18, however, as noted above, IFRS 18 has specific transition requirements for interim financial statements in the first year of applying IFRS 18.

How we can help

We hope you find the information in this article helpful in giving you some insight into aspects of IFRS 18. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.

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