
Primary Financial Statements

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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 guidance on grouping of information (aggregation and disaggregation)

Better information for better decisions

– increases comparability, transparency and usefulness of information



Publication date: Q2 2024

Effective date: 1 January 2027

Who will the requirements affect?



All stakeholders in all industries in jurisdictions that apply IFRS Accounting Standards

Will impact:

- how **companies** present and disclose information, but not their bottom-line financial performance
- the quality of information, including digital information, available for **investors**
- the scope of information subject to assurance by **auditors** and enforcement by **regulators**

Categories and subtotals

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

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

Goodwill impairment loss

Other operating expenses

Operating profit

Share of the profit from associates and joint ventures

Gains on disposals of associates and joint ventures

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.

Defining the categories

Operating

- Income and expenses not classified in other categories
- Includes, but is not limited to, income and expenses from an entity's main business activities
 - Includes volatile and unusual income and expenses arising from an entity's operations

Investing

- Income and expenses from:
- associates and joint ventures accounted for using the equity method
 - cash and cash equivalents
 - assets that generate a return individually and largely independently of other resources held by an entity

Financing

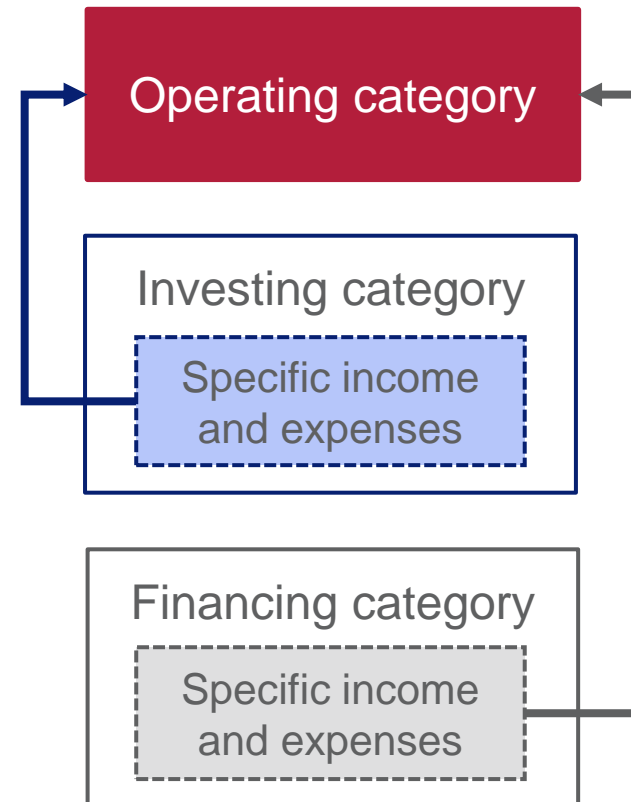
- All income and expenses from liabilities that involve only the raising of finance (eg bank loans, bonds)
- Interest expense and the effects of changes in interest rates from other liabilities (eg lease liabilities, pension liabilities, decommissioning liabilities)

Companies with specified main business activities

Operating profit is intended to include, but is not limited to, income and expenses from an entity's main business activities



Some entities, such as banks, classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories



Management-defined performance measures

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

IFRS 18 introduces

- Requirement to disclose in a single note:
 - Statement that MPM reflects management's view
 - Explanation of why MPM is reported and how it is calculated
 - Reconciliation to IFRS-specified number
 - Explanation of any changes to MPM

What are MPMs?

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 impairments

Other measures not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt

Non-monetary performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

What might a reconciliation look like?

	20X1	Tax effect	Effect on non-controlling interests
Operating profit (IFRS-specified)	41,270		
Restructuring in Country X (incl. in employee benefits)	5,400	(900)	1,020
Revenue adjustment (incl. in revenue)	6,200	(1,550)	—
Adjusted operating profit (MPM)	52,870		

Aggregation and disaggregation

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
- Guidance on whether information should be in the primary financial statements or the notes
- Disclosures about items labelled 'other'

Roles of the primary financial statements and the notes

Role of primary financial statements

Provide a **useful structured summary** for:

- **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 primary financial statements with other information to meet objectives of financial statements

Aggregation and disaggregation

Principles for aggregation and disaggregation	Single dissimilar characteristic can be enough to disaggregate if resulting information is material
Using meaningful labels	Use meaningful labels <ul style="list-style-type: none">• use 'other' only when unable to find 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 amount includes material items
Disclosure of specified expenses by nature	Disclose amounts of five specified expenses by nature included in each line item in the statement of profit or loss (see next slide) Amounts disclosed need not be expense amount

Specified expenses by nature note—illustrative example

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.

(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
Total depreciation	31,203	29,561
Research and development expenses	13,842	12,693
Total amortisation	13,842	12,693
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
Total employee benefits	81,128	76,859
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
Total impairment loss	6,100	1,500
Cost of goods sold	2,775	2,625
Other operating expenses	–	4,900
Total write-down of inventories	2,775	7,525

Other topics

Changes to the statement of cash flows

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

Cash flows	Entities without specified main business activities	Entities with specified main business activities (e.g. banks and insurers)
Interest received	Investing activities	Single category (either operating, investing or financing activities)
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

Transition period and effective date



- ✓ Required from 2027; can be applied earlier
- ✓ Comparative periods in interim and annual financial statements restated
- ✓ Reconciliation of statement of profit or loss required for immediately preceding comparative period

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