

---

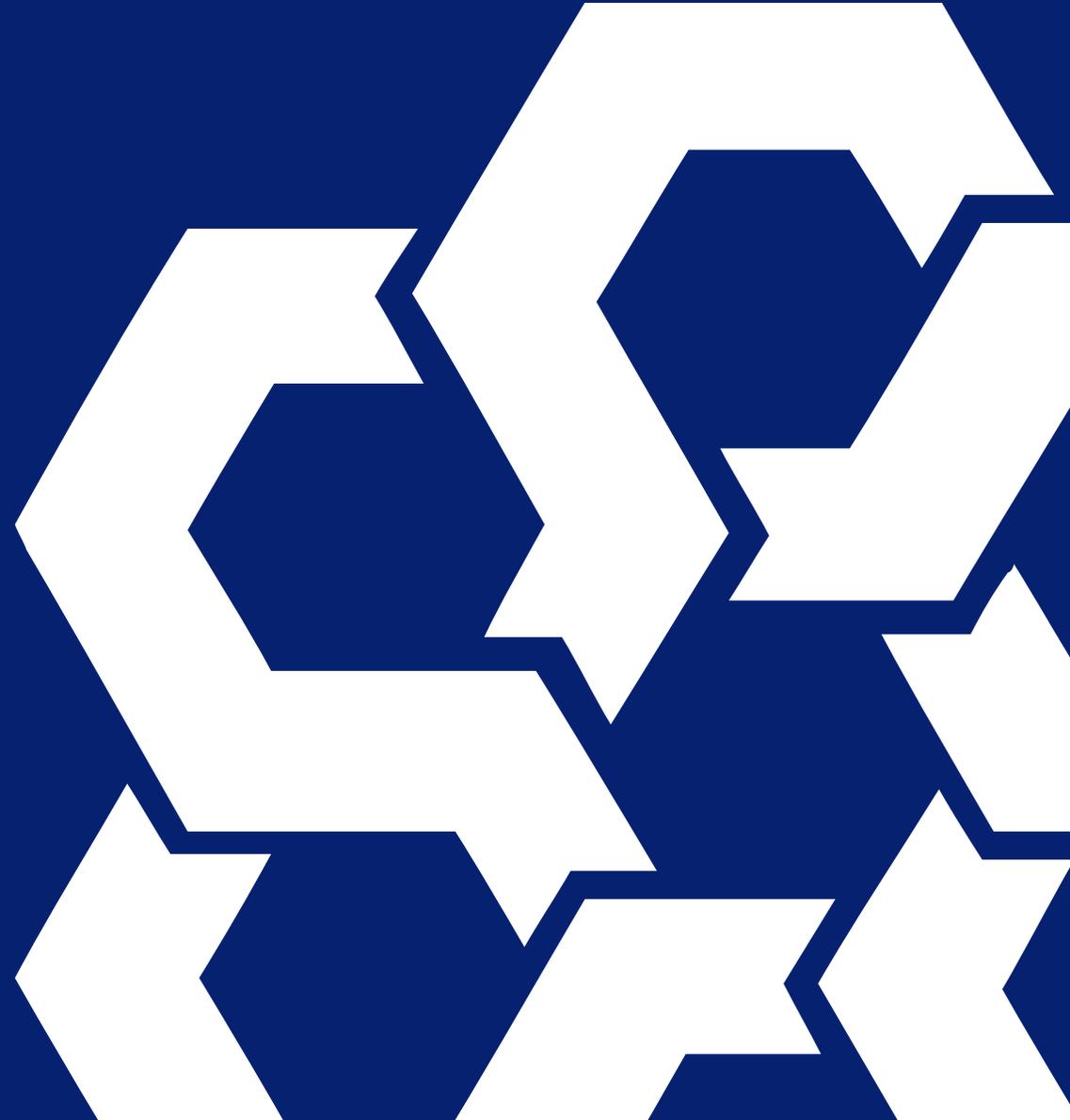
## Islamic Finance Consultative Group meeting

Date	<b>May 2024</b>
Project	<b>Primary Financial Statements</b>
Topic	<b><i>IFRS 18 Presentation and Disclosure in Financial Statements</i></b>
Contacts	<b>Nick Barlow</b> (nbarlow@ifrs.org) <b>Roanne Hasegawa</b> (rhasegawa@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Islamic Finance Consultative Group (IFCG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

---

# Project Overview



---

## Helicopter view

### **New 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

---

## 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

---

## 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 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

## 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**

Operating

Investing

Financing

---

## 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

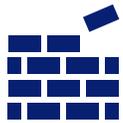


### **Works for all business models**

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

---

## 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 associates, joint ventures and non-consolidated subsidiaries**



### **Income and expenses from cash and cash equivalents**

---

## 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



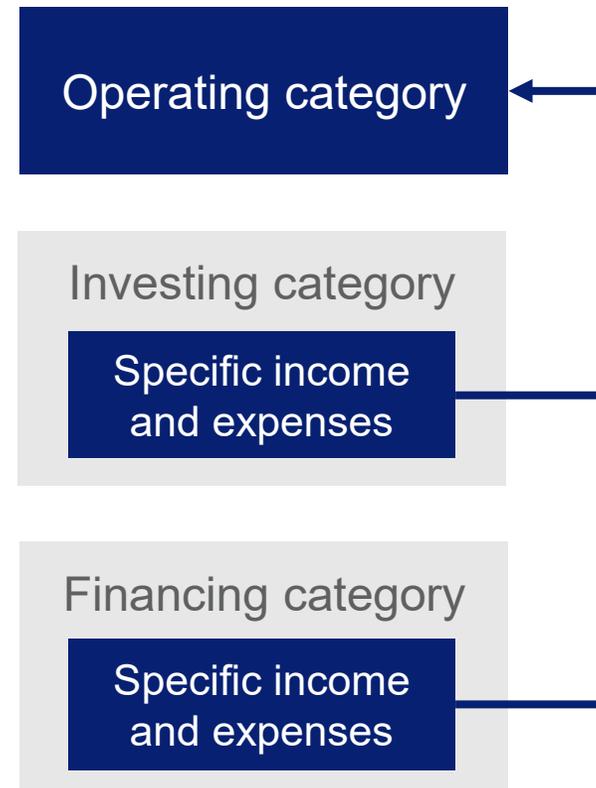
### **Interest expense and effects of changes in interest rates from other liabilities**

- Lease liabilities
- Defined benefit pension liabilities

---

## Requirements for specific companies

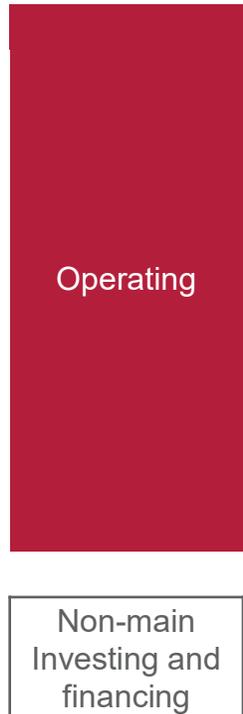
- For some companies, financing and investing activities are their main business activities – for example banks and insurers
- These companies include income and expenses in their operating profit that for other companies would be included in the investing or financing categories



## Examples of statements of profit or loss for other entities

### Statement of profit or loss for a bank

Interest revenue
Interest expense
<b>Net interest income</b>
Fee and commission income
Fee and commission expenses
<b>Net fee and commission income</b>
Net trading income
Net investment income
Credit impairment losses
Employee benefits
Depreciation and amortisation
Other operating expenses
<b>Operating profit</b>
Share of profit or loss of associates and joint ventures
Interest expense on pension and lease liabilities
<b>Profit before income taxes</b>
Income tax expense
<b>PROFIT</b>



### Statement of profit or loss for an insurer

Insurance revenue
Insurance service expenses
<b>Insurance service result</b>
Investment revenue
Credit impairment losses
Insurance finance expenses
<b>Net financial result</b>
Other operating expenses
<b>Operating profit</b>
Share of profit or loss of associates and joint ventures
<b>Profit before financing and income taxes</b>
Interest expense on borrowings and pension liabilities
<b>Profit before income taxes</b>
Income tax expense
<b>PROFIT</b>



---

## 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

### 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

---

## 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

---

## 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



## What might a reconciliation look like?

	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of PP&E	MPM
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	-	

---

## Calculating the income tax effects – possible methods

**1**

statutory  
tax rate(s)

**2**

pro rata allocation  
of tax

**3**

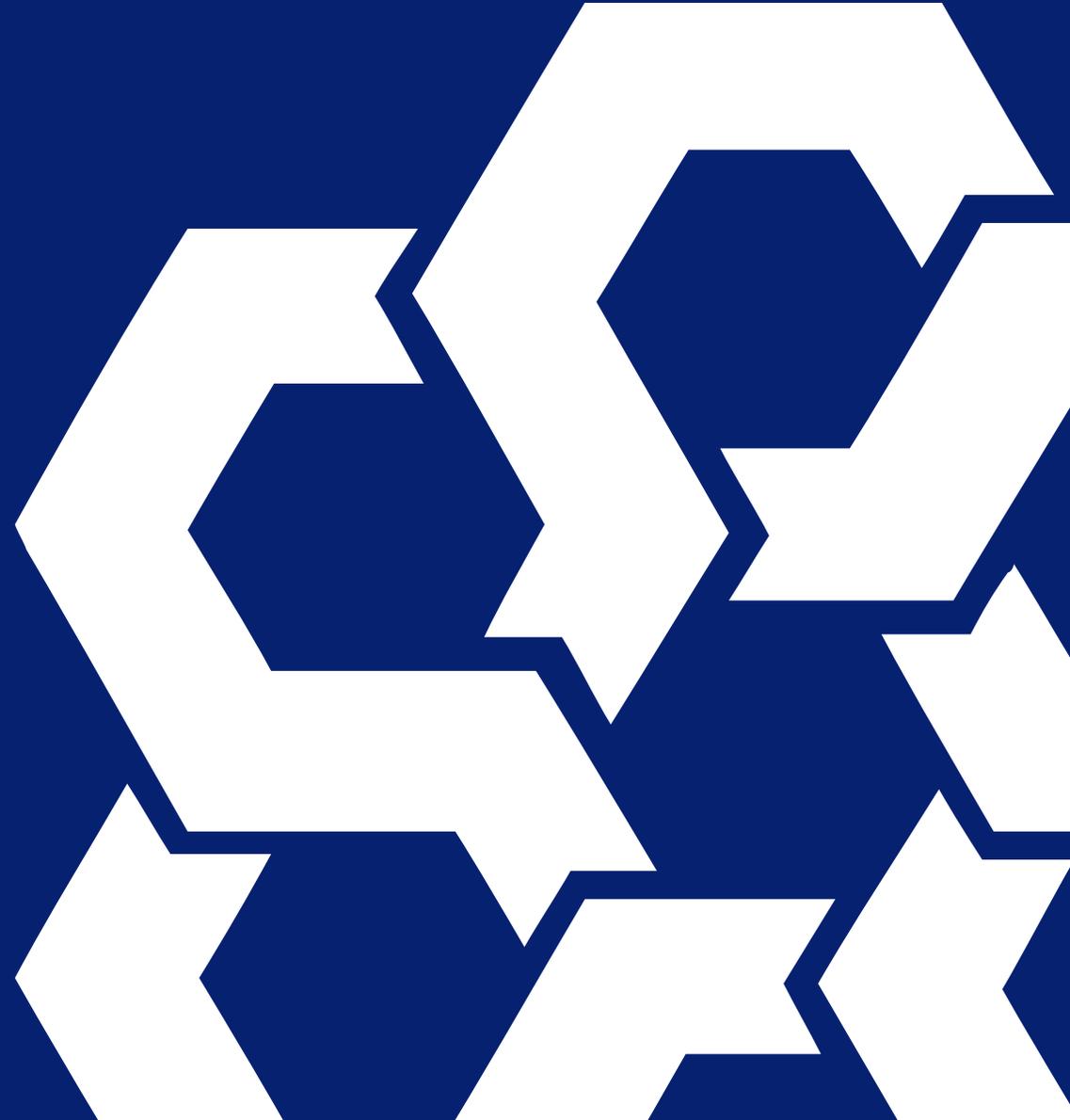
other method  
if it gives better  
information

**+**

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

---

## Grouping – aggregation and disaggregation – of information



---

## 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'

## Roles of the primary financial statements and the notes

### Primary financial statements (PFS)



Statement of financial position  
(balance sheet)



Statement of profit or loss  
(income statement)



Statement presenting comprehensive income



Statement of changes in equity



Statement of cash flows



Notes to the financial statements

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

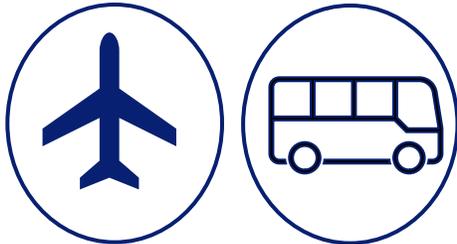
Role is to provide further **material information** and supplement PFS

---

## Aggregation, disaggregation and meaningful labels



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')

---

## Disclosure of specified expenses by nature

**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

## Specified expenses by nature note

(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
<b>Total depreciation</b>	<b>31,200</b>	<b>29,330</b>
Research and development expenses	13,840	12,690
<b>Total amortisation</b>	<b>13,840</b>	<b>12,690</b>
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
<b>Total employee benefits</b>	<b>84,620</b>	<b>76,860</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 sales	2,775	2,625
<b>Total write-down of inventories</b>	<b>2,775</b>	<b>2,625</b>

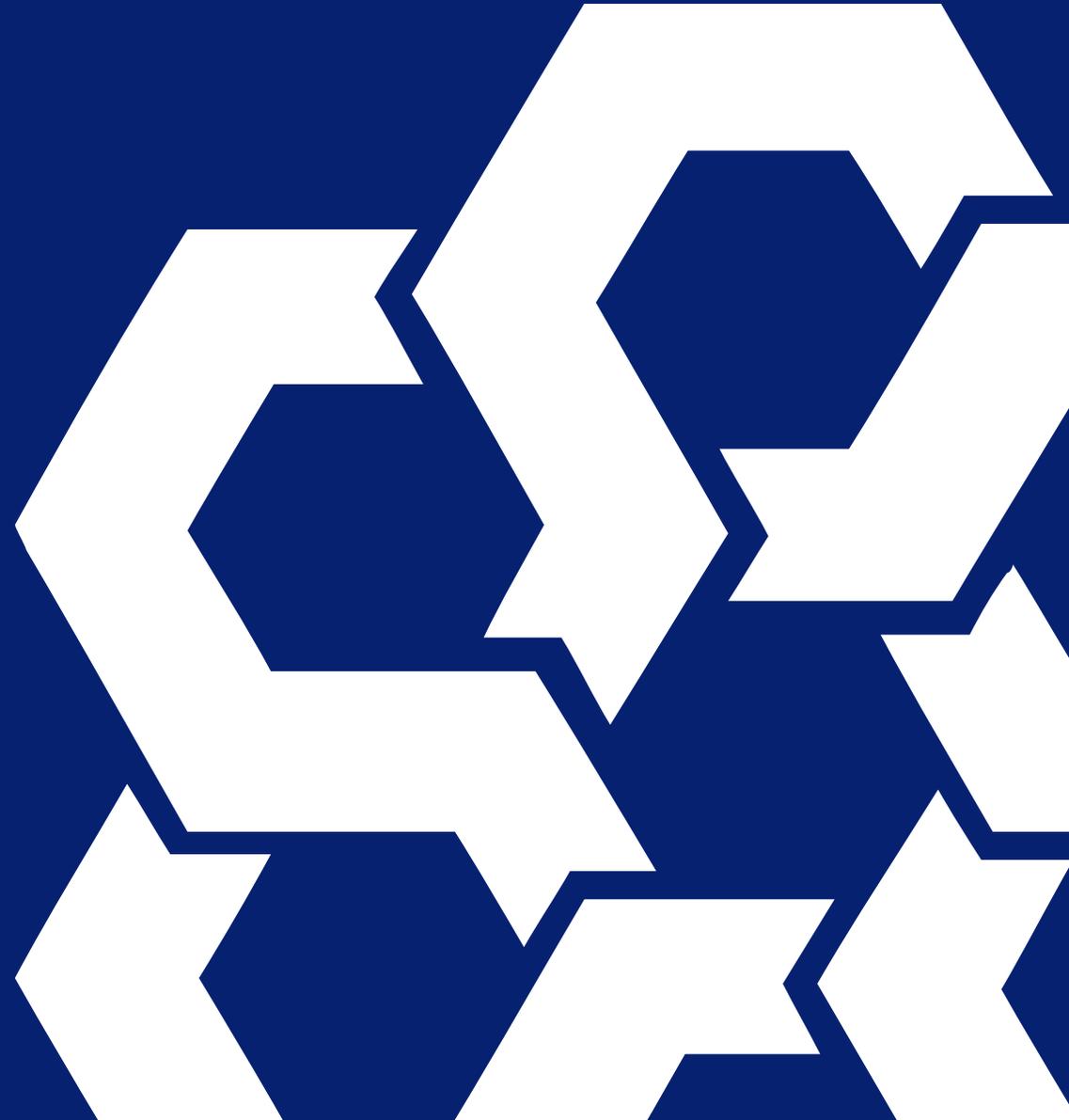
The amounts disclosed are those recognised as expenses in the statement of profit or loss for the year, except for depreciation and employee benefits.

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.

---

## Limited changes to the cash flow statement



## Limited changes to the statement of cash flows

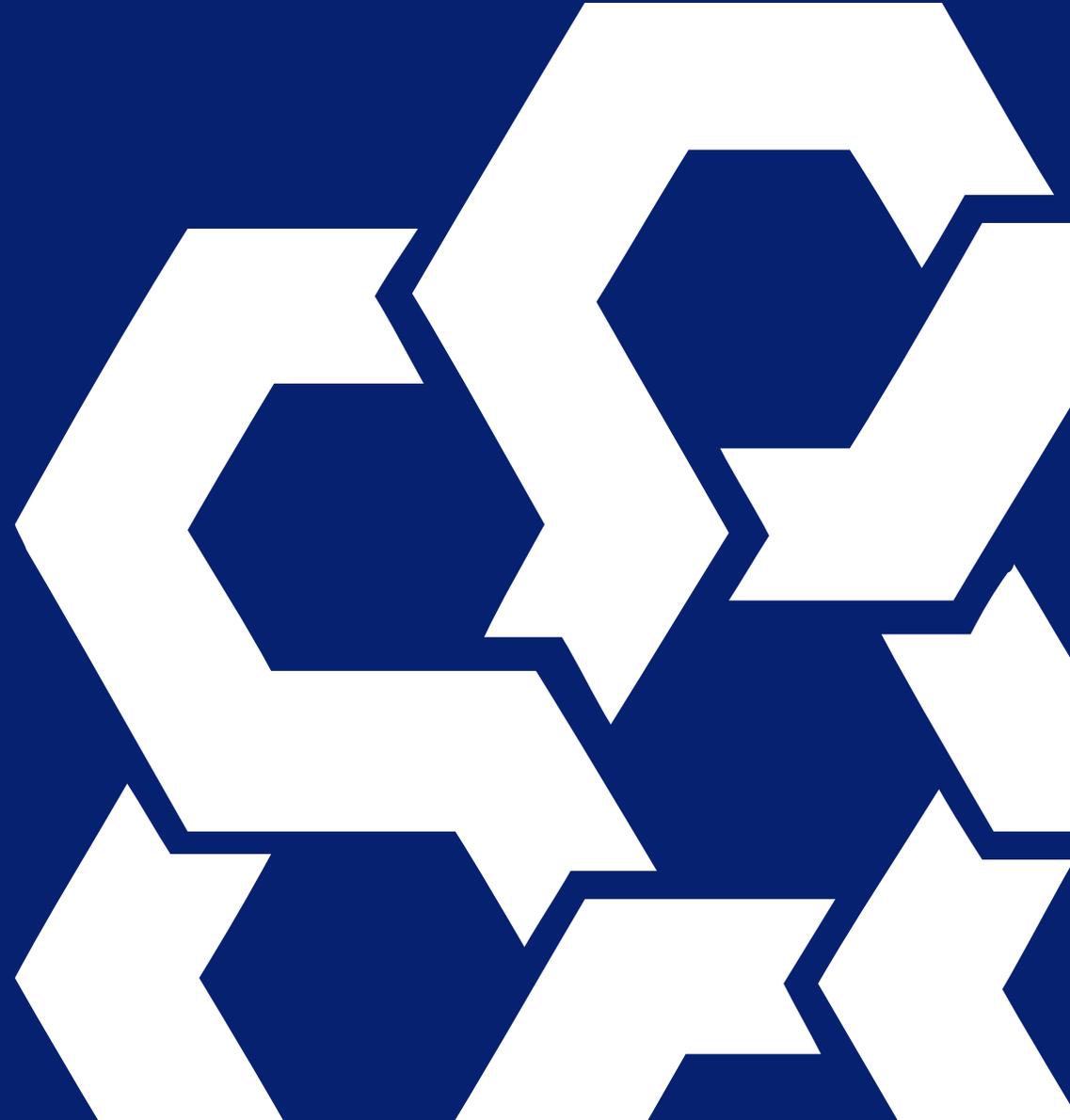


Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

Cash flows	Entities <b>without</b> specified main business activities	Entities <b>with</b> 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	Financing activities

---

## Effective date



---

## When will IFRS 18 come into force?



- 1 January 2027
- Early application permitted
- Applied retrospectively and in interim financial statements
- Resources to support implementation available on the [implementation support page](#)

---

## Follow us online

 [ifrs.org](https://www.ifrs.org)

 [@IFRSFoundation](https://twitter.com/IFRSFoundation)

 [IFRS Foundation](https://www.youtube.com/IFRSFoundation)

 [International Accounting  
Standards Board](https://www.linkedin.com/company/ifrs-foundation)