
IFRS® Interpretations Committee meeting

Date	June 2026
Project	Labels of subtotals and matters relating to the presentation of expenses (IFRS 18)
Topic	Initial consideration: Presentation of operating expenses
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Introduction

1. As Agenda Paper 7 explains, this paper presents our analysis of whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting (paragraph 5.19(b) of the *Due Process Handbook (Handbook)*) in response to two questions in the submission (Questions 2 and 3) about presentation of operating expenses.
2. The objective of this paper is:
 - (a) to provide the IFRS Interpretations Committee (Committee) with a summary of the matters;
 - (b) to present our research and analysis; and
 - (c) to ask the Committee whether it agrees with our conclusion that a standard-setting project is not needed to address the questions and our recommendation to publish a tentative agenda decision.

Structure

3. This paper includes:
 - (a) [summary of the questions](#) (paragraphs 5–7);
 - (b) [staff analysis](#) (paragraphs 8–23);
 - (c) [staff recommendation](#) (paragraphs 24–25); and
 - (d) [questions for the Committee](#).
4. The [Appendix](#) to this paper sets out the suggested wording of the tentative agenda decision.

Summary of the questions

5. The submission asks about two related matters:
 - (a) Question 2—when an entity is required to use a ‘mixed presentation’¹ in the statement of profit or loss; and
 - (b) Question 3—whether an entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items.²

¹ The submission refers to both ‘mixed presentation’ and ‘mixed approach’. In this paper we use ‘mixed presentation’ for internal consistency and to align with wording in the Basis for Conclusions on IFRS 18. As paragraph BC250 of the Basis for Conclusions on IFRS 18 states: ‘...If an entity classifies and presents some operating expenses based on their nature and others based on their function, the result is a ‘mixed presentation’. ...’

² The submission refers to this matter as ‘different presentation of two expenses of the same nature’.

Using a mixed presentation (Question 2)

6. As paragraph 8 of Agenda Paper 7 notes, the submitter identifies two views:
- (a) View 1—A mixed presentation for presenting operating expenses should only be used ‘as a last resort’ or only in ‘very rare circumstances’ and the criteria for using a mixed presentation are very restrictive. Proponents of this view say the use of this approach is not allowed when an entity is able to allocate operating expenses by function. Applying this view, the only allowed condition for a mixed presentation would be if allocating particular expenses to function line items would be arbitrary.
 - (b) View 2—There are no restrictions on the use of a mixed presentation, provided the use of a mixed presentation complies with other applicable requirements.

Presenting some amounts of an operating expense in a function line item (Question 3)

7. As paragraph 9 of Agenda Paper 7 notes, the submitter identifies two views:
- (a) View 1—An entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items.
 - (b) View 2—An entity that includes some amounts of an operating expense in a function line item is not required to present the entire amount of that operating expense in function line items. An expense of a single nature may—with appropriate labelling—be disaggregated and included within both a function line item and a nature line item.

Staff analysis

Summary of staff views

8. Based on our analysis set out in paragraphs 9–20, we conclude that:
- (a) IFRS 18 requires an entity to use a mixed presentation when doing so provides the most useful structured summary of its operating expenses. IFRS 18 does not limit the use of a mixed presentation of operating expenses only to particular other circumstances.
 - (b) an entity that includes some amounts of an operating expense by function is not required to include the entire amount of that operating expense in function line items, provided it complies with other applicable requirements in IFRS 18. An entity that classifies and presents some expenses by nature and other expenses by function is required to label the resulting line items in a way that clearly identifies which expenses are included in each line item.

Applicable requirements

9. Paragraphs 78–85 and B80–B84 of IFRS 18 set out requirements for the presentation and disclosure of expenses in the operating category of the statement of profit or loss.
10. Paragraphs 78–79 of IFRS 18 state:
- 78 In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):
- (a) the nature of expenses; or
 - (b) the function of the expenses within the entity.

79 Any individual line item shall comprise operating expenses aggregated on the basis of only one of these characteristics, but the same characteristic does not have to be used as the aggregation basis for all line items (see paragraph B81).

11. Paragraphs B80–B82 of IFRS 18 state:

B80 In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:

- (a) what line items provide the most useful information about the main components or drivers of the entity's profitability...
- (b) what line items most closely represent the way the business is managed and how management reports internally...
- (c) what standard industry practice entails...
- (d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.

B81 In some cases, an entity considering the factors set out in paragraph B80 could determine that classifying and presenting some expenses by nature and other expenses by function provides the most useful structured summary. For example:

- (a) the factors in paragraphs B80(a)–(b) might indicate that classifying and presenting expenses by function provides the most useful structured summary, except for particular expenses for which the allocation to functions would be arbitrary (see paragraph B80(d)); and

- (b) an entity having two different types of main business activities might classify and present some expenses by function and other expenses by nature to provide information about the main drivers of its profitability.

B82 If an entity classifies and presents some expenses by nature and other expenses by function in the statement of profit or loss, it shall label the resulting line items in a way that clearly identifies what expenses are included in each line item. For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (for example, 'employee benefits other than those included in cost of sales').

12. Paragraphs BC246–BC276 of the Basis for Conclusions on IFRS 18 explain the IASB's rationale in developing these requirements. Paragraphs BC250–BC252 explain the IASB's consideration of the mixed presentation. In particular, paragraph BC252 states:

Prohibiting a mixed presentation might also prevent an entity from presenting operating expenses in a way that contributes to providing the most useful structured summary of those expenses. Accordingly, the IASB decided against prohibiting a mixed presentation. Instead, it decided to provide additional application guidance to improve comparability and help ensure information is faithfully represented if an entity classifies some operating expenses by nature and some by function.

Applying the applicable requirements***Using a mixed presentation (Question 2)***

13. We note:
- (a) applying paragraph 78 of IFRS 18, an entity classifies and presents expenses in the operating category in a way that provides the most useful structured summary of its expenses, using the nature of expenses, the function of the expenses within the entity or both of these characteristics.
 - (b) paragraph B80 sets out factors an entity considers in determining how to use the characteristics of nature and function to provide the most useful structured summary of its operating expenses. Paragraph B80(d) sets out a situation in which an entity is required to classify expenses by nature and not by function—when allocating particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions.
 - (c) paragraph B81 of IFRS 18 refers to the possibility (‘in some cases’) of a mixed presentation providing the most useful structured summary.
 - (d) paragraph B81 provides two examples of situations in which an entity might determine that a mixed presentation provides the most useful structured summary—these situations are explicitly preceded by the term ‘for example’.
 - (e) paragraph BC252 of the Basis for Conclusions on IFRS 18 explains that the IASB decided against prohibiting a mixed presentation because doing so might prevent an entity from presenting operating expenses in a way that contributes to providing the most useful structured summary of those expenses.
14. In the light of the requirements in IFRS 18 and the IASB’s rationale for those requirements, in our view, IFRS 18 requires an entity to use a mixed presentation when doing so provides the most useful structured summary of its operating expenses. Our

- view is consistent with View 2 in the submission (summarised in paragraph 6(b) of this paper).
15. We disagree with View 1 (summarised in paragraph 6(a) of this paper).
16. In addition to our rationale set out in paragraphs 13–14 of this paper, in our view, the requirements and examples in paragraphs B80(d) and B81(a) of IFRS 18 do not say the *only* allowed conditions for a mixed presentation are when the allocation of particular expenses to functions would be arbitrary. Rather, as stated in paragraph 13(d) of this paper, paragraph B81 provides two examples of situations in which an entity might determine that a mixed presentation provides the most useful structured summary. One of those examples, in paragraph B81(a), involves an entity classifying and presenting some expenses by function and other expenses—those for which allocation to functions would be arbitrary—by nature (with a reference to paragraph B80(d)). The other example, in paragraph B81(b), involves an entity using a mixed presentation to provide information about the main drivers of its profitability, and not because allocation to functions would be arbitrary.

Conclusion—Question 2

17. Based on our analysis, we conclude that IFRS 18 requires an entity to use a mixed presentation when doing so provides the most useful structured summary of its operating expenses. IFRS 18 does not limit the use of a mixed presentation only to particular other circumstances.

***Presenting some amounts of an operating expense in a function line item
(Question 3)***

18. Paragraph B82 of IFRS 18 (reproduced in paragraph 11 of this paper) includes an example in which an entity includes some employee benefits in a function line item and other employee benefits in a nature line item. This example confirms that an entity—that

includes some amounts of an operating expense in a function line item—is not required to include the entire amount of that operating expense in function line items. In considering the appropriate presentation of an operating expense, an entity is required to apply, among other requirements in IFRS 18, paragraphs 78–85 and B80–B84 of IFRS 18. For example, paragraph B82 requires an entity using a mixed presentation to label resulting line items in a way that clearly identifies what expenses are included in each line item.

19. We therefore agree with View 2 and disagree with View 1 (summarised in paragraph 7 of this paper).

Conclusion—Question 3

20. Based on our analysis, we conclude that an entity—that includes some amounts of an operating expense in a function line item—is not required to include the entire amount of that operating expense in function line items. An entity that classifies and presents some expenses by nature and other expenses by function is required to label the resulting line items in a way that clearly identifies which expenses are included in each line item.

Question 1 for the Committee

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 in paragraphs 8–20 of this paper?

Assessment of paragraph 5.19 of the Handbook

21. Paragraph 5.19 of the IFRS Foundation’s *Handbook* sets out the criteria the Committee assesses in determining the need for a standard-setting project to address the questions submitted. Agenda Paper 7 for this meeting reproduces paragraph 5.19 of the *Handbook* and provides our analysis of whether the matters in the submission meet the criteria in paragraph 5.19(a) of the *Handbook*—that is, whether the matters set out in the submission have widespread effect. We conclude in paragraph 14 of Agenda Paper 7 that the

- criteria set out in paragraph 5.19(a) of the *Handbook* is met for the matters in the submission.
22. Paragraph 5.19(b) of the *Handbook* requires the Committee to assess whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, whether the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.
23. Based on our analysis in paragraphs 8–20 of this paper, in our view, the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine the required accounting for the matters covered in Questions 2 and 3 in the submission. Accordingly, we conclude that the criterion in paragraph 5.19(b) of the *Handbook* is not met. Therefore, in accordance with paragraph 5.22 of the *Handbook*, a standard-setting project is not needed to address the questions submitted.

Staff recommendation

24. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (see paragraphs 21–23 of this paper), we recommend that the Committee publishes a tentative agenda decision, in accordance with paragraph 8.2 of the *Handbook*, that explains why a standard-setting project is not needed to address the questions submitted.
25. The appendix to this paper suggests wording for the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.³

³ Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Accounting Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision.'

Questions for the Committee

Questions 2 and 3 for the Committee

2. Does the Committee agree with our conclusion that the criterion in paragraph 5.19(b) of the *Handbook* is not met and, consequently, there is no need for a standard-setting project?
3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in the appendix to this paper?

The Appendix—Suggested wording of the tentative agenda decision

Presentation of operating expenses (IFRS 18 *Presentation and Disclosure in Financial Statements*)

Question

The Committee received a request asking:

- (a) when an entity is required to use a ‘mixed presentation’—that is, a presentation in which an entity classifies and presents in line items in the statement of profit or loss some operating expenses based on their nature and others based on their function within the entity—applying paragraph 78 of IFRS 18 *Presentation and Disclosure in Financial Statements*; and
- (b) whether an entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items.

Applicable requirements

Paragraphs 78–85 and B80–B85 of IFRS 18 set out requirements for the presentation and disclosure of expenses in the operating category of the statement of profit or loss.

Applying the applicable requirements

Paragraph 78 of IFRS 18 requires an entity, in the operating category of its statement of profit or loss, to classify and present expenses in line items in a way that provides the most useful structured summary of its expenses using (a) the nature of expenses, (b) the function of the expenses within the entity, or (c) both of these characteristics. Accordingly, the Committee observed that an entity is required to use a mixed presentation when doing so provides the most useful structured summary of its operating expenses.

Paragraph B82 of IFRS 18 includes an example in which an entity includes some employee benefits in a function line item and other employee benefits in a nature line item. The

Committee observed that this example illustrates that an entity—that includes some amounts of an operating expense in a function line item—is not required to include the entire amount of that operating expense in function line items. An entity that classifies and presents some expenses by nature and other expenses by function is required to label the resulting line items in a way that clearly identifies which expenses are included in each line item.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine:

- (a) when it is required to use a mixed presentation; and
- (a) whether it is required to present the entire amount of an operating expense in function line items in its statement of profit or loss if it includes some amounts of that operating expense in a function line item.

Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.