Staff paper

Agenda reference: 5

IFRS® Interpretations Committee meeting

Date	**November 2026**
Project	**Presentation of Operating Expenses (IFRS 18)**
Topic	**Comment letters on tentative agenda decision**
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Introduction

1. At its June 2026 meeting, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to 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* (Question I); and

   (b) whether an entity can disaggregate expenses of the same nature and classify and present some of those expenses in line items comprising operating expenses aggregated on the basis of nature and others in line items comprising operating expenses aggregated on the basis of function (Question II).

2. The objective of this paper is:

   (a) to summarise and analyse comments on the tentative agenda decision; and

(b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure

3. This paper includes:

   (a) background (paragraphs 5–12);

   (b) summary of the comment letters (paragraphs 13–15);

   (c) staff analysis (paragraphs 16–32); and

   (d) staff recommendation and questions for the Committee (paragraphs 33–34).

4. There are three appendices to this paper:

   (a) Appendix A—Suggested wording of the agenda decision;

   (b) Appendix B— Feedback on Presentation of Cost of Sales; and

   (c) Appendix C—Excerpts from IFRS 18.

Background

5. Paragraphs 78–85 and B80–B85 of IFRS 18[1] set out applicable requirements for the presentation and disclosure of expenses in the operating category of the statement of profit or loss.

6. The remainder of this section summarises the tentative agenda decision for the two questions (set out in paragraph 1 of this paper) considered by the Committee.

[1] Appendix C to this paper reproduces selected excerpts from these paragraphs for ease of reference.

Using a 'mixed presentation' (Question I)

7. 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.

8. 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.

Classifying and presenting expenses of the same nature (Question II)

9. Paragraph B82 of IFRS 18 sets out an example in which an entity includes some employee benefits in a function line item and other employee benefits in a nature line item. Paragraph B82 requires an entity that classifies and presents some expenses by nature and other expenses by function to label the resulting line items in a way that clearly identifies which expenses are included in each line item.

10. The Committee observed that the example in paragraph B82 illustrates that if an entity includes some expenses of the same nature in one or more function line items, it is not required to include all expenses of that nature in function line items. In classifying and presenting operating expenses, an entity considers, in accordance with paragraph B85 of IFRS 18, the level of aggregation that provides the most useful structured summary of its operating expenses.

Conclusion

11. Based on its analysis, 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

(b) whether it can disaggregate expenses of the same nature and classify and present some of those expenses in line items comprising operating expenses aggregated on the basis of nature and others in line items comprising operating expenses aggregated on the basis of function.

12. Consequently, the Committee decided that a standard-setting project is not needed to address the question submitted and it instead published a tentative agenda decision.

Summary of the comment letters

13. The Committee received 18 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website.[2] This paper includes analysis of only the comment letters received by the comment letter deadline.

14. Of the 18 respondents, seventeen agree (or do not disagree) with the Committee's conclusion and tentative decision that a standard-setting project is not needed to address the question submitted. However, many of these respondents request clarifications or provide other comments (summarised and analysed in the staff analysis section of this paper). In particular:

(a) many respondents ask whether, and if so, how, the tentative agenda decision affects presentation of a cost of sales line item in the statement of profit or loss; and

(b) a few respondents suggest emphasising further the requirement for an entity to provide a useful structured summary when making decisions on the presentation of operating expenses.

[2] At the date of posting this paper, there were no late comment letters.

15. One respondent—the Accounting Methodological Centre (AMC)—disagrees with the Committee's conclusion and recommends not finalising the tentative agenda decision. This respondent says it is not possible to classify a 'large population of operating expenses' by either nature or function and consequently recommends standard-setting. Paragraphs 28–30 of this paper summarise and analyse this feedback.

Staff analysis

16. In this section we discuss respondents' feedback related to:

    (a) clarifying presentation of cost of sales (paragraphs 17–23);

    (b) emphasising a useful structured summary (paragraphs 24–27);

    (c) requesting standard-setting (paragraphs 28–30); and

    (d) other comments (paragraphs 31–32).

Clarifying presentation of cost of sales

Background and feedback

17. Paragraphs 81–82 of IFRS 18 say:

> 81 In classifying expenses by function within the entity, an entity allocates and aggregates operating expenses according to the activity to which the consumed resource relates. For example, cost of sales is a function line item that combines expenses relating to an entity's production or other revenue-generating activities such as: raw material expense, employee benefit expense, depreciation and amortisation. …

> 82 If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall:
>
> (a) present a separate line item for its cost of sales, if the entity classifies operating expenses in functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*.

18. Many respondents that otherwise agree with the Committee's conclusions in the tentative agenda decision ask whether, and if so, how, the tentative agenda decision affects presentation of a cost of sales line item. Respondents' comments are summarised in Appendix B to this paper. In summary:

    (a) some of these respondents say the tentative agenda decision generated a 'debate' about whether IFRS 18 changes, for an entity that presents a cost of sales line item in its statement of profit or loss, how the entity determines which expenses to include in its cost of sales.

    (b) some of these respondents (particularly accounting firms and preparers) ask for clarifications in the agenda decision about the presentation of 'production' or 'revenue-generating' expenses (as used in paragraph 81 of IFRS 18) between the cost of sales line item and other functional or by-nature line items of expenses.

Staff analysis

19. Paragraph 82(a) of IFRS 18 (as reproduced in paragraph 17 of this paper) requires an entity that classifies operating expenses in functions that include a cost of sales function to:

    (a) present a separate line item for its cost of sales; and

(b) include in the line item for its cost of sales the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*.

20. Paragraphs BC256–BC257 of the Basis for Conclusions on IFRS 18 explain that the IASB decided not to develop a definition of 'cost of sales'—but to require an entity that presents a cost of sales to include in that line item inventory expense, as described in paragraph 38 of IAS 2.

21. We think clarifying what an entity should include in the cost of sales line item—or clarifying further the disaggregation and presentation of 'production' or 'revenue-generating' expenses between the cost of sales function and other functional or by-nature line items of expenses—goes beyond the question considered by the Committee and the IASB's decisions in developing IFRS 18.

22. We disagree with respondents (see comments in Appendix B to this paper) who say the agenda decision as drafted might imply that an entity can override other requirements in IFRS 18 when using a mixed presentation. Nonetheless, we have suggested an amendment to the wording of the agenda decision to further clarify this (see paragraph A5 in Appendix A to this paper).

23. In summary, we recommend amending the wording of the agenda decision as set out in paragraph A5 in Appendix A and making no other changes in respect of feedback on the presentation of cost of sales.

Emphasising a useful structured summary

Feedback

24. A few respondents that agree with the Committee's conclusions in the tentative agenda decision suggest emphasising further the requirement for an entity to provide a useful structured summary when making decisions on the presentation of operating expenses.

For example, Grant Thornton International Ltd (Grant Thornton) says such emphasis would help to 'ensure no more prominence is given to the paragraphs that are mentioned in the decision, and the overall objective of [IFRS 18] will still be achieved'.

25. Ernst & Young Global Limited (EY) also suggests emphasising the aggregation and disaggregation requirements in IFRS 18 in a number of places in the agenda decision. It also suggests including a reference to paragraph B80 of IFRS 18 which sets out considerations to determine how to use the characteristics of nature and function to provide the most useful structured summary.

Staff analysis

26. In responding to Questions I and II, the tentative agenda decision states (see paragraphs A3 and A5 in Appendix A to this paper):

> 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.
>
> …
>
> In classifying and presenting operating expenses, an entity considers, in accordance with paragraph B85 of IFRS 18, the level of aggregation that provides the most useful structured summary of its operating expenses.

27. We think it is unnecessary to further emphasise the requirement for an entity to provide a useful structured summary when making decisions on the presentation of operating expenses. We also think it is unnecessary to refer more generally to aggregation and disaggregation requirements in IFRS 18 to answer the questions considered by the Committee.

Requesting standard-setting

28. The AMC disagrees with the Committee's conclusion that the principles and requirements in IFRS 18 provide an adequate basis to answer the questions considered and says there is a need for standard-setting. The respondent says it is not possible to classify a 'large population of operating expenses' by either nature or function and says:

> … IFRS 18 currently presents nature and function as if they were two comprehensive alternative characteristics of operating expenses. In their stated meanings they are not. Extending the words beyond those meanings does not solve the problem; it merely makes the classifications less defined. … A standard-setting process is needed to establish first principles for what nature and function are intended to represent and only then to determine how those principles should affect presentation and disclosure.

Staff analysis

29. For the reasons set out in the tentative agenda decision, we continue to agree with the Committee that the requirements in IFRS 18 provide an adequate basis to determine the appropriate accounting for the questions considered by the Committee, and a standard-setting project is not needed to address the request.

30. Respondents to the tentative agenda decision other than the AMC did not question the meaning of 'nature' and 'function' as described in IFRS 18 (see in particular paragraphs

80–81, which are reproduced in Appendix C to this paper). In addition, a requirement to classify expenses by nature or function is not new. In particular, paragraphs BC253–BC254 of the Basis for Conclusions on IFRS 18 state:

> BC253 The IASB decided not to develop a definition of 'function'. Some stakeholders said it was unclear how to apply the function of expense method. However, the IASB observed that classifying expenses by function is not a new concept. IAS 1 [*Presentation of Financial Statements*] required an entity to present an analysis of expenses recognised in profit or loss using either the function of expense method or the nature of expense method. The IASB also concluded that it would be difficult to develop a definition of 'function' and application guidance on allocating expenses to functions that would be practicable.
>
> BC254 However, to help an entity identify the line items classified and presented by function that provide the most useful structured summary of its expenses, the IASB:
>
> (a) expanded the proposed description of classification by function in paragraph 81 of IFRS 18 …; and
>
> (b) provided application guidance in paragraph B85 of IFRS 18 on the level of aggregation for operating expenses that provides the most useful structured summary … .

Other comments

31. Appendix B of Agenda Paper 9 for this meeting summarises and analyses comments from CPA Australia that apply to all the tentative agenda decisions on IFRS 18 that the Committee decided to publish at its June 2026 meeting. As stated in that paper, we recommend no further action in response to those comments.

32. The following table summarises other comments, together with our analysis.

Respondent's comment	Staff analysis and conclusion
1. Add reference to paragraph 79 of IFRS 18 The Saudi Organization for Chartered and Professional Accountants suggests highlighting that although an entity can include expenses of the same nature in both nature and function line items, each individual line item must—as required by paragraph 79 of IFRS 18—comprise operating expenses aggregated using only one characteristic.	*We recommend no change.* Paragraph 79 of IFRS 18 is included in the range of paragraphs referenced in the 'Applicable requirements' section of the tentative agenda decision. In our view, it is unnecessary to further discuss paragraph 79.
2. Add disclosure reminders Grant Thornton suggests clarifying that in a mixed presentation, clear labelling alone may not always enable users to understand the total amount of significant expense categories. This respondent suggests clarifying that entities should also: (a) provide additional disclosures in accordance with paragraph 83 of IFRS 18 explaining where significant nature of expenses, such as employee benefits, depreciation and amortisation, are presented in the statement of profit or loss; and (b) consider disclosing the reasons why those expenses have been classified on different bases.	*We recommend no change.* We recommend continuing to focus on the questions asked—about the use of a mixed presentation and classifying and presenting expenses of the same nature—and not adding reminders about disclosure requirements.

Respondent's comment	Staff analysis and conclusion
3. Add reminders of general concepts Lucilene Pedro recommends retaining the tentative agenda decision, while emphasising that: (a) comparability should not be interpreted as requiring uniformity; (b) the objective of the requirements is to provide decision-useful information; and (c) additional prescriptive requirements should not be introduced where they could reduce relevance or faithful representation.	*We recommend no change.* In our view, this respondent's suggestions relate to general concepts and not specific requirements, and it is unnecessary to include these in an agenda decision.
4. Develop new disclosure requirements Sounder Rajan, while not disagreeing with the Committee's conclusions, recommends standard-setting to add disclosure requirements to improve comparability of financial statements and to require entities to explain judgements made in classifying and presenting operating expenses by nature or by function.	*We recommend no action.* The standard-setting suggested is outside the scope of the question considered by the Committee.
5. Resolve inconsistency with the 'Labels of Subtotals' tentative agenda decision EY says there appears to be an inconsistency between the tentative agenda decision related to 'Labels of Subtotals (IFRS 18)' (the Labels TAD') and this one ('the Presentation TAD').	*We recommend no change.* We do not see an inconsistency. A requirement to label a line item in a way that clearly identifies which expenses are included in that line item (as required by paragraph B82 of IFRS 18) does not imply that the label must include all

Respondent's comment	Staff analysis and conclusion
The Presentation TAD (see paragraph A4 in Appendix A to this paper) includes the sentence: 'Paragraph B82 requires an entity that classifies and presents some expenses by nature and other expenses by function to label the resulting line items in a way that clearly identifies which expenses are included in each line item.' EY says this sentence appears to be more prescriptive than the Committee's conclusion in the Labels TAD, which says 'all necessary descriptions and explanations need not be included in the label itself and may be disclosed in the notes', and 'the label of a subtotal that is a management-defined performance measure is not required to explicitly list all the elements excluded from (or included in) the measure…'.	necessary descriptions and explanations. The Labels TAD explains why the label of a subtotal that is a management-defined performance measure is not required to explicitly list all the elements excluded from (or included in) the measure.

Staff recommendation

33. Based on our analysis in this paper, we recommend finalising the agenda decision, with changes to the wording of the tentative agenda decision as explained in paragraph 22 of this paper. Appendix A to this paper sets out the suggested wording of the agenda decision.

34. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 33 of this paper?
2. Do Committee members have any comments on the suggested wording of the agenda decision in Appendix A to this paper?
3. Do Committee members have additional observations they would like to report to the IASB regarding this matter?

Appendix A—Suggested wording of the agenda decision

This appendix sets out the suggested wording of the agenda decision. Paragraph numbers are included to facilitate referencing but will be removed when the agenda decision is published in IFRIC *Update*. New text is underlined and deleted text is struck through.

Presentation of Operating Expenses (IFRS 18 *Presentation and Disclosure in Financial Statements*)

A1. 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; and

b. whether an entity can disaggregate expenses of the same nature and classify and present some of those expenses in line items comprising operating expenses aggregated on the basis of nature and others in line items comprising operating expenses aggregated on the basis of function.

Applicable requirements

A2. 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 requirements in IFRS 18

Using a 'mixed presentation'

A3. 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.

Classifying and presenting expenses of the same nature

A4. Paragraph B82 of IFRS 18 sets out an example in which an entity includes some employee benefits in a function line item and other employee benefits in a nature line item. Paragraph B82 requires an entity that classifies and presents some expenses by nature and other expenses by function to label the resulting line items in a way that clearly identifies which expenses are included in each line item.

A5. The Committee observed that the example in paragraph B82 illustrates that if an entity includes some expenses of the same nature in one or more function line items, it is—subject to other requirements in IFRS Accounting Standards—not required to include all expenses of that nature in function line items. In classifying and presenting operating expenses, an entity considers, in accordance with paragraph B85 of IFRS 18, the level of aggregation that provides the most useful structured summary of its operating expenses.

Conclusion

A6. 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

b. whether it can disaggregate expenses of the same nature and classify and present some of those expenses in line items comprising operating expenses aggregated on the basis of nature and others in line items comprising operating expenses aggregated on the basis of function.

A7. Consequently, the Committee ~~[~~decided~~]~~ that a standard-setting project is not needed to address the request.

Appendix B—Feedback on Presentation of Cost of Sales

B1. This appendix summarises respondents' feedback on the tentative agenda decision related to presenting operating expenses as part of cost of sales in the statement of profit or loss.

Feedback

B2. Many respondents that otherwise agree with the Committee's conclusions in the tentative agenda decision ask whether, and if so, how, the tentative agenda decision affects presentation of a cost of sales line item.

B3. Some of these respondents say the tentative agenda decision generated a 'debate' about whether IFRS 18 changes, for an entity that presents a cost of sales line item in its statement of profit or loss, how the entity determines which expenses to include in its cost of sales. For example:

(a) The Autorité des Normes Comptables says its stakeholders have two views, in particular:

(i) View 1: IFRS 18 requires preparers to review the content of their function line items such as the cost of sales line item. Proponents of this view say 'expenses sharing the common characteristic of being directly related to the generation of revenue should, in applying [paragraph 81 of IFRS 18], be aggregated within the cost of sales function'. Further support is provided by paragraph B123 of IFRS 18, which refers to gross profit (and similar subtotals) as depicting the difference between a type of revenue and directly related expenses incurred in generating that revenue.

(ii) View 2: IFRS 18 does not alter the content of the function line items. The IASB, as explained in paragraph BC256 of the Basis for Conclusions on IFRS 18, explicitly 'decided not to develop a definition of cost of sales'. Instead, it decided to require a consistency with the inventory expense as

defined by paragraph 38 of IAS 2 *Inventories*, without any change to that Standard.

(b) ACTEO, L'AFEP and MEDEF say they are aware of stakeholders that have a view similar to View 1 (in paragraph (a)(i)) which the respondent disagrees with. This respondent says:

> … this reading [View 1] goes beyond the application of IFRS 18. It effectively calls into question the definition of cost of sales and, by construction, the valuation of inventories, matters that IFRS 18, as a presentation Standard, is not intended to affect. We would therefore find it useful for the Committee to confirm that it was not the Board's intention, in issuing a presentation Standard, to affect the valuation of inventories, and by extension the determination of cost of sales.

B4. Some respondents (particularly accounting firms and preparers) ask for clarifications in the agenda decision about the presentation of 'production' or 'revenue-generating' expenses (as used in paragraph 81 of IFRS 18) between the cost of sales function and other functional or by-nature line items of expenses. For example:

(a) Forvis Mazars asks whether an entity is required to present particular by-nature expenses—such as amortisation expense of development costs or share-based payment expense related to production staff—within the cost of sales function. Similarly:

(i) EY asks 'whether an entity is required to include in each function line item, *all* the expenses that are clearly and directly attributable to that function, or whether certain of those expenses may be presented outside that identified function line item…'.

(ii) Petrobras and Abrasca say it would be useful to clarify, for an entity that presents a cost of sales line item, whether presentation of all inventory expenses in the cost of sales line item is required (in accordance with

paragraph 82(a) of IFRS 18), or whether presentation of at least some expenses by nature can be supported by applying aggregation and disaggregation principles or other paragraphs (for example, paragraph B79[3] of IFRS 18).

(b) Deloitte Touche Tohmatsu Limited says it would be concerned about 'a possible implication of the [tentative agenda decision's] current drafting' that an entity can exclude expenses directly relating to production from a cost of sales line item without the factors described in paragraph B81 of IFRS 18 being present. Similarly:

(i) Grant Thornton says room for judgement in adopting a mixed presentation should not override other IFRS 18 requirements, such as the requirement for an entity to classify revenue-generating expenses within the cost of sales function.

(ii) EY says allocating expenses to functions should not be 'left entirely to the discretion of an entity's management' and must comply with requirements in IFRS 18, including principles of aggregation and disaggregation.

[3] Paragraph B79 of IFRS 18 provides a list of income and expenses that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information.

Appendix C—Excerpts from IFRS 18

C1. Paragraphs 78–82 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).
>
> 80 In classifying expenses by nature ('nature expenses'), an entity provides information about operating expenses related to the nature of the economic resources consumed to accomplish the entity's activities without reference to the activities in relation to which those economic resources were consumed. Such information includes information about raw material expense, employee benefit expense, depreciation and amortisation.
>
> 81 In classifying expenses by function within the entity, an entity allocates and aggregates operating expenses according to the activity to which the consumed resource relates. For example, cost of sales is a function line item that combines expenses relating to an entity's production or other revenue-generating activities such as:

raw material expense, employee benefit expense, depreciation and amortisation. Therefore, when classifying expenses by function, an entity might:

(a) allocate to several function line items (such as cost of sales and research and development) expenses relating to economic resources of the same nature (such as employee benefit expense); and

(b) include in a single function line item an allocation of expenses relating to economic resources of several natures (such as raw material expense, employee benefit expense, depreciation and amortisation).

82 If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall:

(a) present a separate line item for its cost of sales, if the entity classifies operating expenses in functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*.
b) disclose a qualitative description of the nature of expenses included in each function line item.

C2. 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. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.

(b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as providing financing to customers, might determine that line items comprising expenses classified by nature provide the most useful information for internal reporting purposes.

(c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry.

(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’).