

Scope of the Requirement to Disclose Expenses by Nature (IFRS 18 *Presentation and Disclosure in Financial Statements*)

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The Committee received a request about the scope of the requirements in paragraph 83 of IFRS 18.

Paragraph 75 of IFRS 18 requires an entity to present line items in the statement of profit or loss, including for:

- a. operating expenses (paragraph 75(a)(ii)); and
- b. amounts required by IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* (paragraph 75(b)–(c)).

Question

The request asked whether the requirements in paragraph 83 of IFRS 18 apply:

- a. only when an entity presents operating expenses listed in paragraph 75(a)(ii) of IFRS 18 by function in the operating category of the statement of profit or loss; or
- b. when an entity presents any expense by function in the operating category of the statement of profit or loss, including expenses listed in paragraph 75(b)–(c) of IFRS 18. The request said these expenses might include amounts that have been recognised as part of the carrying amount of an asset—for example, insurance service expense recognised in the statement of profit or loss might include the amortisation of insurance acquisition costs that were previously capitalised as part of insurance contract assets.

Applying the applicable requirements

The Committee observed that paragraph 83 of IFRS 18 contains no exceptions or exclusions. That means, for example, that the reason for classifying an expense by function—that is, classifying an expense by function applying an entity’s judgement or because of a requirement in an IFRS Accounting Standard—is irrelevant in determining whether an entity is required to apply paragraph 83.

Therefore, the Committee concluded that paragraph 83 of IFRS 18 applies when an entity presents any line item comprising expenses classified by function in the operating category of the statement of profit or loss, including expenses listed in paragraph 75(b)–(c) of IFRS 18 that are classified by function.

The Committee observed that, as paragraph B84 of IFRS 18 states, the amounts disclosed in accordance with paragraph 83 of IFRS 18 need not be the amounts recognised as an expense in the period. The amounts disclosed could include amounts that have been recognised as part of the carrying amount of an asset. If an entity applying paragraph 83(b) of IFRS 18 discloses amounts that are not the amounts recognised as an expense in the period, the entity is required to provide a qualitative explanation of that fact, identifying the assets involved. Note 1 of paragraph IE7 of the Illustrative Examples on IFRS 18 illustrates a way to apply paragraph 83 of IFRS 18 and the related application guidance.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine the scope of the requirements in paragraph 83 of IFRS 18. Consequently, the Committee decided not to add a standard-setting project to the work plan.

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