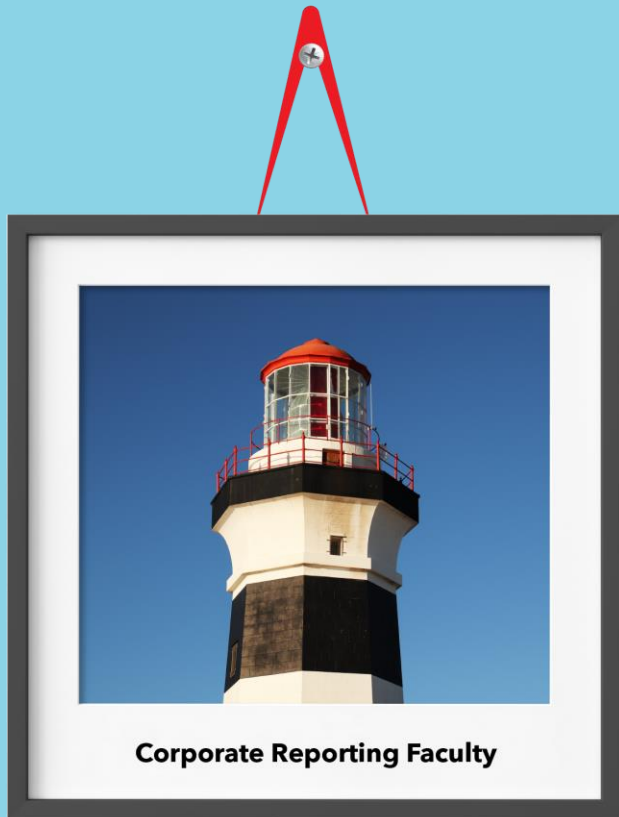




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CORPORATE REPORTING FACULTY



Introducing IFRS 18: the new standard on presentation and disclosure in financial statements

10 OCTOBER 2024

THIS WEBINAR WILL COMMENCE SHORTLY

Introduction



Georgina Chalk

Technical Manager, Corporate Reporting Faculty, ICAEW

Today's presenters

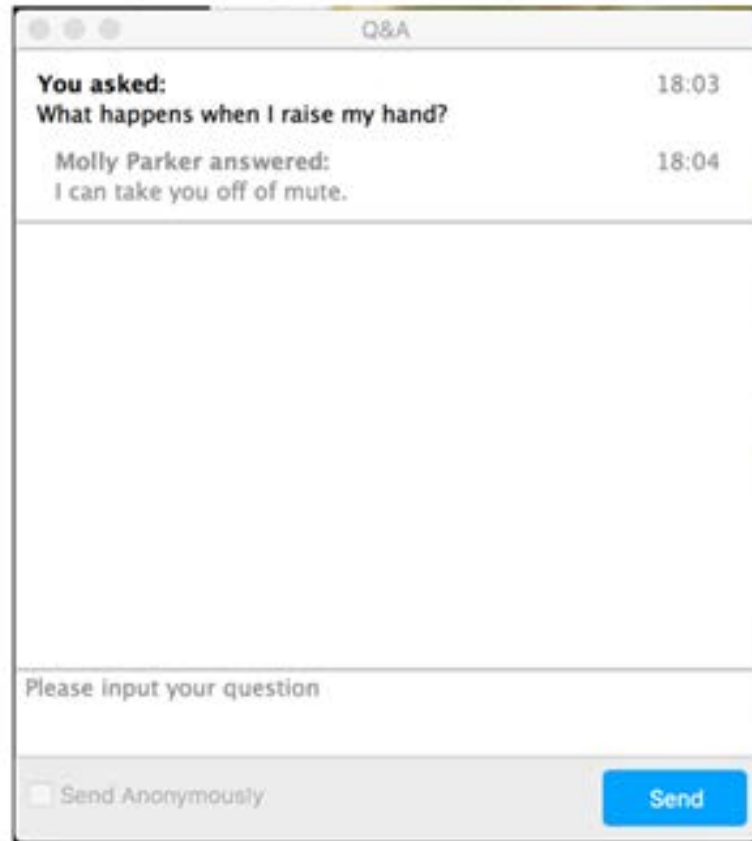


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- Answer: **Molly Parker answered:** I can take you off of mute. (18:04)
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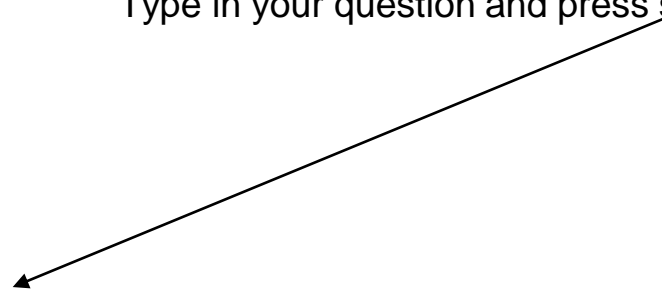
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The new standard on
presentation and disclosure in
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Agenda

1. Introduction to IFRS 18 presentation and disclosure in financial statements
2. New categories and subtotals in the statement of profit or loss
3. Management-defined performance measures (MPMs)
4. Aggregation and disaggregation
5. Consequential amendments to other IFRS Accounting Standards
6. Close and any questions?



Introduction to IFRS 18 presentation and disclosure in financial statements

Familiarity with IFRS 18 – Polling question for the audience

QUESTION: How familiar are you with IFRS 18?

A). No knowledge at all, this is the first time I have thought about the topic.

B). I have seen some updates but I have not started to think about implementation of this Standard.

C). I have followed the project closely and I have started thinking about implementation



Background to IFRS 18

Better communication in financial reporting:
On the IASB agenda since 2014



IFRS 18 — Summary of the new requirements



New categories and required subtotals in statement of profit or loss



Disclosures about management-defined performance measures (MPMs)



Enhanced requirements on aggregation and disaggregation

Transition

- ▶ Effective for reporting periods beginning on or after 01 January 2027.
- ▶ Early application permitted.
- ▶ To be applied retrospectively.
- ▶ In the year of adoption, entities that prepare condensed interim financial statements in compliance with IAS 34 must present the same headings and subtotals it expects to use in their annual financial statements.

UK Endorsement Board process is ongoing with the drafting of the Draft Endorsement Criteria Assessment expected to commence in Q4 2024 and an expected adoption decision made in Q4 2025.



New categories and subtotals in the statement of profit or loss

Categories and subtotals in the statement of profit or loss

Statement of profit or loss	
Revenue	Operating
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 the profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

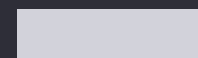


Some companies, such as banks and investment property companies, will classify income and expenses in their operating profit that other companies would classify in the investing or financing categories if these are identified as arising from the 'specified main business' activity.

This will allow such entities to report key performance metrics within the operating section.



New items



Required items

Categories in the statement of profit or loss: Investing

What is typically included 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
- ▶ Dividends and fair value changes on non-consolidated equity investments

Income and expenses from subsidiaries, associates and joint ventures

Income and expenses from cash and cash equivalents

Categories in the statement of profit or loss: Financing

What is typically included 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
- ▶ Debt instruments that will be settled in cash e.g., bank loans

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

- ▶ Lease liabilities
- ▶ Defined benefit pension liabilities

Categories in the statement of profit or loss: Operating

What is included in the operating category?



Income and expenses

- ▶ From an entity's main business activities
 - ▶ Not classified in other categories (residual category)
 - ▶ Also includes volatile and unusual income and expenses
-

Provides a picture of the entity's operations

Comparison of illustrative IAS 1 and IFRS 18 statements of profit or loss

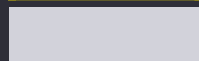
Statement of profit or loss by function under IAS 1		Statement of profit or loss under IFRS 18	
Revenue		Revenue	Operating
Cost of sales		Cost of sales	
Gross profit		Gross profit	
Other income	→	Other operating income	
Distribution costs	→	Selling expense	
Administrative expenses		Research and development expenses	
Other expenses		General and administrative expenses	
Finance costs		Goodwill impairment loss	
Share of profit of associates	→	Other operating expenses	
<i>Profit before tax</i>		Operating profit	
Income tax expense			Investing
Profit for the year from continuing operations		Share of profit and gains on disposal of associates and joint ventures	
Loss for the year from discontinued operations			Financing
Profit for the year		Profit before financing and income tax	
		Interest expense on borrowings and lease liabilities Interest expense on pension liabilities and provisions	
		Profit before income tax	
		Income tax expense	Income taxes
		Profit from continuing operations	
		Loss from discontinued operations	Discontinued operations
		Profit for the year	

Source: IAS 1 IG6 Part I: Illustrative presentation of financial statements

Key



New items



Required items



Example possible reclassifications

Source: IFRS 18 IE7 Part I — Examples of presentation and disclosure

Specified main business activities

IFRS 18 requires an entity to assess whether it

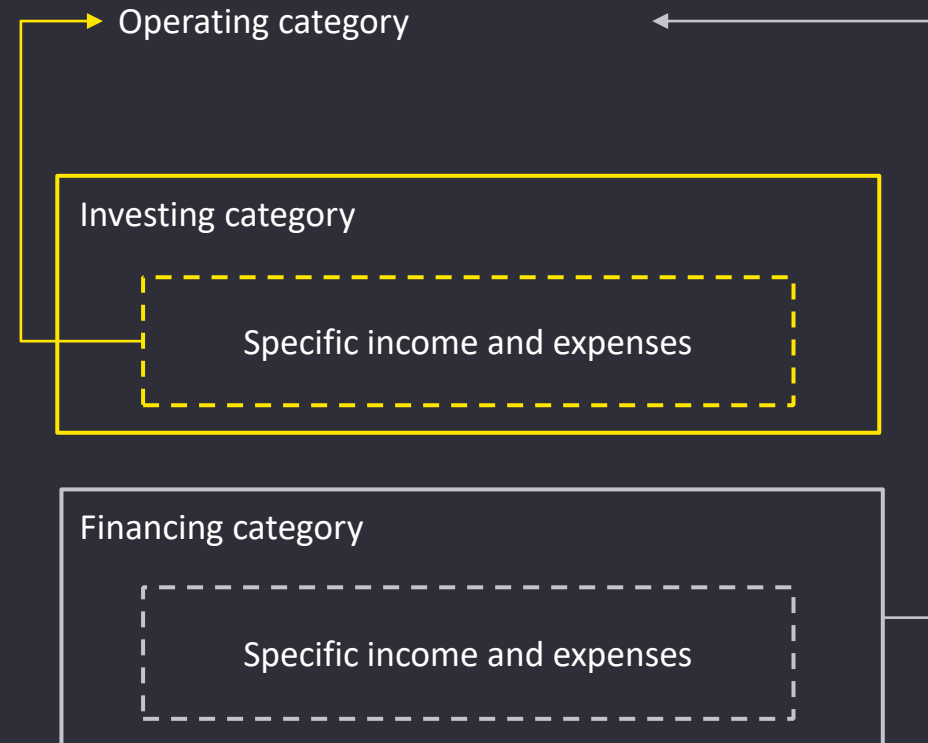
- ▶ Invests in assets generate a return individually and largely independently of other resources held by an entity as a main business activity?
- ▶ Provides financing to customers as a main business activity?

Whether an entity has specified main business activities

- ▶ Is a matter of fact and not merely an assertion
- ▶ Requires the entity uses judgement to assess
- ▶ Is based on observable evidence to the extent available
- ▶ Is assessed for the reporting entity as a whole

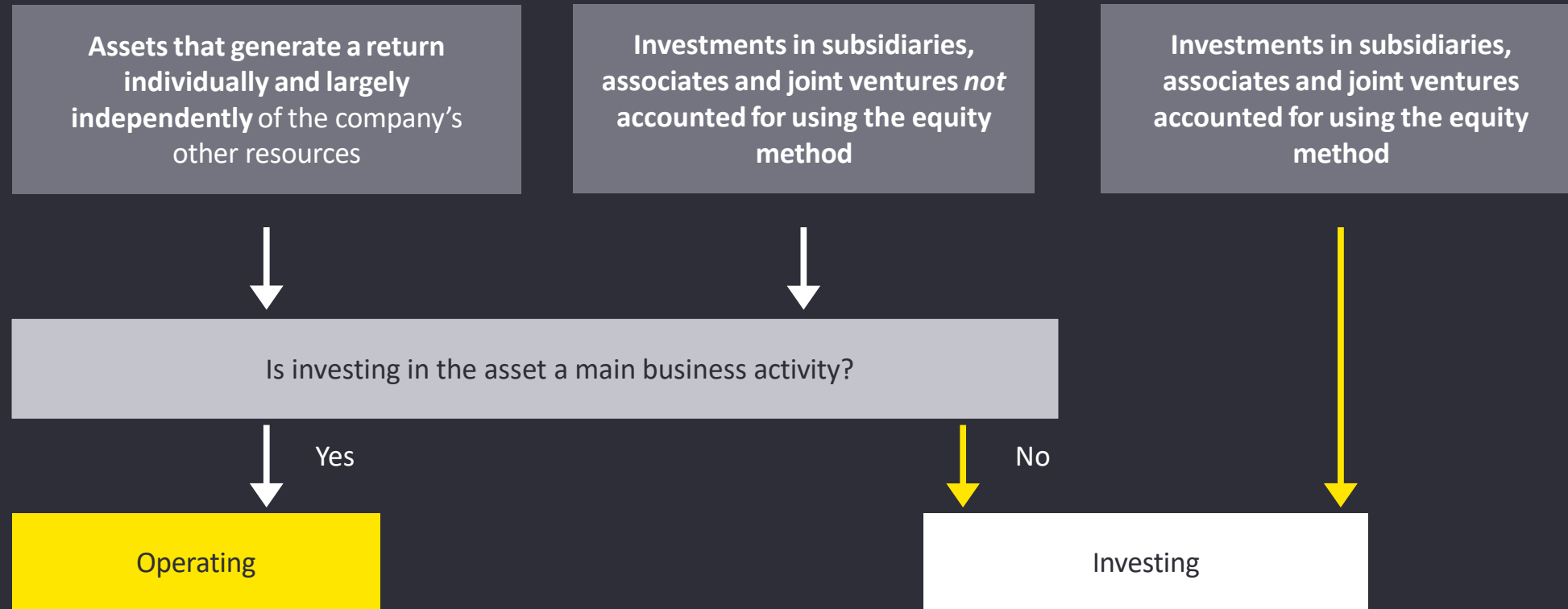


The assessment is a continuous one and may change over time.



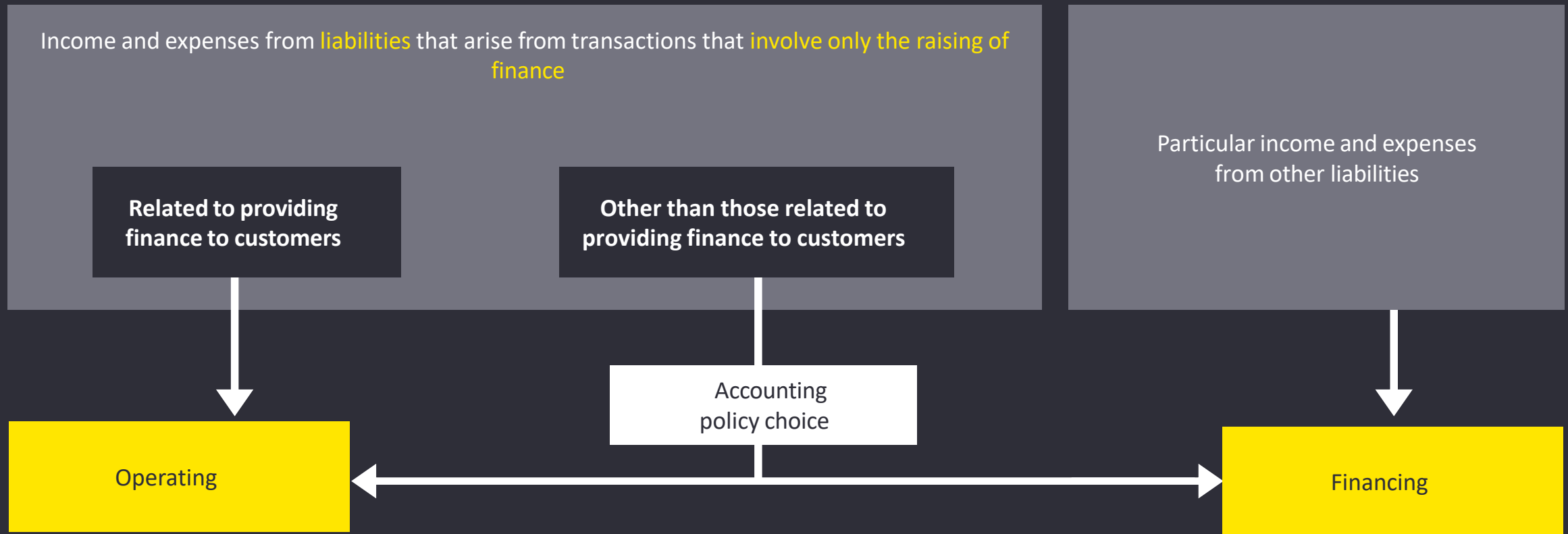
Main business activities: Investing in assets

Income and expenses from



Entity needs to disclose the fact it has investing in assets as its main business activity.

Main business activities: Provision of financing to customers



Entity needs to disclose the fact it has provision of financing to customers as its main business activity.

Management-defined performance measures (MPMs)

Management-defined performance measures (MPMs): Definition

Subtotals of income and expenses not specified by IFRS Accounting Standards

Used in public communications outside financial statements

Measures that communicate management's view of an entity's financial performance



What are management-defined performance measures?

Performance measures

Financial performance measures

Subtotals of income and expenses

MPMs

- ▶ Adjusted profit or loss
- ▶ Adjusted operating profit

IFRS-defined or specified

- ▶ Operating profit
- ▶ Operating profit before depreciation amortisation and specified impairments

Other measures that are not subtotals of income and Expenses

- ▶ Free cash flow
- ▶ Return on equity
- ▶ Net debt / EBITDA
- ▶ Adjusted revenue

Nonfinancial performance measures

- ▶ Number of subscribers
- ▶ Customer satisfaction score
- ▶ Store surface

Management-defined Performance Measures (MPMs): Required disclosures

IFRS 18 introduces requirement to disclose in a single note:

- ▶ Statement that the MPM reflects management's view
- ▶ Explanation of why the MPM is reported
- ▶ Reconciliation with IFRS-defined number
- ▶ Explanation of any changes to the MPM



		Tax	NCI*
Operating profit (IFRS-specified)	36,520		
Restructuring in Country X (incl. in employee benefits)	8,600	(600)	1,240
Revenue adjustment (incl. in revenue)	3,800	(320)	-
Adjusted operating profit (MPM)	48,920		

*Non-controlling interest

MPMs — Some practical considerations

Implementation:

- ▶ Communications in relation to current performance measures or MPMs may be impacted e.g., need to involve Investor Relations and CFO and CEO to align on performance measures.
- ▶ Review and ongoing monitoring of all capital market communications and investor decks and public communications will be required.
- ▶ Some groups are using IFRS 18 as an opportunity to revisit their reported performance measures to better align with their business strategy.
- ▶ Interaction with other projects and regulations that impact reporting of performance measures e.g., EU Taxonomy for those reporting under CSRD.*

* Corporate Sustainability Reporting Directive



Aggregation and disaggregation

Aggregation and disaggregation

Roles of primary financial statements and the notes

- ▶ Primary financial statements are to provide a **useful structured summary**.
- ▶ Notes are to provide **further information** and **supplement** the primary financial statements.

Principles for aggregation and disaggregation

Considering similar and dissimilar characteristics

- ▶ In the **primary financial statements** would result in a useful structured summary
- ▶ In the notes would result in material information.

Aggregating items and using meaningful labels

Use **meaningful labels**

- ▶ Use the label 'other' only when unable to find a more informative label.
- ▶ Label as precisely as possible.

Additional disclosures required if aggregated amounts of immaterial items are sufficiently large that users might question whether the amount includes material items.

Categorisation, aggregation and disaggregation — Some practical considerations

Implementation:

- ▶ Financial reporting systems, chart of accounts and mapping to consolidation may need updating — consider timing of application of IFRS 18 in the context of new ERP implementation.
- ▶ Identify which Financial Statement Line Items (FSLI) income and expenses will be identified on the face of the statement of profit or loss. Judgement likely needed & interpretation is evolving.
- ▶ Processes, controls and governance will need to evolve and be updated to reflect any changes to the IFRS financial reporting.



IFRS 18 main challenges – Polling question for the audience

QUESTION: What are the main challenges expected in the implementation of IFRS 18?

- A). Familiarisation with IFRS 18 requirements.
- B). Changes to data handling processes and controls.
- C). Accounts preparation.
- D). Accounting system changes.
- E). All of the above.
- F). No expected challenge.



Consequential amendments to other IFRS accounting standards

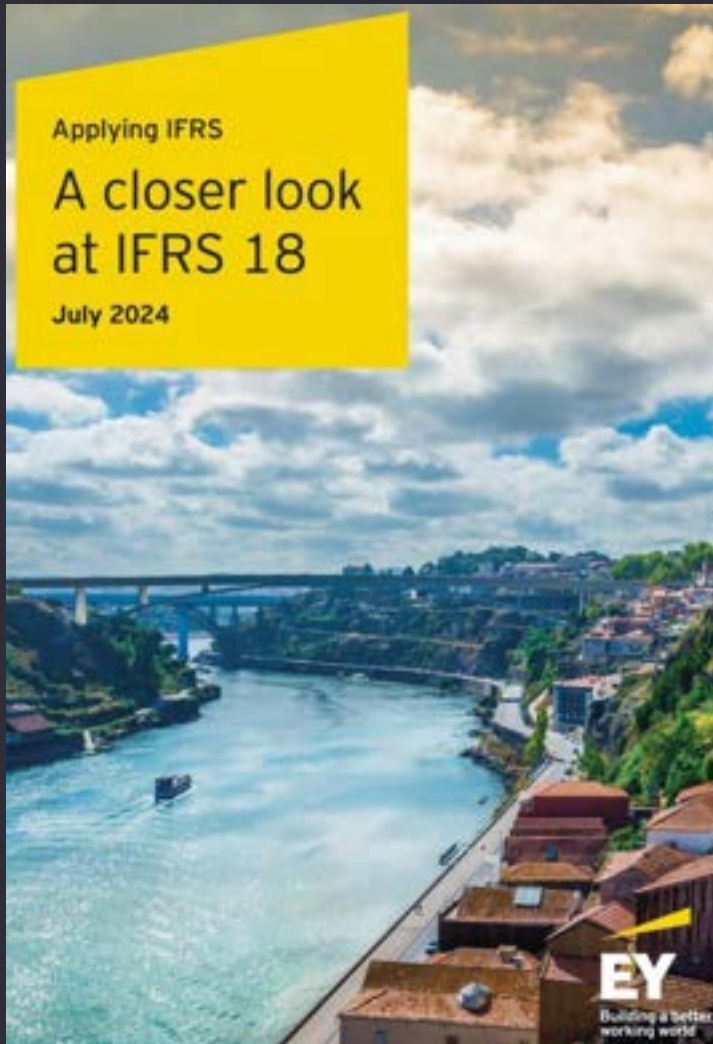
Consequential amendments to other IFRS accounting standards

Narrow-scope amendments made to

- ▶ IAS 7 Statement of Cash Flows:
 - ▶ Change in starting point in determining cash flows from operations under the indirect method
 - ▶ Optionality around classification of cash flows from dividends and interest largely removed
- ▶ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
 - ▶ Name changed to IAS 8 Basis of Preparation of Financial Statements
 - ▶ Some requirements previously included within IAS 1 moved to IAS 8
- ▶ IAS 34 Interim Financial Reporting
 - ▶ Amended to require disclosure of MPMs



Useful links



Links to EY publications

- ▶ [Applying IFRS — A closer look at IFRS 18](#)
- ▶ [IASB issues IFRS 18 Presentation and Disclosure in Financial Statements](#)
- ▶ [IFRS 18 changes in financial performance reporting](#)
- ▶ [EY IFRS technical resources](#)

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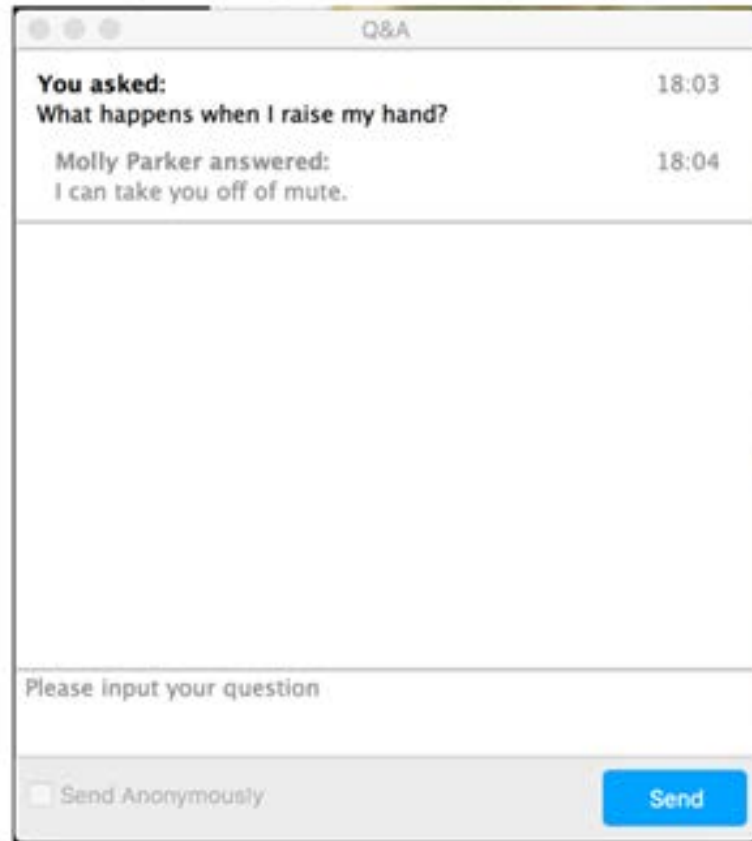
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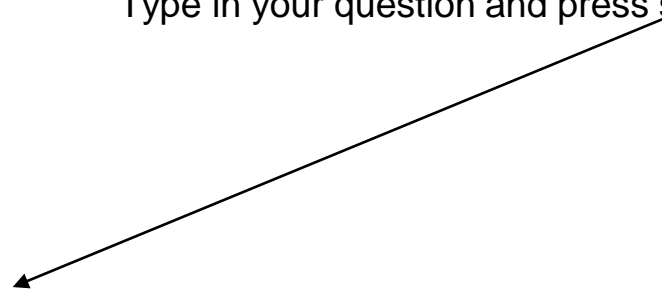
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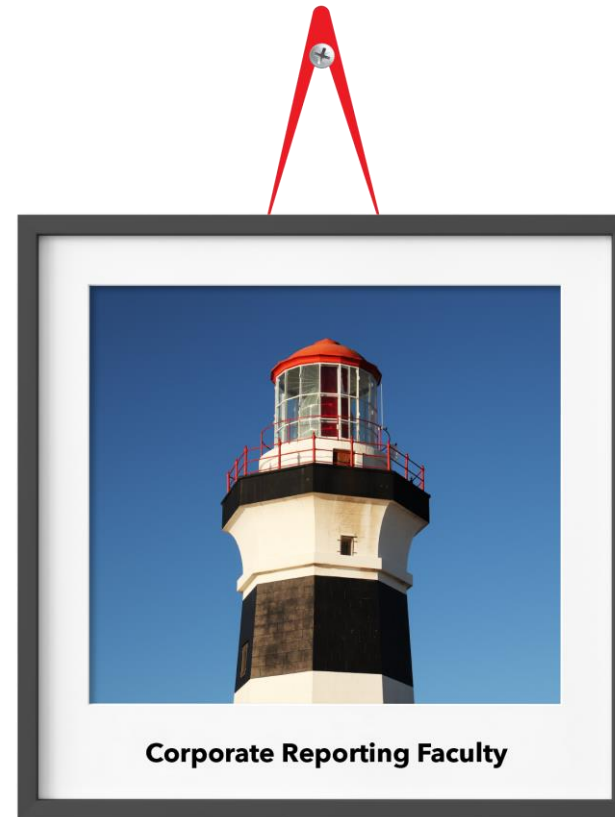
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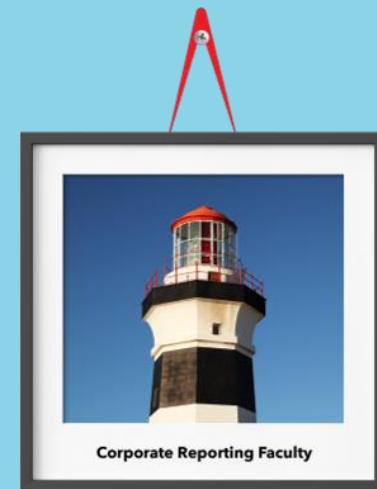


ICAEW resources

- [IFRS Factsheets](#)
- [IFRS accounting standards tracker](#)
- [By All Accounts IFRS 18 article](#)
- [Guides and technical releases](#) – IFRS 18 guide coming soon
- Webinars and events
 - icaew.com/crfevents for upcoming events
 - icaew.com/crfwebinars for webinar recordings
- ICAEW CPD courses:
 - [IFRS refresher](#)
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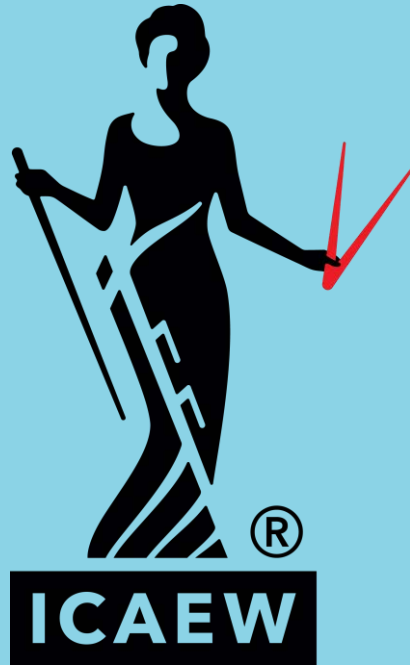
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