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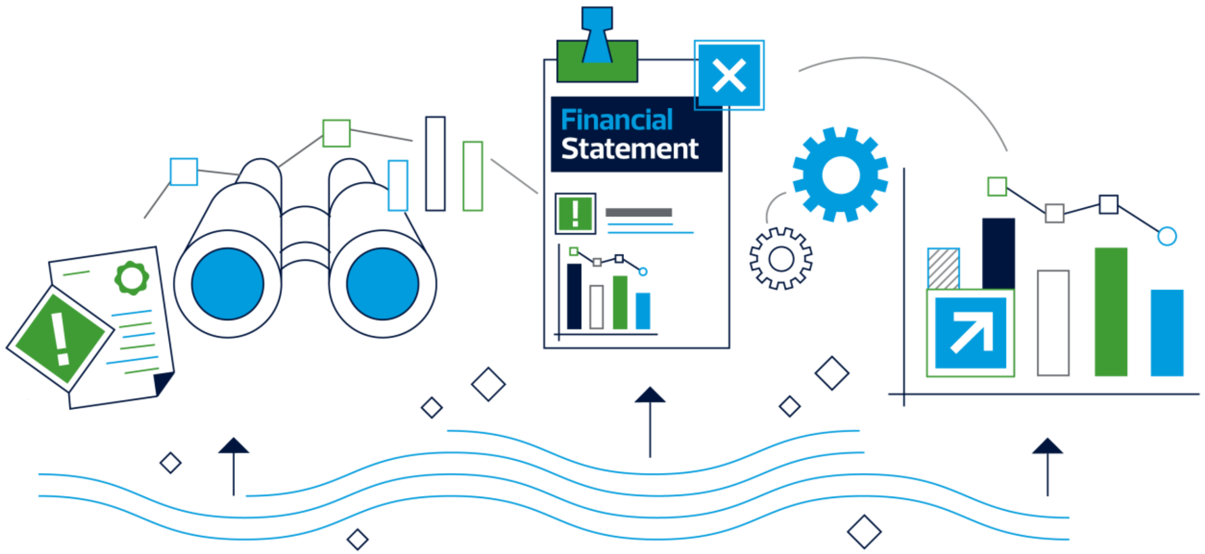
IFRS 18 Overview

Presentation and disclosure in financial statements

Objective of IFRS 18

IFRS 18's **objective** is to provide better information to investors and improved comparability between different entities.



Background

IFRS 18 was published in April 2024 (first new IFRS to be published since May 2017).

It is effective for accounting periods beginning on or after 1 January 2027 but can be adopted early.

It will replace IAS 1, Presentation of Financial Statements, much of which is carried forward unchanged (this presentation focuses only on changes from IAS 1).

The primary focus of the changes is the statement of profit or loss.

Background

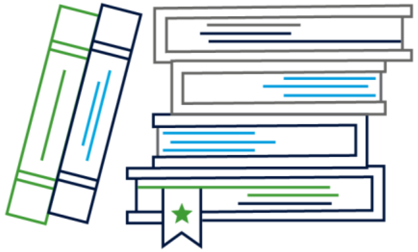
Some sections of IAS 1 have been transferred to IAS 8, which is now titled *Basis of preparation of financial statements*. These sections include those dealing with:

a) Fair presentation and compliance with IFRS Accounting Standards (to the best of our knowledge this is the first time the IASB has acknowledged the switch from 'International Financial Reporting Standards' to 'IFRS Accounting Standards', to distinguish them from IFRS Sustainability Standards)
b) Going concern
c) Accrual basis of accounting
d) Disclosure of accounting policy information
e) Sources of estimation uncertainty

Background

The new Standard includes the following appendices:

A. Defined terms
B. Application guidance
C. Effective date and transition
D. Amendments to other IFRS Accounting Standards

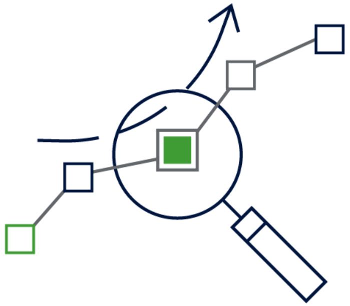


The following have also been published (not part of the Standard):

- Illustrative Examples
- Basis for conclusions

Background

As the title of the Standard makes clear, it deals only with Presentation and Disclosure: accounting policies will not change, and therefore there will be no prior period adjustments arising from implementation of this standard.



Key changes

01

Identification of categories of income and expenses

02

The definition of sub-totals in the statement of profit or loss

(operating profit now defined)

03

Disclosure requirements for management-defined performance measures

04

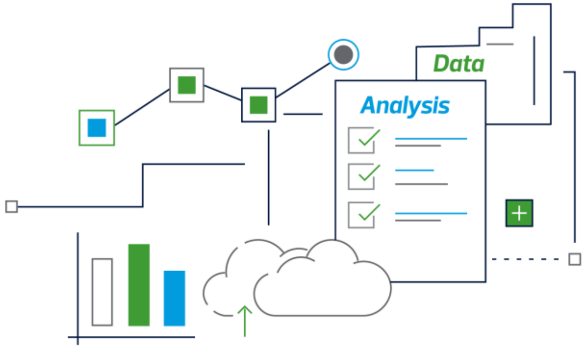
Changes to IAS 7, Statement of Cash Flows

Categorisation of income and expenses

Categories of income and expenses

The standard elaborates on a concept in IAS 7 (Statement of Cash Flows) and introduces five separate categories of income and expenses:

a. Operating
b. Investing
c. Financing
d. Income taxes
e. Discontinued operations (per IFRS 5)



Investing Activities

Investing activities include income and expenses from:

a. Investments in associates, joint ventures and unconsolidated subsidiaries;
b. Cash and cash equivalents;
c. Other assets that generate a return individually and largely independently of the entity’s other resources.

Financing Activities

To determine what income and expenses are classified under **Financing activities** an entity first has to distinguish between:

a. Liabilities that arise from transactions that involve only the raising of finance; and
b. Other liabilities

Financing Activities (continued)

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An entity then includes in the **Financing** category:

For (a):

i. Income and expenses that arise from the initial and subsequent measurement of the liabilities; and

ii. The incremental expenses directly attributable to the issue and extinguishment of such liabilities, such as transaction costs.

For (b):

i. Interest income and expenses; and

ii. Income and expenses arising from changes in interest rates.

The income taxes category

An entity shall classify in the **income taxes** category tax expense or tax income that is included in the statement of profit or loss applying IAS 12 Income Taxes, and any related foreign exchange differences.

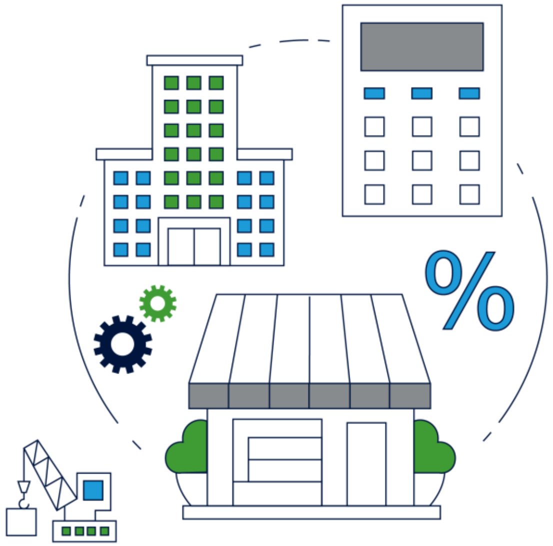
The discontinued operations category

An entity shall classify in the **discontinued operations** category income and expenses from discontinued operations as required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The operating category

The **Operating** category includes all income and expenses that are not classified in any of the other four categories.

i.e. it is the default category



Specified main business activities

However, IFRS 18 introduces the term "Specified main business activity". Those specified activities are:

- Investing in particular types of assets; or
- Providing financing to customers

Entities having such **main business activities** would classify some income and expenses as operating which otherwise would be classified as investing or financing, and shall disclose what their main business activity is.

Classification of expenses

An entity shall classify and present operating expenses in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics:

a. The nature of expenses; or

b. The function of the expenses within the entity

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

Classification of expenses

An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:

(a) the total for each of:

i. Depreciation
ii. Amortisation
iii. Employee benefits
iv. Impairment losses/reversals
v. Write-downs of inventory; and

Classification of expenses

(b) for each total listed above:

i. The amount related to each line item in the operating category

ii. A list of any items outside the operating category that also include amounts relating to the total (e.g. discontinued operations)

Example

This table shows the totals of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories and the amounts related to each line item in the operating category of XYZ Group's statement of profit or loss. *[Only employee benefits is illustrated below]*

....

	20x2	20x1
Employee benefits	KSh	KSh
Cost of sales	x	x
Selling expenses	x	x
Administrative expenses	x	x
Total employee benefits	x	x

....

Sub-totals

Sub–totals

An entity shall present totals and subtotals in the statement of profit or loss for:

(a) operating profit or loss;

(b) profit or loss before financing and income taxes (includes income and expenses in the investing category); and

(c) profit or loss.

Illustrated statement of profit or loss

	Note	202y	202x	Category
Revenue	1	x	x	Operating
Cost of sales	2	(x)	(x)	
Gross profit		x	x	
Other operating income	3	x	x	
Selling expenses	4	(x)	(x)	
Administrative expenses	5	(x)	(x)	
Operating profit	6	x	x	**Required subtotal**
Share of profit of associates	7	x	x	Investing
Interest income from cash and cash equivalents		x	x	
Profit before financing and income taxes		x	x	**Required subtotal**
Interest expense on borrowings	8	(x)	(x)	Financing
Interest expenses on other liabilities		(x)	(x)	
Profit before income taxes		x	x	
Income tax expense	9	(x)	(x)	
Profit		x	x	**Required subtotal**

Aggregation and disaggregation

Primary financial statements and notes

- The role of the **primary financial statements** is to provide structured summaries …. that are useful to users of financial statements
- The role of the **notes** is to provide material information necessary (a) to enable users to understand the line items in the primary financial statements; and (b) to supplement the primary financial statements with additional information

An entity need not provide a specific presentation or disclosure if the information resulting from that presentation or disclosure is not material

Aggregation, disaggregation and descriptions

- Classify and aggregate items based on shared characteristics
- Disaggregate items based on characteristics that are not shared (when material)
- Ensure that aggregation and disaggregation in the financial statements do not obscure material information
- To faithfully represent an item, provide all descriptions and explanations necessary for a user to understand the item

Management-defined performance measures

Definition

A **management-defined performance measure (MDPM)** is a sub-total of income and expenses that:

(a) an entity uses in public communications outside financial statements;

(b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and

(c) is not a sub-total specified in paragraph 118 (next slide), or specifically required to be presented or disclosed by IFRS Accounting Standards.

Paragraph 118

The following are not MDPMs (inter alia):

a) Gross profit or loss and similar subtotals
b) Operating profit or loss before depreciation, amortisation, and impairments within the scope of IAS 36
c) Profit or loss before income taxes
d) Profit or loss from continuing operations

Disclosure

The objective of the disclosures for MDPMs is for an entity to provide information to help a user of financial statements understand:

(a) the aspect of financial performance that, in management's view, is communicated by a MDPM; and

(b) how the MDPM compares with the measures defined by IFRS Accounting Standards.

Disclosure

An entity shall disclose information about all measures that meet the definition of MDPMs in IFRS 18 in a single note.

This note shall include a statement that the MDPMs provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

Changes to IAS 7

Statement of Cash Flows

Classification of cash flows

The amendments make it clear that:

a. Dividends paid should be classified as cash flows from financing activities
b. Interest paid should be classified as cash flows from financing activities; and
c. Interest and dividends received should be classified as cash flows from investing activities; **unless**
d. The entity is one that invests in assets or provides financing to customers as a main business activity, in which case it shall determine how to classify dividends received, interest received and interest paid by referring to how it classifies these items in the statement of profit or loss.

Cash flows from operating activities

If the indirect method is used, it is Operating profit (before tax) that should be adjusted for non-cash items and changes in working capital

Income taxes are classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities

Transition

Transition

An entity shall apply this Standard retrospectively applying IAS 8.

In its annual financial statements an entity shall disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:

(a) the restated amounts presented applying this Standard; and

(b) the amounts previously presented applying IAS 1 *Presentation of Financial Statements*.

Practice aid

The Africa Assurance Group has developed a set of Illustrative Financial Statements showing the effect of early adoption of the Standard:

"RSM Africa IFRS 18 Limited"

Recap – Key changes

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Changes to IAS 7, Statement of Cash Flows


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