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Hong Kong Financial Reporting Standard 18

Presentation and Disclosure in Financial Statements

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Introduction

Overview

IN1 Hong Kong Financial Reporting Standard 18 *Presentation and Disclosure in Financial Statements* (HKFRS 18) sets out the requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

IN2 HKFRS 18 is effective for annual periods beginning on or after 1 January 2027. Earlier application is permitted.

IN3 HKFRS 18 supersedes HKAS 1 *Presentation of Financial Statements*. Requirements in HKAS 1 that are unchanged have been transferred to HKFRS 18, HKAS 8 *Basis of Preparation of Financial Statements* (formerly known as HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and HKFRS 7 *Financial Instruments: Disclosures*.

Reasons for issuing HKFRS 18

The Hong Kong Institute of Certified Public Accountants supports the reasons for the International Accounting Standards Board (IASB) issuing IFRS 18 *Presentation and Disclosure in Financial Statements* and therefore issued HKFRS 18 to maintain convergence of HKFRS Accounting Standards with IFRS Accounting Standards.

IN4 HKFRS Accounting Standards do not have detailed requirements on where to classify income and expenses in the statement of profit or loss; what subtotals to present above "profit or loss" in the statement of profit or loss; or how to group the information to be presented in the primary financial statements or disclosed in the notes.

IN5 This lack of detailed requirements lead to diversity in practice. Entities define their own subtotals and performance measures and group items in their own ways. Investors commented that this diversity makes it difficult to analyse and compare entities' performance.

IN6 To respond to investors' demands for better information about entities' financial performance, the IASB undertook a project to improve the reporting of financial performance. The IASB completed the project by issuing IFRS 18 which aims to give investors more transparent and comparable information about entities' financial performance, thereby enabling better investment decisions.

Main features

IN7 HKFRS 18 introduces the following three sets of new requirements to improve entities' reporting of financial performance and give investors a better basis for analysing and comparing entities.

Subtotals in the statement of profit or loss

IN8 To improve the structure of the statement of profit or loss, HKFRS 18 introduces three new defined categories (operating, investing and financing) for classifying income and expenses, and requires entities to present two new defined subtotals (operating profit and profit before financing and income taxes).

IN9 The **operating category** is the default category and consists of all income and expenses that are not classified in any of the other categories. This means that the operating category includes, but is not limited to, income and expenses from an entity's main business activities regardless of whether they are volatile or non-recurring. The operating category provides a complete picture of an entity's operations for the reporting period. Investors use the operating profit subtotal as a measure of how an entity is performing in its business activities and as a starting point for forecasting future cash flows.

IN10 The **investing category** includes income and expenses from assets that generate returns separately from an entity's business activities and from cash and cash equivalents and investments in associates and joint ventures. The investing category enables investors to analyse returns from stand-alone investments separately from an entity's operations.

IN11 The **financing category** includes income and expenses on liabilities arising from transactions that involve only the raising of finance (such as bank loans and bonds) and interest expenses on any other liability (such as lease and pension liabilities). The financing category and the subtotal for profit before financing and income taxes enable investors to analyse entities' performance before the effects of its financing.

IN12 HKFRS 18 includes additional classification requirements for entities with specified main business activities, i.e. entities that provide financing to customers or that invest in assets as a main business activity. These entities are required to classify in the operating category some income and expenses that would otherwise be classified in the investing category or the financing category if the activity were not a main business activity.

IN13 HKFRS 18 requires entities to classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. If classifying foreign exchange differences this way would involve undue cost or effort, entities are permitted to classify foreign exchange differences in the operating category. HKFRS 18 also includes specific requirements for classifying fair value gains and losses on derivatives and hedging instruments and for classifying income and expenses from hybrid contracts.

Management-defined performance measures (MPM)

IN14 HKFRS 18 defines MPM as a subtotal of income and expenses other than those listed by HKFRS 18 or specifically required by HKFRS Accounting Standards, that an entity uses in public communications outside financial statements, and to communicate to investors management's view of an aspect of the financial performance of the entity as a whole.

IN15 HKFRS 18 requires entities to disclose MPMs in a single note, including:

i) a reconciliation between the measure and the most directly comparable subtotal listed in HKFRS 18 or total or subtotal specifically required by HKFRS Accounting Standards, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;

ii) a description of how the measure communicates management's view and how the measure is calculated;

iii) an explanation of any changes in the entity's MPMs or in how it calculates its MPMs; and

iv) a statement that the measure reflects management's view of an aspect of financial performance of the entity as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other entities.

Grouping of information

IN16 HKFRS 18 provides guidance for entities on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. Entities are required to:

i) aggregate items that share characteristics, and disaggregate items that have different characteristics;

ii) group items in a way that does not obscure material information or reduce the understandability of the information presented; and

iii) place items in the primary financial statements and the notes to fulfil their complementary notes.

IN17 HKFRS 18 requires an entity to present the operating category expenses based on their nature or their function. Entities that present expenses classified by function are required to disclose in the notes the amount of depreciation, amortisation, employee benefits, impairment losses and write-downs of inventories included in each line item in the operating category of the statement of profit or loss.

Hong Kong Financial Reporting Standard 18
Presentation and Disclosure in Financial Statements

Objective

1 This Standard sets out requirements for the presentation and disclosure of information in *general purpose financial statements* (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

Scope

2 **An entity shall apply this Standard in presenting and disclosing information in financial statements prepared in accordance with *HKFRS Accounting Standards*.**

3 This Standard sets out general and specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. This Standard also sets out requirements for the disclosure of information in the *notes*. HKAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information. However, the general requirements for financial statements in paragraphs 9–43 and 113–114 apply to the statement of cash flows.

4 Other HKFRS Accounting Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.

5 This Standard does not apply to the presentation and disclosure of information in condensed interim financial statements prepared applying HKAS 34 *Interim Financial Reporting*. However, paragraphs 41–45 and 117–125 apply to such financial statements.

6 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.

7 Similarly, entities that do not have equity as defined in HKAS 32 *Financial Instruments: Presentation* (for example, some mutual funds) and entities whose share capital is not equity (for example, some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

8 Many entities provide a financial review by management, which is separate from the financial statements (see paragraph 10), that describes and explains the main features of the entity's financial performance and financial position, as well as the principal uncertainties it faces. Such a review is outside the scope of HKFRS Accounting Standards.

General requirements for financial statements

Objective of financial statements

9 The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

A complete set of financial statements

10 **A complete set of financial statements comprises:**

(a) a statement (or statements) of financial performance for the reporting period (see paragraph 12);

(b) a statement of financial position as at the end of the reporting period;

(c) a statement of changes in equity for the reporting period;

(d) a statement of cash flows for the reporting period;

(e) notes for the reporting period;

(f) comparative information in respect of the preceding period as specified in paragraphs 31–32; and

(g) a statement of financial position as at the beginning of the preceding period if required by paragraph 37.

11 The statements listed in paragraphs 10(a)–10(d) (and their comparative information) are referred to as the *primary financial statements*. An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'. In addition, although this Standard uses terms such as '*other comprehensive income*', '*profit or loss*' and '*total comprehensive income*', an entity may use other terms to label the totals, subtotals and line items required by this Standard as long as they are labelled in a way that faithfully represents the characteristics of the items, as required by paragraph 43. For example, an entity may use the term 'net income' to label 'profit or loss'.

12 An entity shall present its statement(s) of financial performance as either:

(a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections—if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or

(b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss—if this option is chosen, the statement of profit or loss shall immediately precede the statement presenting comprehensive income.

13 In this Standard:

(a) the profit or loss section described in paragraph 12(a) and the statement of profit or loss described in paragraph 12(b) are referred to as the statement of profit or loss; and

(b) the other comprehensive income section described in paragraph 12(a) and the statement presenting comprehensive income described in paragraph 12(b) are referred to as the statement presenting comprehensive income.

14 An entity shall present each of the primary financial statements with equal prominence in a complete set of financial statements.

The roles of the primary financial statements and the notes

15 **To achieve the objective of financial statements (see paragraph 9), an entity presents information in the primary financial statements and discloses information in the notes. An entity need only present or disclose *material information* (see paragraphs 19 and B1–B5).**

16 **The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:**

(a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

17 **The role of the notes is to provide material information necessary:**

(a) to enable users of financial statements to understand the line items presented in the primary financial statements (see paragraph B6); and

(b) to supplement the primary financial statements with additional information to achieve the objective of financial statements (see paragraph B7).

18 An entity shall use the roles of the primary financial statements and the notes, described in paragraphs 16–17, to determine whether to include information in the primary financial statements or in the notes. The different roles of the primary financial statements and the notes mean that the extent of the information required in the notes differs from that in the primary financial statements. The differences mean that:

(a) to provide the structured summaries described in paragraph 16, information provided in the primary financial statements is more aggregated than information provided in the notes; and

(b) to provide the information described in paragraph 17, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including the *disaggregation* of information presented in the primary financial statements, is provided in the notes.

Information presented in the primary financial statements or disclosed in the notes

19 **Some HKFRS Accounting Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by HKFRS Accounting Standards if the information resulting from that presentation or disclosure is not material. This is the case even if HKFRS Accounting Standards contain a list of specific requirements or describe them as minimum requirements.**

20 **An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in HKFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.**

Information presented in the primary financial statements

21 Paragraph 16 establishes that the role of the primary financial statements is to provide structured summaries that are useful for the purposes specified in that paragraph (referred to hereafter as a *useful structured summary*). An entity shall use the role of the primary financial statements to determine what material information to present in those statements, as set out in paragraphs 22–24.

22 **To provide a useful structured summary in a primary financial statement, an entity shall comply with specific requirements that determine the structure of the statement. The specific requirements are:**

(a) for the statement of profit or loss—the requirements in paragraphs 47, 69, 76 and 78;

(b) for the statement presenting comprehensive income—the requirements in paragraphs 86–88;

(c) for the statement of financial position—the requirements in paragraphs 96 and 104;

(d) for the statement of changes in equity—the requirements in paragraph 107; and

(e) for the statement of cash flows—the requirements in paragraph 10 of HKAS 7.

23 **Some HKFRS Accounting Standards require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if HKFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).**

24 **An entity shall present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary. When an entity presents additional line items or subtotals, those line items or subtotals shall (see paragraph B9):**

(a) comprise amounts recognised and measured in accordance with HKFRS Accounting Standards;

(b) be compatible with the statement structure created by the requirements listed in paragraph 22;

(c) be consistent from period to period, in accordance with paragraph 30; and

(d) be displayed no more prominently than the totals and subtotals required by HKFRS Accounting Standards.

Identification of the financial statements

25 **An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraph B10).**

26 HKFRS Accounting Standards apply only to financial statements, and not necessarily to other information provided in an annual report, a regulatory filing or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using HKFRS Accounting Standards from other information that may be useful to users but is not the subject of those requirements.

27 **An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall disclose prominently, and repeat when necessary for the information provided to be understandable:**

(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(b) whether the financial statements are of an individual entity or a group of entities;

(c) the date of the end of the reporting period or the period covered by the financial statements;

(d) the presentation currency, as defined in HKAS 21 *The Effects of Changes in Foreign Exchange Rates*; and

(e) the level of rounding used for the amounts in the financial statements (see paragraph B11).

Frequency of reporting

28 **An entity shall provide a complete set of financial statements at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:**

(a) the reason for using a longer or shorter period; and

(b) the fact that amounts included in the financial statements are not entirely comparable.

29 Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Consistency of presentation, disclosure and classification

30 **An entity shall retain the presentation, disclosure and *classification* of items in the financial statements from one reporting period to the next unless:**

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for selecting and applying accounting policies in HKAS 8 *Basis of Preparation of Financial Statements* (see paragraph B12); or

(b) a HKFRS Accounting Standard requires a change in presentation, disclosure or classification.

Comparative information

31 **Except when HKFRS Accounting Standards permit or require otherwise, an entity shall provide comparative information (that is, information for the preceding reporting period) for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is necessary for an understanding of the current period's financial statements (see paragraph B13).**

32 **An entity shall present a current reporting period and preceding period in each of its primary financial statements and in the notes. Paragraphs B14–B15 set out requirements relating to additional comparative information.**

Change in accounting policy, retrospective restatement or reclassification

33 **If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):**

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

34 **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

35 Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

36 HKAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

37 **An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the comparative information required in paragraphs 31–32 if:**

(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

(b) the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position as at the beginning of the preceding period.

38 In the circumstances described in paragraph 37 an entity shall present three statements of financial position—a statement of financial position as at:

(a) the end of the current reporting period;

(b) the end of the preceding period; and

(c) the beginning of the preceding period.

39 When an entity is required to present a third statement of financial position applying paragraph 37, it shall disclose the information required by paragraphs 33–36 and HKAS 8. However, it need not provide the related notes to the statement of financial position as at the beginning of the preceding period.

40 The date of that third statement of financial position shall be as at the beginning of the preceding period regardless of whether an entity's financial statements provide comparative information for earlier periods (as permitted by paragraphs B14–B15).

Aggregation and disaggregation

Principles of aggregation and disaggregation

41 **For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any *aggregation* or disaggregation of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the primary financial statements. Other material information about items is disclosed in the notes. Unless doing so would override specific aggregation or disaggregation requirements in HKFRS Accounting Standards, an entity shall (see paragraphs B16–B23):**

(a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;

(b) disaggregate items based on characteristics that are not shared;

(c) aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);

(d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and

(e) ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3).

42 Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 41(c), an entity does not present material information in the primary financial statements, it shall disclose the information in the notes. Paragraphs B79 and B111 set out examples of income, expenses, assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss or statement of financial position or disclosure in the notes is necessary to provide material information.

43 **An entity shall label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.**

Offsetting

44 **An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a HKFRS Accounting Standard (see paragraphs B27–B28).**

45 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, reduces users' ability to understand the transactions and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and allowances for expected credit losses on financial assets—is not offsetting.

Statement of profit or loss

46 **An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless a HKFRS Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).**

Categories in the statement of profit or loss

47 **An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):**

(a) the operating category (see paragraph 52);

(b) the investing category (see paragraphs 53–58);

(c) the financing category (see paragraphs 59–66);

(d) the income taxes category (see paragraph 67); and

(e) the discontinued operations category (see paragraph 68).

48 Paragraphs 52–68 set out requirements for classifying income and expenses in the operating, investing, financing, income taxes and discontinued operations categories. In addition, paragraphs B65–B76 set out requirements on how foreign exchange differences, the gain or loss on the net monetary position, and gains and losses on derivatives and designated hedging instruments are classified in the categories.

Entities with specified main business activities

49 To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity—that is a main business activity of (see paragraphs B30–B41):

(a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53); or

(b) providing financing to customers.

50 Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.

51 If an entity:

(a) invests in assets as a main business activity, it shall disclose that fact.

(b) provides financing to customers as a main business activity, it shall disclose that fact.

(c) identifies a different outcome from its assessment of whether it invests in assets or provides financing to customers as a main business activity (see paragraph B41), it shall disclose:

(i) the fact the outcome of the assessment has changed and the date of the change.

(ii) the amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for the items for which the classification has changed because of the changed outcome of the assessment, unless it is impracticable to do so. If an entity does not disclose the information because it is impracticable to do so, the entity shall disclose that fact.

The operating category

52 **An entity shall classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in (see paragraph B42):**

(a) the investing category;

(b) the financing category;

(c) the income taxes category; or

(d) the discontinued operations category.

The investing category

53 **Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:**

(a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);

(b) cash and cash equivalents; and

(c) other assets if they generate a return individually and largely independently of the entity's other resources (see paragraphs B45–B49).

54 **The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):**

(a) the income generated by the assets;

(b) the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and

(c) the incremental expenses directly attributable to the acquisition and disposal of the assets—for example, transaction costs and costs to sell the assets.

Entities with specified main business activities

55 For the assets specified in paragraph 53(a) (that is, investments in associates, joint ventures and unconsolidated subsidiaries) that an entity invests in as a main business activity (see paragraph B38), the entity shall classify the income and expenses specified in paragraph 54:

(a) in the investing category if the assets are accounted for applying the equity method (see paragraphs B43(a) and B44(a)); or

(b) in the operating category if the assets are not accounted for applying the equity method (see paragraphs B43(b)–(c) and B44(b)–(c)).

56 For the assets specified in paragraph 53(b) (that is, cash and cash equivalents), an entity shall classify the income and expenses specified in paragraph 54 in the investing category unless:

(a) it invests as a main business activity in financial assets within the scope of paragraph 53(c)—in which case it shall classify the income and expenses in the operating category.

(b) it does not meet the requirements in (a) but provides financing to customers as a main business activity—in which case it shall classify:

(i) the income and expenses from cash and cash equivalents that relate to providing financing to customers, for example cash and cash equivalents held for related regulatory requirements—in the operating category.

(ii) the income and expenses from cash and cash equivalents that do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 54 in the operating category or the investing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from liabilities in paragraph 65(a)(ii).

57 If an entity applying paragraph 56(b) cannot distinguish between the cash and cash equivalents described in paragraphs 56(b)(i) and 56(b)(ii), it shall apply the accounting policy choice in paragraph 56(b)(ii) to classify income and expenses from all cash and cash equivalents in the operating category.

58 For the assets specified in paragraph 53(c) (that is, other assets if they generate a return individually and largely independently of the entity's other resources) that an entity invests in as a main business activity (see paragraph B40), the entity shall classify the income and expenses specified in paragraph 54 in the operating category.

The financing category

59 **To determine what income and expenses to classify in the financing category, an entity shall distinguish between:**

- **(a) liabilities that arise from transactions that involve only the raising of finance (see paragraphs B50–B51); and**
- **(b) liabilities other than those described in (a)—that is, liabilities that arise from transactions that do not involve only the raising of finance (see paragraph B53).**

60 **For the liabilities specified in paragraph 59(a) (that is, liabilities that arise from transactions that involve only the raising of finance), except as set out in paragraphs 63–66, an entity shall classify in the financing category the amounts included in the statement of profit or loss for:**

- **(a) income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities (see paragraph B52); and**
- **(b) the incremental expenses directly attributable to the issue and extinguishment of the liabilities—for example, transaction costs.**

61 **For the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance), except as set out in paragraphs 63–64, an entity shall classify in the financing category:**

- **(a) interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in HKFRS Accounting Standards; and**
- **(b) income and expenses arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in HKFRS Accounting Standards.**

62 Paragraphs B56–B57 set out how an entity shall apply the requirements in paragraphs 59–61 to hybrid contracts that contain a host that is a liability.

63 The requirements in paragraphs 60–61 do not apply to gains and losses on derivatives and designated hedging instruments. An entity shall apply paragraphs B70–B76 to classify such gains and losses.

64 An entity shall exclude from the financing category and classify in the operating category:

- (a) income and expenses from issued investment contracts with participation features recognised applying HKFRS 9 *Financial Instruments* (see paragraph B58); and
- (b) insurance finance income and expenses included in the statement of profit or loss applying HKFRS 17 *Insurance Contracts*.

Entities with specified main business activities

65 If an entity provides financing to customers as a main business activity, it shall classify income and expenses (see paragraph B59):

(a) from the liabilities specified in paragraph 59(a) (that is, liabilities that arise from transactions that involve only the raising of finance):

(i) if the liabilities relate to providing financing to customers—in the operating category.

(ii) if the liabilities do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 60 in the operating category or the financing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from cash and cash equivalents in paragraph 56(b)(ii).

(b) from the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance):

(i) if the income and expenses are specified in paragraph 61—in the financing category; or

(ii) if the income and expenses are not specified in paragraph 61—in the operating category.

66 If an entity applying paragraph 65(a) cannot distinguish between the liabilities described in paragraphs 65(a)(i) and 65(a)(ii), it shall apply the accounting policy choice in paragraph 65(a)(ii) to classify income and expenses from all such liabilities in the operating category.

The income taxes category

67 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 HKAS 12 *Income Taxes*, and any related foreign exchange differences (see paragraphs B65–B68).

The discontinued operations category

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

Totals and subtotals to be presented in the statement of profit or loss

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

(a) ***operating profit or loss*** **(see paragraph 70);**

(b) ***profit or loss before financing and income taxes*** **(see paragraph 71), subject to paragraph 73; and**

(c) **profit or loss (see paragraph 72).**

70 Operating profit or loss comprises all income and expenses classified in the operating category.

71 Profit or loss before financing and income taxes comprises:

(a) operating profit or loss; and

(b) all income and expenses classified in the investing category.

72 Profit or loss is the total of income less expenses included in the statement of profit or loss. Accordingly, it comprises all income and expenses classified in all categories in the statement of profit or loss (see paragraph 47).

73 An entity shall not apply paragraph 69(b) if it applies the accounting policy set out in paragraph 65(a)(ii) of classifying in the operating category income and expenses from liabilities that do not relate to the provision of financing to customers. However, such an entity shall apply paragraph 24 to determine whether to present an additional subtotal after operating profit and before the financing category. For example, the entity would present a subtotal for operating profit or loss and income and expenses from investments accounted for using the equity method if the entity determines doing so is necessary to provide a useful structured summary of its income and expenses.

74 If an entity described in paragraph 73 presents an additional subtotal comprising operating profit or loss and all income and expenses classified in the investing category, it shall not label the subtotal in a way that implies the subtotal excludes financing amounts, such as 'profit before financing'. Applying paragraph 43, the entity shall label the subtotal in a way that faithfully represents the amounts included in the subtotal.

Items to be presented in the statement of profit or loss or disclosed in the notes

75 **An entity shall present in the statement of profit or loss line items for (see paragraph B77):**

(a) amounts required by this Standard, namely:

(i) revenue, presenting separately the line items described in (b)(i) and (c)(i);

(ii) operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);

(iii) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(iv) income tax expense or income; and

(v) a single amount for the total of discontinued operations (see HKFRS 5);

(b) amounts required by HKFRS 9, namely:

(i) interest revenue calculated using the effective interest method;

(ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of HKFRS 9;

(iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(iv) any gain or loss arising from the difference between the fair value of a financial asset and its previous amortised cost at the date of reclassification from amortised cost measurement to measurement at fair value through profit or loss; and

(v) **any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss at the date of reclassification of a financial asset from measurement at fair value through other comprehensive income to measurement at fair value through profit or loss; and**

(c) **amounts required by HKFRS 17, namely:**

(i) **insurance revenue;**

(ii) **insurance service expenses from contracts issued within the scope of HKFRS 17;**

(iii) **income or expenses from reinsurance contracts held;**

(iv) **insurance finance income or expenses from contracts issued within the scope of HKFRS 17; and**

(v) **finance income or expenses from reinsurance contracts held.**

76 **An entity shall present in the statement of profit or loss (outside all the categories described in paragraph 47) an allocation of profit or loss for the reporting period attributable to:**

(a) **non-controlling interests; and**

(b) ***owners* of the parent.**

77 Paragraphs B78–B79 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of profit or loss or disclose items in the notes.

Presentation and disclosure of expenses classified in the operating category

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 HKAS 2 *Inventories*.

(b) disclose a qualitative description of the nature of expenses included in each function line item.

83 **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, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of HKAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of HKAS 40 *Investment Property* and paragraph 53(a) of HKFRS 16 *Leases*;

(ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of HKAS 38 *Intangible Assets*;

(iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying HKAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying HKFRS 2 *Share-based Payment*;

(iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of HKAS 36 *Impairment of Assets*; and

(v) write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of HKAS 2; and

(b) for each total listed in (a)(i)–(v):

(i) the amount related to each line item in the operating category (see paragraph B84); and

(ii) a list of any line items outside the operating category that also include amounts relating to the total.

84 Paragraph 41 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 83 is exempt from disclosing:

(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 83; and

(b) in relation to nature expenses specifically required by a HKFRS Accounting Standard to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 83.

85 The exemption in paragraph 84 relates to disaggregation of operating expenses. However, it does not exempt an entity from applying specific disclosure requirements relating to those expenses in HKFRS Accounting Standards.

Statement presenting comprehensive income

86 **An entity shall present in the statement presenting comprehensive income totals for:**

(a) profit or loss;

(b) other comprehensive income (see paragraphs B86–B87); and

(c) comprehensive income, being the total of profit or loss and other comprehensive income.

87 **An entity shall present an allocation of comprehensive income for the reporting period attributable to:**

(a) non-controlling interests; and

(b) owners of the parent.

Other comprehensive income

88 **An entity shall classify income and expenses included in the statement presenting comprehensive income in one of two categories:**

(a) income and expenses that will be reclassified to profit or loss when specific conditions are met; and

(b) income and expenses that will not be reclassified to profit or loss.

89 **An entity shall present, in each of the categories of the statement presenting comprehensive income, line items for:**

(a) the share of other comprehensive income of associates and joint ventures accounted for using the equity method; and

(b) other items of other comprehensive income.

90 **An entity shall present in the statement presenting comprehensive income or disclose in the notes *reclassification adjustments* relating to components of other comprehensive income (see paragraphs B88–B89).**

91 Other HKFRS Accounting Standards specify whether and when amounts previously included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. An entity includes a reclassification adjustment with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. An entity might have included these amounts in other comprehensive income as unrealised gains in the current or prior periods. An entity shall deduct them from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

92 An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.

93 **An entity shall either present in the statement presenting comprehensive income or disclose in the notes the amount of income taxes relating to each item of other comprehensive income, including reclassification adjustments (see paragraphs 61A and 63 of HKAS 12).**

94 An entity may present items of other comprehensive income either:

(a) net of related tax effects; or

(b) before related tax effects, with one amount shown for the aggregate amount of income taxes relating to those items.

95 If an entity selects the alternative in paragraph 94(b), it shall allocate the tax between the categories set out in paragraph 88.

Statement of financial position

Classification of assets and liabilities as current or non-current

96 **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 99–102 except when a presentation based on liquidity provides a more useful structured summary. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B90–B93).**

97 **Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled:**

(a) no more than 12 months after the reporting period; and

(b) more than 12 months after the reporting period.

98 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**

Current assets

99 **An entity shall classify an asset as current when (see paragraphs B94–B95):**

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within 12 months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in HKAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

100 An entity shall classify all assets other than those specified in paragraph 99 as non-current.

Current liabilities

101 **An entity shall classify a liability as current when:**

(a) it expects to settle the liability in its normal operating cycle (see paragraphs B96 and B107–B108);

(b) it holds the liability primarily for the purpose of trading (see paragraph B97);

(c) the liability is due to be settled within 12 months after the reporting period (see paragraphs B97–B98 and B107–B108); or

(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period (see paragraphs B99–B108).

102 An entity shall classify all liabilities other than those specified in paragraph 101 as non-current.

Items to be presented in the statement of financial position or disclosed in the notes

103 **An entity shall present in the statement of financial position line items for:**

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) goodwill;

(e) financial assets (excluding amounts shown under (g), (j) and (k));

(f) portfolios of contracts within the scope of HKFRS 17 that are assets, disaggregated as required by paragraph 78 of HKFRS 17;

(g) investments accounted for using the equity method;

(h) biological assets within the scope of HKAS 41 *Agriculture*;

(i) inventories;

(j) trade and other receivables;

(k) cash and cash equivalents;

(l) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with HKFRS 5;

(m) trade and other payables;

(n) provisions;

(o) financial liabilities (excluding amounts shown under (m) and (n));

(p) portfolios of contracts within the scope of HKFRS 17 that are liabilities, disaggregated as required by paragraph 78 of HKFRS 17;

(q) liabilities and assets for current tax, as defined in HKAS 12;

(r) deferred tax liabilities and deferred tax assets, as defined in HKAS 12; and

(s) liabilities included in disposal groups classified as held for sale in accordance with HKFRS 5.

104 **An entity shall present in the statement of financial position:**

(a) non-controlling interests; and

(b) issued capital and reserves attributable to owners of the parent.

105 Paragraphs B109–B111 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of financial position or disclose items in the notes.

106 Subject to paragraph 96, this Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. In addition, the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide a useful structured summary of the entity's assets, liabilities and equity. For example, a financial institution may amend the descriptions in paragraph 103 to provide a useful structured summary of the assets, liabilities and equity of a financial institution.

Statement of changes in equity

Information to be presented in the statement of changes in equity

107 **An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity shall include:**

(a) total comprehensive income for the reporting period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with HKAS 8; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) presenting changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

108 HKAS 8 requires retrospective adjustments for changes in accounting policies, to the extent practicable, except when the transition requirements in another HKFRS Accounting Standard require otherwise. HKAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when HKFRS Accounting Standards require retrospective adjustment of another component of equity. Paragraph 107(b) requires an entity to present in the statement of changes in equity the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. An entity shall present these adjustments for each prior reporting period and the beginning of the period.

Information to be presented in the statement of changes in equity or disclosed in the notes

109 **For each component of equity an entity shall either present in the statement of changes in equity or disclose in the notes an analysis of other comprehensive income by item (see paragraph 107(c)(ii)).**

110 **An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share.**

111 In paragraph 107, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

112 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period.

Notes

Structure

113 **An entity shall disclose in the notes:**

(a) information about the basis of preparation of the financial statements (see paragraphs 6A–6N of HKAS 8) and the specific accounting policies used (see paragraphs 27A–27I of HKAS 8);

(b) information required by HKFRS Accounting Standards that is not presented in the primary financial statements; and

(c) other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them (see paragraph 20).

114 **An entity shall, as far as practicable, present notes in a systematic manner (see paragraph B112). In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes. If amounts disclosed in the notes are included in one or more line items in the primary financial statements, an entity shall disclose in the note the line item(s) in which the amounts are included.**

115 **An entity may disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies used in a separate section of the financial statements.**

116 **If not disclosed elsewhere in information published with the financial statements, an entity shall disclose in the notes:**

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its principal activities;

(c) the name of the parent and the ultimate parent of the group; and

(d) if it is a limited-life entity, information regarding the length of its life.

Management-defined performance measures

Identification of management-defined performance measures

117 **A *management-defined performance measure* is a subtotal of income and expenses that (see paragraphs B113–B122):**

(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 listed in paragraph 118, or specifically required to be presented or disclosed by HKFRS Accounting Standards.

118 Subtotals of income and expenses that are not management-defined performance measures are:

(a) gross profit or loss (revenue minus cost of sales) and similar subtotals (see paragraph B123);

(b) operating profit or loss before depreciation, amortisation and impairments within the scope of HKAS 36;

(c) operating profit or loss and income and expenses from all investments accounted for using the equity method;

(d) for an entity that applies paragraph 73, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category;

(e) profit or loss before income taxes; and

(f) profit or loss from continuing operations.

119 **An entity shall presume that a subtotal of income and expenses that it uses in public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, unless, applying paragraph 120, the entity rebuts the presumption.**

120 An entity is permitted to rebut the presumption described in paragraph 119 and assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole, but only if it has reasonable and supportable information available that demonstrates the basis for the assertion (see paragraphs B124–B131).

Disclosure of management-defined performance measures

121 **The objective of the disclosures for management-defined performance measures 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 management-defined performance measure; and**

(b) **how the management-defined performance measure compares with the measures defined by HKFRS Accounting Standards.**

122 **An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures 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.**

123 **An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management-defined performance measure, the entity shall disclose:**

(a) **a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance.**

(b) **how the management-defined performance measure is calculated.**

(c) **a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by HKFRS Accounting Standards (see paragraphs B136–B140).**

(d) **the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).**

(e) **a description of how the entity applies paragraph B141 to determine the income tax effect required by (d).**

124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

(b) the reasons for the change, addition or cessation.

(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of HKAS 8.

125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Capital

126 **An entity shall disclose in the notes information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

127 To comply with paragraph 126 an entity shall disclose in the notes:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges).

(c) any changes in (a) and (b) from the preceding reporting period.

(d) whether during the reporting period it complied with any externally imposed capital requirements to which it is subject.

(e) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

128 An entity shall base the note disclosures in paragraph 127 on the information provided internally to key management personnel.

129 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

130 **An entity shall either present in the statement of financial position or the statement of changes in equity or disclose in the notes:**

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or a statement that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(v) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

131 **An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 130(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.**

132 **An entity shall disclose in the notes:**

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

Appendix A
Defined terms

This appendix is an integral part of the HKFRS Accounting Standard.

aggregation
The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.

classification
The sorting of assets, liabilities, equity, income, expenses and cash flows based on shared characteristics.

disaggregation
The separation of an item into component parts that have characteristics that are not shared.

general purpose financial reports
Reports that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or selling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.

general purpose financial statements
A particular form of *general purpose financial reports* that provide information about the reporting entity's assets, liabilities, equity, income and expenses.

HKFRS Accounting Standards
Accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They comprise:

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

HKFRS Accounting Standards were previously known as Hong Kong Financial Reporting Standards, HKFRS, HKFRSs and HKFRS Standards.

management-defined performance measure
A subtotal 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 listed in paragraph 118 of HKFRS 18, or specifically required to be presented or disclosed by HKFRS Accounting Standards.

material information
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

notes	Information in financial statements provided in addition to that presented in the primary financial statements.
operating profit or loss	The total of all income and expenses classified in the operating category.
other comprehensive income	Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other HKFRS Accounting Standards.
owners	Holders of claims classified as equity.
primary financial statements	The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.
profit or loss	The total of income less expenses included in the statement of profit or loss.
profit or loss before financing and income taxes	The total of operating profit or loss and all income and expenses classified in the investing category.
reclassification adjustments	Amounts reclassified to profit or loss in the current reporting period that were included in other comprehensive income in the current or prior periods.
total comprehensive income	The change in equity during a reporting period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.
useful structured summary	A structured summary provided in a primary financial statement of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows that is useful for: (a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows; (b) making comparisons between entities, and between reporting periods for the same entity; and (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

Appendix B
Application guidance

This appendix is an integral part of the HKFRS Accounting Standard. It describes the application of paragraphs 1–132 and has the same authority as the other parts of the HKFRS Accounting Standard.

General requirements for financial statements

Materiality

B1 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

B2 Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

B3 Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) material information about an item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) material information about an item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

B4 Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

B5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

The roles of the primary financial statements and the notes

B6 Applying paragraph 17(a), an entity provides in the notes information necessary for users of financial statements to understand the line items presented in the primary financial statements. Examples of such information include:

(a) disaggregation of the line items presented in the primary financial statements;

(b) descriptions of the characteristics of the line items presented in the primary financial statements; and

(c) information about the methods, assumptions and judgements used in recognising, measuring and presenting the items included in the primary financial statements.

B7 Applying paragraph 17(b), an entity supplements the primary financial statements with additional information necessary to achieve the objective of financial statements—that is:

(a) information specifically required by HKFRS Accounting Standards (see paragraph 19)—for example:

(i) information required by HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* about an entity's unrecognised contingent assets and contingent liabilities; and

(ii) information required by HKFRS 7 *Financial Instruments: Disclosures* about an entity's exposure to various types of risks, such as credit risk, liquidity risk and market risk; and

(b) information additional to that specifically required by HKFRS Accounting Standards (see paragraph 20).

Information presented in the primary financial statements

B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by HKFRS Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).

B9 Conversely, applying paragraph 24, an entity shall present additional line items to those listed in paragraphs 75 and 103 if such presentations are necessary for the statement of profit or loss to provide a useful structured summary of income and expenses or for the statement of financial position to provide a useful structured summary of assets, liabilities and equity (see paragraphs B78–B79 and B109–B111).

Identification of the financial statements

B10 Paragraph 25 requires an entity to clearly identify the financial statements and distinguish them from other information in the same published document. An entity meets these requirements by providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of providing such information. For example, if an entity provides the financial statements electronically, an entity considers other ways to meet the requirements—for example, by appropriate digital tagging of information provided in the financial statements.

B11 An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This practice is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Consistency of presentation, disclosure and classification

B12 Paragraph 30(a) requires an entity to change the presentation, disclosure or classification of items in the financial statements if it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the financial statements, might suggest that the financial statements need to be changed. An entity is permitted to change the presentation, disclosure or classification of items in its financial statements only if the change provides information that is more useful to users of financial statements and if the entity is likely to continue using the revised presentation, disclosure or classification, so that inter-period comparability is not impaired. When making such changes, an entity reclassifies its comparative information in accordance with paragraphs 33–34.

Comparative information

Required comparative information

B13 In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users of financial statements might benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Additional comparative information

B14 An entity may provide comparative information in addition to the comparative information required by HKFRS Accounting Standards, as long as that information is prepared in accordance with HKFRS Accounting Standards. This additional comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose in the notes information for those additional primary financial statements.

B15 For example, an entity may present a third statement (or statements) of financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (that is, an additional primary financial statement comparative). The entity is required to disclose in the notes the comparative information related to that additional statement(s) of financial performance.

Aggregation and disaggregation

Principles of aggregation and disaggregation

Process of aggregation and disaggregation

B16 Financial statements result from entities processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income, expenses and cash flows.

B17 To apply the requirements in paragraph 41, an entity shall aggregate items based on shared characteristics (that is, aggregate items that have similar characteristics) and disaggregate items based on characteristics that are not shared (that is, disaggregate items that have dissimilar characteristics). In doing so, an entity shall:

(a) identify the assets, liabilities, equity, income, expenses and cash flows that arise from individual transactions or other events;

(b) classify and aggregate assets, liabilities, equity, income, expenses and cash flows into items based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) so as to result in the presentation in the primary financial statements of line items and disclosure in the notes of items that have at least one similar characteristic; and

(c) disaggregate items based on dissimilar characteristics:

(i) in the primary financial statements, as necessary to provide useful structured summaries (as described in paragraph 16); and

(ii) in the notes, as necessary to provide material information (as described in paragraph 17).

B18 An entity may apply the steps in paragraphs B17(a)–B17(c) in varying order to apply the principles of aggregation and disaggregation in paragraph 41.

Basis of aggregation and disaggregation

B19 Paragraphs B16–B18 explain that an entity uses its judgement to aggregate and disaggregate assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar and dissimilar characteristics. Paragraphs B78 and B110 set out examples of characteristics an entity considers in making its judgements.

B20 The more similar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that aggregating them will fulfil the role of the primary financial statements (that is, to provide useful structured summaries as described in paragraph 16) or the notes (that is, to provide material information as described in paragraph 17). The more dissimilar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes.

B21 The items aggregated and presented as line items in the primary financial statements shall have at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows. However, because the role of the primary financial statements is to provide useful structured summaries, the line items in the primary financial statements are also likely to aggregate items that have sufficiently dissimilar characteristics that information about the disaggregated items is material.

B22 Applying paragraph 41, an entity shall disaggregate items that have dissimilar characteristics when the resulting information is material. A single dissimilar characteristic could result in information about disaggregated items being material.

B23 For example, an entity might present in the statement of financial position financial assets that comprise equity investments and debt investments separately from non-financial assets. The financial assets have dissimilar characteristics because they have different measurement bases—some are measured at fair value through profit or loss and others at amortised cost. The entity might therefore determine that to provide a useful structured summary it is necessary to present line items that disaggregate the financial assets based on those measurement bases. That disaggregation results in a line item comprising equity investments and debt investments measured at fair value through profit or loss and a line item comprising debt investments measured at amortised cost. Because equity investments are dissimilar to debt investments in that each exposes the entity to different risks, the entity would assess whether further disaggregation in the statement of financial position of financial assets measured at fair value through profit or loss into equity investments and debt investments is needed to provide a useful structured summary. If not, and if the resulting information were material, the entity would need to disclose in the notes the equity investments separately from the debt investments. In addition if, for example, the equity investments had other dissimilar characteristics, the entity would be required to disaggregate further those equity investments in the notes if the resulting information were material.

Description of items

B24 Paragraph 43 requires an entity to label and describe items presented or disclosed in a way that faithfully represents the characteristics of the item. Such items will often be aggregations of items arising from individual transactions or other events and could vary in whether they are aggregations of items for which information is material and items for which information is immaterial. Specifically, in either the primary financial statements or in the notes:

(a) an item for which information is material could be aggregated with other items for which information is also material—an entity might provide such an aggregation to summarise information but would also be required to disclose information about each item;

(b) an item for which information is material could be aggregated with items for which information is not material—an entity would be required to provide information about disaggregated items only if immaterial information obscured the material information; or

(c) an item for which information is not material could be aggregated with other items for which information is not material—an entity might provide such an aggregation to complete a list of items and would not be required to disclose information about disaggregated items, subject to paragraph B26(b).

B25 An entity shall label items presented or disclosed as 'other' only if it cannot find a more informative label. Examples of how an entity might find a more informative label are:

(a) if an item for which information is material is aggregated with items for which information is not material, finding a label that describes the item for which information is material; and

(b) if items for which information is not material are aggregated:

(i) aggregating items that share similar characteristics and describing them in a way that faithfully represents the similar characteristics; or

(ii) aggregating items with other items that do not share similar characteristics and describing them in a way that faithfully represents the dissimilar characteristics of the items.

B26 If an entity cannot find a more informative label than 'other':

(a) for any aggregation—the entity shall use a label that describes the aggregated item as precisely as possible, for example, 'other operating expenses' or 'other finance expenses'.

(b) for an aggregation comprising only items for which information is not material—the entity shall consider whether the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material information. Accordingly, in such cases, the entity shall disclose further information about the amount—for example:

(i) an explanation that no items for which information would be material are included in the amount; or

(ii) an explanation that the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.

Offsetting

B27 Paragraph 44 prohibits an entity from offsetting assets and liabilities or income and expenses unless required or permitted by a HKFRS Accounting Standard. For example, HKFRS 15 *Revenue from Contracts with Customers* requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. The amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. In contrast, an entity might undertake, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The entity would present in the primary financial statements or disclose in the notes the results of such transactions, when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents in the primary financial statements or discloses in the notes gains and losses on the disposal of non-current assets by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with HKAS 37 and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

B28 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions—for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance applying paragraphs 47–68. However, an entity shall disclose such gains and losses separately in the notes if doing so provides material information.

Statement of profit or loss

Categories in the statement of profit or loss

B29 Paragraph 47 requires an entity to classify income and expenses included in the statement of profit or loss in one of five categories. The operating category comprises all income and expenses included in the statement of profit or loss that are not classified in the other categories (see paragraph 52). Income and expenses classified in the discontinued operations category applying paragraph 68 are not subject to the requirements for classifying items of income and expense in the categories listed in paragraphs 47(a)–(d). Income and expenses classified in the income taxes category applying paragraph 67 are not subject to the requirements for classifying items of income and expense in the categories listed in paragraphs 47(a)–(c).

Assessment of specified main business activities

B30 Paragraph 49 requires an entity to assess whether it invests in assets or provides financing to customers as a main business activity. An entity may have more than one main business activity. For example, an entity that manufactures a product and also provides financing to customers may determine that both its manufacturing activity and customer-finance activity are main business activities. To classify income and expenses into the categories of operating, investing and financing as required by this Standard, an entity need only determine whether either of, or both, investing in assets and providing financing to customers are main business activities.

B31 Examples of entities that might invest in assets as a main business activity include:

(a) investment entities as defined by HKFRS 10 *Consolidated Financial Statements*;

(b) investment property companies; and

(c) insurers.

B32 Examples of entities that might provide financing to customers as a main business activity include:

(a) banks and other lending institutions;

(b) entities that provide financing to customers to enable those customers to buy the entity's products; and

(c) lessors that provide financing to customers in finance leases.

B33 Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence.

B34 In general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if the entity uses a particular type of subtotal as an important indicator of operating performance. The particular type of subtotal is a subtotal similar to gross profit (see paragraph B123) that includes income and expenses that would be classified in the investing or financing categories if investing in assets or providing financing to customers were not main business activities.

B35 Evidence that subtotals similar to gross profit described in paragraph B123 are important indicators of operating performance includes using such subtotals to:

(a) explain operating performance externally; or

(b) assess or monitor operating performance internally.

B36 Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies HKFRS 8 *Operating Segments*. Specifically:

(a) if a reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity; and

(b) if an operating segment comprises a single business activity, this indicates that the business activity might be a main business activity of the entity if the performance of the operating segment is an important indicator of the entity's operating performance as described in paragraph B34.

B37 An entity shall assess whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets or providing financing to customers is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes.

B38 An entity shall assess whether it invests as a main business activity in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method (see paragraphs B43(b)–(c) and B44(b)–(c)) by individual asset or using groups of assets with shared characteristics. If an entity prepares separate financial statements as specified in HKAS 27 *Separate Financial Statements* and performs the assessment for groups of assets, the entity shall use groups of assets that are consistent with the categories used to determine their measurement basis applying paragraph 10 of HKAS 27. An entity need not assess whether it invests as a main business activity in associates, joint ventures and non-consolidated subsidiaries accounted for using the equity method (see paragraphs B43(a) and B44(a)) because it is required to classify the income and expenses from those investments in the investing category (see paragraph 55(a)).

B39 An entity need not assess whether it invests as a main business activity in cash and cash equivalents (see paragraph 53(b)). An entity is required to classify income and expenses from cash and cash equivalents in the investing category unless paragraphs 56(a) or 56(b) apply.

B40 An entity shall assess whether it invests as a main business activity in other assets that generate a return individually and largely independently of the entity's other resources (see paragraph 53(c)) by assessing an individual asset or groups of assets with shared characteristics. When performing the assessment for groups of financial assets an entity shall use groups of financial assets that are consistent with the classes of financial assets identified by the entity in applying paragraph 6 of HKFRS 7.

B41 An entity shall assess whether investing in assets or providing financing to customers is a main business activity based on the facts at the time, so a change in the outcome of the assessment does not change the outcome of the previous assessments. Accordingly, an entity classifies and presents income and expenses applying the change in the outcome of the assessment prospectively from the date of the change and does not reclassify amounts presented before the date of the change. Unless it is impracticable to do so, paragraph 51(c)(ii) requires an entity to disclose the amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for items for which the classification has changed because of the change in the outcome of the assessment.

Operating

B42 The requirements in paragraphs 47–66 result in an entity classifying income and expenses from its main business activities in the operating category of the statement of profit or loss, except for any such income and expenses from investments accounted for using the equity method. Furthermore, the operating category is not limited to income and expenses from an entity's main business activities. It includes all income and expenses that are not classified by an entity in the other categories applying paragraphs 53–68, including such income or expenses that are volatile or non-recurring.

Investing

Investments in associates, joint ventures and unconsolidated subsidiaries

B43 Paragraphs 53 and 55 set out requirements for the classification of income and expenses from investments in associates and joint ventures. These investments comprise:

(a) investments in associates and joint ventures accounted for using the equity method in accordance with paragraph 16 of HKAS 28 *Investments in Associates and Joint Ventures* and paragraph 10(c) of HKAS 27;

(b) investments in associates and joint ventures (or a portion thereof) that an entity elects to measure at fair value through profit or loss in accordance with HKFRS 9 applying paragraphs 18–19 of HKAS 28 and paragraph 11 of HKAS 27; and

(c) investments in associates and joint ventures in separate financial statements that are accounted for at cost applying paragraph 10(a) of HKAS 27 or in accordance with HKFRS 9 applying paragraph 10(b) of HKAS 27.

B44 Paragraphs 53 and 55 also set out requirements for the classification of income and expenses from unconsolidated subsidiaries. Investments in unconsolidated subsidiaries comprise:

(a) investments in subsidiaries in separate financial statements accounted for using the equity method in accordance with paragraph 10(c) of HKAS 27;

(b) investments in subsidiaries held by an investment entity that are measured at fair value through profit or loss in accordance with paragraph 31 of HKFRS 10 and paragraph 11A of HKAS 27; and

(c) investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of HKAS 27 or in accordance with HKFRS 9 applying paragraph 10(b) of HKAS 27.

Assets that generate a return individually and largely independently of the entity's other resources

B45 Paragraph 53(c) requires an entity to identify assets that generate a return individually and largely independently of the entity's other resources. The return could be positive or negative.

B46 Assets that generate a return individually and largely independently of the entity's other resources in paragraph 53(c) typically include:

(a) debt or equity investments; and

(b) investment properties, and receivables for rent generated by those properties.

B47 Income and expenses specified in paragraph 54 from such assets typically include:

(a) interest;

(b) dividends;

(c) rental income;

(d) depreciation;

(e) impairment losses and reversals of impairment losses;

(f) fair value gains and losses; and

(g) income and expenses from the derecognition of the asset, or its classification and remeasurement as held for sale (see paragraphs B60–B64).

Assets that do not generate a return individually and largely independently of the entity's other resources

B48 Assets that an entity uses in combination to produce or supply goods or services do not generate a return individually and largely independently of the entity's other resources. Such assets typically include:

(a) property, plant and equipment;

(b) assets that arise from the production or supply of goods and services for which the income and expenses are classified in the operating category (for example, receivables for such goods and services); and

(c) if the entity provides financing to customers as a main business activity, any loans to a customer.

B49 Income and expenses from the assets described in paragraph B48 are classified in the operating category—for example:

(a) revenue for goods or services produced or supplied by the entity using a combination of assets;

(b) interest income;

(c) depreciation and amortisation;

(d) impairment losses and reversals of impairment losses;

(e) income and expenses from the derecognition of the asset, or its classification and remeasurement as held for sale (see paragraphs B60–B64); and

(f) income and expenses arising on a business combination that includes assets that will give rise to income and expenses that will be classified in the operating category, such as a gain on a bargain purchase and remeasurements of contingent consideration.

Financing

Liabilities arising from transactions that involve only the raising of finance

B50 Paragraph 59(a) requires an entity to identify liabilities that arise from transactions that involve only the raising of finance. In such transactions, an entity:

(a) receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of the entity's own equity instruments; and

(b) at a later date, will return in exchange cash or its own equity instruments.

B51 Liabilities arising from transactions that involve only the raising of finance include:

(a) a debt instrument that will be settled in cash, such as debentures, loans, notes, bonds and mortgages—an entity receives cash and will return cash in exchange;

(b) a liability under a supplier finance arrangement when the payable for goods or services is derecognised—an entity is discharged of the financial liability for the goods or services and will return cash in exchange;

(c) a bond that will be settled through delivery of an entity's shares—an entity receives cash and will return its own equity instruments in exchange; and

(d) an obligation for an entity to purchase its own equity instruments—an entity receives its own equity instruments and will return cash in exchange.

B52 Examples of income and expenses from such liabilities that paragraph 60 requires an entity to classify in the financing category include:

(a) interest expenses (for example, on debt instruments issued);

(b) fair value gains and losses (for example, on a liability designated at fair value through profit or loss);

(c) dividends on issued shares classified as liabilities; and

(d) income and expenses from the derecognition of the liability (see paragraph B61).

Liabilities arising from transactions that do not involve only the raising of finance

B53 Paragraph 59(b) requires an entity to identify liabilities that arise from transactions that do not involve only the raising of finance. Such liabilities include:

(a) payables for goods or services that will be settled in cash—an entity receives goods or services, not finance in the form described in paragraph B50(a);

(b) contract liabilities—an entity will return goods and services, not cash or its own equity instruments as described in paragraph B50(b);

(c) lease liabilities—an entity receives a right-of-use asset, not finance in the form described in paragraph B50(a);

(d) defined benefit pension liabilities—an entity receives employee services, not finance in the form described in paragraph B50(a);

(e) decommissioning or asset restoration provisions—an entity receives an asset that is not finance in the form described in paragraph B50(a); and

(f) a litigation provision—an entity does not receive finance as described in paragraph B50(a).

B54 Examples of income and expenses from such liabilities that paragraph 61 requires an entity to classify in the financing category include:

(a) interest expenses on payables arising from the purchase of goods or services, applying HKFRS 9;

(b) interest expenses on a contract liability with a significant financing component as specified by HKFRS 15;

(c) interest expenses on a lease liability, applying HKFRS 16;

(d) net interest expense (income) on a net defined benefit liability (asset), applying HKAS 19; and

(e) the increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate on provisions, applying HKAS 37.

B55 Examples of income and expenses that arise from transactions that do not involve only the raising of finance but that are not in the scope of paragraph 61, and accordingly are classified in the operating category, include:

(a) expenses recognised for consumption of the purchased goods or services described in paragraph B54(a);

(b) current and past service cost arising from a defined benefit plan, applying HKAS 19; and

(c) remeasurements of the fair value of a liability for contingent consideration in a business combination recognised applying HKFRS 3 *Business Combinations*.

Classification of income and expenses from hybrid contracts containing a host that is a liability

B56 How an entity classifies income and expenses from a hybrid contract with a host that is a liability depends on whether the embedded derivative is separated from the host contract. If the embedded derivative:

(a) is separated from the host liability:

(i) for the separated host liability—an entity applies the requirements for income and expenses from liabilities, as specified in paragraphs 52, 59–61, 64(b) and 65–66; and

(ii) for the separated embedded derivative—an entity applies the requirements for income and expenses from derivatives, as specified in paragraphs B70–B76;

(b) is not separated from the host liability and if the hybrid contract arises from a transaction that involves only the raising of finance—an entity applies the requirements for liabilities that arise from such transactions, as specified in paragraphs 52, 60 and 65–66;

(c) is not separated from the host liability and if the hybrid contract does not arise from a transaction that involves only the raising of finance:

(i) if the host liability is a financial liability within the scope of HKFRS 9 that is measured at amortised cost—an entity classifies in the financing category income and expenses specified in paragraph 60 from the contract after initial recognition (instead of the income and expenses specified in paragraph 61) (see paragraph B59);

(ii) if the hybrid contract is an insurance contract within the scope of HKFRS 17—an entity applies the requirements in paragraphs 52 and 64(b); and

(iii) otherwise—an entity applies the requirements for income and expenses from liabilities that arise from such transactions, as specified in paragraphs 52 and 61.

B57 An entity shall apply paragraphs B56(b) and B56(c) to all hybrid contracts containing a host liability for which the embedded derivative is not separated, regardless of whether the embedded derivative is not separated by the entity applying paragraph 4.3.3 of HKFRS 9 or applying paragraph 4.3.5 of HKFRS 9.

Liabilities arising from issued investment contracts with participation features

B58 Paragraph 64(a) sets out requirements for income and expenses from liabilities arising from issued investment contracts with participation features recognised applying HKFRS 9. Examples of such investment contracts are:

(a) an investment contract with participation features issued by an insurer that does not meet the definition in HKFRS 17 of an investment contract with discretionary participation features; and

(b) an investment contract with participation features issued by an investment entity.

Income and expenses classified in the operating category by an entity that provides financing to customers as a main business activity

B59 Paragraph 65 requires an entity that provides financing to customers as a main business activity to classify in the operating category income and expenses from some or all liabilities that arise from transactions that involve only the raising of finance. An entity shall also apply the requirements in that paragraph to income and expenses from a derivative relating to a transaction that involves only the raising of finance specified in paragraph B73(a), but not to the income and expenses from a hybrid contract specified in paragraph B56(c)(i).

Derecognition and changes in classification

Derecognition of an asset or liability, or classification and remeasurement of an asset as held for sale

B60 Paragraphs B47(g) and B49(e) refer to income and expenses from the derecognition of an asset, or its classification as held for sale. An entity shall classify income and expenses on the derecognition of an asset, or its classification as held for sale and any subsequent measurement while held for sale, in the same category as it classified the income and expenses from the asset immediately before its derecognition. For example, an entity shall classify gains and losses:

(a) on the disposal of property, plant and equipment—in the operating category;

(b) on the disposal of an investment property that an entity does not invest in as a main business activity—in the investing category; and

(c) from the remeasurement of an investment in an associate previously accounted for using the equity method on the step acquisition of a subsidiary—in the investing category.

B61 An entity shall classify income and expenses from the derecognition of a liability by applying the requirements in paragraphs 52 and 59–60. For example, the entity classifies income and expenses from the derecognition of a liability:

(a) in the financing category—if the liability arises from a transaction that involves only the raising of finance by an entity that does not provide financing to customers as a main business activity; and

(b) in the operating category—if as part of a supplier finance arrangement an entity derecognises a payable to a supplier and recognises a liability under that arrangement.

Change in use of an asset

B62 A transaction or other event might change the category in the statement of profit or loss in which an entity classifies income and expenses from an asset, without the asset being derecognised. In such cases, an entity shall classify the income and expenses from the transaction or other event in the category in which it classified income and expenses from the asset immediately before the transaction or event. For example, an entity shall classify in the operating category any income or expenses recognised in the statement of profit or loss on the transfer of property from the scope of HKAS 16 to investment property in the scope of HKAS 40.

Groups of assets and liabilities

B63 Paragraphs B60–B62 set out requirements for income and expenses from an asset or liability from its derecognition, classification and subsequent measurement while held for sale, or from its change in use. A transaction or other event might result in these outcomes for a group of assets (or a group of assets and liabilities) that generated income and expenses that an entity classified in different categories immediately before the transaction or other event. An entity shall classify income or expenses from such a transaction or other event:

(a) in the investing category if, other than any income tax assets, all the assets in the group generated income and expenses that the entity classified in the investing category immediately before the transaction or other event; and

(b) in the operating category otherwise.

B64 For example, an entity classifies:

(a) in the operating category—gains and losses on the disposal of a consolidated subsidiary, if the subsidiary included assets that generated income and expenses that the entity classified in the operating category immediately before the disposal. The gains and losses include the reclassification from equity to profit or loss of foreign exchange differences required by paragraph 48 of HKAS 21.

(b) in the operating category—an impairment loss arising on the classification of a disposal group as held for sale by the entity applying HKFRS 5, if the disposal group included assets that generated income and expenses that the entity classified in the operating category immediately before its classification as held for sale.

(c) in the investing category—gains and losses on disposal of a consolidated subsidiary, if the only assets of the subsidiary were investment property that the consolidated reporting entity did not invest in as a main business activity and related income tax assets. The gains and losses include the reclassification from equity to profit or loss of foreign exchange differences required by paragraph 48 of HKAS 21.

Classification of foreign exchange differences and the gain or loss on the net monetary position

B65 To apply paragraph 47, an entity shall classify foreign exchange differences included in the statement of profit or loss applying HKAS 21 in the same category as the income and expenses from the items that gave rise to the foreign exchange differences, unless doing so would involve undue cost or effort (see paragraph B68).

B66 For example, an entity classifies foreign exchange differences on:

(a) a receivable described in paragraph B48(b) denominated in a foreign currency, in the same category as the income and expenses from that asset—that is, in the operating category; and

(b) a debt instrument that is a liability described in paragraph B51(a) denominated in a foreign currency, in the same category as the income and expenses on that liability—that is, in the financing category (unless the entity provides financing to customers as a main business activity and classifies the income and expenses from the liability in the operating category applying paragraph 65).

B67 An entity might classify in more than one category income and expenses from a transaction that does not involve only the raising of finance. For example, the purchase of services in a transaction denominated in a foreign currency and negotiated on extended credit terms could give rise to an expense for the purchase of the services classified in the operating category (see paragraph B55(a)) and interest expenses classified in the financing category (see paragraph B54(a)). In such cases, subject to paragraph B68, an entity shall use its judgement to determine whether the foreign exchange difference relates to the amount classified in the financing category—and classify it in that category—or whether it relates to the amount classified in another category—and classify it in that category. An entity shall not allocate between categories a foreign exchange difference arising on a liability from a transaction that does not involve only the raising of finance. In making its judgements about how to classify the foreign exchange differences, an entity need not classify in the same category the foreign exchange differences on all such liabilities. However, an entity shall classify in the same category foreign exchange differences on similar liabilities.

B68 If applying the requirements in paragraphs B65 and B67 would involve undue cost or effort, an entity shall instead classify the affected foreign exchange differences in the operating category. An entity shall assess whether classifying foreign exchange differences as described in paragraphs B65 and B67 involves undue cost or effort for each item that gives rise to foreign exchange differences. The assessment is specific to the facts and circumstances related to each item. If the same facts and circumstances relate to a number of items, an entity could apply the same assessment to each of the items.

B69 Applying paragraph 28 of HKAS 29 *Financial Reporting in Hyperinflationary Economies*, an entity might present the gain or loss on the net monetary position with other income and expense items associated with the net monetary position, such as interest income and expenses and foreign exchange differences. If the entity does not present the gain or loss on the net monetary position with the associated income and expenses, it shall classify the gain or loss in the operating category.

Classification of gains and losses on derivatives and designated hedging instruments

B70 Paragraph 47 requires an entity to classify income and expenses in categories in the statement of profit or loss. To apply paragraph 47, an entity shall classify gains and losses included in the statement of profit or loss on a financial instrument designated as a hedging instrument applying HKFRS 9 in the same category as the income and expenses affected by the risks the financial instrument is used to manage. However, if doing so would require the grossing up of gains and losses, an entity shall classify all such gains and losses in the operating category (see paragraphs B74–B75).

B71 An entity shall classify gains and losses on an undesignated component of a designated hedging instrument in the same category as gains and losses on the designated component. An entity shall classify ineffective portions of a gain or loss in the same category as the effective portions.

B72 An entity shall also apply the requirements in paragraph B70 to gains and losses on a derivative that is not designated as a hedging instrument applying HKFRS 9, but is used to manage identified risks. However, if doing so would require the grossing up of gains or losses (see paragraphs B74–B75) or involve undue cost or effort, the entity shall instead classify all gains and losses on the derivative in the operating category.

B73 An entity shall classify gains and losses on a derivative that is not used to manage identified risks:

(a) in the financing category, if the derivative relates to a transaction that involves only the raising of finance (for example, a purchased call option that allows the issuing entity to exchange a fixed amount of a foreign currency for a fixed number of the entity's equity instruments), unless the entity that provides financing to customers as a main business activity classifies the gains and losses in the operating category applying paragraph B59; and

(b) in the operating category, if the conditions in (a) are not met.

B74 Paragraphs B70 and B72 prohibit the grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instruments. The grossing up of gains and losses might arise from situations in which:

(a) an entity uses such financial instruments to manage the risks of a group of items with offsetting risk positions (see paragraph 6.6.1 of HKFRS 9 for the criteria for a group of items to be an eligible hedged item); and

(b) the risks managed affect line items in more than one category of the statement of profit or loss.

B75 For example, an entity may use a derivative to manage both the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category). In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expenses and the gains or losses on the derivative. However, the entity classifies the foreign exchange differences on the revenue in a different category from the foreign exchange differences on the interest expenses. To present the gain or loss on the derivative in each category, an entity would need to present in each category a larger gain or loss than occurred on the derivative. Applying the requirements in paragraphs B70–B73, an entity shall not gross up the gains or losses in this manner and instead shall classify any gain or loss on the derivative in the operating category.

B76 The requirements in paragraphs B70–B75 specify only how to classify income and expenses into categories of the statement of profit or loss. They do not prescribe the line item (or line items) in which to include such income and expenses, nor do they override the requirements in other HKFRS Accounting Standards.

Items to be presented in the statement of profit or loss or disclosed in the notes

B77 An entity may be required to present a line item listed in paragraph 75, or specified in another HKFRS Accounting Standard, in more than one of the categories listed in paragraph 47. For example, an entity that does not invest in assets or provide financing to customers as a main business activity may be required to present the line item specified in paragraph 75(b)(ii) of impairment losses determined in accordance with Section 5.5 of HKFRS 9 in:

(a) the operating category—if it relates to receivables for goods and services as described in paragraph B48(b); and

(b) the investing category—if it relates to financial assets that generate a return individually and largely independently of the entity's other resources as described in paragraph B46.

B78 Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of profit or loss if doing so is necessary to provide a useful structured summary of the entity's income and expenses. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 75). Paragraphs 20 and 41(d) require an entity to disaggregate items to disclose material information in the notes. An entity also uses its judgement to make this determination. Paragraph 41 requires the entity to base its judgements on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). Such characteristics include:

(a) nature (see paragraph 80);

(b) function (role) within the entity's business activities (see paragraph 81);

(c) persistence (including the frequency of the item of income or expense or whether it is recurring or non-recurring);

(d) measurement basis;

(e) measurement uncertainty or outcome uncertainty (or other risks associated with an item);

(f) size;

(g) geographical location or regulatory environment;

(h) tax effects (for example, if different tax rates apply to items of income or expense); and

(i) whether the income or expenses arise on initial recognition of a transaction or event or from a subsequent change in estimate relating to the transaction or event.

B79 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 include:

(a) write-downs of inventories, as well as reversals of such write-downs;

(b) impairment losses for property, plant and equipment, as well as reversals of such impairment losses;

(c) income and expenses from restructurings of an entity's activities and reversals of any provisions for restructuring;

(d) income and expenses from disposals of property, plant and equipment;

(e) income and expenses from disposals of investments;

(f) income and expenses from litigation settlements;

(g) reversals of provisions; and

(h) non-recurring income and expenses not included in (a)–(g).

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

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').

B83 Applying paragraph 30, an entity shall classify and present expenses consistently from one reporting period to the next unless paragraphs 30(a) or 30(b) apply. For example, if an entity presents impairment of goodwill as a nature line item in one reporting period, it shall also present any similar impairment of goodwill as a nature line item in subsequent reporting periods unless paragraphs 30(a) or 30(b) apply. If there is no similar impairment of goodwill in a subsequent period, the fact that there is an expense of nil in that subsequent period does not constitute a change in classification and presentation.

B84 An entity will either present expenses by nature, or applying paragraph 83, disclose some expenses by nature. The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset. If an entity:

(a) presents amounts that are not the amounts recognised as an expense in the period, it will also present an additional line item for the change in the carrying amount of the affected assets. For example, applying paragraph 39 of HKAS 2, an entity might present a line item for changes in inventories of finished goods and work in progress.

(b) discloses, applying paragraph 83(b), amounts that are not the amounts recognised as an expense in the period, the entity shall give a qualitative explanation of that fact, identifying the assets involved.

Aggregation of operating expenses

B85 To apply paragraph 78, an entity shall consider what level of aggregation for operating expenses provides the most useful structured summary. For example, an entity might have various administrative activities (such as human resources, information technology, legal and accounting). To provide a useful structured summary, the entity might aggregate operating expenses relating to those activities based on their shared characteristic—all are expenses for resources consumed in administrative activities. Accordingly the entity might present them in a line item labelled as ‘administrative expenses’. The entity might also have expenses for resources consumed in selling activities. These expenses have a dissimilar characteristic from the administrative expenses—selling expenses arise from resources consumed in selling activities and administrative expenses arise from resources consumed in administrative activities. These characteristics are sufficiently dissimilar that disaggregation—presentation in separate line items for selling expenses and administrative expenses—might be necessary to provide a useful structured summary of the entity’s expenses.

Statement presenting comprehensive income

Other comprehensive income

B86 Some HKFRS Accounting Standards specify circumstances when an entity includes particular items outside the statement of profit or loss in the current reporting period. HKAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other HKFRS Accounting Standards require or permit an entity to exclude from profit or loss components of other comprehensive income that meet the *Conceptual Framework for Financial Reporting*’s definition of income or expenses (see paragraph B87).

B87 Appendix A defines ‘other comprehensive income’. The components of other comprehensive income include:

(a) changes in revaluation surplus (see HKAS 16 and HKAS 38);

(b) remeasurements of defined benefit plans (see HKAS 19);

(c) gains and losses arising from translating the financial statements of a foreign operation (see HKAS 21);

(d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of HKFRS 9;

(e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of HKFRS 9;

(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of HKFRS 9 (see Chapter 6 of HKFRS 9);

(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of HKFRS 9);

(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of HKFRS 9);

(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of HKFRS 9);

(j) insurance finance income and expenses from contracts issued within the scope of HKFRS 17 excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of HKFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of HKFRS 17; and

(k) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of HKFRS 17.

B88 Reclassification adjustments arise, for example, on disposal of a foreign operation (see HKAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of HKFRS 9 in relation to cash flow hedges).

B89 Paragraph 90 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with HKAS 16 or HKAS 38 or on remeasurements of defined benefit plans recognised in accordance with HKAS 19. An entity recognises these components in other comprehensive income and does not reclassify them to profit or loss in subsequent reporting periods. An entity may transfer changes in revaluation surplus to retained earnings in subsequent periods as the asset is used or when it is derecognised (see HKAS 16 and HKAS 38). In accordance with HKFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) results in amounts that an entity removes from the cash flow hedge reserve or a separate component of equity, respectively, and includes directly in the initial cost or other carrying amount of an asset or a liability. An entity transfers these amounts directly to assets or liabilities.

Statement of financial position

Classification of assets and liabilities as current or non-current

B90 In applying paragraph 96, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. Such separate classification also highlights assets that an entity expects to realise within the current operating cycle and liabilities that are due for settlement within the same period.

B91 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides a more useful structured summary than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

B92 In applying paragraph 96, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when doing so provides a more useful structured summary. The need for a mixed basis of presentation might arise when an entity has diverse operations.

B93 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. HKFRS 7 requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories, and the expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that it expects to recover more than 12 months after the reporting period.

Current assets

B94 Paragraph 100 requires an entity to classify as non-current all assets not classified as current. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

B95 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When an entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in HKFRS 9) and the current portion of non-current financial assets.

Current liabilities

Normal operating cycle (see paragraph 101(a))

B96 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in an entity's normal operating cycle. An entity classifies such items as current liabilities even if they are due to be settled more than 12 months after the reporting period. The same normal operating cycle applies to the classification of the entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

Held primarily for the purpose of trading (see paragraph 101(b)) or due to be settled within 12 months (see paragraph 101(c))

B97 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within 12 months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in HKFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (that is, are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within 12 months after the reporting period are non-current liabilities, subject to paragraphs B99–B103.

B98 An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the reporting period, even if:

(a) the original term was for a period longer than 12 months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

Right to defer settlement for at least 12 months (paragraph 101(d))

B99 An entity's right to defer settlement of a liability for at least 12 months after the reporting period must have substance and, as illustrated in paragraphs B100–B103, must exist at the end of the reporting period.

B100 An entity's right to defer settlement of a liability arising from a loan arrangement for at least 12 months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 101(d), such covenants:

(a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs B102–B103—if an entity is required to comply with the covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at the end of the reporting period but assessed for compliance only after the reporting period).

(b) do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the covenant only after the reporting period (for example, a covenant based on the entity's financial position six months after the end of the reporting period).

B101 If an entity has the right, at the end of the reporting period, to roll over an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

B102 When an entity breaches a covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.

B103 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

B104 Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria in paragraphs 101–102 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 6C(c) of HKAS 8 and B105(d)).

B105 If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with HKAS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis of a liability classified as current (see paragraph B98);

(b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph B102);

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph B103); and

(d) settlement of a liability classified as non-current (see paragraph B104).

B106 In applying paragraphs 101–102 and B96–B103 an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within 12 months after the reporting period (see paragraph B100(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within 12 months after the reporting period, including:

(a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

Settlement (paragraphs 101(a), 101(c) and 101(d))

B107 For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

(a) cash or other economic resources—for example, goods or services; or

(b) the entity's own equity instruments, unless paragraph B108 applies.

B108 Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying HKAS 32, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

Items to be presented in the statement of financial position or disclosed in the notes

B109 Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of financial position if doing so is necessary to provide a useful structured summary of the entity's assets, liabilities and equity. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 103). Paragraph 41 requires the entity to base its judgements on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). For additional line items for assets and liabilities, an entity bases its judgements on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) might assist an entity in identifying the nature or function of assets and liabilities.

B110 Paragraphs 20 and 41(d) require an entity to disaggregate items to disclose material information in the notes. An entity uses its judgement to do this based on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). Such characteristics include:

(a) nature;

(b) function (role) in the entity's business activities;

(c) duration and timing of recovery or settlement (including whether an asset or liability is classified as current or non-current or whether its recovery or settlement forms part of the entity's operating cycle);

(d) liquidity;

(e) measurement basis;

(f) measurement uncertainty or outcome uncertainty (or other risks associated with an item);

(g) size;

(h) geographical location or regulatory environment;

(i) type, for example, the type of good, service or customer;

(j) tax effects—for example, if assets or liabilities have different tax bases; and

(k) restrictions on the use of an asset or on the transferability of a liability.

B111 Assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:

(a) property, plant and equipment disaggregated into classes in accordance with HKAS 16;

(b) receivables disaggregated into amounts receivable from trade customers, amounts receivable from related parties, prepayments and other amounts;

(c) inventories disaggregated, applying HKAS 2, into items such as merchandise, production supplies, materials, work in progress and finished goods;

(d) trade payables disaggregated, applying HKAS 7, to provide separately the amounts of those payables that are part of supplier finance arrangements;

(e) provisions disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and

(f) equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium and reserves.

Notes

Structure

B112 Paragraph 114 requires an entity to present notes in a systematic manner, so far as is practicable. Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that an entity considers to be most important to an understanding of its financial performance and financial position, such as grouping together information about particular business activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of financial performance and the statement of financial position, such as:

(i) statement of compliance with HKFRS Accounting Standards (see paragraph 6B of HKAS 8);

(ii) material accounting policy information (see paragraph 27A of HKAS 8);

(iii) supporting information for items presented in the statement of financial position, the statement(s) of financial performance, the statement of changes in equity and the statement of cash flows, in the order in which each statement is provided and each line item is presented; and

(iv) other disclosures, including:

(1) contingent liabilities (see HKAS 37) and unrecognised contractual commitments; and

(2) non-financial disclosures—for example an entity's financial risk management objectives and policies (see HKFRS 7).

Management-defined performance measures

Identification of management-defined performance measures

B113 Paragraph 117 defines management-defined performance measures. An entity might have no management-defined performance measures, one management-defined performance measure or more than one. For example, an entity that publicly communicates its financial performance to users of financial statements using only totals and subtotals required to be presented or disclosed by HKFRS Accounting Standards does not have a management-defined performance measure.

B114 To meet the definition of a management-defined performance measure, the measure must communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. For example, if a subtotal of income and expenses that relates to a reportable segment disclosed in accordance with HKFRS 8 does not provide information about an aspect of the financial performance of the entity as a whole, that subtotal cannot meet the definition of a management-defined performance measure.

B115 However, sometimes a subtotal of income and expenses that relates to a reportable segment could provide information about an aspect of the financial performance of the entity as a whole. For example, if a reportable segment contains a single main business activity of the entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss, that would indicate that the subtotal provides information about an aspect of the financial performance of the entity as a whole. In such cases, a subtotal of income and expenses related to that reportable segment would meet the definition of a management-defined performance measure if it met the other parts of the definition of a management-defined performance measure.

Subtotals of income and expenses

B116 A management-defined performance measure is a subtotal of income and expenses. Examples of measures that are not management-defined performance measures because they are not subtotals of income and expenses include:

(a) subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses);

(b) assets, liabilities, equity or combinations of these elements;

(c) financial ratios (for example, return on assets) (see paragraph B117);

(d) measures of liquidity or cash flows (for example, free cash flow); or

(e) non-financial performance measures.

B117 A financial ratio is not a management-defined performance measure because it is not a subtotal of income and expenses. However, a subtotal that is the numerator or denominator in a financial ratio is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure if it were not part of a ratio. Accordingly, an entity shall apply the disclosure requirements in paragraphs 121–125 to such a numerator or denominator.

B118 A subtotal of income and expenses that meets the definition of a management-defined performance measure in paragraph 117 is a management-defined performance measure whether or not it is presented in the statement of profit or loss.

Public communications

B119 A subtotal meets the definition of a management-defined performance measure only if an entity uses it in public communications outside its financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications and social media posts.

B120 Management-defined performance measures relate to the same reporting period as the financial statements. Specifically, a subtotal:

(a) relating to interim financial statements but not to the annual financial statements can only be a management-defined performance measure in the interim financial statements; and

(b) relating to annual financial statements but not to interim financial statements can only be a management-defined performance measure in the annual financial statements.

B121 An entity shall consider only public communications related to the reporting period to identify management-defined performance measures for the reporting period, unless as part of its financial reporting process it routinely issues such public communications after the date of issue of its financial statements. If that is the case, an entity shall consider public communications related to the previous reporting period to identify management-defined performance measures for the current reporting period.

B122 However, a measure used in the public communications related to the previous reporting period is not required to be identified as a management-defined performance measure for the current reporting period if there is evidence that indicates it will not be included in the public communications to be issued relating to the current reporting period. If such a measure had been disclosed as a management-defined performance measure in the previous reporting period and is not identified as such for the current reporting period, that would be a change to, or a cessation of, a management-defined performance measure to which the disclosure requirements in paragraph 124 apply.

Subtotals similar to gross profit

B123 In accordance with paragraph 118(a), subtotals similar to gross profit are not management-defined performance measures. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:

(a) net interest income;

(b) net fee and commission income;

(c) insurance service result;

(d) net financial result (investment income minus insurance finance income and expenses); and

(e) net rental income.

Presumption about communicating management's view

B124 Paragraph 119 states that a subtotal of income and expenses used in public communications outside its financial statements is presumed to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. Applying paragraph 120, an entity is permitted to rebut that presumption if it has reasonable and supportable information available that demonstrates that:

(a) the subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole (see paragraphs B125–B128); and

(b) the entity has a reason for using the subtotal in its public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole (see paragraph B129).

B125 Examples of reasonable and supportable information that demonstrate that a subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of an entity as a whole are:

(a) an entity communicating the subtotal without prominence (see paragraph B126); and

(b) management not using the subtotal internally to assess or monitor the entity's financial performance (see paragraphs B127–B128).

B126 Whether an entity communicates a subtotal without prominence is a matter of judgement based on a number of factors, for example:

(a) the extent of references to the subtotal—few references indicate a lack of prominence, numerous references indicate prominence; and

(b) the content of commentary or analysis about or relying on the subtotal, for example:

(i) a description of the subtotal as information that does not communicate management's view and that is provided only in response to frequent requests from some users of financial statements indicates a lack of prominence;

(ii) use of the subtotal to support management analysis and commentary on the entity's financial performance and to provide explanations of the reasons for changes in the subtotal from period to period indicates prominence; and

(iii) a comparison of the subtotal to competitors' subtotals or industry benchmarks indicates prominence.

B127 Management's use of a subtotal to assess or monitor an aspect of the financial performance of the entity as a whole demonstrates that the subtotal communicates management's view of an aspect of the financial performance of the entity as a whole. However, if management uses a subtotal internally but not in an entity's public communications, the subtotal does not meet the definition of a management-defined performance measure.

B128 An entity might adjust a subtotal communicated in its public communications for use internally by management to assess or monitor the entity's financial performance. In such cases, the entity shall use its judgement to assess whether the subtotal it uses internally is sufficiently similar to the subtotal it uses in its public communications so that paragraph B127 applies. The more similar the subtotals are, the more likely it is that the subtotal used in the entity's public communications communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole.

B129 Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole are that the subtotal:

(a) is required in a public communication by law or regulation;

(b) communicates performance related to financial statements prepared in accordance with an accounting framework other than HKFRS Accounting Standards;

(c) is used in a public communication to satisfy a request from an external party; or

(d) is used in a public communication for the purpose of communicating information other than financial performance.

B130 Paragraph 120 applies to a subtotal and not to individual items of income and expense that comprise the subtotal. Accordingly, an entity cannot assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole based on information that demonstrates that an individual item (or items) of income or expense within the subtotal does not represent such a view.

B131 An entity might change its use of a subtotal to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole. As a result a subtotal might become, or cease to be, a management-defined performance measure. Judgement is required to identify whether a measure not originally identified as a management-defined performance measure has become one, or whether a measure previously identified as a management-defined performance measure has ceased to be one. For example, an entity might be required by a regulator to report a particular subtotal that, when first used, does not communicate management's view of an aspect of the financial performance of the entity as a whole. Over time the process of producing the subtotal might lead to management using the measure internally to assess and monitor the entity's financial performance or expanding the commentary and explanations in public communications beyond the regulatory requirements, with the result that the measure meets the definition of a management-defined performance measure.

Disclosure of management-defined performance measures

Single note for information about management-defined performance measures

B132 Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121–125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121–125 from the other information.

B133 For example, if an entity applies HKFRS 8 and the reportable segment information includes a management-defined performance measure, the entity may disclose the required information about the management-defined performance measure in the same note as other reportable segment information, provided the entity either:

(a) includes in that note the information required by paragraphs 121–125 for all its management-defined performance measures and, to fulfil the requirements in paragraph B132, labels the information in the note in a way that clearly distinguishes the information required by paragraphs 121–125 from the information required by HKFRS 8; or

(b) provides a separate note that includes the information required for all its management-defined performance measures, including those for which the entity includes information in the reportable segment information.

A clear and understandable manner

B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal. Therefore, an entity shall:

(a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and

(b) provide information specific to management-defined performance measures—that is:

(i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance, the entity shall state that fact and the calculations it has used for the measure; and

(ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by HKFRS Accounting Standards, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph B135(b)).

B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:

(a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label 'operating profit before non-recurring expenses' only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and

(b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines 'non-recurring expenses').

Reconciliation to the most directly comparable total or subtotal

B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by HKFRS Accounting Standards. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.

B137 For each reconciling item, an entity shall disclose:

(a) the amount(s) related to each line item in the statement(s) of financial performance; and

(b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).

B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management's control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.

B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense in calculating a management-defined performance measure based on an entity-specific application of 'non-recurring'. In such a case, a single explanation that includes the entity's definition of 'non-recurring' that applies to all reconciling items might satisfy the requirement in paragraph B137(b).

B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:

(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and

(b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Income tax effect for each item disclosed in the reconciliation

B141 An entity is required by paragraph 123(d) to disclose the income tax effect for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by HKFRS Accounting Standards. An entity shall determine the income tax effect required by paragraph 123(d) by calculating the income tax effects of the underlying transaction(s):

(a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;

(b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or

(c) by using another method that achieves a more appropriate allocation in the circumstances.

B142 If, applying paragraph B141, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item.

Appendix C
Effective date and transition

This appendix is an integral part of the HKFRS Accounting Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

Transition

C2 An entity shall apply this Standard retrospectively applying HKAS 8. However, an entity is not required to present the quantitative information specified in paragraph 28(f) of HKAS 8.

C3 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 HKAS 1 *Presentation of Financial Statements*.

C4 If an entity applies HKAS 34 in preparing condensed interim financial statements in the first year of applying this Standard, the entity shall present in the condensed interim financial statements each heading it expects to use in applying the Standard and the subtotals required by paragraphs 69–74 of this Standard, despite the requirements in paragraph 10 of HKAS 34. An entity shall not apply the requirements in paragraph 10 of HKAS 34 for headings and subtotals in condensed interim financial statements until it has issued its first set of annual financial statements prepared in accordance with this Standard.

C5 If an entity applies HKAS 34 in preparing interim financial statements in the first year of applying this Standard, the entity shall, as part of the information required by paragraph 16A(a) of HKAS 34, disclose reconciliations for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods. The reconciliations are required between:

(a) the restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applies this Standard; and

(b) the amounts previously presented applying the accounting policies for the comparative period and cumulative comparative period when the entity applied HKAS 1.

C6 An entity is permitted, but not required, to disclose the reconciliations described in paragraphs C3 and C5 for the current period or earlier comparative periods.

C7 At the date of initial application of this Standard, an entity eligible to apply paragraph 18 of HKAS 28 is permitted to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with HKFRS 9. If an entity makes such a change, the entity shall apply the change retrospectively applying HKAS 8. An entity applying paragraph 11 of HKAS 27 shall make the same change in its separate financial statements.

Withdrawal of HKAS 1

C8 This Standard supersedes HKAS 1.

Appendix D
Amendments to other HKFRS Accounting Standards

This appendix sets out the amendments to other HKFRS Accounting Standards.

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

Paragraphs 1, 3, 4, 4A, 5, 22, 32, D30 and E2 and Appendix A are amended. Paragraphs 32(za) and 39AI are added. New text is underlined and deleted text is struck through.

Objective

1 The objective of this HKFRS is to ensure that an entity's *first HKFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting in accordance with *HKFRS Accounting Standards*~~*Hong Kong Financial Reporting Standards (HKFRSs)*~~; and

(c) can be generated at a cost that does not exceed the benefits.

Scope

...

3 An entity's first HKFRS financial statements are the first annual financial statements in which the entity adopts HKFRSs, by an explicit and unreserved statement in those financial statements of compliance with HKFRS Accounting Standards~~HKFRSs~~. Financial statements in accordance with HKFRSs are an entity's first HKFRS financial statements if, for example, the entity:

(a) presented its most recent previous financial statements:

...

(ii) in conformity with HKFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with HKFRS Accounting Standards~~HKFRSs~~;

(iii) containing an explicit statement of compliance with some, but not all, HKFRS Accounting Standards~~HKFRSs~~;

...

(c) prepared a reporting package in accordance with HKFRSs for consolidation purposes without preparing a complete set of financial statements as defined in HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~; or

...

4 This HKFRS applies when an entity first adopts HKFRSs. It does not apply when, for example, an entity:

(a) stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with HKFRS Accounting Standards~~HKFRSs~~;

(b) presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with HKFRS Accounting Standards~~HKFRSs~~; or

(c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with HKFRS Accounting Standards~~HKFRSs~~, even if the auditors qualified their audit report on those financial statements.

4A Notwithstanding the requirements in paragraphs 2 and 3, an entity that has applied HKFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with HKFRS Accounting Standards~~HKFRSs~~, must either apply this HKFRS or else apply HKFRSs retrospectively in accordance with HKAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ as if the entity had never stopped applying HKFRSs.

...

5 This HKFRS does not apply to changes in accounting policies made by an entity that already applies HKFRSs. Such changes are the subject of:

(a) requirements on changes in accounting policies in HKAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~; and

...

Presentation and disclosure

...

Comparative information

...

Non-HKFRS comparative information and historical summaries

22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with HKFRSs. This HKFRS does not require such summaries to comply with the recognition and measurement requirements of HKFRSs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by HKFRS 18~~HKAS 1~~. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

...

Explanation of transition to HKFRSs

...

Interim financial reports

32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with HKAS 34 for part of the period covered by its first HKFRS financial statements, the entity shall satisfy the requirements of HKAS 34, unless stated otherwise, as well as the following requirements ~~in addition to the requirements of HKAS 34~~:

(za) An entity shall present each heading it expects to use in applying HKFRS 18 and the subtotals required by paragraphs 69–74 of that Standard, notwithstanding the requirements in paragraph 10 of HKAS 34. An entity shall apply the requirements in paragraph 10 of HKAS 34 for headings and subtotals in condensed financial statements after it has issued its first HKFRS financial statements prepared in accordance with HKFRS 18.

...

Effective date

...

39AI HKFRS 18 issued in July 2024 amended paragraphs 1, 3, 4, 4A, 5, 22, 32, D30 and E2, amended Appendix A and added paragraph 32(za). An entity shall apply those amendments when it applies HKFRS 18.

...

Appendix A
Defined terms

...

first HKFRS financial statements The first annual financial statements in which an entity adopts **HKFRS Accounting Standards**~~**Hong Kong Financial Reporting Standards (HKFRSs)**~~, by an explicit and unreserved statement of compliance with HKFRS Accounting Standards~~HKFRSs~~.

...

HKFRS Accounting Standards ~~**Hong Kong Financial Reporting Standards (HKFRSs)**~~ HKFRS Accounting Standards are accounting standards ~~Standards and Interpretations~~ issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

HKFRS Accounting Standards were previously known as Hong Kong Financial Reporting Standards, HKFRS, HKFRSs and HKFRS Standards.

...

Appendix D
Exemptions from other HKFRSs

...

Severe hyperinflation

...

D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of HKFRS 18~~HKAS 1~~) is provided for that shorter period.

...

Appendix E
Short-term exemptions from HKFRSs

Exemption from the requirement to restate comparative information for HKFRS 9

...

E2 An entity that chooses to present comparative information that does not comply with HKFRS 7 and the completed version of HKFRS 9 (issued in 2014) in its first year of transition shall:

...

(d) apply paragraph 6C(c) of HKAS 8 ~~17(c) of HKAS 1~~ to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

A footnote is added to the end of paragraph 39K. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 39P. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraphs 39Q and 39R. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

HKFRS 2 *Share-based Payment*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 59B. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 63E. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

HKFRS 3 *Business Combinations*

Paragraphs 50 and B64 are amended. Paragraph 64R is added. New text is underlined and deleted text is struck through.

The acquisition method

...

Measurement period

...

50 After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date and transition

Effective date

...

64R HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraphs 50 and B64. An entity shall apply those amendments when it applies HKFRS 18.

...

Appendix B
Application guidance

...

Disclosures (application of paragraphs 59 and 61)

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

...

(q) the following information:

...

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This HKFRS uses the term 'impracticable' with the same meaning as in HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 2, 3, 5A, 5B, 13, 17, 26A, 28, 33–36A, 38, 39 and 41, and the headings before paragraphs 31 and 38, are amended. Paragraph 31 is not amended but included for ease of reference. Paragraph 44N is added. New text is underlined and deleted text is struck through.

Scope

2 The classification, ~~and~~ presentation and disclosure requirements of this HKFRS apply to all recognised *non-current assets* and to all *disposal groups* of an entity. The measurement requirements of this HKFRS apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

3 Assets classified as non-current in accordance with HKFRS 18 *Presentation and Disclosure in Financial Statements* ~~HKAS 1 *Presentation of Financial Statements*~~ shall not be reclassified as *current assets* until they meet the criteria to be classified as held for sale in accordance with this HKFRS. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this HKFRS.

...

5A The classification, presentation, ~~and~~ measurement and disclosure requirements in this HKFRS applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

5B This HKFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other HKFRSs do not apply to such assets (or disposal groups) unless those HKFRSs require:

(a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the disclosure ~~general~~ requirements of HKFRS 18 and the requirements of HKAS 8 *Basis of Preparation of Financial Statements*~~HKAS 1~~, in particular paragraphs 6A and 31A of HKAS 8~~15 and 125 of that Standard~~.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

...

Non-current assets that are to be abandoned

13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present or disclose the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

...

Measurement of non-current assets (or disposal groups) classified as held for sale

Measurement of a non-current asset (or disposal group)

...

17 When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be classified ~~presented~~ in profit or loss applying the requirements in HKFRS 18 relating to income and expenses arising from the remeasurement of a non-current asset (or disposal group) classified as held for sale~~as a financing cost~~.

...

Changes to a plan of sale or to a plan of distribution to owners

...

26A If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:

(a) shall not follow the guidance in paragraphs 27–29 to account for this change. The entity shall apply the classification, presentation, ~~and~~ measurement and disclosure requirements in this HKFRS that are applicable to the new method of disposal.

...

28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in profit or loss from continuing operations in the period in which the criteria in paragraphs 7–9 or 12A, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same line item ~~caption~~ in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.

...

Presentation and disclosure

...

Discontinued ~~Presenting discontinued~~ operations

31 A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

...

33 An entity shall present or disclose:

...

(b) an analysis of the single amount in (a) into:

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by paragraph 81(h) of HKAS 12.

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(iv) the related income tax expense as required by paragraph 81(h) of HKAS 12.

The analysis may be presented in the statement of comprehensive income or disclosed in the notes ~~or in the statement of comprehensive income~~. If it is presented in the statement of comprehensive income it shall be classified ~~presented~~ in the discontinued operations category~~a section identified as relating to discontinued operations~~, ie separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. This information ~~These disclosures~~ may either be presented in the statement of cash flows or disclosed ~~either~~ in the notes ~~or in the financial statements~~. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

(d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. This information ~~These disclosures~~ may either be presented in the statement of comprehensive income or disclosed ~~be presented either~~ in the notes ~~or in the statement of comprehensive income~~.

33A If an entity presents the items of profit or loss in a ~~separate~~ statement of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of HKFRS 18~~10A of HKAS 1 (as amended in 2011)~~, a category ~~section~~ identified as relating to discontinued operations is presented in the ~~that~~ statement of profit or loss.

34 An entity shall re-present the presentations and disclosures in paragraph 33 for prior periods presented in the financial statements so that the presentations and disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

35 Adjustments in the current period to amounts previously classified ~~presented~~ in the discontinued operations category ~~discontinued operations~~ that are directly related to the disposal of a discontinued operation in a prior period shall also be classified separately in the discontinued operations category~~discontinued operations~~. The nature and amount of such

adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

...

36 If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously classified ~~presented~~ in the discontinued operations category ~~discontinued operations~~ in accordance with paragraphs 33–35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

36A An entity that is committed to a sale plan involving loss of control of a subsidiary shall present or disclose the information required in paragraphs 33–36 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32.

...

Non-current ~~Presentation of a non-current~~ asset or disposal group classified as held for sale

38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall either be presented separately ~~disclosed either~~ in the statement of financial position or disclosed in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

39 If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (see paragraph 11), presentation or disclosure of the major classes of assets and liabilities is not required.

...

Additional disclosures

41 An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

...

(c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the line item ~~caption~~ in the statement of comprehensive income that includes that gain or loss;

...

Effective date

...

44N HKFRS 18 issued in July 2024 amended paragraphs 2, 3, 5A, 5B, 13, 17, 26A, 28, 33–36A, 38, 39 and 41, and the headings before paragraphs 31 and 38. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 44A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 44I. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 44L. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

HKFRS 6 *Exploration for and Evaluation of Mineral Resources*

Paragraph 6 is amended. Paragraph 26B is added. New text is underlined and deleted text is struck through.

Recognition of exploration and evaluation assets

Temporary exemption from HKAS 8 paragraphs 11 and 12

6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date

...

<u>26B</u> <u>HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 6. An entity shall apply those amendments when it applies HKFRS 18.</u>

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 26A. New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*</u>

HKFRS 7 *Financial Instruments: Disclosures*

Paragraphs 3, 8, 20, 21, 24C, 24E, 24F, 24G, B5, B7 and B46 are amended. Paragraphs 19A–19B and their related subheading, and paragraph 44KK are added. New text is underlined and deleted text is struck through.

Scope

3 This HKFRS shall be applied by all entities to all types of financial instruments, except:

...

(f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of HKAS 32. However, the disclosures required by paragraphs 19A–19B are required for such instruments.

...

Significance of financial instruments for financial position and performance

...

Statement of financial position

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in HKFRS 9, shall either be presented ~~disclosed either~~ in the statement of financial position or disclosed in the notes:

...

Financial instruments classified as equity in accordance with paragraphs 16A–16B or paragraphs 16C–16D of HKAS 32

19A For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of HKAS 32, an entity shall disclose (to the extent not disclosed elsewhere):

(a) summary quantitative data about the amount classified as equity;

(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and

(d) information about how the expected cash outflow on redemption or repurchase was determined.

19B If an entity has reclassified any of the following financial instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:

(a) a puttable financial instrument classified as an equity instrument applying paragraphs 16A–16B of HKAS 32; or

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument applying paragraphs 16C–16D of HKAS 32.

Statement of comprehensive income

Items of income, expense, gains or losses

20 An entity shall either present, subject to the presentation requirements in HKFRS 18 *Presentation and Disclosure in Financial Statements*, ~~disclose~~ the following items of income, expense, gains or losses ~~either~~ in the statement of comprehensive income or disclose them in the notes:

...

Other disclosures

Accounting policies

21 In accordance with paragraph 27A of HKAS 8 *Basis of Preparation of Financial Statements*~~117 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~, an entity discloses material accounting policy information. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

Hedge accounting

...

The effects of hedge accounting on financial position and performance

...

24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

...

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

...

(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see HKFRS 18~~HKAS 1~~); and

...

24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with HKFRS 18 ~~HKAS 1~~ that, taken together:

...

24F An entity shall provide ~~disclose~~ the information required in paragraph 24E separately by risk category. This disaggregation by risk may be disclosed ~~provided~~ in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

...

(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4 of HKFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with HKFRS 18~~HKAS 1~~, an entity does not need to continue this disclosure in subsequent periods).

...

Effective date and transition

...

44KK HKFRS 18 issued in July 2024 amended paragraphs 3, 8, 20, 21, 24C, 24E, 24F, 24G, B5, B7 and B46, and added paragraphs 19A–19B and a related subheading. An entity shall apply those amendments when it applies HKFRS 18.

...

Appendix B
Application guidance

Classes of financial instruments and level of disclosure (paragraph 6)

...

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of material accounting policy information, which is expected to include information about the measurement basis (or bases) for financial instruments used in preparing the financial statements. For financial instruments, such disclosure may include:

...

Paragraph 27G of HKAS 8 *Basis of Preparation of Financial Statements* ~~122 of HKAS 1 (as revised in 2007)~~ also requires entities to disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

...

Quantitative disclosures (paragraph 34)

B7 Paragraph 34(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. HKAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ discusses relevance and reliability.

...

Derecognition (paragraphs 42C–42H)

...

Offsetting financial assets and financial liabilities (paragraphs 13A–13F)

...

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

...

B46 The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity applying the requirements of HKFRS 18 aggregates or disaggregates amounts presented in ~~determines that the aggregation or disaggregation of~~ individual financial statement line items ~~amounts~~ when the entity provides the amounts required by paragraph 13C(c)~~provides more relevant information~~, it must reconcile those ~~the~~ aggregated or disaggregated amounts ~~disclosed in paragraph 13C(c)~~ back to the individual line item amounts presented in the statement of financial position.

A footnote is added to the end of paragraph 44A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 44C. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 7 *Financial Instruments: Disclosures.*

A footnote is added to the end of paragraph 44Q. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 44AA. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 44FF. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

A footnote is added to the end of paragraph 44II. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over the requirements to disclose material accounting policy information in HKAS 1 to HKAS 8.

HKFRS 8 *Operating Segments*

Paragraph 23 is amended and paragraph 36D is added. New text is underlined and deleted text is struck through.

Disclosure

...

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

...

(f) material items of income and expense disclosed in accordance with paragraph 42 of HKFRS 18 *Presentation and Disclosure in Financial Statements*~~paragraph 97 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~;

...

Transition and effective date

...

36D HKFRS 18 issued in July 2024 amended paragraph 23. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 36A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKFRS 9 *Financial Instruments*

Paragraphs 5.6.5, 5.6.7, 5.7.10, 6.5.11, 6.5.12, 6.5.14, 6.5.15, 6.7.2 and B4.1.2A are amended and paragraph 7.1.11 is added. New text is underlined and deleted text is struck through.

Chapter 5 Measurement

...

5.6 Reclassification of financial assets

...

5.6.5 If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment (see <u>HKFRS 18 *Presentation and Disclosure in Financial Statements*</u>~~HKAS 1 *Presentation of Financial Statements*~~). The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. (See paragraph B5.6.1.)

...

5.6.7 If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see <u>HKFRS 18</u>~~HKAS 1~~) at the reclassification date.

5.7 Gains and losses

...

Assets measured at fair value through other comprehensive income

5.7.10 A gain or loss on a financial asset measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A shall be recognised in other comprehensive income, except for impairment gains or losses (see Section 5.5) and foreign exchange gains and losses (see paragraphs B5.7.2–B5.7.2A), until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see <u>HKFRS 18</u>~~HKAS 1~~). If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income in accordance with paragraphs 5.6.5 and 5.6.7. Interest calculated using the effective interest method is recognised in profit or loss.

...

Chapter 6 Hedge accounting

...

6.5 Accounting for qualifying hedging relationships

...

Cash flow hedges

6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

...

(d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:

(i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see HKFRS 18~~HKAS 1~~) and hence it does not affect other comprehensive income.

(ii) for cash flow hedges other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).

(iii) however, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~).

6.5.12 When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

...

(b) if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a net investment in a foreign operation

...

6.5.14 The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~) in accordance with paragraphs 48–49 of HKAS 21 on the disposal or partial disposal of the foreign operation.

Accounting for the time value of options

6.5.15 When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 6.2.4(a)), it shall account for the time value of the option as follows (see paragraphs B6.5.29–B6.5.33):

...

(b) the change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of equity (the 'amount') shall be accounted for as follows:

   (i) if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see HKFRS 18~~HKAS 1~~) and hence does not affect other comprehensive income.

   (ii) for hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, when a forecast sale occurs).

   (iii) however, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~).

(c) the change in fair value of the time value of an option that hedges a time-period related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). Hence, in each reporting period, the amortisation amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (ie including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~).

...

6.7 Option to designate a credit exposure as measured at fair value through profit or loss

...

Accounting for credit exposures designated at fair value through profit or loss

6.7.2 If a financial instrument is designated in accordance with paragraph 6.7.1 as measured at fair value through profit or loss after its initial recognition, or was previously not recognised, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognised in profit or loss. For financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the cumulative gain or loss previously recognised in other comprehensive income shall immediately be reclassified from equity to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~).

...

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.11 HKFRS 18 issued in July 2024 amended paragraphs 5.6.5, 5.6.7, 5.7.10, 6.5.11, 6.5.12, 6.5.14, 6.5.15, 6.7.2 and B4.1.2A. An entity shall apply those amendments when it applies HKFRS 18.

...

Appendix B
Application guidance

...

Classification (Chapter 4)

Classification of financial assets (Section 4.1)

The entity's business model for managing financial assets

...

B4.1.2A An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements (see HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~) nor does it change the classification of the remaining financial assets held in that business model (ie those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph 7.2.1. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

HKFRS 10 *Consolidated Financial Statements*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C2. New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*</u>

HKFRS 11 *Joint Arrangements*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C1B. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HKFRS 12 *Disclosure of Interests in Other Entities*

Paragraph B14 is amended and paragraph C1E is added. New text is underlined and deleted text is struck through.

Appendix B
Application guidance

...

Summarised financial information for subsidiaries, joint ventures and associates (paragraphs 12 and 21)

...

B14 The summarised financial information <u>disclosed</u> ~~presented~~ in accordance with paragraphs B12 and B13 shall be the amounts included in the HKFRS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

(a) the amounts included in the HKFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(b) the entity shall provide a reconciliation of the summarised financial information <u>disclosed</u> ~~presented~~ to the carrying amount of its interest in the joint venture or associate.

...

Appendix C
Effective date and transition

Effective date and transition

...

<u>C1E</u> <u>HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph B14. An entity shall apply those amendments when it applies HKFRS 18.</u>

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph C1D. New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.</u>

HKFRS 13 *Fair Value Measurement*

Paragraph 51 is amended and paragraph C7 is added. New text is underlined and deleted text is struck through.

Measurement

...

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

...

51 An entity shall make an accounting policy decision in accordance with HKAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ to use the exception in paragraph 48. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 53–55) and credit adjustments (see paragraph 56), if applicable, consistently from period to period for a particular portfolio.

...

Appendix C
Effective date and transition

...

C7 HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 51. An entity shall apply those amendments when it applies HKFRS 18.

HKFRS 14 *Regulatory Deferral Accounts*

Paragraphs 19, B13 and B14 are amended and paragraph C2 is added. The subheading before paragraph 9 is also amended. Paragraph 9 is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition, measurement, impairment and derecognition

Temporary exemption from paragraph 11 of HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~

9 **An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of HKAS 8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.**

...

Presentation

Changes in presentation

...

19 Notwithstanding the requirements in HKFRS 18 *Presentation and Disclosure in Financial Statements*~~In addition to the items that are required to be presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income in accordance with HKAS 1 *Presentation of Financial Statements*~~, an entity applying this Standard shall present all regulatory deferral account balances and the movements in those balances in accordance with paragraphs 20–26.

...

Appendix B
Application Guidance

...

Applicability of other Standards

...

Application of HKAS 33 *Earnings per Share*

B13 Paragraph 66 of HKAS 33 requires some entities to present, in the statement of profit or loss and other comprehensive income, basic and diluted earnings per share both for profit or loss from continuing operations and profit or loss that is attributable to the ordinary equity holders of the parent entity. In addition, paragraph 68 of HKAS 33 requires an entity that reports a discontinued operation to either present in the statement of profit or loss and other comprehensive income or disclose in the notes ~~disclose~~ the basic and diluted amounts per share for the discontinued operation~~, either in the statement of profit or loss and other comprehensive income or in the notes~~.

B14 For each earnings per share amount presented in accordance with HKAS 33, an entity applying this Standard shall present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts shall exclude the net movement in the regulatory deferral account balances. ~~Consistent with the requirement in paragraph 73 of HKAS 33,~~ Notwithstanding the requirements in paragraph 73C(c) of HKAS 33, an entity shall present the earnings per share required by paragraph 26 of this Standard with equal prominence to the earnings per share required by HKAS 33 for all periods presented.

...

Appendix C
Effective date and transition

Effective date and transition

Effective date

...

C2 HKFRS 18 issued in July 2024 amended paragraphs 19, B13 and B14 and the subheading before paragraph 9. An entity shall apply those amendments when it applies HKFRS 18.

HKFRS 15 *Revenue from Contracts with Customers*

Paragraph 43 is amended and paragraph C1D is added. New text is underlined and deleted text is struck through.

Recognition

...

Satisfaction of performance obligations

...

Measuring progress towards complete satisfaction of a performance obligation

...

Methods for measuring progress

...

43 As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Appendix C
Effective date and transition

Effective date

...

<u>C1D</u> <u>HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 43. An entity shall apply those amendments when it applies HKFRS 18.</u>

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C3(a). New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.</u>

HKFRS 16 *Leases*

Paragraph 49 is amended and paragraph C1E is added. New text is underlined and deleted text is struck through.

Lessee

...

Presentation

...

49 In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Paragraph 61 of HKFRS 18 *Presentation and Disclosure in Financial Statements* requires an entity to classify in the financing category of the statement of profit or loss interest ~~Interest~~ expense on the lease liability, identified by the entity applying paragraph 36(a)~~is a component of finance costs, which paragraph 82(b) of HKAS 1 *Presentation of Financial Statements* requires to be presented separately in the statement of profit or loss and other comprehensive income~~.

...

Appendix C
Effective date and transition

Effective date

...

C1E HKFRS 18 issued in July 2024 amended paragraph 49. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph C5(a). New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HKFRS 17 *Insurance Contracts*

Paragraphs 91, 96, 103 and B129 are amended and paragraph C2B is added. New text is underlined and deleted text is struck through.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

...

Insurance finance income or expenses (see paragraphs B128–B136)

...

91 **If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:**

(a) **it shall reclassify to profit or loss as a reclassification adjustment (see HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).**

(b) **it shall not reclassify to profit or loss as a reclassification adjustment (see HKFRS 18~~HKAS 1~~) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).**

...

Disclosure

...

96 Paragraphs 41–43 of HKFRS 18 ~~Paragraphs 29–31 of HKAS 1~~ set out requirements relating to ~~materiality and~~ aggregation and disaggregation of information. Examples of characteristics ~~aggregation bases~~ that might be appropriate as a basis to disaggregate ~~for~~ information disclosed about insurance contracts are:

(a) type of contract (for example, major product lines);

(b) geographical area (for example, country or region); or

(c) reportable segment, as defined in HKFRS 8 *Operating Segments*.

Explanation of recognised amounts

...

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to services, if applicable:

...

(c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are disclosed ~~presented~~ as part of the cash flows in the period described in paragraph 105(a)(i)).

...

Appendix B
Application guidance

...

Insurance finance income or expenses (paragraphs 87–92)

...

B129 Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 13 of HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

...

Appendix C
Effective date and transition

Effective date

...

C2B HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraphs 91, 96, 103 and B129. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph C3(a). New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HKAS 2 *Inventories*

Paragraph 39 is amended and paragraph 40H is added. New text is underlined and deleted text is struck through.

Disclosure

...

39 Some entities classify expenses by nature in the operating category of the statement of ~~adopt a format for~~ profit or loss in a way that results in amounts being presented ~~disclosed~~ other than the cost of inventories recognised as an expense during the period. ~~Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses.~~ In this case, the entity presents ~~discloses~~ the costs recognised as an expense for raw materials and consumables, employee benefits ~~labour costs~~ and other costs together with the amount of the net change in inventories for the period.

Effective date

...

40H HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 39. An entity shall apply those amendments when it applies HKFRS 18.

HKAS 7 *Statement of Cash Flows*

Paragraphs 6, 10, 12, 14, 16–18, 20, 31, 32, 35, 46 and 47 are amended. Paragraphs 33A, 34A–34D, and 64 are added. Paragraphs 33 and 34 are deleted. New text is underlined and deleted text is struck through.

Definitions

6 The following terms are used in this Standard with the meanings specified:

...

Investing activities **are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D.**

...

Presentation of a statement of cash flows

10 The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities. In preparing the statement of cash flows, an entity shall apply this Standard and also apply the general requirements for financial statements in paragraphs 9–43 and 113–114 of HKFRS 18 *Presentation and Disclosure in Financial Statements*.

...

12 A single transaction may include cash flows that are classified differently.~~ For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.~~

Operating activities

...

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) [deleted]

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities;~~ and~~

(g) cash receipts and payments from contracts held for dealing or trading purposes; and~~.~~

(h) cash receipts of dividends and cash receipts and payments of interest as described in paragraphs 34B–34D.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of HKAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

...

Investing activities

16 The separate presentation ~~disclosure~~ of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment.~~;~~

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.~~;~~

(c) cash payments to acquire equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes).~~;~~

(d) cash receipts from sales of equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes).~~;~~

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution).~~;~~

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution).~~;~~

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.~~; and~~

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

(i) cash receipts of interest and dividends as described in paragraphs 34A–34D.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 The separate presentation ~~disclosure~~ of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) cash repayments of amounts borrowed;~~ and~~

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a lease;~~.~~

(f) cash payments of dividends as described in paragraph 33A; and

(g) cash payments of interest as described in paragraphs 34A–34D.

Reporting cash flows from operating activities

18 **An entity shall report cash flows from operating activities using either:**

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby operating profit or loss is adjusted for:

(i) the effects of transactions of a non-cash nature;~~,~~

(ii) any deferrals or accruals of past or future operating cash receipts or payments;~~,~~

(iii) income or expenses classified in the operating category in the statement of profit or loss for which the associated cash flows are classified as cash flows from either investing or financing activities; and

(iv) cash flows from operating activities for which the associated income or expenses are not classified in the operating category of the statement of profit or loss~~and items of income or expense associated with investing or financing cash flows~~.

...

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting operating profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions and~~, deferred taxes,~~ unrealised foreign currency gains and losses classified in the operating category~~, and undistributed profits of associates~~;~~ and~~

(c) income or expenses classified in the operating category in the statement of profit or loss ~~all other items~~ for which the cash effects are investing or financing cash flows; and~~.~~

(d) operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not classified in the operating category in the statement of profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses classified in the operating category in the statement of profit or loss, ~~disclosed in the statement of comprehensive income and~~ the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not classified in the operating category.

...

Interest and dividends

31 **Cash flows from interest and dividends received and paid shall each be presented ~~disclosed~~ separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D~~as either operating, investing or financing activities~~.**

32 The total amount of interest paid during a period is included ~~disclosed~~ in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with HKAS 23 *Borrowing Costs*.

33 [Deleted]~~Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.~~

33A An entity shall classify dividends paid as cash flows from financing activities.

34 [Deleted]~~Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.~~

34A An entity, other than those entities described in paragraph 34B, shall classify:

(a) interest paid (as described in paragraph 32) as cash flows from financing activities.

(b) interest and dividends received as cash flows from investing activities.

34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of HKFRS 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how—applying HKFRS 18—it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).

34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.

34D In applying HKFRS 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

Taxes on income

35 **Cash flows arising from taxes on income shall be separately presented ~~disclosed~~ and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.**

...

Components of cash and cash equivalents

...

46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with HKAS 8 *Basis of Preparation of Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with HKAS 8~~ *Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date

...

64 HKFRS 18 issued in July 2024 amended paragraphs 6, 10, 12, 14, 16–18, 20, 31, 32, 35, 46 and 47, added paragraphs 33A and 34A–34D, and deleted paragraphs 33 and 34. An entity shall apply those amendments when it applies HKFRS 18.

The footnote to the title of HKAS 7 is amended. New text is underlined.

* As a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in December 2007, the title of HKAS 7 was amended from *Cash Flow Statements* to *Statement of Cash Flows*. In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 to HKFRS 18.

HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The title of HKAS 8 is amended. New text is underlined and deleted text is struck through.

HKAS 8 *Basis of Preparation of Financial Statements~~Accounting Policies, Changes in Accounting Estimates and Errors~~*

Discard the existing introduction and replace with the following revised introduction.

Introduction

IN1 Hong Kong Accounting Standard 8 *Basis of Preparation of Financial Statements* (formerly known as *Accounting Policies, Changes in Accounting Estimates and Errors*) (HKAS 8) sets out the overall principles for the basis of preparation of financial statements. It aims to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with financial statements of other entities.

Reasons for issuing HKAS 8

IN2 The Hong Kong Institute of Certified Public Accountants (HKICPA) supports the reasons for the International Accounting Standards Board (IASB) issuing IAS 8 and therefore issued HKAS 8 to maintain convergence of HKFRS Accounting Standards with IFRS Accounting Standards.

IN3 The main objectives of HKAS 8 are to:

(a) set out the criteria for selecting, changing and disclosing accounting policies;

(b) articulate the hierarchy of guidance to which management refers, whose applicability it considers when selecting accounting policies in the absence of Standards and Interpretations that specifically apply;

(c) describe how to apply the concept of materiality when applying accounting policies and correcting errors; and

(d) prescribe the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

The main features

Selection and application of accounting policies

IN4 The Standard requires an entity to apply a HKFRS to a transaction when that Standard applies specifically to the transaction. It provides guidance on developing an accounting policy in the absence of HKFRS Accounting Standard that specifically applies to a transaction, and requires entity to provide disclosure of material accounting policy information.

The Standard also requires that:

(a) an entity selects and applies its accounting policies consistently for similar transactions, other events and conditions, unless a HKFRS specifically requires or permits categorisation of items for which different policies may be appropriate; and

(b) if a HKFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category.

Materiality

IN5 The Standard stipulates that:

(c) the accounting policies in HKFRSs need not be applied when the effect of applying them is immaterial.

(b) financial statements do not comply with HKFRSs if they contain material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

(c) material prior period errors are to be corrected retrospectively in the first set of financial statements authorised for issue after their discovery.

Voluntary changes in accounting policies and corrections of prior period errors

IN6 The Standard requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. Comparative information for prior periods is presented as if new accounting policies had always been applied and prior period errors had never occurred.

Accounting estimates

IN7 The Standard includes a definition of accounting estimate and guidance to distinguish changes in accounting policies from changes in accounting estimates.

IN8 The Standard requires that the effect of a change in an accounting estimate be recognised prospectively by including it in profit of loss. To the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, or relates to an item of equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Impracticability

IN9 The Standard includes the 'impracticability' criterion for exemption from changing comparative information when changes in accounting policies are applied retrospectively and prior period errors are corrected. The Standard provides a definition of 'impracticable' and guidance on its interpretation. The Standard also states that when it is impracticable to determine the cumulative effect, at the beginning of the current period, of:

(a) applying a new accounting policy to all prior periods, or

(b) an error on all prior periods,

the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable.

Disclosures

IN10 The Standard requires disclosure of an impending change in accounting policy when an entity has yet to implement a new HKFRS that has been issued but not yet come into effect. In addition, it requires disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS will have on the entity's financial statements in the period of initial application.

IN11 The Standard requires more detailed disclosure of the amounts of adjustments resulting from changing accounting policies or correcting prior period errors. It requires those disclosures to be made for each financial statement line item affected and, if HKAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

Others

IN12 Following the issuance of HKFRS 18 *Presentation and Disclosure in Financial Statements* which replaces HKAS 1 *Presentation of Financial Statements*, the following requirements have been moved from HKAS 1 to HKAS 8:

(a) the concepts of true and fair view and compliance with HKFRS;

(b) whether an entity is a going concern;

(c) the accrual basis of accounting; and

(d) disclosure of an entity's selection and application of accounting policies.

To better reflect the amended content of HKAS 8, the title of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* has been changed to HKAS 8 *Basis of Preparation of Financial Statements*.

Paragraphs 1, 3, 5, 11 and 32 are amended and paragraph 2 is deleted. Paragraph 3A, paragraphs 6A–6J, 6K–6L, 6M–6N, 27A–27I and 31A–31I, each with a related heading or subheading, and paragraph 54J are added. A subheading is also added before paragraph 28. Paragraph 28 has not been amended but included for ease of reference. New text is underlined and deleted text is struck through.

Objective

1 The objective of this Standard is to ~~prescribe~~ enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with financial statements of other entities, by prescribing the basis of preparation of financial statements which includes:

(a) general matters;

(b) the criteria for selecting, ~~and~~ changing and disclosing accounting policies; and~~,~~

(c) ~~together with~~ the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

~~The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.~~

2 [Deleted]~~Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in HKAS 1 *Presentation of Financial Statements*.~~

Scope

3 This Standard shall be applied in determining the basis of preparation of financial statements, including selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

3A HKAS 34 *Interim Financial Reporting* sets out the requirements for the presentation and disclosure of condensed interim financial statements. Paragraphs 6A–6N of this Standard also apply to such interim financial statements.

...

Definitions

5 The following terms are used in this Standard with the meanings specified:

...

HKFRS Accounting Standards ~~***Hong Kong Financial Reporting Standards (HKFRSs)***~~ **are accounting standards** ~~**Standards and Interpretations**~~ **issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:**

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

HKFRS Accounting Standards were previously known as Hong Kong Financial Reporting Standards, HKFRS, HKFRSs and HKFRS Standards.

Material information **is defined in Appendix A of HKFRS 18 *Presentation and Disclosure in Financial Statements*** ~~**paragraph 7 of HKAS 1 and**~~**. Material is used in this Standard with the same meaning.**

...

Basis of preparation—general matters

True and fair view and compliance with HKFRS Accounting Standards

6A Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. True and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The application of HKFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a true and fair view.

6B An entity whose financial statements comply with HKFRS Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with HKFRS Accounting Standards unless they comply with all the requirements of HKFRS Accounting Standards.

6C In virtually all circumstances, an entity achieves a true and fair view by compliance with applicable HKFRSs. A true and fair view also requires an entity:

(a) to select and apply accounting policies in accordance with this Standard. This Standard sets out a hierarchy of authoritative guidance that management considers in the absence of a HKFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

6D An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

6E In the extremely rare circumstances in which management concludes that compliance with a requirement in a HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph 6F if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

6F When an entity departs from a requirement of a HKFRS in accordance with paragraph 6E, it shall disclose:

(a) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable HKFRSs, except that it has departed from a particular requirement to achieve a true and fair view;

(c) the title of the HKFRS from which the entity has departed, the nature of the departure, including the treatment that the HKFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

6G When an entity has departed from a requirement of a HKFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraphs 6F(c)–6F(d).

6H Paragraph 6G applies, for example, when an entity departed in a prior period from a requirement in a HKFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

6I In the extremely rare circumstances in which management concludes that compliance with a requirement in a HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the title of the HKFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a true and fair view.

6J For the purpose of paragraphs 6E–6I, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in a HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*.

Going concern

6K When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

6L In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

6M An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

6N When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Conceptual Framework*.

Accounting policies

Selection and application of accounting policies

...

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

...

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the ~~*Conceptual Framework for Financial Reporting* (~~*Conceptual Framework*~~)~~.

...

Disclosure

Disclosure of selection and application of accounting policies

27A An entity shall disclose material accounting policy information (see paragraph 5). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

27B Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

27C Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by HKFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

(c) the accounting policy was developed in accordance with this Standard in the absence of a HKFRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 27G and 31A; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one HKFRS to a class of material transactions.

27D Accounting policy information that focuses on how an entity has applied the requirements in the HKFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the HKFRSs.

27E If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

27F An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other HKFRSs.

27G An entity shall disclose, along with its material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 31A), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

27H In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, assets subject to leases are transferred to other entities;

(b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(c) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

27I Some of the disclosures made in accordance with paragraph 27G are required by other HKFRSs. For example, HKFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. HKAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Disclosure of changes in accounting policies

28 When initial application of a HKFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

...

Disclosure of sources of estimation uncertainty

31A An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and

(b) their carrying amount as at the end of the reporting period.

31B Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

31C The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 31A relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

31D The disclosures in paragraph 31A are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

31E An entity provides the disclosures in paragraph 31A in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

31F This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 31A.

31G Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

31H The disclosures in paragraph 27G of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 31A.

31I Other HKFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 31A. For example, HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. HKFRS 13 *Fair Value Measurement* requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

Accounting estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

...

(c) the fair value of an asset or liability, applying HKFRS 13 ~~Fair Value Measurement~~;

...

(e) a provision for warranty obligations, applying HKAS 37 ~~Provisions, Contingent Liabilities and Contingent Assets~~.

...

Effective date and transition

...

54J HKFRS 18 issued in July 2024 amended paragraphs 1, 3, 5, 11 and 32, added paragraphs 3A, 6A–6N, 27A–27I and 31A–31I and related headings and subheadings, added a subheading above paragraph 28 and deleted paragraph 2. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 54H. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

Appendix: Amendments to other pronouncements is changed to Appendix A: Amendments to other pronouncements.

Appendix B:Comparison with International Accounting Standards is added after Appendix A.

Appendix B
Comparison with International Accounting Standards

This comparison appendix, which was prepared in July 2024 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 8.

The International Accounting Standard comparable with HKAS 8 is IAS 8 *Basis of Preparation of Financial Statements*.

The following sets out the major textual difference between HKAS 8 and IAS 8 and the reason for the difference.

Difference	Reason for the differences
(i) IAS 8 paras 6A-6J vs HKAS 8 paras 6A-6J The terms 'fair presentation' and 'present fairly' used in IAS 8 are replaced by the terms 'true and fair view' and 'present a true and fair view' in HKAS 8	To match with the terms used in the Hong Kong Companies Ordinance

HKAS 10 *Events after the Reporting Period*

Paragraphs 13 and 16 are amended and paragraph 23D is added. New text is underlined and deleted text is struck through.

Recognition and measurement

...

Dividends

...

13 If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~.

Going concern

...

16 HKAS 8 *Basis of Preparation of Financial Statements* ~~HKAS 1~~ specifies required disclosures if:

(a) the financial statements are not prepared on a going concern basis; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

...

Effective date

...

23D HKFRS 18 issued in July 2024 amended paragraphs 13 and 16. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'definition of material in paragraph 7 of HKAS 1' in paragraph 23C. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKAS 12 *Income Taxes*

Paragraphs 62A, 77 (and its related subheading) and 78 (and its related subheading) and paragraph 81 are amended. Paragraph 98N is added. New text is underlined and deleted text is struck through.

Recognition of current and deferred tax

...

Items recognised outside profit or loss

...

62A Hong Kong Financial Reporting Standards require or permit particular items to be credited or charged directly to equity. Examples of such items are:

(a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~); and

(b) amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).

...

Presentation

...

Tax expense

Tax expense (income) related to <u>items recognised in</u> profit or loss ~~from ordinary activities~~

77 The tax expense (income) related to <u>items recognised in</u> profit or loss from <u>continuing operations</u> ~~ordinary activities~~ shall be presented <u>in the income tax category in</u> ~~as part of profit or loss in~~ the <u>statement</u> ~~statement(s)~~ of profit or loss ~~and other comprehensive income~~.

...

Exchange differences on <u>foreign currency denominated assets and liabilities arising from income taxes</u>~~deferred foreign tax liabilities or assets~~

78 ~~HKAS 21 requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the statement of comprehensive income. Accordingly, where~~ <u>If</u> exchange differences on <u>foreign currency denominated assets and liabilities arising from income taxes</u> ~~deferred foreign tax liabilities or assets~~ are recognised in <u>profit or loss in accordance with HKAS 21</u>~~the statement of comprehensive income~~, such differences <u>shall</u> ~~may~~ be classified <u>applying the requirements in paragraph 67 of HKFRS 18 *Presentation and Disclosure in Financial Statements*</u>~~as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users~~.

Disclosure

...

81 **The following shall also be disclosed separately:**

...

(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and paragraph 93 of HKFRS 18~~HKAS 1 (as revised in 2007)~~);

...

(h) in respect of discontinued operations, the tax expense relating to:

(i) the gain or loss on discontinuance; and

(ii) the profit or loss of ~~from the ordinary activities of~~ the discontinued operation for the period, together with the corresponding amounts for each prior period presented;

...

Effective date

...

98N HKFRS 18 issued in July 2024 amended paragraphs 62A, 77 (and its related subheading) and 78 (and its related subheading) and paragraph 81. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 92. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 98B. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 98H. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

HKAS 16 *Property, Plant and Equipment*

Paragraph 51 is amended. Paragraph 81O is added. New text is underlined and deleted text is struck through.

Measurement after recognition

...

Depreciation

...

Depreciable amount and depreciation period

...

51 **The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.**

...

Effective date

...

<u>81O</u> <u>HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 51. An entity shall apply those amendments when it applies HKFRS 18.</u>

A footnote is added to the end of paragraph 81B. New text is underlined.

* <u>In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.</u>

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 81G. New text is underlined.

* <u>When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.</u>

HKAS 19 *Employee Benefits*

Paragraphs 25, 134, 158 and 171 are amended. Paragraph 180 is added. New text is underlined and deleted text is struck through.

Short-term employee benefits

...

Disclosure

25 Although this Standard does not require specific disclosures about short-term employee benefits, other HKFRSs may require disclosures. For example, HKAS 24 requires disclosures about employee benefits for key management personnel. HKFRS 18 *Presentation and Disclosure in Financial Statements* ~~HKAS 1 *Presentation of Financial Statements*~~ requires disclosure of employee benefits expense.

...

Post-employment benefits: defined benefit plans

...

Presentation

...

Components of defined benefit cost

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with HKFRS 18~~HKAS 1~~.

...

Other long-term employee benefits

...

Disclosure

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other HKFRSs may require disclosures. For example, HKAS 24 requires disclosures about employee benefits for key management personnel. HKFRS 18 ~~HKAS 1~~ requires disclosure of employee benefits expense.

Termination benefits

...

Disclosure

171 Although this Standard does not require specific disclosures about termination benefits, other HKFRSs may require disclosures. For example, HKAS 24 requires disclosures about employee benefits for key management personnel. HKFRS 18 ~~HKAS 1~~ requires disclosure of employee benefits expense.

Transition and effective date

...

180 HKFRS 18 issued in July 2024 amended paragraphs 25, 134, 158 and 171. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph 173. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 175. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Paragraphs 16, 29 and 32 are amended and paragraph 49 is added. New text is underlined and deleted text is struck through.

Government grants

...

16 It is fundamental to the income approach that government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see HKAS 8 *Basis of Preparation of Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~) and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.

...

Presentation of grants related to income

29 Grants related to income are classified and presented in the statement of profit or loss in accordance with the requirements in HKFRS 18 *Presentation and Disclosure in Financial Statements*. ~~presented as part of profit or loss,~~ They are included in profit or loss, either as income or as a deduction ~~separately or under a general heading such as 'Other income'; alternatively, they are deducted~~ in reporting the related expense.

...

Repayment of government grants

32 A government grant that becomes repayable shall be accounted for as a change in accounting estimate (see HKAS 8~~ *Accounting Policies, Changes in Accounting Estimates and Errors*~~). Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

...

Effective date

...

49 HKFRS 18 issued in July 2024 amended paragraphs 16, 29 and 32. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 42. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 46. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 48 is amended and paragraph 60N is added. New text is underlined and deleted text is struck through.

Use of a presentation currency other than the functional currency

...

Disposal or partial disposal of a foreign operation

48 **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~).**

...

Effective date and transition

...

60N HKFRS 18 issued in July 2024 amended paragraph 48. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 60. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraph 60A. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 60H. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

HKAS 24 *Related Party Disclosures*

Paragraph 20 is amended and paragraph 28D is added. New text is underlined and deleted text is struck through.

Disclosures

All entities

...

20 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in HKFRS 18 *Presentation and Disclosure in Financial Statements* ~~HKAS 1~~ ~~*Presentation of Financial Statements*~~ for information to be either presented ~~either~~ in the statement of financial position or disclosed in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

...

Effective date and transition

...

28D HKFRS 18 issued in July 2024 amended paragraph 20. An entity shall apply those amendments when it applies HKFRS 18.

HKAS 26 *Accounting and Reporting by Retirement Benefit Plans*

A footnote is added to the end of paragraph 38. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements to disclose material accounting policy information in HKAS 1 *Presentation of Financial Statements* to HKAS 8 *Basis of Preparation of Financial Statements*.

HKAS 27 *Separate Financial Statements*

A footnote is added to '(as defined in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*),' in paragraph 18G. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 18J. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

HKAS 28 *Investments in Associates and Joint Ventures*

Paragraph 10 is amended and paragraph 45L is added. New text is underlined and deleted text is struck through.

Equity method

10 Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~).

...

Effective date and transition

...

45L HKFRS 18 issued in July 2024 amended paragraph 10. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 45B. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HKAS 29 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 8 and 25 are amended and paragraph 42 is added. New text is underlined and deleted text is struck through.

The restatement of financial statements

...

8 **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period required by HKFRS 18 *Presentation and Disclosure in Financial Statements* ~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~ and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of HKAS 21 *The Effects of Changes in Foreign Exchange Rates* apply.**

...

Historical cost financial statements

Statement of financial position

...

25 At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in owners' equity are disclosed in accordance with HKFRS 18~~HKAS 1~~.

...

Effective date

...

42 HKFRS 18 issued in July 2024 amended paragraphs 8 and 25. An entity shall apply those amendments when it applies HKFRS 18.

HKAS 32 *Financial Instruments: Presentation*

Paragraphs 34, 39–41 and AG29 are amended and paragraph 97U is added. New text is underlined and deleted text is struck through.

Presentation

...

Treasury shares (see also paragraph AG36)

...

34 The amount of treasury shares held is either presented ~~disclosed~~ separately ~~either~~ in the statement of financial position or the statement of changes in equity or disclosed in the notes, in accordance with HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~. An entity provides disclosure in accordance with HKAS 24 *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties.

Interest, dividends, losses and gains (see also paragraph AG37)

...

39 The amount of transaction costs accounted for as a deduction from equity in the period is presented in the statement of changes in equity or disclosed in the notes ~~separately~~ in accordance with HKFRS 18~~HKAS 1~~.

40 Dividends classified as an expense may be presented in the statement(s) of profit or loss and other comprehensive income or disclosed in the notes either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, presentation and disclosure of interest and dividends is subject to the requirements of HKFRS 18 ~~HKAS 1~~ and HKFRS 7. In some circumstances, because of the differences between interest and dividends with respect to matters such as tax deductibility, an entity may determine that it will present interest expenses separately from dividend expenses in the statement(s) of profit or loss and other comprehensive income~~it is desirable to disclose them separately in the statement(s) of profit or loss and other comprehensive income~~. Disclosures of the tax effects are made in accordance with HKAS 12.

41 Gains and losses related to changes in the carrying amount of a financial liability are recognised as income or expense in profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 18(b)). Under HKFRS 18 ~~HKAS 1~~ the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of comprehensive income if such presentation is necessary to provide a useful structured summary of the entity's income and expenses~~when it is relevant in explaining the entity's performance~~.

...

Effective date and transition

...

97U HKFRS 18 issued in July 2024 amended paragraphs 34, 39–41 and AG29. An entity shall apply those amendments when it applies HKFRS 18.

...

Appendix
Application Guidance
HKAS 32 *Financial Instruments: Presentation*

...

Presentation

Liabilities and equity (paragraphs 15–27)

...

Treatment in consolidated financial statements

AG29 In consolidated financial statements, an entity presents non-controlling interests—ie the interests of other parties in the equity and income of its subsidiaries—in accordance with HKFRS 18 ~~HKAS 1~~ and HKFRS 10. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the group and the holders of the instrument in determining whether the group as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a subsidiary in a group issues a financial instrument and a parent or other group entity agrees additional terms directly with the holders of the instrument (eg a guarantee), the group may not have discretion over distributions or redemption. Although the subsidiary may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the group and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the group as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

A footnote is added to the end of paragraph 96A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 7 *Financial Instruments: Disclosures*.

A footnote is added to the end of paragraph 96C. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 7.

A footnote is added to the end of paragraphs 97A and 97K. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 97N. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*.

In paragraph 98 the footnote to the end of the sentence is amended. Deleted text is struck through.

* In September 2005 the ~~Institute~~ HKICPA relocated all disclosures relating to financial instruments to HKFRS 7 ~~*Financial Instruments: Disclosures*~~.

HKAS 33 *Earnings per Share*

Paragraphs 4A, 13 and 67A–68A are amended, paragraphs 73–73A are deleted and paragraphs 73B–73C and 74F are added. New text is underlined and deleted text is struck through.

Scope

...

4A If an entity presents items of profit or loss in a ~~separate~~ statement <u>of profit or loss separate from a statement presenting comprehensive income</u> as described in paragraph <u>12(b) of HKFRS 18 *Presentation and Disclosure in Financial Statements*</u>~~10A of HKAS 1 *Presentation of Financial Statements* (as amended in 2011)~~, it presents earnings per share only in <u>the</u> ~~that separate~~ statement <u>of profit or loss</u>.

...

Measurement

Basic earnings per share

...

Earnings

...

13 All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see <u>HKFRS 18</u>~~HKAS 1~~).

...

Presentation

...

67A If an entity presents items of profit or loss in a ~~separate~~ statement <u>of profit or loss separate from a statement presenting comprehensive income</u> as described in paragraph <u>12(b) of HKFRS 18</u>~~10A of HKAS 1 (as amended in 2011)~~, it presents basic and diluted earnings per share, as required in paragraphs 66 and 67, in <u>the</u> ~~that separate~~ statement <u>of profit or loss</u>.

68 An entity that reports a discontinued operation shall <u>either present</u> ~~disclose~~ the basic and diluted amounts per share for the discontinued operation ~~either~~ in the statement of comprehensive income or <u>disclose that information</u> in the notes.

68A If an entity presents items of profit or loss in a ~~separate~~ statement <u>of profit or loss separate from a statement presenting comprehensive income</u> as described in paragraph <u>12(b) of HKFRS 18</u>~~10A of HKAS 1 (as amended in 2011)~~, it presents basic and diluted earnings per share for the discontinued operation, as required in paragraph 68, in <u>the</u> ~~that separate~~ statement <u>of profit or loss</u> or <u>discloses that information</u> in the notes.

...

Disclosure

...

73 **[Deleted]~~If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.~~**

73A **[Deleted]~~Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported item of profit or loss, other than one required by this Standard.~~**

73B **In addition to presenting basic and diluted earnings per share required by this Standard, an entity is permitted to disclose in the notes additional amounts per share using a measure of performance as a numerator different from that required by paragraphs 12–18 and 33–35. However, such numerator(s) shall be the amount(s) attributable to ordinary equity holders of the parent entity of:**

(a) **a total or subtotal in paragraphs 69, 86 and 118 of HKFRS 18; or**

(b) **a management-defined performance measure as defined in paragraph 117 of HKFRS 18.**

73C If, applying paragraph 73B, an entity discloses an additional amount per share, the entity shall:

(a) disclose the additional basic and diluted amounts per share with equal prominence.

(b) calculate the additional amount per share using the weighted average number of ordinary shares determined in accordance with this Standard.

(c) disclose the additional amount per share in the notes. That information cannot be presented in the primary financial statements.

(d) disclose the information required by paragraphs 121–125 of HKFRS 18 for the numerators that are management-defined performance measures.

Effective date

...

74F HKFRS 18 issued in April 2024 amended paragraphs 4A, 13 and 67A–68A, added paragraphs 73B–73C and deleted paragraphs 73–73A. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 74A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraph 74D. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

HKAS 34 *Interim Financial Reporting*

Paragraphs 1–5, 7–10, 11A–12, 19 (and its related heading), 20 and 24 are amended and paragraphs 16A(m) and 61 are added. New text is underlined and deleted text is struck through.

Scope

1 This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with HKFRS Accounting Standards~~Hong Kong Financial Reporting Standards (HKFRSs)~~. The Hong Kong Institute of Certified Public Accountants encourages publicly traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Standard. Specifically, publicly traded entities are encouraged:

(a) to provide interim financial reports at least as of the end of the first half of their financial year; and

(b) to make their interim financial reports available not later than 60 days after the end of the interim period.

2 Each financial report, annual or interim, is evaluated on its own for conformity to HKFRS Accounting Standards~~HKFRSs~~. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to HKFRS Accounting Standards ~~HKFRSs~~ if they otherwise do so.

3 If an entity's interim financial report is described as complying with HKFRS Accounting Standards~~HKFRSs~~, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.

Definitions

4 The following terms are used in this Standard with the meanings specified:

…

Interim financial report **means a financial report containing either a complete set of financial statements (as described in HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~) or a set of condensed financial statements (as described in this Standard) for an interim period.**

Content of an interim financial report

5 HKFRS 18 ~~HKAS 1~~ defines a complete set of financial statements as including the following components:

(a) a statement (or statements) of financial performance for the reporting period~~a statement of financial position as at the end of the period~~;

(b) a statement of financial position as at the end of the reporting period~~a statement of profit or loss and other comprehensive income for the period~~;

(c) a statement of changes in equity for the reporting period;

(d) a statement of cash flows for the reporting period;

(e) notes for the reporting period~~, material accounting policy information and other explanatory information~~;

(ea) comparative information in respect of the preceding period as specified in paragraphs 31–32 of HKFRS 18~~38 and 38A of HKAS 1~~; and

(f) a statement of financial position as at the beginning of the preceding period if required by paragraph 37 of HKFRS 18~~when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of HKAS 1~~.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'.~~For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.~~

...

7 Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in HKFRS 18~~HKAS 1~~) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16A) as well as those required by other HKFRSs.

Minimum components of an interim financial report

8 An interim financial report shall include, at a minimum, the following components:

(a) a condensed statement (or condensed statements) of financial performance~~financial position~~;

(b) a condensed statement of financial position~~or condensed statements of profit or loss and other comprehensive income~~;

(c) a condensed statement of changes in equity;

(d) a condensed statement of cash flows; and

(e) selected explanatory notes.

8A If an entity presents items of profit or loss in a ~~separate~~ statement of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of HKFRS 18~~10A of HKAS 1 (as amended in 2011)~~, it presents interim condensed information from the ~~that~~ statement of profit or loss.

Form and content of interim financial statements

9 If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of HKFRS 18 ~~HKAS 1~~ for a complete set of financial statements.

10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. In preparing condensed financial statements, an entity shall apply this Standard and also the requirements in paragraphs 41–45 of HKFRS 18 and in paragraphs 6A–6N of HKAS 8 *Basis of Preparation of Financial Statements*. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.

...

11A If an entity presents items of profit or loss in a ~~separate~~ statement of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of HKFRS 18~~10A of HKAS 1 (as amended in 2011)~~, it presents basic and diluted earnings per share in the ~~that~~ statement of profit or loss.

12 HKFRS 18 ~~HKAS 1 (as revised in 2007)~~ provides guidance on the structure of financial statements. The Illustrative Examples that accompany HKFRS 18 illustrate ~~Implementation Guidance for HKAS 1 illustrates~~ ways in which the statement of financial position, statement(s) of financial performance ~~comprehensive income~~ and statement of changes in equity may be presented.

...

Other disclosures

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

…

(m) the disclosures about management-defined performance measures required by paragraphs 121–125 of HKFRS 18.

...

Disclosure of compliance with HKFRS Accounting Standards~~HKFRSs~~

19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with HKFRS Accounting Standards ~~HKFRSs~~ unless it complies with all the requirements of HKFRS Accounting Standards~~HKFRSs~~.

Periods for which interim financial statements are required to be presented

20 **Interim reports shall include interim financial statements (condensed or complete) for periods as follows:**

…

(b) statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the current interim period and cumulatively for the current financial year to date, with comparative statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by HKFRS 18~~HKAS 1 (as amended in 2011)~~, an interim report may present for each period a statement (or statements) ~~or statements~~ of financial performance~~profit or loss and other comprehensive income~~.

...

Materiality

...

24 HKFRS 18 ~~HKAS 1~~ defines material information and requires separate disclosure of material items, including (for example) discontinued operations, and HKAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

...

Effective date

...

61 HKFRS 18 issued in July 2024 amended paragraphs 1–5, 7–10, 11A–12, 19 (and its related heading), 20 and 24 and added paragraph 16A(m). An entity shall apply those amendments when it applies HKFRS 18. In interim financial statements in the first year of applying HKFRS 18, an entity shall apply paragraphs C4–C6 of Appendix C of HKFRS 18.

A footnote is added to the end of paragraph 47. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

A footnote is added to the end of paragraphs 51 and 52. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over these requirements in HKAS 1 to HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 52. New text is underlined.

* When it issued HKFRS 18 the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraphs 53, 56 and 58. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8.

A footnote is added to the end of paragraph 59. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over the definition of 'material' in HKAS 1 to HKFRS 18.

A footnote is added to the end of paragraph 60. New text is underlined.

* When it issued HKFRS 18, the HKICPA carried over the requirements to disclose material accounting policy information in HKAS 1 to HKAS 8.

HKAS 36 *Impairment of Assets*

A footnote is added to the end of paragraph 140A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A footnote is added to the end of paragraph 104. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKAS 38 *Intangible Assets*

Paragraph 102 is amended and paragraph 130N is added. New text is underlined and deleted text is struck through.

Intangible assets with finite useful lives

...

Residual value

...

102 An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Transitional provisions and effective date

...

130N HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 102. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 130B. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKAS 40 *Investment Property*

Paragraph 31 is amended and paragraph 85I is added. New text is underlined and deleted text is struck through.

Measurement after recognition

Accounting policy

...

31 HKAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

...

Effective date

...

85I HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 31. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 85A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HKAS 41 *Agriculture*

Paragraphs 50 and 53 are amended and paragraph 66 is added. New text is underlined and deleted text is struck through.

Disclosure

General

...

50 **An entity shall disclose ~~present~~ a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

...

53 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

...

Effective date and transition

...

66 HKFRS 18 issued in July 2024 amended paragraphs 50 and 53. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 59. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HK(IFRIC)-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. Paragraphs 6 and 8 are amended and paragraph 9C is added. New text is underlined and deleted text is struck through.

References

- HKFRS 16 *Leases*
- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 16 *Property, Plant and Equipment*
- HKAS 23 *Borrowing Costs*
- HKAS 36 *Impairment of Assets* (as revised in 2004)
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

...

Consensus

...

6 If the related asset is measured using the revaluation model:

…

(d) HKFRS 18 ~~HKAS 1~~ requires items of other comprehensive income to be presented as line items in the statement presenting comprehensive income~~disclosure in the statement of comprehensive income of each component of other comprehensive income or expense~~. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and presented ~~disclosed~~ as such.

...

8 The periodic unwinding of the discount shall be recognised in profit or loss as interest expense from liabilities other than those that arise from transactions that involve only the raising of finance ~~a finance cost~~ as it occurs and classified—applying paragraph 61 of HKFRS 18—in the financing category of the statement of profit or loss. Capitalisation under HKAS 23 is not permitted.

Effective date

...

9C HKFRS 18 issued in July 2024 amended paragraphs 6 and 8. An entity shall apply those amendments when it applies HKFRS 18.

…

A footnote is added to the end of paragraph 9A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

The footnote at the end of paragraph 10 is amended. New text is underlined and deleted text is struck through.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements*~~If an entity applies this Interpretation for a period beginning before 1 January 2005, the entity shall follow the requirements of the previous version of HKAS 8, which was entitled SSAP 2~~ ~~*Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*~~~~, unless the entity is applying the revised version of that Standard for that earlier period~~.

HK(IFRIC)-Int 2 *Members' Shares in Co-operative Entities and Similar Instruments*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 17. New text is underlined.

* When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*

HK(IFRIC)-Int 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Below the heading 'References', the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- HKFRS 9 *Financial Instruments*
- HKFRS 10 *Consolidated Financial Statements*
- HKFRS 11 *Joint Arrangements*
- HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 28 *Investments in Associates and Joint Ventures*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

HK(IFRIC)-Int 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

Below the heading ‘References’, the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

HK(IFRIC)-Int 12 *Service Concession Arrangements*

Below the heading 'References', the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- *Framework for the Preparation and Presentation of Financial Statements*
- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*
- HKFRS 7 *Financial Instruments: Disclosures*
- HKFRS 9 *Financial Instruments*
- HKFRS 15 *Revenue from Contracts with Customers*
- HKFRS 16 *Leases*
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 16 *Property, Plant and Equipment*
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKAS 23 *Borrowing Costs*
- HKAS 32 *Financial Instruments: Presentation*
- HKAS 36 *Impairment of Assets*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 38 *Intangible Assets*
- HK(SIC)-Int 29 *Service Concession Arrangements: Disclosures*

HK(IFRIC)-Int 14 *HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. Paragraph 10 is amended and paragraph 27D is added. New text is underlined and deleted text is struck through.

References

- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 19 *Employee Benefits* (as amended in 2011)
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

...

Consensus

Availability of a refund or reduction in future contributions

...

10 In accordance with HKAS 8~~HKAS 1~~, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

...

Effective date

...

27D HKFRS 18 issued in July 2024 amended paragraph 10. An entity shall apply those amendments when it applies HKFRS 18.

A footnote is added to the end of paragraph 27A. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

Below the heading 'References', the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- HKFRS 9 *Financial Instruments*
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

HK(IFRIC)-Int 17 *Distributions of Non-cash Assets to Owners*

Below the heading 'References', the reference to HKAS 1 is amended. Paragraph 2 is amended and paragraph 21 is added. New text is underlined and deleted text is struck through.

References

- HKFRS 3 *Business Combinations* (as revised in 2008)
- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- HKFRS 7 *Financial Instruments: Disclosures*
- HKFRS 10 *Consolidated Financial Statements*
- HKFRS 13 *Fair Value Measurement*
- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- HKAS 10 *Events after the Reporting Period*

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Background

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2 Hong Kong Financial Reporting Standards (HKFRSs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). HKFRS 18 ~~HKAS 1~~ requires an entity to present details of dividends recognised as distributions to owners ~~either~~ in the statement of changes in equity or to disclose them in the notes ~~to the financial statements~~.

...

Effective date

...

21 HKFRS 18 issued in July 2024 amended paragraph 2. An entity shall apply those amendments when it applies HKFRS 18.

The footnote to 'owners' in paragraph 1 is deleted. Deleted text is struck through.

* ~~Paragraph 7 of HKAS 1 defines owners as holders of instruments classified as equity.~~

HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. Paragraph 11 is amended and paragraph 18 is added. New text is underlined and deleted text is struck through.

References

- *Framework for the Preparation and Presentation of Financial Statements*
- HKFRS 2 *Share-based Payment*
- HKFRS 3 *Business Combinations*
- HKFRS 9 *Financial Instruments*
- HKFRS 13 *Fair Value Measurement*
- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 32 *Financial Instruments: Presentation*

...

Consensus

...

11 An entity shall present ~~disclose~~ a gain or loss recognised in accordance with paragraphs 9 and 10 as a separate line item in the statement of profit or loss or disclose it in the notes.

Effective date and transition

...

18 HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 11. An entity shall apply those amendments when it applies HKFRS 18.

HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine*

Below the heading 'References', the reference to HKAS 1 is amended. New text is underlined and deleted text is struck through.

References

- *Conceptual Framework for Financial Reporting*
- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements*~~
- HKAS 2 *Inventories*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 38 *Intangible Assets*

HK(IFRIC)-Int 21 *Levies*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. New text is underlined and deleted text is struck through.

References

- <u>HKFRS 18 *Presentation and Disclosure in Financial Statements*</u>~~HKAS 1 *Presentation of Financial Statements*~~
- HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 12 *Income Taxes*
- HKAS 20 *Accounting for Government~~s~~ Grants and Disclosures of Government Assistance*
- HKAS 24 *Related Party Disclosures*
- HKAS 34 *Interim Financial Reporting*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HK(IFRIC)-Int 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph A2. New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*</u>

HK(IFRIC)-Int 22 *Foreign Currency Transactions and Advance Consideration*

Below the heading 'References', the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- *The Conceptual Framework for Financial Reporting*
- HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

A footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph A2. New text is underlined.

* <u>When it issued HKFRS 18 *Presentation and Disclosure in Financial Statements* in July 2024, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statements.*</u>

HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. Paragraphs 14 and A4 are amended and paragraph B1A is added. New text is underlined and deleted text is struck through.

References

- ~~HKAS 1 *Presentation of Financial Statements*~~
- HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 10 *Events after the Reporting Period*
- HKAS 12 *Income Taxes*

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Consensus

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Changes in facts and circumstances

...

14 An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~. An entity shall apply HKAS 10 *Events after the Reporting Period* to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

...

Appendix A
Application Guidance

Disclosure

A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:

(a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph <u>27G of HKAS 8</u>~~122 of HKAS 1 *Presentation of Financial Statements*~~; and

(b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs <u>31A–31E of HKAS 8</u>~~125–129 of HKAS 1~~.

...

Appendix B
Effective date and transition

Effective date

...

B1A HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraphs 14 and A4. An entity shall apply those amendments when it applies HKFRS 18.

HK(SIC)-Int 10 *Government Assistance—No Specific Relation to Operating Activities*

Below the heading 'References', the reference to HKAS 8 is amended. New text is underlined and deleted text is struck through.

References

- HKAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

HK(SIC)-Int 25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*

Below the heading 'References', the references to HKAS 1 and HKAS 8 are amended. New text is underlined and deleted text is struck through.

References

- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- HKAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- HKAS 12 *Income Taxes*

Under the heading 'Effective date', a footnote is added to the end of the second paragraph. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

HK(SIC)-Int 29 *Service Concession Arrangements: Disclosures*

Below the heading 'References', the reference to HKAS 1 is amended. New text is underlined and deleted text is struck through.

References

- HKFRS 16 *Leases*
- <u>HKFRS 18 *Presentation and Disclosure in Financial Statements*</u>~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- HKAS 16 *Property, Plant and Equipment*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 38 *Intangible Assets*
- HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(SIC)-Int 32 *Intangible Assets—Web Site Costs*

Below the heading 'References', the reference to HKAS 1 is amended. Paragraph 5 is amended. An unnumbered paragraph is added after the last paragraph under the heading 'Effective date'. New text is underlined and deleted text is struck through.

References

- HKFRS 3 *Business Combinations*
- HKFRS 15 *Revenue from Contracts with Customers*
- HKFRS 16 *Leases*
- HKFRS 18 *Presentation and Disclosure in Financial Statements*~~HKAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- HKAS 2 *Inventories*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 36 *Impairment of Assets*
- HKAS 38 *Intangible Assets*

...

Issue

...

5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under HKAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under paragraph 46 of HKFRS 18 ~~HKAS 1.88~~ and the *Conceptual Framework for Financial Reporting* when the services are received.

...

Effective date

...

Amendments to References to the Conceptual Framework in HKFRS Standards, issued in 2018, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by *Amendments to References to the Conceptual Framework in HKFRS Standards*. An entity shall apply the amendment to HK(SIC)-Int 32 retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendment to HK(SIC)-Int 32 by reference to paragraphs 23–28, 50–53 and 54F of HKAS 8.

HKFRS 18 *Presentation and Disclosure in Financial Statements* issued in July 2024 amended paragraph 5. An entity shall apply those amendments when it applies HKFRS 18.

Under the heading 'Effective date', a footnote is added to the end of the second paragraph. New text is underlined.

* In July 2024 the HKICPA issued HKFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in HKAS 1 *Presentation of Financial Statements* to HKFRS 18.

Under the heading 'Effective date', a footnote is added to 'HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in the fifth paragraph. New text is underlined.

* When it issued HKFRS 18, the HKICPA changed the title of HKAS 8 to *Basis of Preparation of Financial Statement.*

HKFRS 18 BC
Issued July 2024

Basis for Conclusions on
Hong Kong Financial Reporting Standard 18

Presentation and Disclosure in Financial Statements

CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Basis for Conclusions on IFRS 18 *Presentation and Disclosure in Financial Statements*

HKFRS 18 is based on IFRS 18 *Presentation and Disclosure in Financial Statements*. In approving HKFRS 18, the Financial Reporting Standards Committee of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IFRS 18. Accordingly, there are no significant differences between HKFRS 18 and IFRS 18. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IFRS 18 referred to below generally correspond with those in HKFRS 18.

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Basis for Conclusions on IFRS 18 *Presentation and Disclosure in Financial Statements*

This Basis for Conclusions accompanies, but is not part of, IFRS 18. It summarises the considerations of the International Accounting Standards Board (IASB) when developing IFRS 18. Individual IASB members gave greater weight to some factors than to others.

IFRS 18 replaced IAS 1 Presentation of Financial Statements*. When IAS 1 was revised in 2007, it was accompanied by a Basis for Conclusions summarising the considerations of the IASB in reaching some of its conclusions in that Standard. That Basis for Conclusions was later updated to reflect amendments to IAS 1. For convenience, the IASB has incorporated into its Basis for Conclusions on IFRS 18 paragraphs from the Basis for Conclusions on IAS 1 that discuss matters the IASB has not reconsidered. That material is contained in paragraphs denoted by the numbers with the prefix BCZ. In those paragraphs, cross-references to IAS 1 have been updated to the corresponding paragraphs in IFRS 18 and minor necessary editorial changes have been made. Some requirements brought forward from IAS 1 to IFRS 18 are not mentioned in this Basis for Conclusions. Those paragraphs were developed by the International Accounting Standards Committee (IASC) when they originally issued IAS 1. The IASC did not issue a Basis for Conclusions.*

The IASB also published an Effects Analysis describing the likely benefits and costs of IFRS 18.

Introduction

BC1 The International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements* in 2024 to replace IAS 1 *Presentation of Financial Statements*. The IASB did not reconsider all aspects of IAS 1 when developing IFRS 18, but instead focused on the statement of profit or loss. Nonetheless, the IASB decided to retain a single IFRS Accounting Standard for requirements relating to presentation and disclosure. The IASB retained some paragraphs from IAS 1 in IFRS 18 and moved some paragraphs from IAS 1 to IAS 8 *Basis of Preparation of Financial Statements*[1] and IFRS 7 *Financial Instruments: Disclosures*. The IASB updated the retained paragraphs to ensure consistency with the IASB's decisions on IFRS 18 and with the 2018 *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

The need for change

BC2 The IASB developed IFRS 18 in response to strong demand from stakeholders, particularly from users of financial statements, for improvements to financial performance reporting.

BC3 Research and meetings with stakeholders revealed a need for improved requirements relating to:

(a) *subtotals in the statement of profit or loss*—IAS 1 required an entity to present profit or loss, but no specific subtotals, leading to diversity in the presentation and calculation of subtotals even among entities in the same industry. Entities that applied IAS 1 often presented subtotals using the same label, but which included varying income and expenses. Such diversity made it difficult for users of financial statements to understand and compare information. Comparability is important to users, particularly to buy-side investors, who typically analyse many entities in varied industries.

1 When issuing IFRS 18, the IASB revised the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors* to *Basis of Preparation of Financial Statements*.

(b) *aggregation and disaggregation*—the requirements in IAS 1 for the aggregation and disaggregation of information in the primary financial statements and the notes were sometimes not understood or applied well in practice, leading to diversity in application. This diversity in application made it difficult for users of financial statements to find and understand relevant information. Entities sometimes also disclosed large expenses in the notes as 'other expenses', with no information provided to help users of financial statements understand their composition.

(c) *management-defined performance measures*—entities often provide their own management-defined measures of performance (sometimes called 'alternative performance measures' or 'non-GAAP measures'). Users of financial statements find some of these measures useful in analysing performance or making forecasts about future performance. However, users of financial statements have expressed concern that information about such measures, including why the measures are used and how they are calculated, can be difficult to find and understand. Entities typically report such measures outside the financial statements, where they are often not subject to assurance.

Proposals in the Exposure Draft *General Presentation and Disclosures*

BC4 In December 2019 the IASB published the Exposure Draft *General Presentation and Disclosures* (Exposure Draft). The Exposure Draft included a proposal to replace IAS 1 with a new Standard, together with proposed limited amendments to IAS 7 *Statement of Cash Flows*. The proposed new Standard would comprise:

(a) new presentation and disclosure requirements; and

(b) requirements brought forward from IAS 1, with a few wording changes.

BC5 The main presentation and disclosure requirements proposed in the Exposure Draft related to:

(a) subtotals in the statement of profit or loss (see paragraphs BC7–BC8);

(b) roles of the primary financial statements and the notes, aggregation and disaggregation (see paragraphs BC9–BC10); and

(c) management-defined performance measures (see paragraph BC11).

BC6 Research and meetings with stakeholders revealed the potential costs to preparers that could result from responding to the need for change. In developing the proposals in the Exposure Draft, the IASB sought to develop requirements that would provide more useful information to users of financial statements at a reasonable cost to preparers of those statements.

Subtotals in the statement of profit or loss

BC7 The IASB proposed requiring an entity to use defined categories to classify income and expenses in the statement of profit or loss:

(a) operating;

(b) integral associates and joint ventures;

(c) investing;

(d) financing;

(e) income taxes; and

(f) discontinued operations.

BC8 The IASB proposed requiring an entity to present three additional defined subtotals based on the categories in paragraph BC7:

(a) operating profit;

(b) operating profit and income and expenses from integral associates and joint ventures; and

(c) profit before financing and income taxes.

Roles of the primary financial statements and the notes, aggregation and disaggregation

BC9 The IASB proposed improved general requirements for aggregating and disaggregating information in the financial statements, including adding:

(a) a description of the roles of the primary financial statements and the notes; and

(b) principles for aggregation and disaggregation of items or groups of items.

BC10 The IASB also proposed specific requirements on disaggregation, including on:

(a) the presentation of operating expenses in the statement of profit or loss and the disclosure of information about those expenses in the notes; and

(b) the definition of, and disclosure of information about, unusual income and expenses.

Management-defined performance measures

BC11 The IASB proposed defining some entity-specific performance measures as ‘management-defined performance measures’ and requiring an entity to include information about such measures in a single note.

Feedback on the Exposure Draft

BC12 The IASB received 216 comment letters in response to the Exposure Draft. The IASB also obtained feedback on the proposals from individual stakeholder meetings, publicly available webinars, conferences, roundtable meetings and meetings with IASB advisory bodies and consultative groups. In the IASB’s fieldwork, 50 companies tested the application of the proposals in the Exposure Draft to their statements of profit or loss, statements of cash flows and selected disclosures.

BC13 Most stakeholders generally agreed with the proposals in the Exposure Draft. Users of financial statements expressed strong agreement with the project objectives and most of the specific proposals.

BC14 Respondents generally agreed with:

(a) the proposals for defined categories and required subtotals in the statement of profit or loss. Fieldwork participants were generally able to apply most of these proposals without difficulty.

(b) the objectives of the proposals for general requirements on aggregation and disaggregation and of the requirements on unusual income and expenses.

(c) the proposals for management-defined performance measures. Fieldwork participants were able to apply these proposals without significant difficulty.

BC15 However, many respondents raised concerns about aspects of these proposals, including the proposed definition of unusual income and expenses and the scope of management-defined performance measures. Fieldwork participants reported they could apply the proposals for unusual income and expenses, but raised application questions. Many respondents suggested expanding the scope of the proposals for management-defined performance measures to include more non-GAAP measures.

BC16 Stakeholders found the proposals for integral and non-integral associates and joint ventures, and for the disclosure of information about operating expenses, challenging and difficult to apply. Respondents raised conceptual and practical concerns about both sets of proposals. Fieldwork participants also found these proposals difficult to apply.

General requirements for financial statements

Objective of financial statements (paragraph 9)

BC17 The IASB decided to align the objective of financial statements in IFRS 18 with paragraph 3.2 of the *Conceptual Framework*. The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

BC18 This objective does not refer to providing information about cash flows. Nonetheless, IFRS 18 includes some general requirements for financial statements that apply to the statement of cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information. Paragraphs 9 and 20 of IFRS 18 do not refer to cash flow information. This is because financial performance includes cash flow information, as explained in paragraph 1.20 of the *Conceptual Framework*.

Titles of financial statements (paragraph 11)

BCZ19 The Exposure Draft *Amendments to IAS 1* Presentation of Financial Statements—*A Revised Presentation* (2006 Exposure Draft) proposed changes to the titles of some of the financial statements—from 'balance sheet' to 'statement of financial position', from 'income statement' to 'statement of profit or loss' and from 'cash flow statement' to 'statement of cash flows'. In addition, the 2006 Exposure Draft proposed a 'statement of recognised income and expense' and that all owner changes in equity should be included in a 'statement of changes in equity'. The IASB did not propose to make any of these changes of nomenclature mandatory.

BCZ20 Many respondents opposed the proposed changes, pointing out that the existing titles had a long tradition and were well understood. However, the IASB reaffirmed its view that the proposed new titles better reflect the function of each financial statement, and pointed out that an entity could choose to use other titles in its financial report.

BCZ21 The IASB reaffirmed its conclusion that the title 'statement of financial position' not only better reflects the function of the statement but is consistent with the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*),[2] which contains several references to 'financial position'. Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and

2 The IASC's *Framework for the Preparation and Presentation of Financial Statements (Framework)* was adopted by the IASB in 2001 and in effect when IAS 1 *Presentation of Financial Statements* was revised and amended in 2003, 2005 and 2007. The IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting (Conceptual Framework)* in 2010, which it revised in 2018.

changes in financial position of an entity. Paragraph 19 of the *Framework* states that information about financial position is primarily provided in a balance sheet. In the IASB's view, the title 'balance sheet' simply reflects that double entry bookkeeping requires debits to equal credits. It does not identify the content or purpose of the statement. The IASB also noted that 'financial position' is a well-known and accepted term, as it has been used in auditors' opinions internationally for more than 20 years to describe what the 'balance sheet' presents. The IASB decided that aligning the statement's title with its content and the opinion rendered by the auditor would help users of financial statements.

BCZ22 In May 2010 the IASB published the Exposure Draft *Presentation of Items of Other Comprehensive Income* (2010 Exposure Draft) relating to the presentation of items of other comprehensive income. One of the proposals in the 2010 Exposure Draft related to the title of the statement containing profit or loss and other comprehensive income. The IASB proposed this change so that it would be clear that the statement had two components: profit or loss, and other comprehensive income. A majority of the respondents to the 2010 Exposure Draft supported the change and therefore the IASB confirmed the proposal in June 2011. IFRS 18 allows preparers to use other titles for the statement that reflect the nature of their activities.

BCZ23 Several other IFRS Accounting Standards refer to the 'statement of comprehensive income'. The IASB considered whether it should change all such references to 'statement of profit or loss and other comprehensive income'. The IASB noted that the terminology used in IAS 1 (now in IFRS 18) is not mandatory and that 'statement of comprehensive income'[3] is one of the examples used in IAS 1 (now in IFRS 18). The IASB decided that there was little benefit in replacing the title 'statement of comprehensive income' in other IFRS Accounting Standards or 'income statement' with the 'statement of profit or loss'. However, the IASB did change the terminology when other IFRS Accounting Standards made reference to the two-statement option.

BCZ24 In finalising its revision, the IASB confirmed that the titles of financial statements used in IAS 1 (now used in IFRS 18) would not be mandatory. The titles would be used in future IFRS Accounting Standards but are not required to be used by entities in their financial statements. Some respondents to the 2010 Exposure Draft expressed concern that non-mandatory titles would result in confusion. However, the IASB believed that making use of the titles non-mandatory would allow time for entities to implement changes gradually as the new titles become more familiar.

Equal prominence (paragraph 14)

BCZ25 The IASB noted that the financial performance of an entity is not assessed by reference to a single financial statement or a single measure within a financial statement. The IASB believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are taken into account and understood in their entirety. Accordingly, the IASB decided that in order to help users of the financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.

Materiality (paragraphs B1–B5)

Background

BCZ26 The IASB was informed at the Discussion Forum on Financial Reporting Disclosure it hosted in January 2013, through feedback on the amendments to IAS 1 in the 2014 Exposure Draft *Disclosure Initiative*, the 2017 Discussion Paper *Disclosure Initiative—Principles of*

3 The IASB revised the title 'statement of comprehensive income' to 'statement presenting comprehensive income' when it issued IFRS 18 *Presentation and Disclosure in Financial Statements*.

Disclosure, and from other sources, that entities experience difficulties in making materiality judgements when preparing financial statements.

BCZ27 The feedback indicated that difficulties in making materiality judgements are generally behavioural rather than related to the definition of 'material'. That feedback indicated that some entities apply the disclosure requirements in IFRS Accounting Standards mechanically, using them as a checklist for disclosures in their financial statements, rather than applying their judgement to determine what information is material. Some entities have said that it is easier to use a checklist approach than to apply judgement because of management resource constraints, and because following a mechanical approach means that their judgement is less likely to be challenged by auditors, regulators or users of their financial statements. Similarly, some entities say that they prefer to be cautious when deciding whether to omit disclosures to avoid the risk of being challenged by these parties.

BCZ28 The IASB concluded that these behavioural difficulties could best be addressed by providing guidance to help entities make materiality judgements, rather than by making substantive changes to the definition of 'material'. Consequently, in September 2017 the IASB issued IFRS Practice Statement 2 *Making Materiality Judgements* (Materiality Practice Statement).

BCZ29 Although many stakeholders agreed that substantive changes to the definition of 'material' were unnecessary, the IASB received some feedback that the definition of 'material' might encourage entities to disclose immaterial information in their financial statements. Feedback suggested that the IASB should address the following points:

(a) the phrase 'could influence decisions of users', to describe the threshold for deciding whether information is material, may be understood as requiring too much information to be provided, because almost anything 'could' influence the decisions of some users of the financial statements, even if such a possibility were remote;

(b) the phrase 'information is material if omitting it or misstating it' focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information; and

(c) the definition refers to 'users' but does not specify their characteristics, which is interpreted by some as implying that an entity is required to consider all possible users of its financial statements when deciding what information to disclose.

BCZ30 The IASB also observed that the wording of the definition of 'material' in the *Conceptual Framework* differed from the wording that was used in IAS 1 and IAS 8. The IASB believes that the substance of the definitions is the same because these definitions all cover the omission or misstatement of information that could influence the decisions of users of financial statements. Nevertheless, the existence of more than one definition of 'material' could be confusing and could imply that the IASB intended these definitions to have different meanings and be applied differently in practice.

BCZ31 Consequently, the IASB decided to propose refinements to the definition of 'material' and to align the definition across IFRS Accounting Standards and other publications. The IASB observed that these refinements were intended to make the definition easier to understand and were not intended to alter the concept of materiality in IFRS Accounting Standards.

Refinements of the definition of 'material'

BCZ32 In September 2017 the IASB published the Exposure Draft *Definition of Material* which proposed a revised definition.

BCZ33 The IASB developed this definition by:

(a) replacing the description of the threshold 'could influence' with 'could reasonably be expected to influence' to incorporate the clarification that was included in IAS 1 (now included in paragraph B4 of IFRS 18). This wording helps to address concerns raised by some parties that the threshold 'could influence' in the existing definition of 'material' is too low and might be applied too broadly (see paragraph BCZ29(a)).

(b) using the wording of the definition of 'material' in the *Conceptual Framework*. The IASB concluded that this wording was clearer than the definition that was included in IAS 1 and IAS 8. However, the IASB decided to refer to 'financial statements' rather than 'financial reports' in the amendments to IAS 1 to be consistent with the scope of that Standard at that time. The *Conceptual Framework* definition also clarifies that the users to whom the definition refers are the primary users of an entity's financial reports or statements. Referring to the primary users in the definition of 'material' helps to respond to concerns that the term 'users' may be interpreted too widely (see paragraph BCZ29(c)).

(c) including 'obscuring' in the definition of 'material' to incorporate the concept that was included in IAS 1, which stated: 'An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating items that have different natures or functions.' Referring to 'obscuring' in the definition of 'material' is intended to respond to concerns that the effect of including immaterial information should also be considered in addition to 'misstating' and 'omitting' (see paragraphs BCZ29(a) and (b)).

(d) relocating wording that explains rather than defines 'material' from the definition itself to its explanatory paragraphs. This reorganisation clarifies which requirements are part of the definition and which paragraphs explain the definition.

BCZ34 Some parties said that the IASB should raise the threshold at which information becomes material by replacing 'could' with 'would' in the definition. However, the IASB did not do this because it concluded that using 'would' would be a substantive change that might have unintended consequences. For example, 'would influence decisions' might be interpreted as a presumption that information is not material unless it can be proved otherwise—that is, for information to be seen as material it would be necessary to prove that the information would influence the decisions of users of financial statements.

Obscuring information

BCZ35 Responses to the Exposure Draft *Definition of Material* indicated strong support for the definition of 'material' to be aligned across the *Conceptual Framework* and IFRS Accounting Standards. However, many respondents had some concerns—in particular about including the existing concept of 'obscuring' (that was included in IAS 1) in the definition of 'material' in the way proposed in the Exposure Draft *Definition of Material*. Many respondents thought that if the IASB were to include this concept in the definition, then 'obscuring information' would need to be more precisely defined or explained than it was in the Exposure Draft *Definition of Material*.

BCZ36 The IASB agreed with respondents that the concept of 'obscuring information' is inherently more judgemental than 'omitting' or 'misstating' information and considered removing the concept from the definition of 'material' and its explanatory paragraphs altogether. However, the IASB decided that the benefit of including 'obscuring' in the definition of 'material' outweighed these concerns. Including this concept emphasises that obscuring information can affect the decisions of primary users, just as omitting or misstating that information can. In particular, including 'obscuring' in the definition of 'material' addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information.

BCZ37 The IASB did not intend to be prescriptive by including the word 'obscuring' in the definition of 'material' and by further clarifying it—the IASB is not prohibiting entities from disclosing immaterial information or introducing a required quality of explanations and information included in the financial statements. For example, the IASB did not intend the addition of the word 'obscure' to prevent entities from providing information required by local regulators or prescribe how an entity organises and communicates information in the financial statements. Rather, the IASB's intention is to:

(a) support the requirement that was included in IAS 1 which stated that 'An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'; and

(b) help entities and other stakeholders avoid instances in which material information may be obscured by immaterial information to the extent that it has a similar effect on the primary users of financial statements to omitting or misstating that information.

Other amendments

BCZ38 While the revised definition of 'material' in IAS 1 (now in IFRS 18) has been based on the definition of 'material' in the *Conceptual Framework*, some adjustments were made to the *Conceptual Framework* definition to improve clarity and consistency between the *Conceptual Framework* and IFRS Accounting Standards. The definition in the *Conceptual Framework*, however, continues to refer to 'financial reports' rather than 'financial statements'.

BCZ39 The IASB also made amendments to the Materiality Practice Statement to align it with the revised definition of 'material'. The Materiality Practice Statement continues to refer to both 'immaterial' and 'not material' as the IASB concluded that these terms have the same meaning.

BCZ40 As explained in paragraph BCZ33, the amendments incorporate existing guidance from the *Conceptual Framework* and IAS 1 and are not substantive changes to the existing requirements in IFRS Accounting Standards. For this reason, the IASB concluded that the guidance in the Materiality Practice Statement and the *Conceptual Framework* would not be affected by these amendments.

BCZ41 Because the amendments are based on existing guidance, they are not considered to be substantive changes. The IASB consequently concluded that amendments to other requirements in IFRS Accounting Standards are unnecessary, other than to update the definition of 'material' where it is quoted or referred to directly.

BCZ42 The IASB also decided that it was unnecessary to change all instances of 'economic decisions' to 'decisions', and all instances of 'users' to 'the primary users of financial statements' in IFRS Accounting Standards. In its Conceptual Framework project, the IASB clarified that:

(a) the terms 'primary users' and 'users' are intended to be interpreted the same way and both refer to existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need (see the footnote to paragraph 1.5 of the *Conceptual Framework*); and

(b) the terms 'decisions' and 'economic decisions' are intended to be interpreted the same way.

Likely effects of the amendments to IFRS Accounting Standards

BCZ43 In the IASB's view, the amendments improve the understanding of the definition of 'material' by:

(a) aligning the wording of the definition in IFRS Accounting Standards and the *Conceptual Framework* to avoid the potential for confusion arising from different definitions;

(b) incorporating supporting requirements in IAS 1 (now in IFRS 18) into the definition to give them more prominence and clarify their applicability; and

(c) providing existing guidance on the definition of 'material' in one place, together with the definition.

BCZ44 The IASB concluded that the amendments do not change existing requirements substantively because:

(a) the refinements to the definition of 'material':

(i) are based on wording in the *Conceptual Framework* that is similar to but clearer than the definition that was included in IAS 1 and IAS 8 (see paragraphs BCZ30 and BCZ33(b)); and

(ii) incorporate wording that already existed in IAS 1 (see paragraphs BCZ33(a), (c) and (d)).

(b) the clarification that 'users' are the primary users and the description of their characteristics have been taken from the *Conceptual Framework*.

(c) the inclusion of 'obscuring information' reflects the existing requirement, as was set out in IAS 1, that an entity shall not reduce the understandability of its financial statements by obscuring material information. This amendment is not expected substantively to change an entity's decisions about whether information is material—in no circumstances would obscuring information influence the decisions of users, if omitting or misstating the same information would have no influence on those decisions.

Consequently, the IASB expects that the effect of the revised definition will be to help entities to make better materiality judgements.

The roles of the primary financial statements and the notes (paragraphs 15–24 and B6–B9)

BC45 To achieve the objective of financial statements (discussed in paragraph BC17), an entity applies the roles of the primary financial statements and the notes to present summarised information in the primary financial statements and disclose more detailed information in the notes. The IASB developed the descriptions of the roles of the primary financial statements and the notes set out in IFRS 18 based on the *Conceptual Framework*, feedback and research on how users of financial statements use information in the financial statements. Feedback and research showed that users of financial statements pay more attention to information presented in the primary financial statements and use it more frequently than information disclosed in the notes because the primary financial statements:

(a) give an overview of an entity's financial performance, financial position, cash flows and changes in equity;

(b) are more structured than the notes and can be easier to use to compare entities; and

(c) can be used to identify items or areas that users of financial statements might wish to seek additional information on.

BC46 The IASB developed the roles of the primary financial statements and the notes to help an entity judge whether to present information in the primary financial statements or disclose it in the notes. The descriptions will also help the IASB in the future when it develops new or revised presentation and disclosure requirements in IFRS Accounting Standards.

BC47 The role of primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows that are useful for:

(a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

BC48 The role of the notes is to provide material financial information necessary:

(a) to enable users of financial statements to understand the line items presented in the primary financial statements; and

(b) to supplement the primary financial statements with other financial information to achieve the objective of financial statements.

BC49 The role of the primary financial statements in paragraph BC47 is referred to as a 'useful structured summary'. Because each primary financial statement provides a useful structured summary, information presented in these statements is more prominent than information disclosed in the notes. However, greater prominence does not mean the information disclosed in the notes is secondary to, or less important than, information presented in the primary financial statements. The notes have a different role from the primary financial statements both in digital and paper-based reporting (see paragraphs BC62–BC63). Understanding those respective roles helps an entity determine where to provide information in the financial statements.

Information presented in the primary financial statements or disclosed in the notes

BCZ50 The IASB amended IAS 1 to highlight that materiality also applies to disclosures specifically required by IFRS Accounting Standards. In addition, to highlight that materiality not only involves decisions about excluding information from the financial statements, the IASB amended IAS 1 to reiterate the notion already stated in IAS 1 that materiality also involves decisions about whether to include additional information in the financial statements. Consequently, an entity should make additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (retained in paragraph 20 of IFRS 18).

BCZ51 The IASB noted that the definition of 'material' in IAS 1 (now located in Appendix A and paragraphs B1–B5 of IFRS 18) discusses omissions or misstatements of items being material if they could individually or collectively influence economic decisions. The IASB had considered making amendments to the requirements in IAS 1 (now in paragraph 19 of IFRS 18) to say that an entity need not provide a specific disclosure if the information provided by that disclosure is not material, either individually or collectively. However, the IASB decided not to make that change since the definition of material already incorporates the notions of individual and collective assessment and, therefore, reference to the term 'material' in paragraph 19 of IFRS 18 is sufficient to incorporate this concept.

BC52 Some stakeholders suggested the IASB consider how an entity's judgements in determining whether information is material affect how the entity judges whether to provide information in the primary financial statements or in the notes.

BC53 The materiality requirements apply equally to all requirements to present or disclose information in an entity's financial statements. Information is either material—and is provided to contribute to the objective of financial statements—or it is not material and need not be provided. In other words, materiality requirements set out *whether* an entity is required to provide information, but do not set out *where* in the financial statements information is provided.

BC54 To help clarify that not all material information can be presented in the primary financial statements, the IASB included a reference to the qualitative characteristic of 'understandability' (see paragraphs 2.34–2.36 of the *Conceptual Framework*) in the description of the role of the primary financial statements. That role includes presenting information that is useful for obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows. An entity could clutter its primary financial statements by presenting many income and expense items as line items, making it difficult for users of financial statements to obtain and understand the overview of the entity's income and expenses. An entity's specific facts and circumstances determine what information will provide an understandable overview.

BC55 All the aspects of the role of the primary financial statements help an entity to determine whether to present an item as a line item in a primary financial statement. For example, if an entity undertakes a major restructuring during the reporting period it might conclude that information about the restructuring is material. To decide whether to present a line item for restructuring expenses in its statement of profit or loss, the entity would consider whether doing so contributes to a useful structured summary. To contribute to a useful structured summary, the information needs to help users of financial statements:

(a) obtain an understandable overview of an entity's expenses for the period—for example, separate presentation of the restructuring expenses could help users of financial statements to understand an increase in total operating expenses for the period;

(b) make comparisons between entities or reporting periods—for example, presenting the restructuring expenses separately from other expenses because they lack persistence could make other line items more comparable to amounts presented in the prior period and to amounts presented by other entities, thereby helping users of financial statements with trend analyses; or

(c) identify items or areas about which users of financial statements may wish to seek additional information in the notes—for example, when additional information about restructuring expenses is disclosed in the notes, separate presentation of those expenses (including cross-reference to the related note disclosing other material information about the restructuring) could draw users' attention to it.

Information presented in the primary financial statements

BC56 Some IFRS Accounting Standards contain requirements for presentation in the primary financial statements. The IASB concluded that, in some cases, an entity assesses whether applying these requirements will result in a primary financial statement providing a useful structured summary. In other cases, it is not necessary for an entity to perform this assessment because applying the requirements will always be necessary for a primary financial statement to provide a useful structured summary. For example, the totals and subtotals required to be presented in the statement of profit or loss by paragraph 69 of IFRS 18 and the classification of income and expenses in categories will always be necessary to provide a useful structured summary of the entity's income and expenses. Therefore, an entity does not assess whether classifying its income and expenses in the categories and presenting the required subtotals will result in a useful structured summary.

BC57 IFRS 18 and other IFRS Accounting Standards set out requirements for an entity to present line items in the statement(s) of financial performance (see paragraphs BC236–BC239) and in the statement of financial position (see paragraphs BC313–BC315). The IASB concluded that an entity need not present such line items in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even when IFRS Accounting Standards describe those line items as required or minimum requirements because there may be situations where presenting those line items would not result in a primary financial statement providing a useful structured summary.

BC58 If an entity does not present a line item required by IFRS Accounting Standards, the entity is required to disclose the item in the notes if it is material. For example, if an entity concludes that presenting impairment losses determined in accordance with IFRS 9 *Financial Instruments* is not necessary to provide a useful structured summary of the entity's income and expenses, the entity is required to disclose those losses in the notes if doing so provides material information.

BC59 IFRS 18 also specifies that an entity presents additional subtotals and line items if such presentations are necessary for a primary financial statement to provide a useful structured summary.

BC60 Stakeholders informed the IASB of their concerns about the presentation of such additional subtotals when they are not specified in IFRS Accounting Standards. These stakeholders said some of these additional subtotals can be misleading. Therefore, the IASB decided to require that additional line items and subtotals presented to provide a useful structured summary are:

(a) comprised of amounts recognised and measured in accordance with IFRS Accounting Standards;

(b) compatible with the statement structure;

(c) consistent from period to period; and

(d) displayed no more prominently than the totals and subtotals required by IFRS Accounting Standards.

BC61 The requirements for additional line items and subtotals discussed in paragraphs BC59–BC60 supplement the requirements on fair presentation moved from IAS 1 to IAS 8.

Digital reporting

BC62 Some stakeholders queried the role of the primary financial statements in the context of digital access to financial information. The IASB concluded that providing a useful structured summary of an entity's recognised assets, liabilities, equity, income, expenses and cash flows in accordance with the role of the primary financial statements provides a context in which individual items of information accessed digitally can be understood. For example, if items are tagged for digital reporting purposes:

(a) operating profit will be identified as a subtotal in the statement of profit or loss that includes all income and expenses classified in the operating category; and

(b) a specific item of operating expense will be identified as being included in operating profit.

BC63 The IASB concluded that providing a useful structured summary of an entity's recognised assets, liabilities, equity, income, expenses and cash flows is as important for information accessed digitally as it is for paper-based information.

Comparative information (paragraphs 31–40 and B13–B15)

A statement of financial position as at the beginning of the earliest comparative period (paragraphs 37–40)

BCZ64 The 2006 Exposure Draft proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.

BCZ65 By adding a statement of financial position as at the beginning of the earliest comparative period, the 2006 Exposure Draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the IASB decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8, or when a reclassification has been made. In those circumstances, three statements of financial position are required.

Clarification of requirements for comparative information (paragraphs 37–40 and B14–B15)

Opening statement of financial position

BCZ66 In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the IASB addressed a request to clarify the appropriate date for the opening statement of financial position. The IASB decided to amend the requirements in IAS 1 that related to the presentation of a statement of financial position for the beginning of the earliest comparative period presented in cases of changes in accounting policies, retrospective restatements or reclassifications to clarify that the appropriate date for the opening statement of financial position is the beginning of the preceding period.

BCZ67 The IASB also decided to change the previous requirements so that related notes to this opening statement of financial position were no longer required to be presented. The IASB's decision to give this relief was based on the fact that circumstances in which an entity changes an accounting policy, or makes a retrospective restatement or a reclassification in accordance with IAS 8, are considered narrow, specific and limited. However, the circumstances in which an entity chooses to provide additional financial statements (that is, on a voluntary basis) can be viewed as more generic and may arise for different reasons. Accordingly, this relief was not available when additional financial statements were provided on a voluntary basis.

BCZ68 The IASB added the guidance in paragraph 37(a) of IFRS 18 to clarify when an opening statement of financial position provides useful information and should therefore be required. Paragraph 37(b) of IFRS 18 is a reminder that the concept of materiality should be considered in applying the guidance in paragraph 37(a). The IASB noted that the entity would still be required to disclose the information required by IAS 8 for changes in accounting policies and retrospective restatements.

Additional comparative information

BCZ69 In *Annual Improvements 2009–2011 Cycle* the IASB addressed a request to clarify the requirements for providing comparative information. Specifically, the IASB was asked to consider whether an entity should be required to present a complete set of financial statements when it provides financial statements beyond the minimum comparative information requirements (that is, additional comparative information). In response to this request, the IASB decided to clarify that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements. The IASB also noted that additional comparative information might include:

(a) information that is presented voluntarily, beyond the information that is included within a complete set of financial statements; or

(b) comparative information that is required by law or other regulations but that is not required by IFRS Accounting Standards.

BCZ70 The IASB also decided to amend IAS 1 to clarify that when additional comparative information (that is not required by IFRS Accounting Standards) is provided by an entity, this information should be presented in accordance with IFRS Accounting Standards and the entity should present comparative information in the related notes for that additional information (now in paragraphs B14–B15 of IFRS 18). The IASB determined that requiring full notes for additional information in accordance with paragraph B14 of IFRS 18 is necessary to ensure that the additional information that the entity provides is balanced and results in financial statements that achieve a fair presentation.

Aggregation and disaggregation

Principles of aggregation and disaggregation (paragraphs 41–43 and B16–B26)

BC71 The IASB decided to set out principles for the aggregation and disaggregation of items in the financial statements. The IASB developed these principles and other requirements in response to feedback from users of financial statements that financial statements do not always include appropriately aggregated or disaggregated information. For example, an entity might disclose in the notes a large amount of 'other' expenses with no information to help users of financial statements understand what expenses those items include. In contrast, an entity might sometimes disclose too much detail, obscuring material information.

BC72 The IASB developed the principles of aggregation and disaggregation from the descriptions of classification and aggregation in the *Conceptual Framework*. Those descriptions recognise shared characteristics as a condition for classifying and aggregating items. For example, aggregating items that have shared characteristics makes large volumes of information understandable. Similarly, disaggregating items with dissimilar characteristics provides material information.

BC73 Aggregating and disaggregating information requires an entity to avoid both omitting useful information by providing insufficient detail and obscuring information with too much detail. For example, an entity's total assets, total liabilities, total equity, total income, total expenses and total cash flows provide some information about the entity's financial position, financial performance and cash flows, but are too aggregated to be useful on their own. Conversely, disaggregated information about individual transactions or other events provides detailed information, but may be so detailed as to obscure material information. Accordingly, an entity uses its judgement to determine how much detail is necessary to provide useful information.

BC74 To help an entity apply the principles of aggregation and disaggregation, the IASB decided to provide application guidance on:

(a) the process involved in deciding whether to aggregate or disaggregate information;

(b) the basis of aggregation and disaggregation;

(c) the description of items presented or disclosed; and

(d) the characteristics of assets, liabilities, equity, income and expenses that an entity considers in assessing whether items have dissimilar characteristics.

BC75 The IASB replaced requirements in IAS 1 for aggregation and disaggregation, including a requirement for an entity to present separately each material class of similar items, with the principles of aggregation and disaggregation in IFRS 18. The concept of a 'material class of items' was replaced with a requirement to aggregate and disaggregate items based on characteristics and guidance on the roles of the primary financial statements and the notes to help an entity determine the line items to be presented in the primary financial statements and the items to be disclosed in the notes (see paragraphs BCZ50–BC55). The IASB expects that an entity would generally conclude that line items previously determined to be a 'material class of items' would also contribute to a useful structured summary. Replacing the IAS 1 requirement for 'material class of items' does not change the requirements in other IFRS Accounting Standards that contain requirements related to classes of items.

Basis of aggregation and disaggregation (paragraphs B19–B23)

BC76 Some stakeholders suggested a specific disaggregation threshold, such as a mandatory quantitative threshold. However, the IASB concluded it would not be feasible to create a threshold that all entities could apply. Such a threshold also might have conflicted with the definition of material information and the requirement for an entity's materiality judgements to include a qualitative assessment.

Description of items (paragraphs B24–B26)

BC77 The IASB developed the requirements relating to the description of items presented in the financial statements or disclosed in the notes based on feedback that, in some cases, the descriptions used are not always complete. For example, some entities provide information about 'unusual' income or expense items, but do not explain why an entity considers those items to be 'unusual'.

BC78 The IASB decided to specifically require an entity to describe a presented or disclosed item in a way that faithfully represents the characteristics of the item. To achieve a faithful representation, an entity provides descriptions and explanations necessary for a user of financial statements to understand the item. For example, if an entity described some items of income or expense as 'unusual', it would explain its definition of 'unusual'.

BC79 Users of financial statements raised concerns about the label 'other'. For example, an entity might present or disclose a large amount of 'other expenses' without providing information about what those expenses include. Using the label 'other' for such an aggregation is often unhelpful. The IASB developed the application guidance in paragraphs B25–B26 of IFRS 18 on determining a more informative label than 'other' to help an entity provide more useful information.

BC80 Sometimes an entity might aggregate immaterial items that have dissimilar characteristics. Cumulatively, the resulting item might be large despite comprising individually immaterial items. If the amount of the resulting item is sufficiently large that users of financial statements would reasonably question whether it includes material amounts, further information to resolve that question is material information. The IASB decided to include in IFRS 18 examples of the type of information that an entity might disclose in such circumstances.

Statement of profit or loss

Structure of the statement of profit or loss (paragraphs 46–74 and B29–B76)

BC81 IAS 1 required an entity to present profit or loss, but no other specific subtotals. The lack of specific requirements in IAS 1 led to diversity in reporting, making it difficult for users of financial statements to understand the information presented in the statement of profit or loss and compare information between entities. In response, the IASB developed new requirements for the structure of the statement of profit or loss to increase the comparability and understandability of information presented in that statement.

BC82 The IASB decided to require an entity to classify income and expenses included in profit or loss—other than income and expenses related to income taxes or discontinued operations—into three categories:

(a) operating (paragraphs BC88–BC102);

(b) investing (paragraphs BC103–BC147); and

(c) financing (paragraphs BC148–BC199).

BC83 The IASB also decided to require an entity to classify in the discontinued operations category income and expenses related to discontinued operations and in the income taxes category income and expenses related to income taxes. The IASB concluded that classifying income and expenses from discontinued operations and income taxes in these categories would comply with the presentation requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 12 *Income Taxes*. Income and expenses classified in these categories are not classified in the operating, investing and financing categories. Although these categories do not result in required subtotals, entities generally present the subtotals profit before income taxes and profit before discontinued operations when they are applicable.

BC84 The IASB also decided to require an entity to present two additional subtotals in the statement of profit or loss (except in the circumstances discussed in paragraph BC189). The two subtotals are:

(a) operating profit or loss (see paragraphs BC88–BC102); and

(b) profit or loss before financing and income tax (see paragraphs BC148–BC152).

BC85 When developing the requirements discussed in BC82, the IASB considered specific requirements for:

(a) classifying income and expenses of an entity with specified main business activities (see paragraphs BC94–BC102, BC121–BC128, BC136–BC141, BC145–BC147 and BC180–BC191);

(b) classifying income and expenses on derecognition and changes in classification of assets and liabilities (see paragraphs BC200–BC206);

(c) classifying foreign exchange differences (see paragraphs BC207–BC219);

(d) classifying the gain or loss on the net monetary position recognised applying IAS 29 *Financial Reporting in Hyperinflationary Economies* (see paragraphs BC220–BC222); and

(e) classifying gains and losses on derivatives and designated hedging instruments (see paragraphs BC223–BC235).

BC86 In developing the requirements on the structure of the statement of profit or loss, the IASB focused on the information needs of users of financial statements. Users of financial statements have varied information needs in relation to each of the primary financial statements resulting in varying classification objectives. For example, the investing category in the statement of profit or loss is different from 'investing activities' as defined in IAS 7. The objective of the IAS 7 classification is to identify investments made in long-term assets that will generate future returns. The IAS 7 definition of 'investment activities' includes investments in operating assets, such as property, plant and equipment. However, in the statement of profit or loss, an entity classifies in the operating category income and expenses from its operating assets (see paragraphs BC88–BC93). When developing IFRS 18 the IASB considered aligning the structure of the statement of profit or loss with the structure of the statement of cash flows when doing so did not conflict with the objectives of each statement. However, the IASB prioritised the objectives of each of the primary financial statements over alignment between those statements.

BC87 Some stakeholders suggested using different labels for categories in the statement of profit or loss—for example, using a label for the investing category (such as 'non-operating') to differentiate it from investing activities as defined in IAS 7. IFRS 18 does not require an entity to label each category in the statement of profit or loss, nor does it require an entity to present subtotals for each category. For example, an entity is not required to present a subtotal for all income and expenses classified in the investing category. Accordingly, the IASB concluded that using different labels would not affect the presentation of items in the investing category in the statement of profit or loss.

Operating category and operating profit subtotal (paragraphs 52, 69–70 and B30–B42)

BC88 The IASB decided to require an entity to present an operating profit subtotal in the statement of profit or loss and to specify which income and expenses are classified in the operating category. The IASB developed these requirements in response to feedback from users of financial statements and other stakeholders, who said:

(a) requiring an entity to present an operating profit subtotal in the statement of profit or loss would provide users with useful information; and

(b) specifying which income and expenses to classify in the operating category would reduce diversity in the reporting of such items and enhance comparability between entities.

BC89 The IASB decided to require an entity to classify in the operating category all income and expenses included in profit or loss that are not classified in the investing, financing, income taxes or discontinued operations categories. As a result, the operating category is the 'default' category. This approach reflects the IASB's view that all income and expenses included in profit or loss—other than those related to investing, financing, income taxes and discontinued operations—arise from an entity's operations. More specifically, in the IASB's view:

(a) an entity's operations include, but are not limited to, an entity's main business activities. For example, income and expenses from supporting activities, which might not generate revenue directly, nonetheless arise from activities conducted in the course of an entity's operations.

(b) income and expenses should be included in the operating category regardless of whether they are volatile or unusual in some way. The IASB acknowledged that such income and expenses might not have predictive value. However, in the IASB's view, predictive value is not a characteristic that determines whether to include income or expenses in the operating category or in another category. An entity's operations can be volatile; therefore, such income and expenses arise from an entity's operations. Moreover, excluding volatile or unusual income or expenses from operating profit would not faithfully represent the results of an entity's operations for the period. For example, if equipment is used to produce goods or services, it is necessary for the operating category to include all income and expenses, including depreciation and impairment, relating to that equipment to provide a complete picture of the results from its operations for the period. The income and expenses would not arise without the operating decisions to purchase the equipment and decide how to use it in its operations.

BC90 The IASB considered how this approach to classification would be applied when one of an entity's main business activities is investing in assets or providing financing to customers. The IASB acknowledged that classifying income or expenses related to these main business activities in the investing or financing categories would prevent an entity from presenting key measures of its operating performance in the operating category. Consequently, the IASB decided that if one of an entity's main business activities is investing in assets or providing financing to customers ('specified main business activities'), it classifies some income and expenses in the operating category instead of in the investing or financing categories. However, the reverse does not apply. The IASB did not design the operating category to require an entity to *exclude* income and expenses from the operating category based on whether they arise from its main business activities.

BC91 The IASB also considered whether to define 'operating profit' directly, by reference to what is included in the subtotal, instead of as a default category, but decided not to do so. The IASB concluded that:

(a) it would be difficult—if not impossible—to develop a direct definition of 'operating profit' that would be appropriate for all entities and could be applied consistently. Previous standard-setting attempts by the IASB based on this type of approach were unsuccessful.

(b) it would be more difficult—and likely more costly—for an entity to apply a direct definition of operating profit because doing so would likely require significant judgement. In contrast, determining which income and expenses to classify in the investing or financing categories is expected to require less judgement. That determination will be simpler for an entity to apply and is expected to result in more consistent application.

(c) a direct definition of 'operating profit' would result in less consistent classification of operating expenses because it might exclude some items that would otherwise be included if the operating category is the default category. For example, using a direct definition, an entity presenting operating expenses using the function of expense method might not classify in the operating category an operating expense that is not allocated to function line items.

BC92 Most of the stakeholders who preferred a direct approach did so because, in their view, a direct definition would provide users of financial statements with more focused information about an entity's operating profit measure. In their view, operating profit should not include unusual or volatile income and expenses, or income and expenses not arising from an entity's main business activities. Some stakeholders suggested a definition of 'operating profit' to reflect an entity's 'core earnings' or its 'normalised earnings', which would define operating profit more narrowly than the approach discussed in paragraph BC89.

BC93 The IASB acknowledged the varied views about 'operating profit' and that the term had been used with different meanings. However, the IASB concluded that even if it had agreed with those views, a narrow definition of operating profit that could be applied consistently would have been difficult to develop. Users of financial statements had emphasised the importance of having an operating profit subtotal in the statement of profit or loss that provides a consistent starting point for their analyses and is generally comparable between entities. The IASB expects the approach discussed in paragraph BC89 to achieve this objective. An entity can use other mechanisms to provide additional information about aspects of its financial performance, including presenting additional line items or subtotals in the statement(s) of financial performance or disclosing further disaggregation or information about management-defined performance measures in the notes. For example, an entity might disclose information about an aspect of its operating performance by presenting a management-defined performance measure of operating profit excluding expenses it regards as non-recurring or unusual (see paragraphs BC325–BC390) or by disclosing disaggregated information about such items (see paragraphs BC407–BC413).

Entities with specified main business activities

BC94 An entity's operations include (but are not limited to) its main business activities (see paragraphs BC89–BC90). The IASB considered whether to require an entity with specified main business activities of investing in assets or providing financing to customers to classify income and expenses in the operating category that otherwise would not have been classified in that category. Specifically, the IASB considered this requirement for entities that:

(a) invest in assets as a main business activity. As discussed in paragraphs BC145–BC147, investment returns are an important indicator of operating performance for these entities. The IASB decided to require such entities to classify in the operating category some income and expenses that otherwise would have been classified in the investing category.

(b) provide financing to customers as a main business activity. As discussed in paragraphs BC180–BC191, the difference between interest revenue from that activity and the related interest expense is an important indicator of operating performance for these entities. The IASB decided to require such entities to classify in the operating category some income and expenses that otherwise would have been classified in the investing or financing categories.

BC95 Although many entities that provide financing to customers as a main business activity will also invest in assets as a main business activity, some entities might have only one specified main business activity. The IASB decided to provide application guidance to help an entity assess whether investing in assets or providing financing to customers is a main business activity.

BC96 The IASB decided to specify that whether investing in assets or providing financing to customers is a main business activity is a matter of fact and not merely an assertion. Accordingly, an entity is required to base its assessment on evidence. In general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if the entity uses, as an important indicator of operating performance, subtotals similar to gross profit described in paragraph B123 of IFRS 18. Evidence that subtotals similar to gross profit are important indicators of operating performance include using such subtotals to explain operating performance externally or to monitor and assess performance internally. For example, if an entity provides financing to customers as a main business activity, it generally communicates or monitors ‘net interest income’ as a measure of its operating performance.

BC97 Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity of an entity that applies IFRS 8 *Operating Segments*. The IASB concluded that a reportable segment that comprises a single business activity of investing in assets or providing financing to customers is a main business activity because the performance of that operating segment is an important indicator of the entity’s operating performance. The business activity of an operating segment that comprises a single business activity might also be a main business activity if the performance of that operating segment is an important indicator of the entity’s operating performance. For example, if a reportable segment comprises more than one operating segment and one of the operating segments comprises a single main business activity, the entity might determine that the business activity included in that reportable segment is a main business activity.

BC98 The IASB decided to require an entity to assess whether investing in assets or providing financing to customers is a main business activity at the reporting entity level. A consolidated group’s assessment and a subsidiary within that group’s assessment could result in different conclusions. For example, a subsidiary might invest as a main business activity even though the group does not. As a result, the subsidiary’s classification of income and expenses in its statement of profit or loss could differ from that of the group. The IASB decided that classification differences between the group and its subsidiary (when they occur) appropriately reflect the differences between their main business activities. The IASB concluded that appropriately reflecting the main business activities of each reporting entity outweighs the costs an entity might incur to make consolidation adjustments.

BC99 Similar considerations apply if a parent entity prepares separate financial statements and consolidated financial statements. For example, a consolidated group and a subsidiary might each conclude that the reporting entity provides financing to customers as a main business activity. However, the parent entity might reach a different conclusion for the purposes of its separate financial statements. For example, the parent entity could be a holding company, with only the subsidiary providing financing to customers.

BC100 Stakeholders said information about whether an entity invests in assets or provides financing to customers as a main business activity would help users of financial statements understand the structure of an entity's statement of profit or loss, especially in digital financial reports. The IASB therefore decided if an entity invests in assets or provides financing to customers as a main business activity the entity is required to disclose that fact. Only main business activities of investing in assets or providing financing to customers would affect the structure of the statement of profit or loss. Accordingly, this disclosure requirement is separate from the requirement in paragraph 116(b) of IFRS 18 that requires an entity to disclose a description of the nature of the entity's operations and its principal activities, which provides different information about the entity's activities.

BC101 An entity assesses whether it invests in assets or provides financing to customers as a main business activity based on facts and circumstances. If those facts and circumstances change, an entity reassesses its main business activities and reflects any change in its main business activities from the date when the facts have changed. The IASB decided that an entity classifies and presents income and expenses from the change in assessment prospectively and does not reclassify amounts presented before the change. For example, a change to an entity's assessment at the start of the current reporting period would not change its assessment for previous reporting periods.

BC102 However, a change in this assessment could disrupt users of financial statements' trend analysis of operating profit. The IASB therefore decided if the assessment changes, an entity is required to disclose that fact and information about the effects of the change unless it is impracticable to do so.

Investing category (paragraphs 53–58 and B43–B49)

BC103 IFRS 18 sets out requirements for classifying income and expenses in the investing category if an entity does not invest in assets as a main business activity. The IASB decided to require an entity that does not invest in assets as a main business activity to classify in the investing category income and expenses from:

(a) investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method (see paragraphs BC110–BC129);

(b) investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method (see paragraphs BC130–BC132);

(c) cash and cash equivalents (see paragraphs BC133–BC141); and

(d) other assets that generate a return individually and largely independently of the entity's other resources (see paragraphs BC142–BC147).

BC104 IFRS 18 also sets out requirements for classifying income and expenses in the operating category (instead of the investing category) if investing in assets is an entity's main business activity. These requirements apply to:

(a) investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method (see paragraph BC132);

(b) cash and cash equivalents (see paragraphs BC136–BC141); and

(c) other assets that generate a return individually and largely independently of the entity's other resources (see paragraphs BC145–BC147).

BC105 Users of financial statements often analyse returns from an entity's investments separately from its operations. The investing category enables users of financial statements to identify returns from investments that are not a part of an entity's main business activities. For example, equity or debt investments typically generate returns, such as dividends or interest, individually and largely independently of an entity's other resources.

BC106 For the specific assets listed in paragraph BC103, the IASB decided to require an entity to classify in the investing category:

(a) the income generated by the assets;

(b) the income and expenses that arise on the initial and subsequent measurement of the assets, including derecognition of the assets; and

(c) the incremental expenses directly attributable to the acquisition and disposal of the assets—for example, transaction costs and costs to sell the assets.

BC107 The IASB concluded that classifying incremental expenses directly attributable to acquisition and disposal would lead to more consistent classification of income and expenses in each category. Without a specific requirement to classify such expenses in the investing category, the requirements in other IFRS Accounting Standards for the recognition and subsequent measurement of the specific assets might have resulted in inconsistent classification. For example, in some circumstances directly attributable transaction costs are required to be included in the initial recognition of the asset and would have been subsequently classified in the investing category, whereas in other cases the directly attributable transaction costs are required to be recognised as an expense immediately and would have been classified in the operating category.

BC108 Identifying incremental expenses directly attributable to acquisition and disposal is not expected to be costly because they are typically external costs identifiable without performing an allocation exercise. Incremental expenses directly attributable to acquisition and disposal are a narrower set of expenses than the other approaches considered by the IASB and decided against, or that might apply in other IFRS Accounting Standards (see paragraph BC109).

BC109 The other approaches the IASB considered and decided against were to require an entity:

(a) to classify *all* expenses directly related to the specific assets discussed in paragraph BC103 in the investing category. The IASB concluded such an approach would be too complex and costly for an entity to apply. For example, expenses relating to an investment could include an allocation of employee benefits if some employees are engaged in managing both an entity's investments and other activities.

(b) to classify all incremental expenses related to the specific assets discussed in paragraph BC103 in the investing category—that is, expenses that would not have been incurred without the investment. Such an approach would result in classifying in the investing category some expenses relating to an entity's investments, such as ongoing investment management fees paid to a third party, while avoiding complex and costly allocations of other costs. However, stakeholders said such a requirement might result in inconsistent application and developing application guidance to address this could have unintended consequences for other IFRS Accounting Standards.

Investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method

BC110 IFRS 18 requires an entity to classify in the investing category all income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries, including:

(a) the entity's share of the profit or loss from associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method; and

(b) other income and expenses from those investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method (such as impairment losses).

BC111 The IASB observed diversity in the presentation of income and expenses from investments in associates and joint ventures accounted for using the equity method. For example, some entities present the share of profit or loss from such investments within operating profit, some present it immediately below operating profit and others present it after the income tax line item. Feedback from users of financial statements emphasised the importance of eliminating such diversity. Stakeholders said a requirement specifying the location of income and expenses from such investments in the statement of profit or loss is necessary. This requirement will provide users of financial statements with a consistent starting point for their analyses of investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method. The consistent starting point is important because users of financial statements generally analyse those investments separately from the operating results of the consolidated group (see paragraph BC114).

BC112 When deciding how to best respond to user needs as described in paragraph BC111, the IASB considered:

(a) whether an entity should classify in the operating category any income and expenses from investments in associates and joint ventures accounted for using the equity method (see paragraphs BC113–BC115);

(b) in which category an entity would classify those income and expenses if they are not classified in the operating category (see paragraphs BC116–BC120);

(c) whether the IASB's general conclusions on those matters would also apply to an entity with specified main business activities (see paragraphs BC121–BC128); and

(d) whether the IASB's general conclusions on those matters would also apply to subsidiaries accounted for using the equity method in separate financial statements (see paragraph BC129).

Classification outside the operating category

BC113 Some stakeholders said the activities of associates and joint ventures can be integral to an entity's main business activities. For example, in some jurisdictions and industries, it is common for entities to operate through an associate or joint venture. In some cases, an entity might invest in associates and joint ventures as a main business activity (see paragraphs BC121–BC128). For those reasons, some stakeholders suggested that, in those cases, an entity classifies in the operating category income and expenses from investments in associates and joint ventures accounted for using the equity method.

BC114 Many users of financial statements said all income and expenses from such investments should be excluded from the operating category—regardless of whether the activities of associates or joint ventures are integral to an entity's main business activities—because:

(a) the equity method combines income and expenses that users of financial statements would usually analyse separately, including financing expenses and income taxes;

(b) classifying those income and expenses in the operating category would disrupt users' analyses of operating margins; and

(c) an entity does not control the activities of associates and joint ventures.

BC115 The IASB decided to require an entity to exclude from the operating category all income and expenses from associates and joint ventures accounted for using the equity method to better align with the way users of financial statements use information to analyse investments in associates and joint ventures.

Classification in the investing category or another category

BC116 After the IASB decided to exclude from the operating category income and expenses from associates and joint ventures accounted for using the equity method, it considered an alternative approach. The approach would require an entity:

(a) to identify 'integral' associates and joint ventures separately from 'non-integral' associates and joint ventures;

(b) to classify income and expenses from investments in integral associates and joint ventures in an 'integral associates and joint ventures' category, presented immediately below the operating profit subtotal;

(c) to present a subtotal for 'operating profit or loss and income and expenses from integral associates and joint ventures'; and

(d) to classify income and expenses from investments in non-integral associates and joint ventures in the investing category.

BC117 However, stakeholders raised concerns about this approach and the IASB decided not to proceed with it. Many users of financial statements said the separate identification of integral and non-integral associates and joint ventures (described in paragraph BC116(a)) and the proposed subtotal (described in paragraph BC116(c)) would not provide useful information. Some stakeholders also raised concerns about how to identify 'integral' and 'non-integral' associates and joint ventures, which would have been difficult to resolve. These stakeholders said separately identifying associates and joint ventures that are 'integral' and 'non-integral' would be subjective, leading to complexity and diversity, or even to opportunistic application of such a requirement.

BC118 The IASB also considered whether to require an entity to classify all income and expenses from investments in associates and joint ventures accounted for using the equity method in a separate 'associates and joint ventures' category, which would be presented immediately below the operating profit subtotal. However, the IASB decided not to proceed with this approach because it would add complexity to the structure of the statement of profit or loss.

BC119 Having decided to exclude income and expenses from investments in associates and joint ventures accounted for using the equity method from operating profit for the reasons discussed in paragraph BC114, the IASB instead decided to require an entity to classify such income and expenses in the investing category. This approach:

(a) reflects that investments in associates and joint ventures that are not closely related to an entity's main business activities generate returns individually and largely independently of the entity's other resources, which is consistent with other income and expenses classified in the investing category;

(b) results in classification of such income and expenses in a consistent location, ensuring users of financial statements have a consistent starting point for their analysis;

(c) simplifies the requirements relating to the structure of the statement of profit or loss; and

(d) avoids imposing requirements for a separate category that might be unnecessary for many entities for which income and expenses from associates and joint ventures accounted for using the equity method is not an important aspect of the entity's financial performance.

BC120 The approach in BC119 does not specify the location of the line item in the investing category presenting income and expenses from associates and joint ventures accounted for using the equity method. The heading 'investing category' is not required to be presented in the statement of profit or loss and an entity is permitted to present additional subtotals within the investing category (see paragraphs BC56–BC61). This allows an entity to communicate similar information to the approaches discussed in BC116–BC118 by:

(a) presenting income and expenses from investments in associates and joint ventures accounted for using the equity method as the first line item after operating profit followed by an additional subtotal for operating profit and income and expenses from investments accounted for using the equity method; or

(b) presenting income and expenses from some investments in associates and joint ventures accounted for using the equity method directly after operating profit and presenting a subtotal for 'operating profit and income and expenses from those associates and joint ventures accounted for using the equity method'. An entity might present such a subtotal when it disaggregates into one or more line items income and expenses from associates and joint ventures with dissimilar characteristics.

Entities with specified main business activities

BC121 The IASB concluded that its reasons for excluding from operating profit income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method also applied to such investments made as a main business activity (see paragraphs BC113–BC115). Consequently, the IASB decided not to develop different classification requirements for income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method for an entity with specified main business activities. Instead, all entities are required to classify income and expenses from such investments in the investing category.

BC122 The IASB considered whether to allow some entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the operating category. Some stakeholders—for example, in the real estate industry—said common legal structures used in some jurisdictions result in such investments being accounted for using the equity method, but these investments are actively managed as part of investing in assets as a main business activity. In the view of these stakeholders, an entity with such investments should classify income and expenses from those investments in the operating category.

BC123 Some stakeholders in the insurance industry raised specific concerns about classifying in the investing category income and expenses from investments in associates and joint ventures accounted for using the equity method that are linked to insurance contracts or held for prudential purposes to meet solvency requirements. These stakeholders suggested insurers classify such income and expenses in the operating category because those income and expenses are part of 'net financial result' (investment income minus insurance finance income and expenses), which is an important indicator of an insurer's operating performance. IFRS 17 *Insurance Contracts* requires an entity to disclose and explain the relationship between investment returns on its assets and insurance finance income and expenses.

BC124 The IASB acknowledged that a presentation 'mismatch' could arise if the income and expenses described in paragraph BC123 are excluded from the operating category, because 'net financial result' would contain insurance finance income and expenses from insurance contract liabilities, but might not contain all the associated investment income from the assets held to service those liabilities. The extent of any mismatch would be entity-specific and depend on whether the insurer accounts for these investments using the equity method or measures them at fair value through profit or loss.

BC125 IAS 28 *Investments in Associates and Joint Ventures* allows some entities to measure at fair value through profit or loss an investment—or a portion of an investment—in an associate or joint venture, as discussed further in paragraphs BC126–BC128. If an insurer that invests as a main business activity measures income and expenses from those investments in associates and joint ventures at fair value through profit or loss, the insurer would classify in the operating category those income and expenses and no mismatch would arise. The IASB's research and meetings with stakeholders indicated that a mismatch might be material for some insurers, but it does not appear to be pervasive in the insurance industry.

BC126 The IASB's research and meetings with stakeholders also revealed that investments in associates and joint ventures by insurers are diverse. If the IASB were to allow or require an insurer to classify in the operating category income and expenses from some investments in associates and joint ventures accounted for using the equity method, it would be difficult to define the scope of eligible investments in a manner that would be practicable and could be applied consistently.

BC127 The requirement described in paragraph BC119 does not preclude an insurer or any other entity from:

(a) presenting a line item for income and expenses from investments in associates and joint ventures accounted for using the equity method immediately below its operating profit;

(b) disaggregating that line item to highlight equity method investments that users of financial statements could consider as part of net financial result;

(c) presenting an additional subtotal (see paragraph BC120); or

(d) disclosing a management-defined performance measure.

BC128 The IASB also decided to provide transitional requirements that would allow an eligible entity to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss (as specified in paragraph 18 of IAS 28) when it first applies IFRS 18 (see paragraph BC423). The IASB decided it was unnecessary to provide transitional requirements in IFRS 18 for an entity that, in applying paragraph 19 of IAS 28, decides to measure a portion of an investment in an associate at fair value through profit or loss. Transitional requirements are unnecessary for an entity applying that paragraph because its application is not limited to initial recognition of an investment in an associate.

Investments in subsidiaries accounted for using the equity method in separate financial statements

BC129 The IASB decided to require an entity to classify in the investing category income and expenses from investments in subsidiaries accounted for using the equity method in separate financial statements prepared in accordance with IAS 27 *Separate Financial Statements*. This approach is consistent with:

(a) suggestions from users of financial statements that an entity present income and expenses from investments accounted for using the equity method outside operating profit because the equity method combines income and expenses that users of financial statements would usually analyse separately, including financing expenses and income taxes;

(b) the IASB's decision to require an entity to classify in the investing category income and expenses from investments in associates and joint ventures accounted for using the equity method (see paragraphs BC116–BC120); and

(c) the IASB's conclusion that a parent entity follows the method in IAS 28 applicable to an associate or joint venture if it elects to apply the equity method to its subsidiaries in its separate financial statements (see paragraph BC10H of the Basis for Conclusions on IAS 27).

Investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method

BC130 The IASB concluded that generally its reasons for excluding from operating profit income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method do not apply to such investments accounted for using the cost or fair value methods (see paragraphs BC113–BC115). The IASB considered how an entity classifies income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method.

BC131 The IASB first considered whether the classification of such income and expenses should depend on whether the investment is an asset that generates returns individually and largely independently of an entity's other resources (see paragraphs BC142–BC147). In some cases, it might be difficult for an entity to determine whether an investment in an associate, joint venture or unconsolidated subsidiary generates returns individually and largely independently of its other resources. For example, practical difficulties could arise if the associate, joint venture or unconsolidated subsidiary's activities are related to the entity's main business activities. In such cases, it might be unclear whether the entity's investment in that associate, joint venture or unconsolidated subsidiary generates returns largely independently of the entity's other resources.

BC132 To avoid such difficulties, the IASB decided that income and expenses from associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method are classified in the investing category unless, applying paragraph 55(b) of IFRS 18, the entity assesses that investing in these assets is a main business activity (see paragraphs BC94–BC102). Therefore, an entity classifies those income and expenses:

(a) in the investing category, if investing in associates, joint ventures or unconsolidated subsidiaries not accounted for using the equity method is not a main business activity; or

(b) in the operating category, if investing in associates, joint ventures or unconsolidated subsidiaries not accounted for using the equity method is a main business activity.

Cash and cash equivalents

BC133 The IASB considered how an entity classifies income and expenses from cash and cash equivalents. The IASB first considered requiring an entity to classify such income and expenses in the financing category, as a proxy for income and expenses from excess cash and temporary investments of excess cash. Users of financial statements typically treat excess cash (and temporary investments of excess cash) as part of an entity's financing because how the entity manages such assets is often interrelated with its decisions about debt and equity financing. For example, excess cash could be used to pay dividends, repay debt or buy back shares. Although it would be difficult for the IASB to develop a definition of 'excess cash and temporary investments of excess cash' that could be applied consistently, the definitions of 'cash' and 'cash equivalents' in IAS 7 could be used. The IASB acknowledged that some entities hold cash for operational purposes—for example, as part of working capital—which might not be viewed as 'excess cash'. Nonetheless, in general, 'cash and cash equivalents' was expected to provide a reasonable proxy for excess cash and temporary investments of excess cash.

BC134 Some stakeholders expressed concerns about classifying income and expenses from cash and cash equivalents in the financing category, saying:

(a) contrary to the expectations in BC133, cash and cash equivalents might not be a reasonable proxy for excess cash and temporary investments of excess cash.

(b) cash and cash equivalents are assets that generate returns individually and largely independently of an entity's other resources. Therefore, income and expenses from cash and cash equivalents should be classified in the investing category.

(c) the financing category would be simpler to understand if it included income and expenses from liabilities, and did not include income and expenses from cash and cash equivalents.

BC135 The IASB decided to require an entity to classify in the investing category income and expenses from cash and cash equivalents unless an entity has specified main business activities, as discussed in paragraphs BC136–BC141. This approach will make the structure of the statement of profit or loss easier to understand. The investing category relates to assets and the financing category generally relates to liabilities.

Entities with specified main business activities

BC136 In some cases, an entity that invests in financial assets as a main business activity holds a large amount of cash and cash equivalents for operational purposes. For example, insurers and investment funds often have large balances of cash and cash equivalents because of continuously rebalancing their investment portfolios. Feedback from users of financial statements indicated that for such entities, classifying income and expenses from cash and cash equivalents in the operating category (instead of the investing category) provides more useful information.

BC137 The IASB considered several ways to describe those entities that are required to classify income and expenses from cash and cash equivalents in the operating category. The IASB decided to limit the scope of the requirement to entities that invest as a main business activity in financial assets other than cash and cash equivalents and associates, joint ventures and unconsolidated subsidiaries. Feedback from users of financial statements suggested it would not result in useful information if an entity that invests only in non-financial assets as a main business activity—such as investment property companies—classified income and expenses from cash and cash equivalents in the operating category.

BC138 Many entities—such as banks—that provide financing to customers as a main business activity also invest in financial assets as a main business activity. The requirement described in paragraph 56(a) of IFRS 18 to classify income and expenses from cash and cash equivalents in the operating category (instead of the investing category) applies to such entities.

BC139 However, some entities that provide financing to customers as a main business activity do not invest in financial assets as a main business activity. Examples include entities that provide financing to customers to buy the entity's products (such as car manufacturers) and some specialised financial institutions. Like an entity that invests in financial assets as a main business activity, an entity that provides financing to customers might hold large amounts of cash for regulatory or operational purposes. Such an entity generally reports its income and expenses from cash and cash equivalents as part of net interest income, a subtotal similar to gross profit, which is one of its key operating performance metrics.

BC140 For similar reasons to those discussed in paragraphs BC180–BC188, the IASB decided to provide an accounting policy choice for an entity that provides financing to customers as a main business activity but does not invest in financial assets as a main business activity to classify in the operating category either:

(a) income and expenses from all cash and cash equivalents; or

(b) the portion of income and expenses from cash and cash equivalents related to providing financing to customers.

BC141 The outcome of applying the accounting policy choice is that, regardless of the policy selected, an entity always classifies in the operating category income and expenses from cash and cash equivalents related to providing financing to customers as a main business activity. Consequently, the accounting policy choice in IFRS 18 relates only to the classification of those income and expenses from cash and cash equivalents that do not relate to providing financing to customers. If an entity cannot distinguish between which income and expenses from cash and cash equivalents relate to providing financing to customers and which do not, an entity applies the accounting policy choice to classify in the operating category all income and expenses from cash and cash equivalents.

Other assets that generate a return individually and largely independently of an entity's other resources

BC142 Assets that generate a return individually and largely independently of an entity's other resources—for example, debt and equity investments—generate returns differently from the way returns are generated by:

(a) assets that do not generate returns either individually or largely independently of an entity's other resources, such as plant and equipment used to produce goods or supply services;

(b) assets that generate returns individually but not largely independently of an entity's other resources, such as an entity's receivables arising from the supply of goods and services for which income and expenses are classified in the operating category; and

(c) assets that generate returns largely independently of an entity's other resources, but only as part of a group of assets, such as assets in a disposal group held for sale.

BC143 If an entity provides financing to customers as a main business activity, any asset arising from providing financing to customers (for example, a loan to a customer) is not an asset that generates returns individually and largely independently of the entity's other resources. Consistent with the example in paragraph BC142(b), for such an entity, providing financing is the service it provides to customers, which it does in combination with its other resources.

BC144 The IASB decided to clarify that an entity classifies in the operating category income and expenses from a business combination. Income and expenses from a business combination do not arise from assets that generate returns individually and largely independently of an entity's other resources. For example, a gain on a bargain purchase is generated from the underlying assets acquired and liabilities assumed in a business combination and is not a return generated by an asset individually and largely independently of an entity's other resources.

Entities that invest in assets as a main business activity

BC145 If investing in assets is an entity's main business activity, investment returns are an important indicator of operating performance (see paragraphs BC94–BC102). For some of these entities, presenting investment returns in the investing category might mean the operating category would include only expenses. For example, the operating category of an investment property company would exclude rental income and remeasurements of investment property. For these entities, an operating profit subtotal that excludes returns from those investments would not faithfully represent the results of the entity's operations. The IASB decided to require an entity that invests as a main business activity to classify in the operating category income and expenses from those assets that generate returns individually and largely independently of the entity's other resources and are invested in as a main business activity.

BC146 The requirement to classify such income and expenses in the operating category applies only to income and expenses from assets in which the entity invests as a main business activity. An entity investing in assets as a main business activity might have other investments. For example, an entity that invests in investment property as a main business activity might also invest in financial assets that generate returns individually and largely independently of its other resources, but not as a main business activity. Classifying in the investing category income or expenses from those other investments means that for any entity—those that invest as a main business activity and those that do not—users of financial statements will receive separate information about returns from investments that are not part of the entity's main business activities.

BC147 Some stakeholders said a requirement for an entity to determine whether each investment is made as a main business activity could be onerous. The IASB concluded that in some cases assessing each item individually would be unnecessary. For example, an entity might only invest in a single type of asset, such as investment property, or invest in portfolios of financial assets for which the outcome of the assessment would be the same regardless of whether the entity performs the assessment for each investment or for the portfolio as a whole. The IASB decided to allow an entity to group assets with shared characteristics for the purpose of assessing whether those investments were made as a main business activity. The IASB provided application guidance to help an entity determine how to group assets with shared characteristics for the purpose of that assessment.

Financing category and profit or loss before financing and income taxes subtotal (paragraphs 59–66 and B50–B59)

Profit or loss before financing and income taxes

BC148 IFRS 18 requires an entity to present a subtotal for profit or loss before financing and income taxes in the statement of profit or loss (except in the circumstances discussed in paragraph BC189). The IASB developed this requirement because many users of financial statements seek to analyse an entity's performance independently of how the entity is financed. The presentation of a subtotal for profit or loss before financing and income taxes helps facilitate that analysis.

BC149 The IASB observed that the required subtotal for profit or loss before financing and income taxes serves a similar purpose to a subtotal for earnings before interest and tax (EBIT), which many users of financial statements use to compare the financial performance of entities with varied financing structures. However, EBIT and similar subtotals are not comparable between entities because of the diverse ways entities distinguish between finance income and expenses and other items of income and expense. The required subtotal for profit or loss before financing and income taxes would increase comparability between entities. The IASB decided not to describe that required subtotal as 'EBIT' because such a description could be misleading and would rarely be a faithful representation of it. For example, it might imply that all interest has been excluded from the subtotal, including interest revenue. It might also imply that the required subtotal excludes only interest and income taxes, and nothing else, which might be incorrect.

BC150 In developing the requirements on profit before financing and income taxes, the IASB considered feedback suggesting that an entity not be required to present the subtotal. Some stakeholders instead suggested the investing and financing categories be merged into a single category because:

(a) merging the investing and financing categories would resolve classification issues between those two categories (such as the classification of income and expenses from cash and cash equivalents, as discussed in paragraphs BC133–BC135);

(b) the investing category might include only a few items of income and expenses for many entities, in which case the subtotal for profit or loss before financing and income taxes might provide little incremental value compared to the operating profit subtotal; and

(c) a separate investing category and a subtotal for profit before financing and income taxes might clutter the statement of profit or loss.

BC151 The IASB decided against the approach described in paragraph BC150 because a merged investing and financing category would result in an entity presenting together income and expenses that have different characteristics and are often analysed separately. Moreover, this approach would not respond to feedback from users of financial statements—almost all of whom agreed with the IASB's proposal to require an entity to present a subtotal for profit or loss before financing and income taxes. The proposed subtotal would provide a comparable anchor for users' analyses.

BC152 The IASB also decided not to modify the requirement to present both subtotals when the operating profit subtotal is equal to the subtotal for profit or loss before financing and income taxes. Identifying both subtotals provides useful information, even if they are equal, particularly if information is accessed digitally. A user of paper-based financial statements might understand from the structure of the statement of profit or loss that two required subtotals are reported even if only one is identified because the amounts are equal. However, if information is accessed digitally, users of financial statements might be unable to identify the required subtotals if they are not all reported or tagged—because an entity reports or tags only one of the equal subtotals. It is helpful to users of financial statements accessing the information digitally if an entity reports or tags all required subtotals, even if they are equal. The IASB expects that the requirements will result in entities digitally tagging both subtotals even when the amounts are equal.

Financing category

BC153 IFRS 18 requires an entity to classify in the financing category:

(a) income and expenses from liabilities that arise from transactions that involve only the raising of finance (see paragraphs BC161–BC163); and

(b) specified income and expenses from other liabilities—that is, liabilities that arise from transactions that do not involve only the raising of finance (see paragraphs BC164–BC168).

BC154 In developing these requirements, the IASB considered whether to use:

(a) a narrow approach that limits the items classified in the financing category to those income and expenses most users of financial statements view as arising from an entity's financing activities, such as income and expenses arising from bank loans or corporate bonds; or

(b) a broader approach that includes in the financing category some income and expenses on other liabilities, which some users of financial statements believe to be similar to income and expenses from an entity's financing activities, such as the net interest expense on a defined benefit liability or the unwinding of the discount on a decommissioning liability.

BC155 The IASB decided to use the broader approach because, in the IASB's view, this approach best meets the information needs of users of financial statements (see paragraphs BC157–BC160). The requirements in IFRS 18 provide a consistent basis for classifying income and expenses in the financing category and disaggregating material information about those income and expenses in the notes. Users of financial statements that have a narrower view of such income and expenses are able to use the information provided in an entity's financial statements to make any adjustments they consider necessary in their analyses.

BC156 The IASB also decided to:

(a) specify how to apply the requirements described in paragraph BC153 to hybrid contracts containing host liabilities and embedded derivatives (see paragraphs BC169–BC179);

(b) provide specific requirements for an entity that provides financing to customers as a main business activity (see paragraphs BC180–BC191);

(c) provide specific requirements for classification of income and expenses on liabilities arising from issued investment contracts with participation features recognised in accordance with IFRS 9 (see paragraphs BC192–BC195);

(d) provide specific requirements for classification of insurance finance income and expenses (see paragraphs BC196–BC197); and

(e) provide no specific requirements for intermediate lessors (see paragraphs BC198–BC199).

Approach to distinguishing liabilities with income and expenses classified in the financing category

BC157 The IASB considered requiring an entity to classify in the financing category income and expenses on liabilities arising from its financing activities, based on the definition of 'financing activities' in IAS 7. The IASB also considered amending IAS 7 to clarify that definition so that it could be applied consistently. The IASB proposed specifying that, in relation to borrowings, financing activities involve the receipt or use of a resource from a provider of finance with the expectation that:

(a) the resource will be returned to the provider of finance; and

(b) the provider of finance will be appropriately compensated through the payment of a finance charge dependent on both the amount of the credit and its duration.

BC158 Some stakeholders raised questions about the proposed amendment to the definition of financing activities in IAS 7, such as asking for the meaning of the terms 'provider of finance' and 'finance charge'. These questions would have been difficult to resolve and would likely have involved addressing other issues relating to the statement of cash flows, which could have added significantly to the scope of the project to develop IFRS 18 and delayed its completion. The IASB therefore decided not to proceed with the proposed amendment to the definition of 'financing activities' in IAS 7.

BC159 Instead, the IASB developed a practical approach that focused more broadly on income and expenses that are financing by nature. To do this, the IASB distinguishes between:

(a) liabilities that arise from transactions that involve only the raising of finance, such as corporate bonds, bank loans and mortgages. The purpose of such transactions is solely the raising of finance for an entity's operating and investing activities, so income and expenses from those liabilities are classified in the financing category.

(b) liabilities that arise from transactions that do not involve only the raising of finance such as payables for goods or services received with extended payment terms, lease liabilities and pension liabilities. Such transactions both contribute to an operating (or investing) activity and provide finance to an entity. Some income and expenses that are financing in nature from these liabilities are classified in the financing category (see paragraphs BC164–BC168).

BC160 This distinction is easier to make than the distinction between liabilities that arise from financing activities and other liabilities because it is only necessary to identify which liabilities involve only the raising of finance. It is unnecessary to identify whether liabilities that involve activities other than financing (for example, a lease or pension liability) are also part of an entity's financing activities. Regardless of whether a liability is regarded as part of an entity's financing activities, income and expenses that are financing by nature will be classified in the financing category.

Liabilities that arise from transactions that involve only the raising of finance

BC161 For liabilities that arise from transactions that involve only the raising of finance, IFRS 18 requires an entity to classify in the financing category:

(a) income and expenses that arise from the initial and subsequent measurement of the liabilities, including derecognition of the liabilities—for example, interest expense on debt instruments issued; and

(b) incremental expenses directly attributable to the issue and extinguishment of the liabilities—for example, transaction costs arising on issuing a financial liability that is measured at fair value through profit or loss.

BC162 The IASB decided to require an entity to classify in the financing category the incremental expenses directly attributable to the issue and disposal of liabilities that arise from transactions that involve only the raising of finance to provide consistency in the classification of these expenses. Without a specific requirement to classify such expenses in the financing category, the requirements in other IFRS Accounting Standards for the recognition and subsequent measurement of liabilities might have resulted in inconsistent classification. For example, IFRS 9 requires an entity to include transaction costs in the initial recognition of a financial liability measured at amortised cost and these costs would have been classified subsequently in the financing category, while for financial liabilities measured at fair value through profit or loss, transaction costs are required to be recognised as expenses immediately and would have been classified in the operating category.

BC163 Requiring an entity to classify in the financing category incremental expenses directly attributable to the issue and extinguishment of these liabilities aligns the approach to classifying similar expenses from assets in the investing category. Identifying incremental expenses directly attributable to the issue and disposal of the liabilities is not expected to be costly because they are typically external costs identifiable without performing an allocation exercise.

Liabilities that arise from transactions that do not involve only the raising of finance

BC164 For liabilities that arise from transactions that do not involve only the raising of finance, IFRS 18 requires an entity to classify in the financing category only interest income and expenses (including the effects of changes in interest rates).

BC165 For example, a long-term provision recognised applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* might result in an entity recognising various types of income and expenses, such as:

(a) periodic unwinding of the discount on the liability;

(b) the effects of changes in the discount rate used to measure the liability; and

(c) the effects of changes in the best estimate of the expenditure required to settle the liability.

BC166 The IASB's approach is that the unwinding of the discount and the effects of changes in the discount rate are classified in the financing category because they are financing in nature.

BC167 However, not all IFRS Accounting Standards require an entity to disaggregate income and expenses arising from changes in the carrying amount of a liability into separate amounts for interest income and expenses (including the effects of changes in interest rates) and other types of income and expenses. For example, IFRS 2 *Share-based Payment* does not require an entity to disaggregate the income and expenses arising from changes in the carrying amount of a share-based payment liability into components for service costs, interest expense and other changes in that liability.

BC168 The IASB decided to limit the requirement described in paragraph BC164 to those interest income and expense amounts an entity identifies applying the requirements in other IFRS Accounting Standards. The IASB decided not to include additional disaggregation requirements in IFRS 18 beyond those required by other IFRS Accounting Standards because:

(a) it would not be feasible to develop overarching disaggregation requirements in IFRS 18 that could be applied consistently with the requirements in other IFRS Accounting Standards, because of the different measurement requirements in those other IFRS Accounting Standards; and

(b) it would be beyond the scope of the project to separately consider the requirements in each of the applicable IFRS Accounting Standards and develop additional disaggregation requirements for the purpose of classifying income and expenses in the statement of profit or loss.

Classification of income and expenses from hybrid contracts containing a host that is a liability

BC169 Some contracts within the scope of IFRS 9 are hybrid contracts that contain a host that is a liability and an embedded derivative. For example, a bank loan might include a prepayment option, which allows the borrower to settle the loan before its maturity date. IFRS 9 includes requirements for when an entity is required to separate an embedded derivative from a host liability.

BC170 If an embedded derivative and host that is a liability are separated, IFRS 9 requires an entity to account for them separately. If they are not separated, IFRS 9 requires an entity to account for the combined liability—both the host liability and the embedded derivative—as a single unit of account. An entity measures the combined liability in its entirety, without separately measuring the host liability or embedded derivative.

BC171 The IASB considered how an entity would classify income and expenses from liabilities that arise from such hybrid contracts. To maintain consistency with the requirements in IFRS 9, the IASB decided that if the host that is a liability and embedded derivative are separated, an entity classifies income and expenses from:

(a) a separated host liability in the same way as a similar liability that is not a host in a hybrid contract; and

(b) a separated embedded derivative in the same way as a similar stand-alone derivative (see paragraphs BC223–BC235).

BC172 The IASB next considered situations in which the host that is a liability and embedded derivative are not separated. Such hybrid contracts could arise from transactions that:

(a) involve only the raising of finance; or

(b) combine financing with another activity.

BC173 The IASB concluded that:

(a) if the hybrid contract arises from transactions that involve only the raising of finance, an entity classifies in the financing category all income and expenses from such contracts, to be consistent with the IASB's conclusions on such liabilities (see paragraphs BC161–BC163); and

(b) if the hybrid contract arises from transactions that combine financing with another activity, except as discussed in paragraphs BC174–BC177, an entity classifies in the financing category interest income and expenses from such contracts (including the effects of changes in interest rates), to be consistent with the classification of income and expenses on other such liabilities (see paragraphs BC164–BC168).

BC174 Hybrid contracts that arise from transactions that combine financing with another activity could include hybrid contracts measured at amortised cost because the contract contains:

(a) a host that is a financial liability in the scope of IFRS 9; and

(b) an embedded derivative that has not been separated because it is closely related to the economic characteristics and risks of the host liability.

BC175 For example, a payable to a supplier for goods or services received could arise from a contract with extended credit terms that includes an early prepayment option. This contract could give rise to income and expenses resulting from changes in expected future cash flows, as and when expectations about the use of the early prepayment option are updated. Applying the approach discussed in paragraphs BC164–BC168, an entity would identify interest income and expenses (including the effects of changes in interest rates) separately from other income and expenses from that liability. However, for such liabilities, it might be unclear whether the income or expenses arising from a change in expected future cash flows are identified as interest or another type of income or expense.

BC176 The IASB decided not to require an entity to identify interest income and expense separately from other types of income and expenses that arise from remeasuring the liability. However, the IASB expects that in most cases the majority of income and expenses will be interest expense because they arise from liabilities measured at amortised cost. Consequently, the IASB decided to require an entity to classify all income and expenses from such hybrid contracts in the financing category. The IASB acknowledged that, in some cases, the requirement could result in income and expenses that do not relate to financing being classified in the financing category. However, the IASB expects the costs of requiring an entity to identify interest expenses for such cases would outweigh the benefits of the resulting information.

BC177 Income and expenses from hybrid contracts described in paragraph BC174 are classified in the financing category in a manner similar to income and expenses from liabilities that arise from transactions that involve only the raising of finance. However, unlike income and expenses from liabilities that arise from transactions that involve only the raising of finance, income and expenses from the hybrid contracts are not eligible to be classified in the operating category by entities that provide financing to customers as a main business activity. The hybrid contracts are liabilities that arise from transactions other than those that involve only the raising of finance, for which the accounting policy choice for an entity that provides financing to customers as a main business activity does not apply.

BC178 Hybrid contracts that arise from transactions that combine financing with another activity could include hybrid contracts measured at fair value through profit or loss applying paragraph 4.3.5 of IFRS 9. Generally, income and expenses from such hybrid contracts are classified in the operating category because interest expense is not recognised separately from changes in fair value.

BC179 Some contracts in the scope of IFRS 17 are hybrid contracts that contain a host that is an insurance liability and an embedded derivative. If the embedded derivative and host liability are:

(a) separated applying the requirements in IFRS 17, an entity classifies the income and expenses from the host liability applying the requirements for classifying insurance finance income and expenses (see paragraph BC196) and from the separated embedded derivative in the same way as a similar stand-alone derivative, as discussed in paragraph BC171(b); and

(b) not separated applying the requirements in IFRS 17, an entity classifies the income and expenses from the hybrid contract applying the requirements for classifying income and expenses from insurance contracts. Consequently, income and expenses from the hybrid contract, including insurance finance income and expenses, are classified in the operating category (see paragraph BC196).

Entities that provide financing to customers as a main business activity

BC180 If an entity provides financing to customers as a main business activity, the difference between the interest revenue from that main business activity and the interest expense incurred to obtain the financing needed for that main business activity is an important measure of the entity's operating performance (see paragraphs BC94–BC102). If an entity provides financing to customers as a main business activity, it classifies in the operating category (instead of the financing category) income and expenses from liabilities arising from transactions that involve only the raising of finance, to the extent that such liabilities relate to providing financing to customers.

BC181 If an entity provides financing to customers, it might have liabilities arising from transactions that involve only the raising of finance that are unrelated to providing financing to customers. In these situations, the entity might be unable to identify—without undue cost or effort—income and expenses from liabilities that relate to providing financing to customers.

BC182 For example, an entity with a central treasury function that raises funding for all the entity's activities might be unable to identify—in a non-arbitrary way—income and expenses from liabilities that relate to providing financing to customers.

BC183 The IASB decided to allow an entity that provides financing to customers as a main business activity to make an accounting policy choice for classifying income and expenses from liabilities that arise from transactions that involve only the raising of finance. Such an entity would classify in the operating category either:

(a) income and expenses from all liabilities that arise from transactions that involve only the raising of finance; or

(b) income and expenses from liabilities that arise from transactions that involve only the raising of finance to the extent those liabilities relate to providing financing to customers.

BC184 The outcome of applying the accounting policy choice is that an entity always classifies in the operating category income and expenses from liabilities that arise from transactions that involve only the raising of finance and relate to providing financing to customers as a main business activity. Consequently, the accounting policy choice in IFRS 18 relates only to the classification of those income and expenses from such liabilities that do not relate to providing financing to customers. If an entity cannot distinguish between which income and expenses from such liabilities relate to providing financing to customers, an entity applies the accounting policy choice to classify in the operating category all income and expenses from such liabilities.

BC185 The IASB recognised that allowing an accounting policy choice might result in some loss of comparability between entities. The IASB also acknowledged that more useful information would result from an entity classifying in the operating category income and expenses from liabilities only to the extent those liabilities relate to providing financing to customers. However, because of the difficulty, in some cases, of allocating income or expenses between the operating and financing categories, the IASB concluded such an allocation is not required.

BC186 The IASB considered other suggested approaches, including:

(a) requiring an entity to allocate income and expenses to different categories unless the allocation would be arbitrary or involve undue cost or effort. However, requiring an entity to prove an allocation is arbitrary or involves undue cost or effort would add costs and complexity for an entity that provides financing to customers as a main business activity, without necessarily changing the outcome. The IASB expects that an entity that can allocate—in a non-arbitrary way—income and expenses between the operating and financing categories without undue cost or effort is likely to choose to do so.

(b) requiring an entity to make an accounting policy choice based on how income and expenses are allocated in internal reporting. However, the IASB expects an entity would likely consider how income and expenses are allocated in internal reporting when selecting its accounting policy, even without such a requirement in IFRS 18. In the IASB's view, requiring an entity to do so when selecting its accounting policy is unlikely to add discipline beyond what IFRS Accounting Standards already require for selecting, applying and making changes to an accounting policy.

(c) requiring an entity to allocate income and expenses to different categories, but with a practical expedient that allows an entity not to allocate them if specified conditions are met. Although the IASB acknowledged that such an approach might resolve some of the concerns of stakeholders who disagreed with allowing an accounting policy choice, determining the specific conditions to be met and requiring an entity to assess whether those conditions are met would add complexity. The IASB concluded the time required to develop those conditions and the costs and complexity for an entity to apply those conditions would outweigh the benefits of such an approach as an alternative to an accounting policy choice.

(d) requiring an entity to allocate income and expenses to different categories and providing application guidance on how to make that allocation. However, the IASB concluded it would be difficult to develop application guidance that could be applied consistently.

BC187 The accounting policy choice discussed in paragraphs BC180–BC185 applies only to income and expenses from liabilities arising from transactions that involve only the raising of finance. This accounting policy choice does not apply to the requirements to classify in the financing category specific income and expenses from other liabilities, such as lease liabilities or defined benefit liabilities (see paragraphs BC164–BC168) including other liabilities that are hybrid contracts (see paragraph BC177). The IASB concluded those requirements apply to all entities, including entities that provide financing to customers as a main business activity.

BC188 In reaching this conclusion, the IASB acknowledged that practice is mixed, with some banks including interest expenses on lease liabilities or defined benefit liabilities in net interest income. The IASB expects the requirements in IFRS 18 will change the practice of some banks. However, the IASB concluded that:

(a) requiring a different classification of the specific income and expenses from those liabilities would be inappropriate, because of the lack of any conceptual basis for such a classification.

(b) the requirements would not allow an entity to choose its own entity-specific classification of the specific income and expenses. The requirement to classify those specific income and expenses in the financing category ensures consistent presentation by all entities.

Subtotals in the financing category if providing financing to customers is a main business activity

BC189 The IASB also considered how the accounting policy choice discussed in paragraphs BC183–BC185 affects the requirement to present a subtotal for profit before financing and income taxes. An entity that provides financing to customers as a main business activity might make an accounting policy choice to classify in the operating category income and expenses from *all* liabilities that arise from transactions that involve only the raising of finance. The IASB concluded that it would be misleading for such an entity to present a subtotal described as profit *before* financing and income taxes because most of the entity's expenses from financing would be included in that subtotal. The IASB decided to prohibit an entity from presenting that subtotal if it classifies in the operating category income and expenses from all liabilities that arise from transactions that involve only the raising of finance.

BC190 However, the prohibition does not preclude an entity from presenting an additional subtotal after operating profit and before any line items for income and expenses classified in the financing category, if doing so is necessary to provide a useful structured summary of the entity's income and expenses. For example, distinguishing between the line items in the investing and financing categories might be necessary to provide a useful structured summary—such a subtotal would still be prohibited from being labelled profit before financing and income taxes.

BC191 Consistent with paper-based reporting, in digital reporting an entity would tag such a subtotal using a tag for operating profit or loss and all income and expenses classified in the investing category and not use the tag for profit before financing and income taxes. Users of financial statements would be able to understand that the subtotal profit or loss before financing and income taxes is not applicable by the absence of a subtotal with this tag. This is because an entity is expected to tag such a subtotal when it is not prohibited from using it, even when it is equal to another subtotal (see paragraph BC152).

Income and expenses on liabilities arising from issued investment contracts with participation features

BC192 As part of their main business activities, some entities, such as investment entities and insurers, issue investment contracts with participation features within the scope of IFRS 9—contracts specifying that the return owed to the investor varies with the returns on underlying items. For these contracts, the entity issuing the contract recognises the investor's claim as a liability and the investments linked to the contract as assets.

BC193 Applying the IASB's decisions on the classification of income and expenses, an entity would classify in the financing category the income or expenses from the investment contract liability (see paragraph BC153), but classify in the operating category the returns on the underlying investments in which they invest as a main business activity, unless the investments are accounted for using the equity method (see paragraphs BC121–BC128).

BC194 However, for such contracts, the expense from the investment contract liability depends (to at least some extent) on the returns on the investments. Accordingly, the difference between the investment returns and the expense from the investment contract liability is typically an important indicator of an entity's operating performance. Classifying the income and expenses on these liabilities in the operating category (instead of the financing category) would provide more useful information. As a result, the IASB decided to require an entity to classify in the operating category income and expenses on liabilities arising from issued investment contracts with participation features recognised in accordance with IFRS 9.

BC195 In most cases, if an entity issues investment contracts with participation features, it will invest in the assets as a main business activity. Therefore, the IASB decided that the requirement described in paragraph BC194 applies to all entities that issue investment contracts with participation features.

Insurance finance income and expenses

BC196 Insurance finance income and expenses arise from insurance contracts issued, reinsurance contracts held and investment contracts with direct participation features that an entity accounts for in accordance with IFRS 17. Such income and expenses relate to an insurer's main business activities. The IASB concluded that an entity classifies insurance finance income and expenses in the operating category instead of the financing category.

BC197 In most cases, an entity that issues insurance contracts will do so as a main business activity. The IASB therefore decided that the requirement applies regardless of whether an entity issues insurance contracts as a main business activity, because developing requirements for other entities to classify insurance finance income and expenses in the financing category would add complexity to IFRS 18.

Intermediate lessors

BC198 Intermediate lessors sublease assets they lease from another party. The IASB considered whether intermediate lessors should classify interest expense on lease liabilities in the operating category instead of the financing category. If the sublease is a finance lease, the difference between finance income on the sublease receivable and interest expenses on the lease liability might be a key measure of the intermediate lessor's operating performance.

BC199 The IASB decided not to develop specific requirements for intermediate lessors. Such an entity is required to classify income and expenses on lease liabilities in the financing category. Research and discussions with stakeholders showed that the difference between finance income on a sublease receivable and interest expenses on a lease liability is typically not a key performance measure for many intermediate lessors because:

(a) subleases are typically operating subleases and not finance subleases.

(b) subleasing is generally not a main business activity for intermediate lessors with finance subleases. Finance subleases most often relate to assets like unused office space.

Derecognition and changes in classification of assets, liabilities or income and expenses (paragraphs B60–B64)

BC200 Some transactions or other events might change the category in which an entity classifies income and expenses. An example is the acquisition of a controlling interest in an entity that was an associate accounted for using the equity method. Before the business combination, the acquirer would have classified the income and expenses from its investment in the associate in the investing category. After the business combination, the acquirer would classify the income and expenses from the subsidiary's individual assets and liabilities in the applicable categories in its consolidated statement of profit or loss. In accounting for the business combination, the acquirer might recognise a gain or loss on remeasurement of its previously held investment in the associate.

BC201 Similar gains or losses could arise if an entity accounts for a transaction or other event that results in:

(a) the derecognition of a non-financial asset (or its classification as held for sale);

(b) the derecognition of one asset or liability and the recognition of another (such as in a sale-and-leaseback transaction); or

(c) a change to the accounting treatment of an asset, without the asset being derecognised (such as a transfer into investment property).

BC202 Stakeholders asked the IASB to clarify whether such gains and losses are classified using the 'old' or 'new' classification of income and expenses. The IASB concluded that a gain or loss on derecognition of an asset or liability is classified in the same way as any other income or expense arising from that asset or liability. For example, in the business combination discussed in paragraph BC200, the entity classifies any gain or loss on remeasuring its previously held investment in an associate in the investing category—the same category in which it had previously classified other income and expenses from that investment in the associate (that is, the 'old' category).

BC203 The IASB decided to apply the same approach to transactions or other events that change the category in which an entity classifies income or expenses due to a change in the accounting treatment of an asset. For example, a change in the use of a property could result in an entity transferring the property from within the scope of IAS 16 *Property, Plant and Equipment* to an investment property within the scope of IAS 40 *Investment Property*. The entity would classify any gain or loss recognised in accounting for that change in use in the operating category—the same category in which it had classified income and expenses from that property immediately before the change in use.

BC204 The IASB also considered whether the same approach should apply to a single transaction or other event that results in the derecognition of a group of assets (or a group of assets and liabilities) that gave rise to income and expenses classified in more than one category. For example, an entity could sell a subsidiary. If the subsidiary is classified as a discontinued operation applying IFRS 5, all income and expenses are classified in the discontinued operations category. However, if the subsidiary is not classified as a discontinued operation before its disposal, the gain or loss on disposal of the subsidiary might relate to more than one category. Requiring an entity to allocate the gain or loss on derecognition of a group of assets (or a group of assets and liabilities) to the categories related to those assets (or assets and liabilities) could result in arbitrary allocations and be costly for preparers to apply. As a result, the IASB concluded that an entity classifies the gain or loss in one category and, in most cases, classification in the operating category would provide useful information.

BC205 In some cases, the derecognised assets might not include any assets that gave rise to income and expenses classified in the operating category. For example, the subsidiary sold might have held only investment property and related income tax assets or liabilities (for an entity that does not invest in property as a main business activity). If so, classifying the gain or loss on derecognition of such a group of assets in the operating category might not provide a faithful representation of that gain or loss.

BC206 The IASB decided that unless the derecognised assets include only assets that gave rise to income and expenses classified outside the operating category immediately before the transaction or other event, an entity is required to classify income or expenses from the transaction or event in the operating category. The IASB decided the approach also applies if a transaction or other event results in a change to the classification of income and expenses relating to a group of assets (or a group of assets and liabilities), without the derecognition of those assets (or those assets and liabilities).

Classification of foreign exchange differences (paragraphs 48 and B65–B68)

BC207 The IASB developed requirements for classifying foreign exchange differences that an entity recognises in the statement of profit or loss. Without such requirements, it might have been difficult in particular circumstances to apply the general requirements for classifying income and expenses in the operating, investing and financing categories.

BC208 The IASB decided to require an entity to classify foreign exchange differences in the same category of the statement of profit or loss as income and expenses from the items that give rise to the foreign exchange differences, unless doing so would involve undue cost or effort (see paragraph BC211).

BC209 In the IASB's view, classifying foreign exchange differences in the same category as income and expenses from the items that give rise to the foreign exchange differences contributes to a faithful representation of an entity's business activities. For example, an entity would provide an incomplete picture of the performance of its main business activities if it excluded from operating profit foreign exchange differences related to those activities.

BC210 Some stakeholders raised concerns about the implementation costs of classifying foreign exchange differences in the same category of the statement of profit or loss as income and expenses from the items that give rise to them. These stakeholders said allocating foreign exchange differences to the applicable categories could entail costly enhancements to some entities' reporting systems because those entities currently capture all foreign exchange differences in aggregate as a single amount. For some entities, capturing foreign exchange differences in aggregate at an entity level facilitates central management of net exposure (for example, by a central treasury function). Stakeholders suggested the IASB could allow an entity to classify all foreign exchange differences in a single category.

BC211 After considering the feedback, the IASB concluded that classifying foreign exchange differences in the applicable categories could impose large implementation costs on some entities. Consequently, the IASB decided to provide an exemption from classifying foreign exchange differences in the applicable categories if doing so would involve undue cost or effort.

BC212 An entity assesses whether classifying foreign exchange differences in each applicable category involves undue cost or effort for each item that gives rise to foreign exchange differences. If an entity cannot allocate some foreign exchange differences to the applicable categories without undue cost or effort, the exemption would apply only to those foreign exchange differences.

BC213 Having decided to provide that exemption, the IASB considered in which category those foreign exchange differences should be classified. The IASB acknowledged there is no perfect solution—the classification of all foreign exchange differences in any one category could cause other categories to be incomplete.

BC214 Some stakeholders suggested classifying foreign exchange differences in the financing category to avoid volatility in operating profit and because it would be consistent with the practice of some entities. However, as discussed in paragraph BC89, excluding volatile income or expenses from operating profit would not faithfully represent the results of an entity's operations for the period. In the IASB's view, volatility is not a reason to classify foreign exchange differences in the financing category.

BC215 Alternatively, foreign exchange differences subject to the exemption could be classified in the operating category because:

(a) classifying foreign exchange differences related to an entity's operations (such as sales or purchases of goods or services in a foreign currency) outside the operating category would result in incomplete operating profit, which could reduce the usefulness of the operating profit subtotal as a measure of the entity's performance; and

(b) classifying such differences in the operating category would be consistent with the IASB's approach to the operating category—income and expenses not required to be classified in other categories of the statement of profit or loss are classified in the operating category (see paragraph BC89).

BC216 After considering the points in paragraphs BC214–BC215, the IASB decided to require an entity to classify foreign exchange differences subject to the exemption in the operating category.

BC217 The IASB also considered whether to specify how an entity classifies foreign exchange differences on liabilities that arise from transactions that involve financing and another activity. For example, an entity might buy goods or services used in its operations from a supplier on extended payment terms. In applying IFRS 18, the entity would classify:

(a) in the operating category income and expenses from the purchase of goods or services; and

(b) in the financing category interest expense on the payable.

BC218 If the payable is in a foreign currency, an entity needs to determine how to classify foreign exchange differences arising from that liability. Foreign exchange differences on such a liability might be viewed as arising from:

(a) the entity's financing decisions and therefore classified in the financing category;

(b) the entity's purchasing decisions and therefore classified in the operating category; or

(c) both (a) and (b) and therefore allocated to both the financing and operating categories.

BC219 The IASB observed that foreign exchange differences on liabilities arising from transactions that involve financing and another activity could occur in a range of circumstances. Furthermore, decisions on how to classify such foreign exchange differences are often influenced by the specific circumstances in which the foreign exchange differences arise. The IASB decided not to develop specific requirements on classifying such foreign exchange differences. Instead, the IASB decided to include application guidance to explain that an entity uses its judgement to determine whether the foreign currency differences relate to either amounts classified in the operating category or another category. An entity does not allocate foreign exchange difference arising on such a liability between categories.

Classification of the gain or loss on the net monetary position (paragraphs 48 and B69)

BC220 The IASB decided to clarify that if an entity applying IAS 29 does not present the gain or loss on the net monetary position with the associated income and expenses, as described in paragraph 28 of IAS 29, it classifies the gain or loss in the operating category.

BC221 If the gain or loss on the net monetary position is not presented with the income and expenses associated with the net monetary position, that gain or loss does not—in totality—meet the requirements to be classified in the investing or financing categories. The IASB decided that, in such circumstances, an entity classifies the gain or loss on the net monetary position in the operating category. This requirement is consistent with the IASB's approach to the operating category—income and expenses not required to be classified in other categories of the statement of profit or loss are classified in the operating category (see paragraph BC89).

BC222 In reaching this conclusion, the IASB considered whether to create a separate category for the gain or loss on the net monetary position but decided against doing so. The IASB concluded such an approach would add unnecessary complexity to the structure of the statement of profit or loss.

Classification of gains and losses on derivatives and designated hedging instruments (paragraphs 48 and B70–B76)

BC223 The IASB concluded that applying the classification requirements developed for other income and expenses to gains or losses on derivatives and designated hedging instruments might not provide useful information to users of financial statements. For example, if a derivative is used to manage an identified risk, the derivative relates to the income or expenses (or assets or liabilities) affected by the risk being managed.

BC224 The IASB decided to require an entity to classify gains or losses:

(a) on a financial instrument designated as a hedging instrument, to the extent it is recognised in the statement of profit or loss, in the same category as the income or expenses affected by the risks the entity uses the financial instrument to manage. This classification is not permitted if doing so would require the grossing up of gains or losses (see paragraph BC226). In such cases, an entity classifies all such gains and losses in the operating category (see paragraphs BC230–BC231).

(b) on a derivative not designated as a hedging instrument, but nonetheless used to manage exposure to identified risks, in the same category of the statement of profit or loss as the income or expenses affected by the risks the entity uses the financial instrument to manage. This classification is not required if doing so would involve undue cost or effort (see paragraph BC228) and is not permitted when doing so would require grossing up of gains or losses. In these cases, an entity classifies all such gains or losses in the operating category (see paragraphs BC230–BC231).

(c) on a derivative not used to manage exposures to identified risks in the operating category, unless the derivative relates to a transaction that involves only the raising of finance. In that case, an entity would classify all gains or losses on the derivative in the financing category (see paragraph BC232).

Gains and losses on designated hedging instruments

BC225 When an entity designates derivatives in a hedging relationship in accordance with IFRS 9, it identifies the link between the derivative and the risk being hedged to comply with the eligibility criteria and documentation requirements in IFRS 9. The IASB concluded that requiring an entity to classify gains or losses on derivatives in the category that reflects an entity's risk management, instead of a single category, would provide useful information about the entity's activities.

BC226 If a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in more than one category of the statement of profit or loss, an entity would have to gross up the gains or losses on the hedging instrument to classify them in the applicable categories. In such circumstances, paragraphs 6.6.4 and B6.6.15 of IFRS 9 require the entity to present gains or losses on the hedging instrument in a separate line item to avoid the grossing up of gains and losses from a single hedging instrument. The IASB decided if the requirement to classify gains or losses on a hedging instrument in the applicable category would result in the grossing up of gains or losses, an entity classifies those gains or losses in the operating category (see paragraphs BC230–BC231).

Gains and losses on other derivatives used to manage exposures to identified risks

BC227 An entity can also use a derivative to manage an identified risk without designating a hedging relationship for the purposes of IFRS 9. In many cases, the IASB expects that an entity can identify the link between the derivative and the risk it uses the derivative to manage because entities typically enter into derivatives in accordance with approved risk management policies. Risk managers usually monitor and report internally on whether derivatives continue to mitigate the risks being managed. Accordingly, an entity would typically have the information necessary to determine the link between a derivative and the risk the entity uses the derivative to manage. Consequently, the IASB concluded that classifying gains or losses on other derivatives used to manage exposures to identified risks using the same approach as for gains or losses on designated hedging instruments would provide useful information about an entity's risk management activities.

BC228 However, stakeholder feedback revealed that, in some cases, identifying gains or losses affected by the risk(s) managed using non-designated derivatives might involve undue cost or effort. For example, an entity's central treasury function might be the counterparty to internal derivatives used for risk management, which are then 'externalised' on a net exposure basis. In this example, systems and processes might require changes to be able to identify the gains or losses on the external derivatives that would be applicable to each of the categories. In such cases, the IASB decided to require an entity to classify gains and losses in the operating category (see paragraphs BC230–BC231).

BC229 The IASB considered requiring an entity to apply a similar approach to the one described in paragraph BC224(b) to non-derivative financial instruments not designated as hedging instruments and used to manage exposures to identified risks. For example, a debt instrument denominated in a foreign currency might provide financing and be used to manage foreign currency risk. The IASB decided against this approach because it would be costly for an entity to identify the categories affected by the risk(s) managed and monitor whether it holds the financial instrument to manage exposures to identified risks. An entity might hold non-derivative financial instruments for more than one purpose, including to manage exposures to identified risks. These non-derivative financial instruments differ from derivatives, which are often held only for the purpose of managing such exposures. Instead, the IASB concluded an entity classifies income and expenses on these non-derivative financial instruments in the operating, investing or financing categories by applying the general classification requirements in IFRS 18.

Prohibition on grossing up of gains and losses on derivatives and undue cost or effort

BC230 Applying the requirements described in paragraph BC224(a)–(b), an entity classifies gains or losses on derivatives used to manage identified risks and designated non-derivative financial instruments in the categories affected by the risk the entity manages. However, the IASB decided this requirement does not apply to:

(a) designated hedging instruments and derivatives not designated as hedging instruments, but instead used to manage exposure to identified risks, if allocating the gains or losses to the applicable categories would require the grossing up of gains or losses (see paragraph BC226); and

(b) derivatives not designated as hedging instruments, but instead used to manage identified risks, if allocating the gains or losses to the applicable categories would involve undue cost or effort (see paragraph BC228).

BC231 The IASB decided that if either of these exceptions apply, an entity is required to classify the gains or losses in the operating category. This approach will:

(a) better reflect risk management and reduce mismatches. For example, an entity might use a financial instrument for risk management of a group of items with offsetting risk positions that include items in the operating category. For many entities, such a scenario is likely to occur more frequently.

(b) be consistent with the IASB's approach to the operating category. As discussed in paragraph BC89, income and expenses not required to be classified in other categories of the statement of profit or loss are classified in the operating category.

Derivatives not used to manage exposures to identified risks

BC232 Derivatives not used to manage exposures to identified risks could include derivatives related to transactions that involve only the raising of finance. Often these derivatives are transacted as part of raising finance in a more cost-effective manner. Therefore, the financing category would best depict their effect on the entity's activities. For example, some derivatives involve an exchange of an entity's own equity instruments for cash or another financial instrument, such as a conversion option embedded in a convertible bond. In some cases, such derivatives do not meet the criteria in IAS 32 *Financial Instruments: Presentation* to be classified as equity instruments, in which case an entity recognises gains or losses on such derivatives in the statement of profit or loss. In these cases, the IASB decided an entity classifies the gains or losses on such derivatives in the financing category because the gains or losses relate to a transaction that involves only the raising of finance. The IASB also decided an entity that provides financing to customers as a main business activity is permitted to apply the accounting policy choice to classify such gains and losses in the operating category because they arise from a transaction that involves only the raising of finance.

BC233 A derivative not used to manage exposures to identified risks and not related to transactions that involve only the raising of finance will generally generate returns individually and largely independently of an entity's other resources. The IASB considered whether to require an entity to classify fair value gains and losses on such derivatives in the investing category, but decided not to do so.

BC234 Derivatives could be assets or liabilities, whereas the investing category includes only income and expenses from assets. The IASB considered this matter together with its decisions on those derivatives relating to transactions that involve only the raising of finance. The IASB concluded it could be simpler to require an entity to classify in the financing category all gains or losses from derivatives not used to manage exposures to identified risks. However, if derivatives do not relate to the raising of finance, classification in the financing category would not faithfully represent their purpose and the effect on an entity's activities.

BC235 The IASB decided to require an entity to classify gains or losses on derivatives not used to manage exposures to identified risks in the operating category (except as discussed in paragraph BC232) because it is simpler. Classifying the gains and losses in the operating category is simpler because:

(a) it removes the need for an entity to make an assessment of whether it holds the derivatives as a main business activity.

(b) it is consistent with the approach applied to derivatives used to manage exposures to identified risks. The IASB decided that if an entity does not allocate gains or losses on derivatives used to manage exposures to identified risks to the applicable categories, the entity classifies those gains or losses in the operating category (see paragraphs BC228–BC229).

Items to be presented in the statement of profit or loss or disclosed in the notes (paragraphs 75–85 and B77–B85)

BC236 IFRS 18 lists line items an entity is required to present in the statement of profit or loss. The IASB decided not to reconsider the items that come from an equivalent list in IAS 1, other than to remove the line item 'finance costs' (see paragraphs BC242–BC243) and to include operating expenses. The IASB created the list of line items during other projects. Revisiting those requirements would have likely involved substantial resources and delayed the development of IFRS 18.

BC237 Instead, the IASB decided to clarify how those requirements interact with the role of the primary financial statements. An entity is required to present the listed line items unless doing so is unnecessary for the statement of profit or loss to provide a useful structured summary of the entity's income and expenses. In such cases, an entity is required to disclose the item in the notes if it provides material information. As discussed in paragraphs BC45–BC63:

(a) not all material information can be presented in an entity's primary financial statements; and

(b) when deciding where to provide material information, an entity considers the respective roles of the primary financial statements and the notes.

BC238 Placing the requirements for the listed line items in the context of the role of the primary financial statements avoids an entity having to present a line item that would be unnecessary for the statement of profit or loss to provide a useful structured summary of the entity's income or expenses.

BC239 In applying the classification requirements in IFRS 18, an entity might be required to present a line item listed in paragraph 75 of IFRS 18 in more than one category in the statement of profit or loss. The IASB concluded this outcome is appropriate because it is necessary to achieve the IASB's objective in developing the requirements for the structure of the statement of profit or loss—to increase the comparability and understandability of information presented in that statement. If the IASB allowed an entity to present each line item listed in paragraph 75 in a single category, it would reduce comparability and understandability. If an entity provides a line item in more than one category, the entity applies the requirements in paragraph 43 of IFRS 18 to describe items presented in the primary financial statements in a way that faithfully represents the characteristics of those items.

Line item for impairment of non-financial assets

BC240 The IASB decided not to add 'impairment of non-financial assets' to the list of line items in paragraph 75 of IFRS 18. As discussed in paragraph BC236, the IASB decided not to reconsider the items that come from an equivalent list in IAS 1. However, the IASB considered the costs and benefits of adding impairment of non-financial assets because some stakeholders suggested this addition, saying it would be consistent with the line item brought forward from IAS 1 for impairment of financial assets.

BC241 The IASB concluded the costs of requiring an entity to present a line item for impairment of non-financial assets would outweigh the benefits. IFRS 18 requires an entity to present operating expenses in its statement of profit or loss using the characteristics of the nature of expenses and their function within the entity (see paragraphs BC246–BC252). In this context, an entity might often present impairment of non-financial assets separately from other operating expenses because of its dissimilar nature. For example, when the IASB considered prohibiting an entity from using classification by both function and nature, many stakeholders disagreed with that proposed prohibition. These stakeholders argued it would prevent an entity that classified expenses by function from presenting a line item for impairment of non-financial assets (see paragraph BC251(a)(ii)). Consequently, the IASB concluded that adding this requirement would be unlikely to add much to the information entities present beyond that presented applying other requirements in IFRS 18.

Line items in the financing category

BC242 The IASB also decided not to add any line items for expenses classified in the financing category to paragraph 75 of IFRS 18. However, an entity is required to present items classified in the financing category considering the role of the primary financial statements, which replaces the requirement in IAS 1 to present a line item for 'finance costs'. In applying the requirements in IFRS 18, an entity classifies in the financing category:

(a) income and expenses that arise from the initial and subsequent measurement of liabilities that arise from transactions that involve only the raising of finance;

(b) incremental expenses directly attributable to the issue and extinguishment of liabilities that arise from transactions that involve only the raising of finance; and

(c) interest expenses and income and expenses arising from changes in interest rates of liabilities that do not arise from a transaction that involves only the raising of finance, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards.

BC243 The IASB developed the distinction between liabilities that arise from transactions that involve only the raising of finance and liabilities that do not arise from transactions that involve only the raising of finance as an operational mechanism for identifying which income and expenses are classified in the financing category. The distinction is not intended to identify liabilities relating to 'financing activities'. Some users of financial statements believe some or all of the income and expenses from liabilities that do not arise from transactions that involve only the raising of finance are similar to income and expenses from liabilities that arise from transactions that involve only the raising of finance (see paragraph BC154(b)). An entity judges whether and how a distinction between amounts classified in the financing category is presented in the statement of profit or loss in determining what provides a useful structured summary of its income and expenses. In addition, even if an entity presents a single line item for expenses classified in the financing category in its statement of profit or loss, the entity is required to disclose in the notes disaggregated information about those expenses, including disaggregation arising from any specific disclosure requirements, if the resulting information is material (see paragraphs BC45–BC55).

Non-controlling interests (paragraphs 76 and 87)

BCZ244 IFRS 18 requires the 'profit or loss attributable to non-controlling interests' and 'profit or loss attributable to owners of the parent' each to be presented in the income statement (now called 'statement(s) of financial performance') in accordance with paragraphs 76 and 87. These amounts are to be presented as allocations of profit or loss, not as items of income or expense. A similar requirement has been added for the statement of changes in equity, in paragraph 107(a). These changes are consistent with IFRS 10 *Consolidated Financial Statements*, which requires that in a consolidated balance sheet (now called 'statement of financial position'), non-controlling interest is presented within equity because it does not meet the definition of a liability in the *Conceptual Framework*.

Extraordinary items

BC245 IAS 1 prohibited the presentation of items of income or expense as 'extraordinary items' in the statement(s) of financial performance. IFRS 18 does not mention extraordinary items. An entity is required to classify all income and expenses included in the statement of profit or loss in one of the specified categories in that statement and is prohibited from creating a separate category for extraordinary items. The operating category includes any item of income and expenses that IFRS 18 does not require to be classified in another category (see paragraph BC89). Paragraphs BC77–BC78 discuss the presentation and disclosure of items of income or expense an entity regards as unusual.

Presentation and disclosure of expenses classified in the operating category (paragraphs 78–85 and B80–B85)

BC246 IFRS 18 requires an entity to present expenses in the operating category in a way that provides the most useful structured summary of the expenses. To do so, the entity presents expenses using the characteristics of the nature of expenses and their function within the entity.

BC247 Classifying and presenting expenses based on their nature and function improves the usefulness of information for users of financial statements. Information about the nature of expenses allows users to analyse the components of an entity's operating expenses, helping them to forecast those expenses in future periods. Information that aggregates expenses by function facilitates the calculation of some performance metrics, including margins. In some cases, classifying some expenses by function and other expenses by nature provides the most useful structured summary.

BC248 In developing the requirement in paragraph 78 of IFRS 18, the IASB considered:

(a) whether to require an entity to classify and present all operating expenses using only the nature of expense characteristic or only the function of expense characteristic—that is, prohibiting a mixed presentation (see paragraphs BC250–BC252); and

(b) specific issues relating to presenting expenses by function (see paragraphs BC253–BC258).

BC249 IFRS 18 also requires an entity that presents line items comprising expenses classified by function to disclose in the notes additional information about specified expenses classified by nature (paragraphs BC259–BC276). The IASB considered requiring an entity that presents items comprising expenses classified by nature to disclose in the notes additional information about expenses classified by function. However, the IASB decided not to develop such requirements because there was little demand from users of financial statements for such information. Therefore, the expected costs of such a requirement would exceed the expected benefits.

A mixed presentation

BC250 The IASB considered whether to require an entity to classify and present all operating expenses using only the nature of expense characteristic or only the function of expense characteristic. 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'. Users of financial statements said mixed presentations can make it difficult to compare entities, particularly if the labels used for nature line items do not make it clear whether expenses of that nature are also included in some function line items.

BC251 However, many stakeholders raised concerns about prohibiting a mixed presentation. In their view, prohibiting a mixed presentation:

(a) would prevent an entity from presenting useful information in the statement of profit or loss. For example:

(i) an entity might have two types of main business activities, in which case a mixed presentation could provide the most useful information. The entity could provide information about the main drivers of its profitability by presenting some expenses classified by nature and some classified by function.

(ii) a manufacturing entity that recognised a substantive impairment of its property, plant or equipment could not present the impairment expense separately in the statement of profit or loss if it classified expenses by function.

(iii) an entity might conclude that, in general, classifying expenses by function would provide the most useful information. However, the entity could have some operating expenses that are difficult to allocate to functions in a non-arbitrary way. For example, allocating goodwill impairment to functions might be arbitrary. Some stakeholders were concerned that if allocating some expenses (such as goodwill impairment) to functions was arbitrary, an entity would be required to classify all its operating expenses by nature.

(b) would be inconsistent with the IASB's decision to retain from IAS 1 the list of line items to be presented in the statement of profit or loss, some of which are expenses classified by nature. If an entity classifies expenses by function, the presentation of those listed line items would result in a mixed presentation.

BC252 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.

Presentation of line items classified by function

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 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 to clarify that, in applying that classification, an entity can allocate expenses relating to economic resources of the same nature (such as employee services) to several function line items (such as cost of sales and research and development); 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, to help avoid too much or too little aggregation.

BC255 The IASB also decided to require an entity classifying operating expenses by function that include a cost of sales function to present a line item for its cost of sales separately from any other expenses classified by function. This requirement builds on a requirement from IAS 1 for an entity that uses the function of expense method to disclose its cost of sales separately from other expenses. Cost of sales is an important line item that facilitates the calculation of some performance metrics, such as gross margins, and is therefore not aggregated with other expenses classified by function.

BC256 Some stakeholders raised concerns about diversity in the costs included in the line item cost of sales, which they said could be resolved if the IASB developed a definition of 'cost of sales'. The IASB acknowledged those concerns, but concluded it would be difficult to develop a definition of 'cost of sales' within a reasonable time frame. Such work would likely delay completion of IFRS 18 and was also ranked as low priority in the IASB's *Third Agenda Consultation*. Developing a definition also could have unintended consequences for the application of the requirements in IAS 2 *Inventories*. Consequently, the IASB decided not to develop a definition of 'cost of sales'.

BC257 However, the IASB decided to require an entity that presents cost of sales to include in that line item inventory expense, as described in paragraph 38 of IAS 2. In practice, some entities exclude components of inventory expense in presenting cost of sales. The IASB concluded that requiring an entity to include inventory expense would help reduce diversity in the costs included in cost of sales, improving comparability between entities that present that line item. The IASB also concluded such a requirement would not be costly for an entity to apply, because IAS 2 requires an entity:

(a) to recognise the amount of inventories as an expense in the period in which the related revenue is recognised; and

(b) to disclose the amount of inventories recognised as an expense during the period.

BC258 To enhance the understandability of the composition of line items, the IASB decided to require an entity to disclose a description of the nature of expenses included in each line item comprising expenses classified by function. This description could help users of financial statements assess the extent of comparability between entities that present cost of sales. The IASB concluded that a similar disclosure requirement for line items of expenses was unnecessary for expenses classified by nature. Typically, the composition of those line items is clear (except for 'other' expenses, for which IFRS 18 includes specific requirements as discussed in paragraph BC79).

Disclosure of information about specified nature expenses

BC259 The IASB decided to require an entity that presents in the statement of profit or loss one or more line items comprising operating expenses classified by function to disclose in a single note the total and the amount of the expenses included in each line item for depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) and write-down of inventories (and reversals).

BC260 Feedback from users of financial statements indicated that presenting operating expenses classified by function can provide useful information (see paragraph BC247), but can also result in a loss of useful information. Classifying expenses by function aggregates various expense items by nature that respond differently to changes in the economic environment, making it difficult for users of financial statements to forecast future operating expenses. Information about the nature of expenses makes it easier to forecast future operating expenses and also enables an understanding of links with the information presented in the statement of cash flows.

BC261 IAS 1 required an entity that classified expenses by function to disclose additional information about the nature of expenses, including depreciation expense, amortisation expense and employee benefits expense. However, in practice, some entities that classified expenses by function disclosed little additional information about the nature of expenses. Because of strong user demand for additional information about the nature of expenses, the IASB decided to strengthen the requirement.

BC262 The IASB considered whether to require an entity to disclose an analysis of each function line item, disaggregated by the nature of expenses included in the line item. Such an analysis would provide users of financial statements with useful information. For example, the analysis could help users to more accurately forecast operating expenses relating to each function line item. However, feedback from preparers of financial statements indicated this approach could be complex and costly for some entities to apply. These preparers said an entity presenting operating expenses classified by function generally does not track all operating expenses classified by nature. Furthermore, if an entity tracks expenses classified by nature at the subsidiary level, that information is often lost because of consolidation by function and as a result of intercompany transactions (for example, if the output of one group entity is the input of another group entity). Preparers said obtaining the information at the reporting entity level would require fundamental changes to their reporting systems.

BC263 The IASB next considered whether to require an entity to disclose an analysis of its *total* operating expenses classified based on their nature. Instead of disaggregating each function line item by nature (see paragraph BC262), an entity would provide an additional analysis of its total operating expenses classified based on their nature. The IASB expected that approach would provide useful information to users of financial statements at a lower cost to preparers of financial statements compared to the approach described in paragraph BC262. However, many preparers of financial statements raised concerns about the costs of applying that approach, for the same reasons.

BC264 The IASB researched further how to better balance the costs and benefits of disclosing additional information about the nature of operating expenses if an entity presents expenses classified by function. Stakeholders gave the IASB more detailed feedback on what specific information about the nature of expenses is most useful to users of financial statements and the costs to an entity of providing that additional information.

BC265 After considering that feedback, the IASB concluded that requiring an entity to disclose the amounts included in each line item in the operating category for specific nature expenses would achieve a better cost–benefit balance than the approach described in paragraph BC263. This disclosure would be:

(a) less costly for most entities to provide than the disclosures described in paragraph BC263. Preparers of financial statements said they could provide at a reasonable cost disaggregated information about the amounts included in each line item in the operating category for a limited number of expenses classified by nature (subject to the matter discussed in paragraph BC270).

(b) useful to users of financial statements because it would enable them to better understand:

(i) what is included in line items in the operating category of the statement of profit or loss (which is useful, for example, when performing margin analysis);

(ii) how information presented in the primary financial statements relates to information disclosed in the notes; and

(iii) how non-cash items included in line items in the operating category of the statement of profit or loss relate to the statement of cash flows.

BC266 In feedback, users of financial statements said information about the amounts of employee benefits, depreciation and amortisation included in each line item in the operating category is generally useful, regardless of the industry in which an entity operates. Some users of financial statements also said information about the amounts of impairments (or reversals) and write-down of inventories (or reversals) included in each line item in the operating category is useful (for example, because of their non-cash nature). Preparers of financial statements said providing disaggregated information about those specific expenses would not be too costly (subject to the matter discussed in paragraph BC270).

BC267 Stakeholder feedback also indicated that requiring disaggregated information beyond those five types of expenses (employee benefits, depreciation, amortisation, impairments and write-down of inventories) would impair the cost–benefit balance. For example, some users of financial statements suggested the IASB require an entity to provide disaggregated information about other expense items, but acknowledged that the benefits of such information would often depend on the industry in which the entity operates. Overall, the feedback suggested that adding more expenses to the list set out in paragraph 83 of IFRS 18 would likely result in additional costs to preparers of financial statements that could not be justified by the benefits to users of financial statements.

BC268 The IASB also decided:

(a) to require an entity to disclose in a single note the information required to be disclosed about depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) and write-down of inventories (and reversals) (see paragraph BC259). In general, users of financial statements analyse information about operating expenses together. Disclosing that information in a single note would make it easier for users of financial statements to locate and analyse that information.

(b) to require an entity to disclose an explanation of which line items classified outside the operating category include any difference between the total amounts disclosed for depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) or write-down of inventories (and reversals) and the amounts disclosed for each of these expenses included in line items in the operating category. Disclosing such an explanation would help users of financial statements understand why the total amount differs from the amount disclosed as being included in the operating category.

(c) to provide application guidance to clarify that the amounts disclosed of depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) or write-down of inventories (and reversals) need not be the amounts recognised as an expense for the period (see paragraphs BC269–BC271).

(d) to provide an exemption from the general disaggregation requirement in IFRS 18 in relation to line items presented for expenses classified by function (see paragraphs BC272–BC275).

Nature amounts presented or disclosed need not be expense amounts

BC269 It is common practice for an entity that presents or discloses operating expenses classified by nature to present or disclose amounts that differ from the amounts recognised as an expense for the period. For example, IAS 1 included an example of an analysis of expenses classified by nature in which some line items comprised a combination of both amounts recognised as an expense in the period and amounts that were included in the carrying amount of assets (and therefore would be recognised as expenses in future periods). To reconcile the analysis and the total expenses recognised in the statement of profit or loss for the period, the example included a line item for 'changes in inventories of finished goods and work in progress' (an example of presenting operating expenses by nature is included in the Illustrative Examples on IFRS 18).

BC270 Feedback from preparers of financial statements indicated that it might be unduly costly to determine the amounts that were recognised in the statement of profit or loss during the period for depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) or write-down of inventories (and reversals). For example, these preparers of financial statements said an entity usually can determine the costs of employee services used in its different activities during the period, such as in its manufacturing activities and administrative activities. However, if some of those costs were not immediately recognised as an expense but were instead included in the carrying amount of assets (such as inventories), an entity might have to incur excessive costs to track which costs were recognised as an expense in the current period or will be in a future period.

BC271 The IASB decided to provide application guidance to clarify that the amounts disclosed for depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) or write-down of inventories (and reversals) need not be the amounts recognised as an expense for the period. It also decided to require an entity to provide a qualitative explanation if part of the amount disclosed has been included in the carrying amount of assets (including identifying which assets) to help users of financial statements understand the disclosed information.

Exemption from the general disaggregation requirement

BC272 The IASB considered the interaction of:

(a) the general requirement in IFRS 18 to disclose disaggregated information in the notes whenever the resulting information is material (see paragraph 42 of IFRS 18); and

(b) the specific requirements in IFRS 18 on disclosing disaggregated information about depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) or write-down of inventories (and reversals) (see paragraph BC259).

BC273 The IASB decided that if an entity presents operating expenses by function, it is required by paragraph 83 of IFRS 18 to disclose disaggregated information about specific operating expenses by nature. The IASB aimed to achieve a cost–benefit balance in developing this requirement (see paragraphs BC262–BC267). If the IASB required such an entity to apply the general disaggregation requirement, the entity would need to disclose further information (if material) about its expenses by nature, upsetting the cost–benefit balance. To avoid such a situation, the IASB decided to provide an exemption from applying the general disaggregation requirement described in paragraph BC272(a).

BC274 In developing that exemption, the IASB decided not to include a cost threshold (such as exempting an entity from the general disaggregation requirement if applying that requirement would involve undue cost or effort). Based on its research and meetings with stakeholders in developing disclosure requirements on operating expenses, the IASB concluded that including a cost threshold:

(a) might not result in different outcomes, compared with an exemption that does not include a cost threshold; and

(b) might be difficult to apply.

BC275 The IASB observed that applying IAS 1 some entities disclosed disaggregated information about more operating expenses by nature than depreciation, amortisation, employee benefits, impairment of non-financial assets (and reversals) and write-down of inventories (and reversals). The IASB did not intend to prevent such an entity from continuing to disclose this information with the exemption described in paragraph BC273.

BC276 The IASB also decided not to set a specific disclosure objective for the disclosure of information about specified nature items. A specific disclosure objective might require preparers to provide additional disclosures which could jeopardise the cost–benefit balance discussed in paragraph BC273.

Statement presenting comprehensive income

Reporting comprehensive income (paragraphs 88–89)

BCZ277 In 2013 the IFRS Interpretations Committee reported to the IASB that there was uncertainty about the requirements in IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. The IASB agreed that IAS 1 allowed for diverse interpretations, and therefore decided:

(a) to clarify that IAS 1 (now in paragraphs 88–89 of IFRS 18) requires entities to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that:

   (i) will not be reclassified subsequently to profit or loss; and

   (ii) will be reclassified subsequently to profit or loss when specific conditions are met; and

(b) to amend the Guidance on Implementing IAS 1 to reflect the clarifications (now in paragraphs 88–89 of IFRS 18).

The IASB noted that whether an amount is reclassified to profit or loss is determined by the nature of the underlying item. It also noted that the timing of reclassification is usually determined by the actions of the investee. It may however also be triggered by the investor, which would be the case on the disposal of the investee by the investor.

BCZ278 The feedback received on the 2014 Exposure Draft *Disclosure Initiative* included requests for the IASB to clarify whether the investor's share of the other comprehensive income of its associate or joint venture should be presented net or gross of tax and the applicability of the guidance in IAS 1 in this regard (now in paragraphs 93–95 of IFRS 18). The IASB noted that an investor's share of other comprehensive income of associates or joint ventures is after tax and non-controlling interests of the associate or joint venture, as illustrated in the Guidance on Implementing IAS 1 (now in the Illustrative Examples on IFRS 18). It also noted that the disclosure requirements in IAS 1 (now in paragraphs 94–95 of IFRS 18) do not apply to the tax of the associate or joint venture that is already reflected in the investor's share of other comprehensive income of the associate or joint venture. However, the IASB noted that if the investor itself is liable for tax in respect of its share of other comprehensive income of the associate or joint venture, then the requirements in IAS 1 (now in paragraphs 93–95 of IFRS 18) would apply to this tax. Therefore, the IASB decided not to add additional guidance to IAS 1 on this topic.

Reclassification adjustments (paragraphs 90–92 and B88–B89)

BCZ279 In the 2006 Exposure Draft, the IASB proposed that an entity should separately present reclassification adjustments. These adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. The IASB decided that adjustments were necessary to avoid double-counting items in total comprehensive income when those items are reclassified to profit or loss in accordance with IFRS Accounting Standards. The IASB's view was that separate presentation of reclassification adjustments is essential to inform users of those amounts that are included as income and expenses in different periods—as income or expenses in other comprehensive income in previous periods and as income or expenses in profit or loss in the current period. Without such information, users may find it difficult to assess the effect of reclassifications on profit or loss and to calculate the overall gain or loss associated with available-for-sale financial assets, cash flow hedges and on translation or disposal of foreign operations.[4]

BCZ280 The 2006 Exposure Draft proposed to allow the presentation of reclassification adjustments in the statement of recognised income and expense (now 'statement(s) of financial performance') or in the notes. Most respondents supported this approach.

BCZ281 Some respondents noted some inconsistencies in the definition of 'reclassification adjustments' in the 2006 Exposure Draft (now in Appendix A and paragraph 91 of IFRS 18). Respondents suggested that the IASB should expand the definition in IAS 1 (now in Appendix A of IFRS 18) to include gains and losses recognised in current periods in addition to those recognised in earlier periods, to make the definition consistent with paragraph 93 of IAS 1 (now paragraph 91 of IFRS 18). They commented that, without clarification, there could be differences between interim and annual reporting, for reclassifications of items that arise in one interim period and reverse out in a different interim period within the same annual period.

BCZ282 The IASB decided to align the definition of reclassification adjustments with the Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income* (SFAS 130)[5] and include additional reference to 'current periods' in IAS 1 (included in Appendix A of IFRS 18).

Tax effects on items of other comprehensive income (paragraphs 93–95)

BCZ283 The IASB decided to maintain the disclosure of income tax expense or benefit allocated to each component of other comprehensive income. Users of financial statements often requested further information on tax amounts relating to components of other comprehensive income, because tax rates often differed from those applied to profit or loss. The IASB also observed that an entity should have such tax information available and that a disclosure requirement would therefore not involve additional cost for preparers of financial statements.

BCZ284 In the 2010 Exposure Draft the IASB proposed requiring that income tax on items presented in other comprehensive income should be allocated between items that will not be subsequently reclassified to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax. Most respondents agreed with this proposal as this would be in line with the existing options in IAS 1 (retained in IFRS 18) regarding presentation of income tax on other comprehensive income items. Therefore, the IASB confirmed the proposal in June 2011.

Statement of financial position

Classification of assets and liabilities as current or non-current (paragraphs 96–102 and B90–B108)

Liabilities held primarily for the purpose of trading (paragraphs 101(b) and B97)

BCZ285 As part of its Annual Improvements project in 2007, the IASB identified inconsistent guidance regarding the current/non-current classification of derivatives. Some might read the guidance

4 IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

5 SFAS 130 was the Financial Accounting Standards Board (FASB) Standard on reporting comprehensive income when the IASB made this decision. SFAS 130 was superseded by the FASB Accounting Standards Codification in July 2009.

included in paragraph B97 of IFRS 18 as implying that financial liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (now the 'held for trading' definition in Appendix A of IFRS 9) are always required to be presented as current.

BCZ286 The IASB expects the criteria set out in paragraph 101(b) of IFRS 18 to be used to assess whether a financial liability should be presented as current or non-current. The 'held for trading' category in paragraph 9 of IAS 39 (now the 'held for trading' definition in Appendix A of IFRS 9) is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.

BCZ287 The IASB reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non-current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities.

BCZ288 Therefore, the IASB decided to remove the identified inconsistency by amending the examples of current liabilities (now in paragraph B97 of IFRS 18). The IASB also amended IAS 1 in respect of current assets to remove a similar inconsistency (now paragraph B95 of IFRS 18).

Current liabilities (paragraphs 101–102 and B96–B108)

Effects of events after the reporting period (paragraphs 101 and B96–B108)

BCZ289 IAS 1 (as issued in 1997) stated that an enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

(a) the original term was for a period of more than twelve months;

(b) the enterprise intends to refinance the obligation on a long-term basis; and

(c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.

BCZ290 IAS 1 (as issued in 1997) also stated that some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non-current only when:

(a) the lender has agreed, prior to the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach; and

(b) it is not probable that further breaches will occur within 12 months of the balance sheet date.

BCZ291 The IASB considered these requirements and concluded that refinancing, or the receipt of a waiver of the lender's right to demand payment, that occurs after the reporting period should not be taken into account in the classification of a liability.

BCZ292 Therefore, the Exposure Draft *Improvements to International Accounting Standards* (2002 Exposure Draft), published in 2002, proposed:

(a) to amend IAS 1 to specify that a long-term financial liability due to be settled within twelve months of the balance sheet date should not be classified as a non-current liability because an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. This amendment would not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.

(b) to amend IAS 1 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. However, if the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during which the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

(i) the entity rectifies the breach within the period of grace; or

(ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BCZ293 Some respondents disagreed with these proposals. They advocated classifying a liability as current or non-current according to whether it is expected to use current assets of the entity, rather than strictly on the basis of its date of maturity and whether it is callable at the end of the reporting period. In their view, this would provide more relevant information about the liability's future effect on the timing of the entity's resource flows.

BCZ294 However, the IASB decided that the following arguments for changing IAS 1 were more persuasive:

(a) refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency at the balance sheet date, the reporting of which should reflect contractual arrangements in force on that date. Therefore, it is a non-adjusting event in accordance with IAS 10 *Events after the Balance Sheet Date*[6] and should not affect the presentation of the entity's balance sheet.

(b) it is illogical to adopt a criterion that 'non-current' classification of short-term obligations expected to be rolled over for at least twelve months after the balance sheet date depends on whether the rollover is at the discretion of the entity, and then to provide an exception based on refinancing occurring after the balance sheet date.

(c) in the circumstances described in paragraph BCZ290, unless the lender has waived its right to demand immediate repayment or granted a period of grace within which the entity may rectify the breach of the loan agreement, the financial condition of the entity at the balance sheet date was that the entity did not hold an absolute right to defer repayment, based on the terms of the loan agreement. The granting of a waiver or a period of grace changes the terms of the loan agreement. Therefore, an entity's receipt from the lender, after the balance sheet date, of a waiver or a period of grace of at least twelve months does not change the nature of the liability to non-current until it occurs.

6 In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007).

BCZ295 IAS 1 included the amendments proposed in 2002, with one change. The change related to the classification of a long-term loan when, at the end of the reporting period, the lender has provided a period of grace within which a breach of the loan agreement can be rectified, and during which period the lender cannot demand immediate repayment of the loan.

BCZ296 The 2002 Exposure Draft proposed that such a loan should be classified as non-current if it is due for settlement, without the breach, at least twelve months after the balance sheet date and:

(a) the entity rectifies the breach within the period of grace; or

(b) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BCZ297 After considering respondents' comments, the IASB decided that the occurrence or probability of a rectification of a breach after the reporting period is irrelevant to the conditions existing at the end of the reporting period. The revised IAS 1 required that, for the loan to be classified as non-current, the period of grace must end at least twelve months after the reporting period. Therefore, the conditions in paragraph BCZ296(a)–(b) are redundant. This requirement was retained unchanged in paragraph B103 of IFRS 18.

BCZ298 The IASB considered arguments that if a period of grace to remedy a breach of a long-term loan agreement is provided before the end of the reporting period, the loan should be classified as non-current regardless of the length of the period of grace. These arguments are based on the view that, at the end of the reporting period, the lender does not have an unconditional legal right to demand repayment before the original maturity date (that is, if the entity remedies the breach during the period of grace, it is entitled to repay the loan on the original maturity date). However, the IASB concluded that an entity should classify a loan as non-current only if it has an unconditional right to defer settlement of the loan for at least twelve months after the reporting period. This criterion focused on the legal rights of the entity, rather than those of the lender.

Right to defer settlement for at least twelve months (paragraphs 101(d) and B99–B106)—2020 amendments

BCZ299 IAS 1 specified that, to classify a liability as non-current, an entity must have the right to defer settlement of the liability for at least twelve months after the reporting period (now in paragraph 101(d) of IFRS 18). In January 2020 the IASB amended aspects of this classification principle and related application requirements in IAS 1 (now in paragraphs B101–B105 of IFRS 18). The IASB made the amendments in response to a request to reconcile apparent contradictions between a paragraph in IAS 1—which required an 'unconditional right' to defer settlement—and another—which referred to an entity that 'expects, and has the discretion, to' refinance or roll over an obligation.

BCZ300 The IASB added to the classification principle in IAS 1 (now in paragraph 101(d) of IFRS 18) clarification that an entity's right to defer settlement must exist 'at the end of the reporting period'. The need for the right to exist at the end of the reporting period was already illustrated in IAS 1 (now in paragraphs B102–B103 of IFRS 18), but was not stated explicitly in the classification principle.

BCZ301 The IASB also observed that the classification principle requires an assessment of whether an entity has the right to defer settlement of a liability and not whether the entity will exercise that right. Accordingly:

(a) the IASB amended the requirement in IAS 1 (now in paragraph B101 of IFRS 18), which discusses liabilities an entity has a right to roll over for at least twelve months after the reporting period. The IASB deleted from IAS 1 a suggestion that, to classify such a liability as non-current, an entity must not only have the right to roll over the liability, but also expect to exercise that right. The IASB also aligned the terminology by replacing 'discretion' with 'right' in IAS 1 (now in paragraph B101 of IFRS 18).

(b) the IASB added a paragraph to IAS 1 (now paragraph B104 of IFRS 18), which explicitly clarifies that classification is unaffected by management intentions or expectations, or by settlement of the liability within twelve months after the reporting period.

BCZ302 The IASB considered whether an entity's right to defer settlement needs to be unconditional. The IASB noted that rights to defer settlement of a loan are rarely unconditional—they are often conditional on compliance with covenants. The IASB decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Accordingly, the IASB:

(a) deleted the word 'unconditional' from the classification principle in IAS 1 (now in paragraph 101(d) of IFRS 18); and

(b) added a paragraph (now in paragraph B100 of IFRS 18)[7] to clarify that if an entity's right to defer settlement is subject to compliance with specified conditions:

    (i) the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period; and

    (ii) the entity must comply with the conditions at the end of the reporting period, even if the lender does not test compliance until a later date.

BCZ303 The IASB considered whether to specify how management assesses an entity's compliance with a condition relating to the entity's cumulative financial performance (for example, profit) for a period extending beyond the reporting period. The IASB concluded that comparing the entity's actual performance up to the end of the reporting period with the performance required over a longer period would not provide useful information—one of these measures would have to be adjusted to make the two comparable. However, the IASB decided not to specify a method of adjustment because any single method could be inappropriate in some situations.

Right to defer settlement for at least twelve months (paragraphs 101(d) and B99–B106)—2022 amendments

BCZ304 In October 2022 the IASB issued *Non-current Liabilities with Covenants*. The IASB made the amendments to:

(a) improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement (liabilities with covenants); and

(b) respond to stakeholders' concerns about the outcomes of applying the amendments in *Classification of Liabilities as Current or Non-current* issued in 2020. In particular, stakeholders said the 2020 amendments:

    (i) could result in an entity classifying a liability as current even if, at the end of the reporting period (reporting date), the entity has no contractual obligation to settle the liability at that date or within twelve months;

[7] The IASB amended IAS 1 in 2022, removing the clarification discussed in paragraph BCZ302(b). See paragraphs BCZ304–BCZ309 for further information about these amendments.

(ii) took no account of the design of covenants negotiated to reflect an entity's required financial position or performance at specified dates, such as when a loan arrangement specifies different covenants at different dates to reflect the expected effects of seasonality or the entity's future performance; and

(iii) were unclear about how an entity would assess, at the reporting date, whether it would have complied with covenants that are not based on an entity's financial position or performance (non-financial covenants) and covenants based on cumulative financial performance or cash flows for a period extending beyond the reporting period (financial performance covenants).

Classification and disclosure of non-current liabilities with covenants

BCZ305 The IASB considered stakeholders' concerns, which included new information it had not considered when developing the 2020 amendments. In particular, the IASB considered the usefulness of the information that would result from applying the 2020 amendments in some circumstances. The IASB observed that an entity may be unable to avoid having to repay a liability within twelve months if the entity's right to defer settlement of the liability is subject to compliance with covenants during that period. The entity may be unable to avoid such repayment even if, at the reporting date, the entity has no contractual obligation to settle the liability within that period. Therefore, in such situations, the related liability could be repayable either within or after twelve months, depending on whether the entity complies with those covenants after the reporting date. The 2020 amendments specified one way of reflecting this conditionality within the constraints of a model that classifies liabilities as either current or non-current. However, the IASB concluded that the information provided by such a binary classification model, alone, cannot meet user information needs in such situations. For example, the classification of a liability as current or non-current does not in itself provide information about the potential effects of such conditionality on when the liability is repayable.

BCZ306 Having considered the new information, the IASB decided to amend the requirements in IAS 1 on:

(a) *the classification of liabilities with covenants as current or non-current*—the IASB decided that only covenants with which an entity is required to comply on or before the reporting date should affect the classification of a liability as current or non-current. The IASB concluded that amending the requirements in this way would:

(i) avoid classification outcomes that might not provide useful information to users of financial statements (for example, for some entities whose business is highly seasonal);

(ii) make it unnecessary for the IASB to specify how the 2020 amendments apply to non-financial and financial performance covenants, thereby avoiding adding complexity to the requirements; and

(iii) resolve many of the other concerns stakeholders raised.

(b) *the disclosure of information about non-current liabilities with covenants*—the IASB decided to require an entity to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The IASB concluded that this information would be useful to users of financial statements because it would allow them to understand the nature of the covenants and the risk that a liability classified as non-current could nonetheless be repayable within twelve months.

BCZ307 The amendments to the requirements on the classification of liabilities with covenants as current or non-current are linked to the requirements on disclosure about such liabilities. The IASB concluded that the classification requirements would provide useful information when considered together with the requirements to disclose information about non-current liabilities with covenants in the notes. For this reason, the disclosure requirements in paragraph B106 of IFRS 18 apply only to an entity that presents current and non-current liabilities as separate classifications in its statement of financial position. However, the IASB observed that an entity that presents liabilities in order of liquidity might nonetheless disclose similar information about liabilities with covenants when applying the requirements in IFRS 7 on its exposure to liquidity risk.

BCZ308 Some respondents to the draft amendments noted that, because non-current liabilities are often subject to covenants, the disclosure requirements could result in entities providing a large volume of detailed information. In these respondents' view, the amendments could result in excessive disclosure, which might obscure material information about covenants. In response to these comments, the IASB observed that:

(a) in applying the requirements in IAS 1 (now in paragraphs 19–20 and 41–43 of IFRS 18), an entity would assess what information about covenants is material and determine how to aggregate such information. Accordingly, the entity would not disclose immaterial information about covenants that would reduce the understandability of its financial statements by obscuring material information.

(b) an entity in need of further guidance when making materiality judgements could refer to the guidance on assessing the materiality of information about covenants in paragraphs 81–83 of IFRS Practice Statement 2 *Making Materiality Judgements*. That guidance explains that:

  (i) an entity considers both the consequences and the likelihood of a breach occurring when assessing whether information about a covenant is material; and

  (ii) information about a covenant for which there is only a remote likelihood of a breach occurring is immaterial irrespective of the consequences of that breach.

Other considerations

BCZ309 When developing the amendments, the IASB also considered:

(a) *the presentation of non-current liabilities with covenants*—when it exposed the 2021 Exposure Draft *Non-current Liabilities with Covenants* for comment, the IASB proposed to require an entity to present non-current liabilities with covenants separately in the statement of financial position. The main reason for this proposal was to avoid users of financial statements being misled by a non-current classification without any indication that the liability could become repayable within twelve months. However, feedback on the draft amendments suggested that users of financial statements would not be misled if the conditionality of non-current liabilities were explained in the notes instead of through separate presentation of these liabilities in the statement of financial position. Therefore, the IASB decided not to finalise the proposal. Instead, in providing information about non-current liabilities with covenants in the notes, an entity is required to disclose the carrying amount of related liabilities.

(b) *disclosure about expected compliance with covenants*—when it exposed draft amendments for comment in the 2021 Exposure Draft, the IASB proposed to require an entity to disclose whether and, if so, how it expected to comply with covenants after the reporting date. Feedback on the draft amendments suggested that the costs of providing this information might outweigh the benefits of providing it. Consequently, the IASB decided instead to require an entity to disclose any facts and circumstances that indicate the entity may have difficulty complying with covenants. The IASB concluded that this information would not be costly to prepare and would be useful to users of financial statements by helping them to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

(c) *other conditional settlement terms*—when it exposed draft amendments for comment in the 2021 Exposure Draft, the IASB proposed to clarify some situations in which an entity would not have a right to defer settlement of a liability. The IASB intended the clarification to avoid the classification requirements in IAS 1 (now in paragraph B100 of IFRS 18) being applied to liabilities outside the scope of the amendments. However, feedback on the draft amendments suggested that the proposed clarification would fail to achieve that objective. Therefore, the IASB decided instead to specify that the requirements in IAS 1 (now in paragraph B100 of IFRS 18) apply only to liabilities arising from loan arrangements.

Settlement (paragraphs B107–B108)

BCZ310 While developing the amendments discussed in paragraphs BCZ299–BCZ303, the IASB considered whether a liability is 'settled' when it is rolled over under an existing loan facility. The IASB concluded that rolling over a liability does not constitute settlement because it is the extension of an existing liability, which does not involve any transfer of economic resources. The IASB also observed that a liability is defined as an obligation 'to transfer an economic resource' and that some types of liabilities are settled by transferring economic resources other than cash. For example, performance obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* are settled by transferring promised goods or services. The IASB decided it would be helpful to clarify those aspects of the meaning of the term 'settlement' and so added a paragraph to IAS 1 (now paragraph B107 of IFRS 18).

BCZ311 While considering the meaning of the term settlement, the IASB also considered liabilities an entity will or may settle by issuing its own equity instruments or, in other words, by converting the liability to equity. In *Improvements to IFRSs* issued in 2009, the IASB added to IAS 1 a statement that 'terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification'. The effect of this statement is that a bond that the holder may convert to equity before maturity is classified as current or non-current according to the terms of the bond, without considering the possibility of earlier settlement by conversion to equity.

BCZ312 The IASB concluded that, when it had added the statement about counterparty conversion options in 2009, it had intended the statement to apply only to liabilities that include a counterparty conversion option that meets the definition of an equity instrument and, applying IAS 32, is recognised separately from the host liability as the equity component of a compound financial instrument. The IASB further concluded that, in other cases—that is, if an obligation to transfer equity instruments is classified applying IAS 32 as a liability or part of a liability—the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. To reflect those conclusions, the IASB moved the statement about counterparty conversion options in IAS 1 to a new paragraph (now in paragraph B108 of IFRS 18) and clarified its scope.

Line items to be presented in the statement of financial position (paragraphs 103–106 and B109–B111)

BC313 As it did with the list of line items to be presented in the statement of profit or loss, the IASB decided not to revisit the list of line items that IAS 1 required an entity to present in its statement of financial position, beyond clarifying how those requirements work in the context of the role of the primary financial statements (see paragraphs BC236–BC239).

BC314 However, the IASB decided to add to the list of line items a requirement to present goodwill separately from intangible assets. Goodwill is an unidentifiable asset and is measured only as a residual. It cannot be measured directly. Therefore, the IASB considers that the characteristics of goodwill are sufficiently dissimilar from those of intangible assets to warrant separate presentation.

BC315 The IASB decided to require an entity to use the characteristics of nature and function to aggregate and disaggregate assets and liabilities into separate line items. Other characteristics, like duration, liquidity, measurement basis, type and tax effects assist an entity in identifying the nature or function of assets and liabilities. IFRS 18 requires an entity to include additional line items in the statement of financial position if necessary to present a useful structured summary of the entity's assets, liabilities and equity (see paragraphs BC56–BC61). Requiring an entity to use the characteristics of nature and function to disaggregate assets and liabilities in the statement of financial position retains an emphasis from IAS 1 on presentation of line items based on the nature and function of assets and liabilities. An emphasis on nature and function in the statement of financial position also aligns with a similar emphasis in the statement of profit or loss, in which an entity is required to aggregate and disaggregate operating expenses into line items using the nature of expenses and their function within the entity (see paragraphs BC246–BC258).

Statement of changes in equity

Reporting owner and non-owner changes in equity (paragraph 107)

BCZ316 The 2006 Exposure Draft proposed to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners (that is, all owner changes in equity) from other changes in equity (that is, non-owner changes in equity). All owner changes in equity would be presented in the statement of changes in equity, separately from non-owner changes in equity.

BCZ317 Most respondents welcomed this proposal and saw this change as an improvement of financial reporting, by increasing the transparency of those items recognised in equity that are not reported as part of profit or loss. However, some respondents pointed out that the terms 'owner' and 'non-owner' were not defined in the 2006 Exposure Draft, the *Framework* or elsewhere in IFRS Accounting Standards, although they are extensively used in national accounting standards. They also noted that the terms 'owner' and 'equity holder' were used interchangeably in the 2006 Exposure Draft. The IASB decided to adopt the term 'owner' and use it throughout IAS 1 to converge with SFAS 130, which used the term in the definition of 'comprehensive income'.[8]

Presentation of dividends (paragraph 110)

BCZ318 The IASB reaffirmed its conclusion to require the presentation of dividends in the statement of changes in equity or disclosure of dividends in the notes, because dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity. The IASB concluded that an entity should not present dividends in the statement of comprehensive income because that statement presents non-owner changes in equity.

Notes

Structure of the notes (paragraphs 113–116 and B112)

BCZ319 The IASB was aware that some had interpreted IAS 1 as requiring a specific order for the notes. IAS 1 stated that 'an entity normally presents notes in the [following] order' and then listed a particular order for the notes. Some think that the use of 'normally' makes it difficult for an entity to vary the order of the notes from the one that was listed in IAS 1 (now in paragraph B112 of IFRS 18), for example, by disclosing the notes in order of importance or disclosing related information together in sections.

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8 IFRS 18 revised the definition of the term 'owners' to align with the *Conceptual Framework*.

BCZ320 Investors' feedback suggested that some investors prefer an entity to vary the order of the notes from the one that was listed in IAS 1 (now in paragraph B112 of IFRS 18). Other investors would prefer entities to use that order because they think it will increase comparability between periods and across entities.

BCZ321 The IASB considered the use of the word normally in IAS 1 and concluded that it was not intended that entities be required to disclose their notes in that order. Instead, it thinks that the order listed was intended to provide an example of how an entity could order the notes and that the term normal was not meant to imply that alternative ordering of the notes is 'abnormal'. The IASB therefore amended IAS 1 to clarify that the order listed in IAS 1 (now in paragraph B112 of IFRS 18) is an example of how an entity could order or group its notes in a systematic manner. The IASB also made amendments to clarify that significant accounting policies[9] do not need to be disclosed in one note, but instead can be included with related information in other notes.

BCZ322 The IASB also noted the requirement in IAS 1 (now in paragraph 114 of IFRS 18) for entities to, as far as practicable, present the notes in a systematic manner. In the IASB's view, this means that there must be a system or reason behind the ordering and grouping of the notes. For example, notes could be ordered by importance to the entity, in the order line items are presented in the financial statements or a combination of both. The IASB amended IAS 1 (now in paragraph 114 of IFRS 18) to clarify that an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes. The IASB acknowledged that there is a trade-off between understandability and comparability; for example, ordering notes to increase understandability could mean that comparability, including consistency, between entities and periods is reduced. In particular, the IASB acknowledged that consistency in the order of the notes for a specific entity from period to period is important. The IASB noted that it would generally be helpful for users of financial statements if the ordering of notes by an entity is consistent and noted that it does not expect the order of an entity's notes to change frequently. A change in the order of the notes previously determined to be an optimal mix of understandability and comparability should generally result from a specific event or transaction, such as a change in business. The IASB also noted that the requirements in IAS 1 (now in paragraph 30 of IFRS 18) for consistency of presentation still apply.

BCZ323 The IASB also observed that electronic versions of financial statements can make it easier to search for, locate and compare information within the financial statements, between periods and between entities.

BC324 Users of financial statements also said it is important for them to understand how amounts disclosed in the notes relate to the line items in the primary financial statements. In response, the IASB decided to require an entity to provide a qualitative explanation of how amounts disclosed in the notes are included in the line items in the primary financial statements.

Management-defined performance measures (paragraphs 117–125 and B113–B142)

BC325 The IASB developed the disclosure requirements for management-defined performance measures to provide insight into management's view of an aspect of an entity's financial performance as a whole. Users of financial statements said information about management-defined performance measures is useful because it provides insight into how the business is managed, how management views the entity's financial performance, and the persistence of the entity's financial performance. Information about these measures is generally communicated outside the financial statements. However, users of financial statements raised concerns about the quality of the information provided about these measures.

9 *Disclosure of Accounting Policies*, issued in February 2021, amended paragraphs 117–122 of IAS 1 to refer to 'material accounting policy information'. When issuing IFRS 18, the IASB retained paragraphs 117–122 of IAS 1 in paragraphs 27A–27G of IAS 8.

BC326 The IASB agreed that management-defined performance measures can provide useful information about an entity's financial performance. Subtotals required by IFRS Accounting Standards provide useful information that is comparable between entities, and additional subtotals defined by management can provide entity-specific information. The IASB concluded that the management-defined performance measure requirements in IFRS 18 will improve the transparency of these measures. Including such measures in the financial statements will make the measures subject to the same disclosure requirements, regardless of an entity's jurisdiction, and likely bring them within the scope of audit.

BC327 In developing the requirements, the IASB considered:

(a) how to identify management-defined performance measures (see paragraphs BC328–BC368);

(b) where in the financial statements to include information about management-defined performance measures (see paragraphs BC369–BC375); and

(c) what information to require an entity to provide about management-defined performance measures (see paragraphs BC376–BC390).

Identification of management-defined performance measures (paragraphs 117–120 and B113–B131)

BC328 The IASB decided to define 'management-defined performance measures' as a subtotal of income and expenses (see paragraphs BC330–BC333) that:

(a) an entity uses in public communications outside financial statements (see paragraphs BC334–BC342);

(b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of an entity as a whole (see paragraphs BC343–BC346); and

(c) is not specifically required to be presented or disclosed by IFRS Accounting Standards or listed in paragraph 118 of IFRS 18 (see paragraphs BC362–BC367).

BC329 The IASB also decided to include application guidance on:

(a) the presumption that a subtotal of income and expenses used in public communications outside an entity's financial statements communicates to users of financial statements management's view of an aspect of the entity's financial performance (see paragraphs BC347–BC356);

(b) the restrictions on calculating management-defined performance measures (see paragraphs BC357–BC361); and

(c) the relationship between management-defined performance measures and the requirements in IAS 8 (see paragraph BC368).

Subtotals of income and expenses

BC330 Each management-defined performance measure is defined by management, and therefore is not a specific measure required by IFRS Accounting Standards.

BC331 The IASB decided to limit the definition of 'management-defined performance measures' to subtotals of income and expenses. For example, measures that adjust a total or subtotal specified in IFRS Accounting Standards, such as adjusted profit or loss, are management-defined performance measures. Other measures (such as free cash flow or customer retention rate) are not management-defined performance measures.

BC332 Some stakeholders suggested that the IASB include in the definition of 'management-defined performance measures' measures other than subtotals of income and expenses—for example, subtotals of assets and liabilities or measures of cash flow. These stakeholders said including such measures would be useful because it would be equally beneficial to require transparency and discipline in communicating these measures as it is in communicating management-defined subtotals of income and expenses.

BC333 The IASB acknowledged that widening the definition of 'management-defined performance measures' could result in useful information. However, including additional types of measures as 'management-defined performance measures' (beyond subtotals of income and expenses) would require the development of additional definitions, disclosure requirements and application guidance setting out the relationship with other IFRS Accounting Standards. This work could be substantial and would go beyond the scope of the project's focus on the reporting of financial performance in the statement of profit or loss and the related notes. Accordingly, the IASB decided not to widen the definition of 'management-defined performance measures' beyond subtotals of income and expenses.

Public communications

BC334 The IASB decided that only measures publicly communicated outside the financial statements can be management-defined performance measures. The IASB's view is that performance measures used in public communications outside financial statements should be consistent with the performance measures disclosed in the financial statements.

BC335 Some stakeholders raised concerns that 'public communications' is not defined and could be interpreted broadly, making it onerous for an entity (and auditors and regulators) to identify all publicly communicated measures. However, the IASB observed that an entity actively decides how it communicates publicly and the performance measures it includes in those communications. An entity usually has systems and processes in place to monitor and control its communications to comply with laws and regulations restricting the type and timing of information permitted to be provided to the market—for example, to prevent unfair advantages arising from communicating such information to different parties at different times.

BC336 However, for the purpose of identifying management-defined performance measures, the IASB decided that 'public communications' excludes oral statements, transcripts of oral statements and social media posts. The IASB expects these forms of communication to contain information about management-defined performance measures already included in other forms of communication. Therefore, the risk of excluding measures that otherwise meet the definition of a management-defined performance measure is low. These types of communications were also, in the view of some stakeholders, the most challenging to monitor. Removing these categories from the scope of 'public communications' is therefore expected to reduce the costs of applying the definition by eliminating the need to search these forms of communications.

BC337 Some stakeholders questioned how the timing of public communications relates to the financial statements. The IASB observed that the management-defined performance measure requirements relate to performance for the period covered by the financial statements. For example, if an entity includes management-defined performance measures in interim public communications, the related disclosures are required in the interim financial statements. However, management-defined performance measures included only in annual public communications would require disclosures only in annual financial statements and not in interim financial statements.

BC338 If an entity stops including a measure in its public communications—for example, because the measure no longer communicates management's view or is not permitted in the entity's public communications—the measure no longer meets the definition of a 'management-defined performance measure' and is no longer included in the financial statements. In such cases an entity would be required to disclose information about the reasons for and effects of the change to its management-defined performance measures (see paragraphs BC388–BC390).

BC339 In most jurisdictions, entities issue public communications, such as press releases, before or on the same day as the financial statements are authorised for issue. However, some stakeholders said that, in some jurisdictions, investor presentations that might include performance measures are not made available until after the financial statements are authorised for issue. The IASB decided to require an entity to consider the measures it included in public communications related to the previous reporting period to identify management-defined performance measures for the current period, if it routinely issues public communications containing performance measures after the financial statements are authorised for issue.

BC340 However, an entity is not required to include a measure identified in the prior period as a management-defined performance measure if there is evidence that the measure will not be included in the public communications to be issued relating to the current reporting period. Requiring an entity to consider whether such measures are management-defined performance measures in the subsequent period avoids practical issues in determining the completeness of management-defined performance measures to be included in the financial statements that are authorised for issue before public communications containing the measures. It also prevents an entity from avoiding the disclosure requirements by routinely including its management-defined performance measures in public communications after the financial statements are authorised for issue. If a management-defined performance measure was disclosed in the prior-period financial statements and will not be disclosed in the current period financial statements, the disclosure requirements for a change to, or cessation of, a management-defined performance measure in paragraph 124 of IFRS 18 apply.

BC341 The IASB considered whether to include in the definition of management-defined performance measures the term ‘measures used internally by management’, but decided against doing so. The IASB observed that ‘measures used internally by management’ would reflect management’s view of an aspect of the entity’s financial performance. However, a measure solely used internally might not always communicate information that is useful to users of financial statements.

BC342 The IASB also considered providing specific requirements for private entities because such entities are less likely to have public communications than public entities. However, the IASB concluded that the intention of the requirements is to provide transparency and discipline over measures communicated to users outside the financial statements, regardless of whether the entity is public or private. If an entity communicates no measures of financial performance outside the financial statements, then no measures require additional disclosures. The requirements apply to all entities applying IFRS Accounting Standards and, therefore, if a private entity communicates subtotals that meet the definition of ‘management-defined performance measures’ it is subject to the requirements.

Management’s view of an aspect of the entity’s financial performance

BC343 The IASB decided to include ‘management’s view of an aspect of the entity’s financial performance’ in the definition of a management-defined performance measure. Information about management’s view of an entity’s performance was the reason for the IASB developing the management-defined performance measure requirements. As a result, ‘management-defined performance measures’ include those measures that communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole.

BC344 Management-defined performance measures focus on communicating an aspect of an *entity’s* performance and not on communicating *management’s* performance. A subtotal used solely for the purpose of measuring management’s performance—for example, a measure used only internally for the purpose of management remuneration—would not meet the definition of management-defined performance measures. However, there might be circumstances in which such a measure is used both externally to communicate management's view of an aspect of an entity's performance and internally to evaluate management's performance.

Application to individual segment measures

BC345 The IASB observed that some subtotals of income and expenses provided in an entity's public communications outside the financial statements might relate to a reportable segment disclosed in accordance with IFRS 8. A reportable segment measure might not provide information about the performance of an entity as a whole.

BC346 However, in some circumstances, a reportable segment measure might provide information about the performance of an entity as a whole—for example, if it presents a subtotal in the statement of profit or loss that relates to only one of its reportable segments. The IASB did not exclude such segment measures from the definition of management-defined performance measures. The IASB instead decided to clarify that management-defined performance measures reflect management's view of an aspect of the performance of an entity as a whole.

Presumption about communicating management's view

BC347 IFRS 18 requires an entity to presume that a subtotal of income and expenses used in its public communications outside its financial statements communicates management's view of an aspect of the entity's financial performance, which can be rebutted with reasonable and supportable information as set out in paragraph 120 of IFRS 18. While public communications may include many subtotals, the presumption is not intended to result in disclosure of information about a large number of subtotals. The rebuttable presumption provides an objective process for an entity to determine which measures in its public communications to disclose in its financial statements to meet the objective of the disclosures for management-defined performance measures (see paragraph 121 of IFRS 18).

BC348 The IASB developed the rebuttable presumption after considering stakeholders' concerns that:

(a) it might be difficult to assess whether a measure communicates management's view of an aspect of the entity's financial performance; and

(b) a measure communicated outside financial statements that did not reflect management's view might nonetheless be considered to meet the definition of a management-defined performance measure.

BC349 The presumption provides rigour and discipline in the assessment of whether a measure communicates management's view by setting out a condition usually expected to be true—it is reasonable to expect that an entity includes in public communications a subtotal of income and expenses for the purposes of communicating to users of financial statements management's view of an aspect of its financial performance. If this condition is not true, there needs to be reasonable and supportable information that supports this assessment to rebut the presumption.

BC350 Being able to rebut the presumption acknowledges the existence of circumstances in which an entity might include a measure in its public communications even though that measure does not communicate management's view of an aspect of the entity's financial performance—for example, if a regulator requires disclosure of a measure. In these cases, an entity could rebut the presumption and the measure would not be a management-defined performance measure.

BC351 The IASB considered whether an entity should be able to rebut the presumption for specific types of measures, such as industry-defined or regulatory-defined measures. However, the basis for defining a measure does not determine whether it communicates management's view of an aspect of the entity's financial performance. For example, a subtotal required for regulatory purposes might also be used to communicate management's view of an aspect of the entity's financial performance. Consequently, the IASB decided not to specify types of measures for which it would be appropriate to rebut the presumption. Instead, the IASB provided examples of reasonable and supportable information that could be used to rebut the presumption.

BC352 Reasonable and supportable information for rebutting the presumption needs to demonstrate that the subtotal does not communicate management's view of an aspect of the entity's financial performance for the entity as a whole to users of financial statements, and show why the subtotal is included in the entity's public communications, despite the fact it does not communicate management's view.

BC353 For example, an entity may include in its public communications a net debt measure comprised of assets and liabilities. Net debt is not a management-defined performance measure because it is not a subtotal of income and expenses. The entity may also include a subtotal such as cost of net debt as supplementary information. If the entity can demonstrate that the subtotal is communicated without prominence because it is supplementary information for the net debt measure and the entity does not use the subtotal internally to assess and monitor the entity's financial performance this may be reasonable and supportable information to rebut the presumption. However, if there are numerous references to such a subtotal, accompanied by management analysis and commentary, this would be evidence that the entity cannot rebut the presumption.

BC354 An entity may replicate the statement of profit or loss in a public communication—for example, when the entity replicates in a presentation to users of financial statements the statement of profit or loss included in its financial statements. If that statement of profit or loss includes an additional subtotal that is not listed in paragraph 118 of IFRS 18 or that is not a subtotal specifically required to be presented or disclosed by IFRS Accounting Standards, that subtotal would meet the definition of a management-defined performance measure unless the entity rebuts the presumption. For example, if the subtotal is not used internally to assess and monitor financial performance and the entity's public communications do not include management analysis and commentary on that subtotal, that may be reasonable and supportable information that the subtotal is communicated without prominence and the entity might rebut the presumption.

BC355 The IASB decided not to require an entity to disclose whether it has rebutted the presumption for a subtotal it includes in its public communications. Requiring disclosure in the financial statements of a separate list of measures that are not management-defined performance measures is not expected to provide useful information.

BC356 Other requirements in IFRS Accounting Standards use 'reasonable and supportable information'. The use of reasonable and supportable information in IFRS 18 is consistent with the use of the term 'reasonable and supportable information' in paragraph B5.5.20 of IFRS 9, which permits an entity to rebut the presumption in paragraph 5.5.11 of IFRS 9 only if an entity has reasonable and supportable information *available* to demonstrate that it can be rebutted. However, the use of reasonable and supportable information in IFRS 18 differs from the use of reasonable and supportable information in paragraph B5.5.27 of IFRS 9, which requires an entity to assess whether there has been a significant increase in credit risk since initial recognition on the basis of *all* reasonable and supportable information that is available without undue cost or effort.

Restrictions on calculating management-defined performance measures

BC357 The IASB decided it would place no specific restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. The IASB concluded such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.

BC358 However, management-defined performance measures are required to comply with the general requirements for information included in the financial statements. This means:

(a) a management-defined performance measure needs to faithfully represent the aspect of an entity's financial performance it purports to represent;

(b) the disclosures supporting a management-defined performance measure need to meet the requirements on aggregation and disaggregation—for example, when disclosing reconciling items; and

(c) an entity is required to provide comparative information for a management-defined performance measure and related disclosures.

BC359 To achieve a faithful representation for a management-defined performance measure, an entity is required to describe in a clear and understandable manner the aspect of performance it communicates, including the meanings of terms it uses in its descriptions. The entity is then required to apply the terms and the descriptions to produce a faithful representation—complete, neutral and free from error.

BC360 Faithful representation does not in itself convey other information about the measure. For example, it does not provide information about whether a measure is a 'good' or 'bad' measure. A management-defined performance measure is only required to faithfully represent the aspect of performance being communicated.

BC361 The requirements for management-defined performance measures are intended to provide transparency about how such measures are calculated, what they communicate, how they relate to the financial statements and how they might have changed. That transparency contributes to meeting the requirement for faithful representation.

Subtotals excluded from the definition of management-defined performance measures

BC362 The IASB decided subtotals listed in paragraph 118 of IFRS 18 or specifically required to be disclosed by IFRS Accounting Standards are not management-defined performance measures. Some subtotals are not defined by IFRS Accounting Standards, but are commonly used in financial statements and are well understood by users of financial statements—for example, a gross profit subtotal. In the IASB's view, providing the management-defined performance measures disclosures for such measures would not provide useful information because their purpose and relationship to totals or subtotals defined by IFRS Accounting Standards are well understood or would usually be apparent from their presentation in the statement(s) of financial performance. The IASB included such subtotals in the list in paragraph 118 of IFRS 18 which includes operating profit before depreciation, amortisation and specified impairments (see paragraphs BC363–BC366) and operating profit and income and expenses from associates and joint ventures accounted for using the equity method (see paragraph BC367).

Operating profit before depreciation, amortisation and specified impairments

BC363 The IASB considered whether to define 'earnings before interest, tax, depreciation and amortisation' (EBITDA). The IASB observed that, although EBITDA is one of the most commonly used measures in communications to users of financial statements, it is not used by entities in some industries, such as banking and insurance. Furthermore, no consensus has been reached on what EBITDA represents, other than it being a starting point for various analyses.

BC364 EBITDA measures might meet the definition of 'management-defined performance measures'. The IASB concluded that a measure calculated as operating profit before depreciation, amortisation and impairments within the scope of IAS 36 *Impairment of Assets* provides similar information to many of the EBITDA measures currently provided. In the IASB's view, if an entity presents the subtotal operating profit before depreciation, amortisation and impairments within the scope of IAS 36, the costs of the additional information required to be disclosed for management-defined performance measures would exceed the benefits provided by that information because the measure is well defined. The

IASB consequently decided to include that subtotal in the list of subtotals in paragraph 118 of IFRS 18.

BC365 The IASB decided not to describe this subtotal as 'EBITDA' because doing so would imply that operating profit or loss is the same as what users of financial statements understand 'earnings before interest and tax' to be, which might not be the case. For example, operating profit excludes income and expenses classified in the investing category and the measure therefore might not include income that some consider to be 'earnings'.

BC366 However, in some cases, the label might be an accurate description of the corresponding measure—for example, if an entity has no income and expenses in the investing category such that all its earnings are included in operating profit. In such cases, an entity would not be prevented from labelling the subtotal operating profit before depreciation, amortisation and specified impairments within the scope of IAS 36 as 'EBITDA'.

Operating profit and income and expenses from associates and joint ventures accounted for using the equity method

BC367 Some entities invest in associates and joint ventures that the entities judge to be closely related to their main business activities. Such entities might conclude that it would be necessary for a useful structured summary of their income and expenses to present a subtotal in the statement of profit or loss comprising operating profit and income and expenses from associates and joint ventures accounted for using the equity method. The IASB concluded that for such a subtotal, the additional information required to be disclosed for management-defined performance measures would not provide useful information because the information necessary to understand the subtotal would be clear from the statement of profit or loss. The IASB consequently decided to include this subtotal in the list of subtotals in paragraph 118 of IFRS 18. The subtotal included in the list would include income and expenses from all associates and joint ventures accounted for using the equity method. If an entity used a subtotal that included only the income and expenses from selected associates and joint ventures accounted for using the equity method, that subtotal would be a management-defined performance measure.

Relationship with the requirements in IAS 8

BC368 The IASB concluded that the identification of a management-defined performance measure, including how the measure is calculated, is not an accounting policy choice as defined in IAS 8. The IASB acknowledged the many similarities between the definition of an 'accounting policy' and the determination of a management-defined performance measure. However, unlike an accounting policy, a management-defined performance measure is not determined in the context of preparing and presenting financial statements in accordance with IFRS Accounting Standards. An entity selects and applies its accounting policies for its financial statements within the confines of IFRS Accounting Standards. In contrast, management defines its management-defined performance measures to communicate an aspect of the entity's financial performance *outside* the financial statements.

Disclosure of management-defined performance measures (paragraphs 121–125 and B132–B142)

Location of information about management-defined performance measures

BC369 The IASB decided to require an entity to disclose management-defined performance measures and all related information in a single note to improve the transparency of those measures. Disclosing the information in a single note improves transparency by:

(a) providing management-defined performance measures together with the calculations, explanations and reconciliations necessary to understand them; and

(b) helping users of financial statements to easily locate all information about management-defined performance measures.

BC370 The IASB considered allowing an entity to comply with the requirements by cross-referencing the required information in other documents. Allowing cross-referencing can help avoid duplication of information, which can increase the clarity of financial reporting. However, if an entity uses cross-referencing, information is fragmented between several locations, which can reduce transparency by making it more difficult for users of financial statements to locate information and understand the financial statements as a whole. To make information about management-defined performance measures transparent, the IASB decided not to specify that management-defined performance measure disclosures can be included in the financial statements by reference to another document.

BC371 The IASB considered prohibiting an entity from complying with the requirements by cross-referencing to the information required by IFRS 18 included in another document. The IASB concluded it was unnecessary to include application guidance specifically prohibiting cross-referencing because in practice entities generally do not disclose information required to meet IFRS Accounting Standards by cross-reference unless an IFRS Accounting Standard specifically allows it. The IASB also concluded that including such a prohibition might have unintended consequences.

BC372 Some stakeholders asked whether information about measures that do not meet the definition of management-defined performance measures could be disclosed in the financial statements. The IASB decided not to provide specific requirements relating to information included in the financial statements in addition to that required by IFRS 18. The IASB observed a risk that such requirements might discourage best practice for voluntary disclosures that are useful to users of financial statements.

BC373 IFRS Accounting Standards require disclosure of additional information when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity’s financial position and financial performance. It would be challenging to identify specific information to be permitted or prohibited and to develop criteria that distinguish between the two types of information. However, the IASB concluded that it was important to identify the required information about management-defined performance measures separately from other information included in the financial statements to be clear which measures are subject to the management-defined performance measure requirements.

BC374 The IASB considered prohibiting an entity from presenting management-defined performance measures in the statement(s) of financial performance, in response to the concerns of some stakeholders that management-defined performance measures could be misleading and might be given undue prominence. However, IFRS 18 requires an entity to present line items and subtotals in the statement(s) of financial performance if such presentations are necessary to provide a useful structured summary of the entity’s income and expenses. Prohibiting an entity from presenting management-defined performance measures in the statement(s) of financial performance could prevent it from complying with this requirement. Therefore, the IASB decided not to prohibit an entity from presenting management-defined performance measures in the statement(s) of financial performance. An entity presenting a management-defined performance measure in the statement(s) of financial performance would still be required to disclose all the information required for management-defined performance measures in a single note.

BC375 The IASB also observed that if an entity presents a management-defined performance measure in the statement(s) of financial performance, it needs to comply with the requirements for subtotals presented in the statement(s) of financial performance in paragraph 24 of IFRS 18.

Information to be disclosed about management-defined performance measures

BC376 The objective of the disclosures for management-defined performance measures in IFRS 18 is for an entity to provide information to help users of financial statements understand:

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

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

BC377 The IASB concluded that transparency is enhanced by an entity clearly stating the purpose and limitations of a management-defined performance measure. A management-defined performance measure reflects management's judgement about what is useful to users of financial statements. Users of financial statements require enough information about that judgement to understand the information the management-defined performance measure provides and how it faithfully represents an aspect of an entity's financial performance.

Reconciliation to the most directly comparable total or subtotal

BC378 The IASB decided to require an entity to provide a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 of IFRS 18, or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. This reconciliation is required for each management-defined performance measure. A reconciliation is important information for users of financial statements to understand how a management-defined performance measure relates to the totals or subtotals required by IFRS Accounting Standards. A reconciliation also provides users of financial statements with information to help them understand how the measure compares with similar measures provided by other entities and judge whether to make their own adjustments.

BC379 Paragraph B137 of IFRS 18 requires an entity to disclose, for each item in the reconciliation:

(a) the amount(s) related to each line item in the statement(s) of financial performance; and

(b) a description of how the item is calculated and contributes to providing useful information, if necessary to comply with paragraphs 123(a) and (b) of IFRS 18.

BC380 Fieldwork as part of the project showed that the information provided by the reconciliation could vary depending on the form of the reconciliation and the amount of detail included. The IASB concluded that linking the line items that make up the subtotals helps users of financial statements understand the relationship between a management-defined performance measure and the most directly comparable total or subtotal listed in paragraph 118 of IFRS 18 or specifically required to be presented or disclosed by IFRS Accounting Standards. Consequently, the IASB decided to require an entity to disclose how the individual reconciling items relate to the line items in the statement(s) of financial performance.

BC381 In some cases, it might be difficult for a user of financial statements to understand how an individual reconciling item is calculated or how it contributes to the management-defined performance measure communicating management's view of an aspect of the entity's performance. For example, if a management-defined performance measure includes reconciling items included to communicate different aspects of the entity's performance, explaining each of those aspects would be necessary to understand the measure. Consequently, the IASB decided that if it is necessary to understanding how a management-defined performance measure is calculated, or how it contributes to the measure providing useful information, an entity is required to disclose this information for each reconciling item.

BC382 The IASB considered requiring an entity to provide the reconciliation in a specific format—for example, a table with reconciling items as columns adjusting the line items presented in the statement(s) of financial performance. However, the IASB decided not to do so because the most appropriate format for the reconciliation will depend on the specific management-defined performance measure.

Disclosing the income tax effect and the effect on non-controlling interests

BC383 The IASB decided to require an entity to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards.

BC384 The IASB considered feedback that information on earnings per share is important to users of financial statements and that one of the benefits of management-defined performance measure disclosures is the detailed information users could use to calculate a related earnings per share figure. Users need information about the amounts of the adjustments attributable to owners of the parent and the tax effects of those adjustments to be able to adjust the earnings per share figure. Therefore, the IASB decided to require an entity to disclose separately the amount attributable to non-controlling interests and the effect of income taxes for each reconciling item in the reconciliation required by paragraph 123(c) of IFRS 18.

BC385 The IASB decided to require this disclosure for each reconciling item because it gives users of financial statements information needed to calculate an adjusted earnings per share measure based on only the adjustments they want to consider in their analysis.

BC386 Some preparers of financial statements raised concerns that the disclosure of the tax effect for each reconciling item might be complex and costly if calculated in accordance with IAS 12. Users of financial statements said high-level information about the tax effects of each reconciling item would meet their needs. To alleviate the costs of preparing disclosures about the tax effects, the IASB decided to allow a simplified approach for calculating the income tax effect of the reconciling items based on the tax effects of the underlying transaction at the statutory rate applicable to the transaction in the tax jurisdiction concerned.

BC387 The IASB also decided to allow an entity to use alternative approaches for calculating the tax effects. Limiting the methods an entity might use to calculate the tax effects would restrict judgement in providing the best information possible in the circumstances, thereby reducing the usefulness of the information provided. The IASB therefore decided to provide application guidance so that, as an alternative to the simplified calculation, an entity can calculate the tax effects of reconciling items based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned or by another method that achieves a more appropriate allocation in the circumstances. This approach is similar to the approach for determining the income tax effect on items of other comprehensive income set out in IAS 12. The IASB concluded that specifically allowing the simplified approach—and alternative approaches—balances the needs of users and preparers of financial statements by providing users with a reasonable estimate of the income tax effect of reconciling items and reducing the costs for preparers by simplifying the calculation of those tax effects.

Information about changes to management-defined performance measures

BC388 The IASB decided to require an entity to disclose information about the reasons for and effects of an entity changing, adding or ceasing to use a management-defined performance measure. The information required is based on the information IAS 8 requires an entity to disclose if it changes its accounting policies. The IASB concluded that similar information would be useful to users of financial statements if an entity makes changes to its management-defined performance measures. However, the choice of a management-defined performance measure, including how the measure is calculated or how it calculates the tax effects of reconciling items, is not an accounting policy choice as defined in IAS 8 and the disclosure requirements in that Standard do not apply (see paragraph BC368).

BC389 Both transparency and comparability of an entity's management-defined performance measures from period to period are enhanced by providing information about changes to those measures. The IASB observed that a change in the value of an input to a management-defined performance measure is not a change to its calculation, even if that change results in no adjustment in a period. For example, if an entity calculates an adjusted operating profit measure that excludes the effects of restructuring from its operating profit but the entity has no restructuring in a reporting period, the fact that the adjustment for restructuring is zero does not represent a change in the calculation of the management-defined performance measure.

BC390 The IASB decided to require an entity to restate its comparatives if a management-defined performance measure is changed, unless it is impracticable to do so. Trend information for management-defined performance measures is important to users of financial statements. The information provided by those measures is management's view of an aspect of an entity's financial performance. The IASB therefore would generally expect management to monitor the information necessary to provide comparative information.

Disclosures about capital (paragraphs 126–129)

BCZ391 In July 2004 the IASB published the Exposure Draft *Financial Instruments: Disclosures* (2004 Exposure Draft). As part of that project, the IASB considered whether it should require disclosures about capital.

BCZ392 The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. The level of capital might also affect the entity's ability to pay dividends. Consequently, the 2004 Exposure Draft proposed disclosures about capital.

BCZ393 In the 2004 Exposure Draft, the IASB decided that it should not limit the requirements for disclosures about capital to entities that are subject to external capital requirements (for example, regulatory capital requirements established by legislation or other regulation). The IASB believes that information about capital is useful for all entities, as is evidenced by the fact that some entities set internal capital requirements and norms have been established for some industries. The IASB noted that the capital disclosures are not intended to replace disclosures required by regulators. The IASB also noted that the financial statements should not be regarded as a substitute for disclosures to regulators (which may not be available to all users) because the function of disclosures made to regulators may differ from the function of those to other users. Therefore, the IASB decided that information about capital should be required of all entities because it is useful to users of general purpose financial statements. Accordingly, the IASB did not distinguish between the requirements for regulated and non-regulated entities.

BCZ394 Some respondents to the 2004 Exposure Draft questioned the relevance of the capital disclosures in an IFRS Accounting Standard dealing with disclosures relating to financial instruments. The IASB noted that an entity's capital does not relate solely to financial instruments and, thus, capital disclosures have more general relevance. Accordingly, the IASB included these disclosures in IAS 1 (retained in IFRS 18), rather than IFRS 7, resulting from the 2004 Exposure Draft.

BCZ395 The IASB also decided that an entity's decision to adopt the amendments to IAS 1 (retained in IFRS 18) should be independent of the entity's decision to adopt IFRS 7. The IASB noted that issuing a separate amendment facilitates separate adoption decisions.

Objectives, policies and processes for managing capital (paragraphs 126–128)

BCZ396 The IASB decided that disclosure about capital should be placed in the context of a discussion of the entity's objectives, policies and processes for managing capital. This is because the IASB believes that such a discussion both communicates important information about the entity's capital strategy and provides the context for other disclosures.

BCZ397 The IASB considered whether an entity can have a view of capital that differs from what IFRS Accounting Standards define as equity. The IASB noted that, although for the purposes of this disclosure capital would often equate with 'equity' as defined in IFRS Accounting Standards, it might also include or exclude some components. The IASB also noted that this disclosure is intended to give entities the opportunity to describe how they view the components of capital they manage, if this is different from what IFRS Accounting Standards define as equity.

Externally imposed capital requirements (paragraph 129)

BCZ398 The IASB considered whether it should require disclosure of any externally imposed capital requirements. Such a capital requirement could be:

(a) an industry-wide requirement with which all entities in the industry must comply; or

(b) an entity-specific requirement imposed on a particular entity by its prudential supervisor or other regulator.

BCZ399 The IASB noted that some industries and countries have industry-wide capital requirements, and others do not. Thus, the IASB concluded that it should not require disclosure of industry-wide requirements, or compliance with such requirements, because such disclosure would not lead to comparability between different entities or between similar entities in different countries.

BCZ400 The IASB concluded that disclosure of the existence and level of entity-specific capital requirements is important information for users, because it informs them about the risk assessment of the regulator. Such disclosure improves transparency and market discipline.

BCZ401 However, the IASB noted the following arguments against requiring disclosure of externally imposed entity-specific capital requirements:

(a) users of financial statements might rely primarily on the regulator's assessment of solvency risk without making their own risk assessment.

(b) the focus of a regulator's risk assessment is for those whose interests the regulations are intended to protect (for example, depositors or policyholders). This emphasis is different from that of a shareholder. Thus, it could be misleading to suggest that the regulator's risk assessment could, or should, be a substitute for independent analysis by investors.

(c) the disclosure of entity-specific capital requirements imposed by a regulator might undermine that regulator's ability to impose such requirements. For example, the information could cause depositors to withdraw funds, a prospect that might discourage regulators from imposing requirements. Furthermore, an entity's regulatory dialogue would become public, which might not be appropriate in all circumstances.

(d) because different regulators have different tools available—for example formal requirements and moral suasion—a requirement to disclose entity-specific capital requirements could not be framed in a way that would lead to the provision of information that is comparable across entities.

(e) disclosure of capital requirements (and hence, regulatory judgements) could hamper clear communication to the entity of the regulator's assessment by creating incentives to use moral suasion and other informal mechanisms.

(f) disclosure requirements should not focus on entity-specific capital requirements in isolation, but should focus on how entity-specific capital requirements affect how an entity manages and determines the adequacy of its capital resources.

(g) a requirement to disclose entity-specific capital requirements imposed by a regulator is not part of Pillar 3 of the Basel II Framework developed by the Basel Committee on Banking Supervision.

BCZ402 Taking into account all of the above arguments, the IASB decided not to require quantitative disclosure of externally imposed capital requirements. Rather, it decided to require disclosures about whether the entity complied with any externally imposed capital requirements during the period and, if not, the consequences of non-compliance. This retains confidentiality between regulators and the entity, but alerts users to breaches of capital requirements and their consequences.

BCZ403 Some respondents to the 2004 Exposure Draft did not agree that breaches of externally imposed capital requirements should be disclosed. They argued that disclosure about breaches of externally imposed capital requirements and the associated regulatory measures subsequently imposed could be disproportionately damaging to entities. The IASB was not persuaded by these arguments because it believes that such concerns indicate that information about breaches of externally imposed capital requirements may often be material by its nature. The *Framework* stated that 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.'[10] Similarly, the IASB decided not to provide an exemption for temporary non-compliance with regulatory requirements during the year. Information that an entity is sufficiently close to its limits to breach them, even on a temporary basis, is useful for users.

Internal capital targets

BCZ404 The IASB proposed in the 2004 Exposure Draft that the requirement to disclose information about breaches of capital requirements should apply equally to breaches of internally imposed requirements, because it believed the information is also useful to a user of the financial statements.

BCZ405 However, this proposal was criticised by respondents to the 2004 Exposure Draft for the following reasons:

(a) the information is subjective and, thus, not comparable between entities. In particular, different entities will set internal targets for different reasons, so a breach of a requirement might signify different things for different entities. In contrast, a breach of an external requirement has similar implications for all entities required to comply with similar requirements.

(b) capital targets are not more important than other internally set financial targets, and to require disclosure only of capital targets would provide users with incomplete, and perhaps misleading, information.

(c) internal targets are estimates that are subject to change by the entity. It is not appropriate to require the entity's performance against this benchmark to be disclosed.

[10] The *Conceptual Framework* replaced the *Framework*. Materiality is discussed in paragraph 2.11 of the *Conceptual Framework* and defined in Appendix A of IFRS 18.

(d) an internally set capital target can be manipulated by management. The disclosure requirement could cause management to set the target so that it would always be achieved, providing little useful information to users and potentially reducing the effectiveness of the entity's capital management.

BCZ406 As a result, the IASB decided not to require disclosure of the capital targets set by management, whether the entity has complied with those targets, or the consequences of any non-compliance. However, the IASB confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful. The IASB also concluded that these disclosures, together with disclosure of the components of equity and their changes during the year (required by paragraphs 107–112 of IFRS 18), would give sufficient information about entities that are not regulated or subject to externally imposed capital requirements.

Unusual income and expenses

BC407 Many entities disclose information about unusual (or similarly described) income and expenses. However, the way in which entities provide that information varies significantly and it is often unclear how or why items are identified as unusual. Stakeholders, especially users of financial statements, suggested that the IASB:

(a) define 'unusual income and expenses' and provide principles for identifying items as unusual to help an entity identify its unusual income and expenses and reduce opportunistic classification of items as unusual; and

(b) specify requirements for what information should be disclosed about such income and expenses, to increase the relevance and completeness of information provided about those items.

BC408 In response to this feedback, the IASB developed a proposed definition of 'unusual income and expenses' and proposed disclosure requirements. The objective of the proposed definition was to help users of financial statements identify income and expenses that might not persist so that those income and expenses could be analysed separately when predicting an entity's future cash flows. The IASB proposed defining 'unusual income and expenses' in the Exposure Draft as 'income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.'

BC409 Most stakeholders agreed that the IASB should define 'unusual income and expenses'. However, most stakeholders disagreed with the proposed definition because of concerns about:

(a) the scope of the items captured in the proposed definition; and

(b) the subjectivity inherent in the proposed definition.

BC410 The IASB considered various alternative definitions of 'unusual income and expenses', attempting to resolve these concerns. However, stakeholders had differing views on how the IASB should define 'unusual income and expenses'. Further discussions with stakeholders on alternative definitions did not resolve the differences in views, which were expressed by all types of stakeholders, including by users of financial statements.

BC411 The differences in views indicated that it would not be possible to develop a practicable definition on a timely basis. Stakeholder feedback, including from users of financial statements, showed the IASB should not delay the completion of the project by developing a definition of 'unusual income and expenses'. The IASB therefore decided not to proceed with developing such a definition.

BC412 The IASB also concluded that without a definition of 'unusual income and expenses', it would be difficult to specify disclosure requirements that would significantly improve the information disclosed about unusual income and expenses in the financial statements. The IASB therefore decided not to specify any such requirements.

BC413 However, the IASB's decision not to define 'unusual income and expenses' did not change its view that information about unusual income and expenses is useful to users of financial statements. The IASB expects that the disclosure of information about unusual income and expenses will be improved by other requirements in IFRS 18, particularly the requirements relating to:

(a) the disaggregation of items with dissimilar characteristics—for example, if an item of income or expense lacks persistence, an entity would need to consider whether information about the lack of persistence of the item is material and needs to be disclosed;

(b) the description of items using labels that faithfully represent the characteristics of those items—for example, if an entity discloses an item because it lacks persistence, or is identified as unusual, it would be described as such (this might include an explanation of how the entity defines unusual); and

(c) the disclosure of information about management-defined performance measures—for example, in some cases, unusual income and expenses might be adjusting items in the calculation of a management-defined performance measure.

Effective date and transition

BC414 The IASB decided to make IFRS 18 effective for annual reporting periods beginning on or after 1 January 2027 and to permit earlier application. In determining the effective date, the IASB considered feedback from stakeholders on the time they would need to implement the requirements, including for jurisdictional authorities to incorporate the requirements into their legal systems. The IASB also considered feedback from users of financial statements regarding the need to make the information required by IFRS 18 available as soon as possible.

BC415 IFRS 18 will result in changes to presentation and disclosure throughout the financial statements, with the greatest effect on the statement of profit or loss. Entities are likely to require changes to data collection processes and IT systems, and discussions with internal and external stakeholders, including lenders, auditors and regulators. For example, some stakeholders said:

(a) changes would be required to remuneration policies and debt covenants linked to metrics in the statement of profit or loss and it would be necessary to negotiate and approve those changes with relevant stakeholders; and

(b) the disclosures for management-defined performance measures would require discussion between preparers, auditors and regulators because alternative performance measures and non-GAAP measures are often not subject to audit.

BC416 The IASB acknowledged some entities might require less time to apply the changes required by IFRS 18. However, stakeholder feedback also indicated that some entities might require at least two years to implement the changes. Considering endorsement and translation processes and changes to regulatory requirements, as well as feedback from preparers of financial statements, the IASB concluded that setting an effective date of annual reporting periods beginning on or after 1 January 2027 will provide enough time to implement the requirements.

BC417 The IASB decided to require retrospective application of IFRS 18. The IASB expects the new requirements to result in extensive changes to the statement of profit or loss. If comparative information were not restated, there would be a risk that the information included in the statement of profit or loss could be misleading. Because the requirements affect presentation and disclosure only, an entity will not need to consider periods before the start of the earliest comparative period.

Disclosure on initial application (paragraphs C2–C3 and C6)

BC418 The IASB decided to require an entity on initial application to disclose in its annual financial statements a reconciliation between each item in the statement of profit or loss in accordance with IFRS 18 and each line item presented in accordance with IAS 1. An entity is required to disclose the reconciliation for the comparative period immediately preceding the period in which IFRS 18 is first applied. The IASB concluded that changes to the structure of the statement of profit or loss required by IFRS 18 would make it difficult for users of financial statements to analyse trends without a reconciliation to the amounts presented before the implementation of IFRS 18. The IASB decided this requirement would replace the requirement in paragraph 28(f) of IAS 8 requiring an entity to disclose the amount of the adjustment for each line item affected if initial application of any IFRS Accounting Standard has an effect on the current or any prior period.

BC419 The IASB also decided not to require an entity to provide the reconciliation described in paragraph BC418 for:

(a) the reporting period in which IFRS 18 is first applied; or

(b) comparative periods presented, other than the comparative period immediately preceding the period in which IFRS 18 is first applied.

BC420 The IASB concluded that requiring an entity to report the reconciliation for the reporting period in which IFRS 18 is first applied would require the entity to maintain systems for preparing its financial statements in accordance with IAS 1 for the duration of the year of initial application. This would increase implementation costs. The IASB also expects the resulting information to be of limited benefit because IFRS 18 is required to be applied retrospectively.

Interim financial statements (paragraphs C4–C6)

BC421 Paragraph 10 of IAS 34 *Interim Financial Reporting* requires an entity to present, at a minimum, the same headings and subtotals as in the most recent annual financial statements. In the first year of application, an entity might have different subtotals in its statement of profit or loss in its most recent annual financial statements from those required by IFRS 18. Consequently, the IASB decided that in the first year of applying IFRS 18, an entity presents the headings and subtotals required by IFRS 18 in condensed financial statements in interim financial reports. Presenting the subtotals required by IFRS 18 will provide useful information to users of financial statements.

BC422 The IASB decided to require an entity to disclose, as part of the information required by paragraph 16A(a) of IAS 34, a reconciliation for the comparative period and the cumulative comparative period immediately preceding the period in which IFRS 18 is first applied for each line item presented in the statement of profit or loss in the interim financial statements. The IASB concluded, as it did for annual financial statements, that users of financial statements would have difficulty understanding comparative information in interim financial statements and analysing trends without a reconciliation to the amounts presented before the implementation of IFRS 18. The IASB also concluded the interim financial statements would be of limited use to users of financial statements without such comparative information for both the comparative and cumulative comparative periods. The IASB therefore concluded the benefits of disclosing both reconciliations would outweigh the cost of preparation.

Investments in associates and joint ventures (paragraph C7)

BC423 The IASB decided to provide transitional requirements in IFRS 18 to allow an eligible entity to elect to measure an investment in an associate or joint venture at fair value through profit or loss (as specified in paragraph 18 of IAS 28) when it first applies IFRS 18 (see paragraphs BC123–BC128). The IASB provided the election in IAS 28 because fair value measurement provides more useful information to users of the financial statements of those entities than would application of the equity method (see paragraph BC12 of the Basis for Conclusions on IAS 28). Some eligible entities might have chosen not to apply the election on initial recognition of an investment before they were aware of the effects of IFRS 18. If that is the case, the IASB concluded that an entity is permitted to apply that election on initial application of IFRS 18. An entity that applies the election is required to account for the applicable investments in the same way in its separate financial statements as required by paragraph 11 of IAS 27. If an entity makes such a change, it applies the change retrospectively applying IAS 8.

Definition of IFRS Accounting Standards

BC424 Following the establishment of the International Sustainability Standards Board, IFRS Standards are defined in the IFRS Foundation Constitution as both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Appendix A of IFRS 18 includes a definition of 'IFRS Accounting Standards'. This definition replaces the definition of 'International Financial Reporting Standards' included in IAS 1, which were previously known as IFRS, IFRSs and IFRS Standards.

BC425 Consequential amendments were made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 8 and IAS 34 to refer to paragraphs of IFRS Accounting Standards that discuss an entity's statement of compliance with IFRS Accounting Standards. However, in all other cases where IFRS Accounting Standards refer to IFRS, IFRSs or IFRS Standards these references were left unchanged.

Amended references to the *Conceptual Framework*

BCZ426 Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018, the IASB issued *Amendments to References to the Conceptual Framework in IFRS Standards*. In IAS 1, that document replaced the reference in IAS 1 to the *Framework* with references to the 2018 *Conceptual Framework* (now in paragraph B86 of IFRS 18).

BCZ427 The IASB does not expect the replacement of the references to the *Framework* to have a significant effect on the application of IFRS 18 because replacing the reference in IAS 1 (now in paragraph B86 of IFRS 18) to the *Framework* means referring to the revised definitions of income and expenses in the 2018 *Conceptual Framework*. The IASB concluded that this is unlikely to lead to changes in applying the requirements of IAS 1 (now in IFRS 18) because the definitions of income and expenses in the 2018 *Conceptual Framework* were updated only to align them with the revised definitions of an asset and a liability. Moreover, the main purpose of the requirement in IAS 1 (now in paragraph B86 of IFRS 18) is to indicate that particular items of income or expenses can be recognised outside profit or loss only if required by other IFRS Accounting Standards.

Dissenting opinions

Dissent of Mary E Barth, Anthony T Cope, Robert P Garnett and James J Leisenring from IAS 1 (as revised in September 2007)

DO1 Professor Barth and Messrs Cope, Garnett and Leisenring voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. The reasons for their dissent are set out below.

DO2 Those Board members agree with the requirement to report all items of income and expense separately from changes in net assets that arise from transactions with owners in their capacity as owners. Making that distinction clearly is a significant improvement in financial reporting.

DO3 However, they believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise.

DO4 As noted in paragraph BC51 [of IAS 1], the *Framework* does not define profit or loss, or net income.[11] It also does not indicate what criteria should be used to distinguish between those items of recognised income and expense that should be included in profit or loss and those items that should not. In some cases, it is even possible for identical transactions to be reported inside or outside profit or loss. Indeed, in that same paragraph, the Board acknowledges these facts, and indicates that it had a preference for reporting all items of income and expense in a single statement, believing that a single statement is the conceptually correct approach. Those Board members believe that some items of income and expense that will potentially bypass the statement of profit and loss can be as significant to the assessment of an entity's performance as items that will be included. Until a conceptual distinction can be developed to determine whether any items should be reported in profit or loss or elsewhere, financial statements will lack neutrality and comparability unless all items are reported in a single statement. In such a statement, profit or loss can be shown as a subtotal, reflecting current conventions.

DO5 In the light of those considerations, it is puzzling that most respondents to the exposure draft that proposed these amendments favoured permitting a two-statement approach, reasoning that it 'distinguishes between profit and loss and total comprehensive income' (paragraph BC50 [of IAS 1]). Distinguishing between those items reported in profit or loss and those reported elsewhere is accomplished by the requirement for relevant subtotals to be included in a statement of comprehensive income. Respondents also stated that a two-statement approach gives primacy to the 'income statement'; that conflicts with the Board's requirement in paragraph 11 of IAS 1 to give equal prominence to all financial statements within a set of financial statements.[12]

DO6 Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRSs. The *Preface to International Financial Reporting Standards*, in paragraph 13, states: 'the IASB intends not to permit choices in accounting treatment ... and will continue to reconsider … those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.'[13] The *Preface* extends this objective to both accounting and reporting. The same paragraph states: 'The IASB's objective is to require like transactions and events to be accounted for *and reported*

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11 This reference to the *Framework* is to the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements*, which was adopted by the IASB in 2001 and in effect when IAS 1 was revised.

12 In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and withdrew IAS 1. Paragraph 11 of IAS 1 was included as paragraph 14 of IFRS 18.

13 Paragraph 13 was amended to paragraph 11 when the *Preface to International Financial Reporting Standards* was revised and renamed the *Preface to IFRS Standards* in December 2018.

in a like way and unlike transactions and events to be accounted for *and reported* differently' (emphasis added). By permitting a choice in this instance, the IASB has abandoned that principle.

DO7 Finally, the four Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds.

Dissent of Paul Pacter from *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)

DO1 Mr Pacter voted against issuing the amendments to IAS 1 *Presentation of Financial Statements* set out in *Presentation of Items of Other Comprehensive Income* in June 2011. Mr Pacter believes that the Board has missed a golden opportunity to align the performance statement with the Board's *Conceptual Framework* and, thereby, improve information for users of IFRS financial statements.[14]

DO2 Mr Pacter believes that ideally this project should have provided guidance, to the Board and to those who use IFRSs, on which items of income and expense (if any) should be presented as items of other comprehensive income (OCI) and which of those (if any) should subsequently be recycled through profit or loss. Mr Pacter acknowledges and accepts that this project has a more short-term goal – 'to improve the consistency and clarity of the presentation of items of OCI'. He believes that this project fails to deliver on that objective, for the following reasons:

(a) consistency is not achieved because the standard allows choice between presenting performance in a single performance statement or two performance statements. Users of financial statements—and the Board itself—have often said that accounting options are not helpful for understandability and comparability of financial statements.

(b) clarity is not achieved because allowing two performance statements is inconsistent with the *Conceptual Framework*. The *Conceptual Framework* defines two types of items that measure an entity's performance—income and expenses. Mr Pacter believes that all items of income and expense should be presented in a single performance statement with appropriate subtotals (including profit or loss, if that can be defined) and supporting disclosures. This is consistent with reporting all assets and liabilities in a single statement of financial position, rather than multiple statements. Unfortunately, neither IAS 1 nor any other IFRS addresses criteria for which items are presented in OCI. And the recent history of which items are presented in OCI suggests that the decisions are based more on expediency than conceptual merit. In Mr Pacter's judgement, that is all the more reason to have all items of income and expense reported in a single performance statement.

DO3 Mr Pacter believes that the Board should breathe new life into its former project on performance reporting as a matter of urgency.

[14] References to the *Conceptual Framework* in this Dissent are to the *Conceptual Framework for Financial Reporting*, which was issued in 2010 and in effect when IAS 1 was amended.

Appendix
Amendments to the Basis for Conclusions on other IFRS Accounting Standards

This appendix sets out the amendments to the Basis for Conclusions on other IFRS Accounting Standards that are a consequence of the IASB issuing IFRS 18 Presentation and Disclosure in Financial Statements.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

BC96A is added. New text is underlined.

Presentation and disclosure

...

Interim financial reports

...

BC96A In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 includes requirements about the headings and subtotals an entity presents in its financial statements. Paragraph 2(b) of IFRS 1, meanwhile, requires an entity to apply this Standard (ie IFRS 1) to each interim financial report that the entity presents in accordance with IAS 34 for part of the period covered by its first IFRS financial statements. Consequently, in order for an entity to present the headings and subtotals in accordance with IFRS 18, the IASB decided that the transition requirement in paragraph C4 of Appendix C of IFRS 18 should also apply to first-time adopters of IFRS Accounting Standards. Accordingly, in condensed interim financial statements for part of the period covered by its first IFRS financial statements, a first-time adopter is required to present each heading it expects to use in applying IFRS 18 together with the subtotals required by paragraphs 69–74 of that Standard.

A footnote is added to 'IAS 1 *Presentation of Financial Statements*' in paragraph BC4. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements about fair presentation and compliance with IFRSs in IAS 1 *Presentation of Financial Statements* to IAS 8 *Basis of Preparation of Financial Statements*.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraphs BC6 and BC6C. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

In paragraph BC84 the footnote to 'IAS 10 *Events after the Balance Sheet Date*.' is amended. New text is underlined and deleted text is struck through.

* In September 2007 the IASB amended the title of IAS 10 *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ in 2007. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to the end of paragraphs BC85, BC86 and BC92B. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'paragraph 38C of IAS 1' in paragraph BC89C. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraph 38C of IAS 1 to paragraph B14 of IFRS 18.

IFRS 3 *Business Combinations*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC397. New text is underlined.

* <u>When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.</u>

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

A footnote is added to the end of paragraph BC10. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to the end of paragraph BC14C. New text is underlined.

* When it issued IFRS 18, the IASB carried over the requirements about fair presentation and compliance with IFRS Accounting Standards in IAS 1 to IAS 8 *Basis of Preparation of Financial Statements* and carried over the definition of 'material' from IAS 1 to IFRS 18.

A footnote is added to the end of paragraph BC14E. New text is underlined.

* When it issued IFRS 18, the IASB amended paragraph 5B of IFRS 5 to refer to the requirements in IFRS 18 and the requirements in IAS 8, in particular paragraphs 6A and 31A of IAS 8.

In paragraph BC37 the footnote to 'equity' in the first sentence is amended. New text is underlined and deleted text is struck through.

* As a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) such a difference is recognised in other comprehensive income. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to the heading 'Presentation of non-current assets held for sale' above paragraph BC56. New text is underlined.

* When it issued IFRS 18, the IASB amended IFRS 5 to clarify that 'presentation' refers to providing information in the primary financial statements and 'disclosure' refers to providing information in the notes.

In paragraph BC66 the footnote to 'IAS 10 *Events after the Balance Sheet Date*,' is amended. New text is underlined and deleted text is struck through.

* In September 2007 the title of IAS 10 was amended from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ in 2007. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to the heading 'Presentation of discontinued operations' above paragraph BC73. New text is underlined.

* When it issued IFRS 18, the IASB amended IFRS 5 to clarify that 'presentation' refers to providing information in the primary financial statements and 'disclosure' refers to providing information in the notes. IFRS 5 was also amended to refer to the discontinued operations category in paragraph 47(e) of IFRS 18.

In paragraph BC76 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) required ~~requires~~ an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to paragraph BC85 to the end of the sentence '(a) As a consequence of the revision of IAS 1 *Presentation of Financial Statements* (as revised in 2007) such differences are recognised in other comprehensive income.' New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

A footnote is added to the end of paragraph BC6. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements about fair presentation and compliance with IFRS Accounting Standards in IAS 1 *Presentation of Financial Statements* to IAS 8 *Basis of Preparation of Financial Statements*.

A footnote is added to 'paragraph 112(c) of IAS 1' in paragraph BC57. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraph 112(c) of IAS 1 to paragraph 113(c) of IFRS 18.

IFRS 7 *Financial Instruments: Disclosures*

Paragraphs BC32A and BCZ32B–BCZ32C and their related subheading are added. For ease of reading, these paragraphs and the subheading have not been underlined. The heading 'Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)' (included above paragraph BC32A in this document) has not been amended but is included for ease of reference.

Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

...

Puttable financial instruments and obligations arising on liquidation (paragraphs 19A–19B)

BC32A In July 2006 the IASB published an exposure draft of proposed amendments to IAS 32 and IAS 1 *Presentation of Financial Statements* relating to the classification of puttable instruments and instruments with obligations arising only on liquidation. The IASB subsequently confirmed the proposals and in February 2008 issued the amendments. In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1. The IASB decided to move to IFRS 7 the disclosure requirements added to IAS 1 by the 2008 amendments. IFRS 7 does not apply to puttable instruments and instruments with obligations arising only on liquidation that are required to be classified as equity. Consequently, the IASB also amended the scope of IFRS 7 to clarify that only the relocated paragraphs apply to these instruments. Paragraphs BCZ32B–BCZ32C in this Basis for Conclusions include the Basis for Conclusions that was included in IAS 1 and moved to IFRS 7.

BCZ32B The IASB decided to require disclosure of information about puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation that are reclassified in accordance with paragraphs 16E and 16F of IAS 32. This is because the IASB concluded that this disclosure allows users of financial statements to understand the effects of any reclassifications.

BCZ32C The IASB also concluded that entities with puttable financial instruments classified as equity should be required to disclose additional information to allow users to assess any effect on the entity's liquidity arising from the ability of the holder to put the instruments to the issuer. Financial instruments classified as equity usually do not include any obligation for the entity to deliver a financial asset to another party. Therefore, the IASB concluded that additional disclosures are needed in these circumstances. In particular, the IASB concluded that entities should disclose the expected cash outflow on redemption or repurchase of those financial instruments that are classified as equity and information about how that amount was determined. That information allows liquidity risk associated with the put obligation and future cash flows to be evaluated.

A footnote is added to 'paragraph 10(f) of IAS 1 *Presentation of Financial Statements*' in paragraph BC24AI. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over paragraph 10(f) of IAS 1 *Presentation of Financial Statements* to paragraph 10(g) of IFRS 18.

A footnote is added to the subheading 'Amendments to IAS 1 (see paragraphs BC76H–BC76AB of IAS 1)', above paragraph BC35ZA. New text is underlined.

* When it issued IFRS 18, the IASB carried over the requirements to disclose material accounting policy information in IAS 1 to IAS 8 *Basis of Preparation of Financial Statements*. The IASB also carried over paragraphs BC76H–BC76AB of the Basis for Conclusions on IAS 1 to paragraphs BCZ31B–BCZ31V of the Basis for Conclusions on IAS 8.

A footnote is added to the end of paragraphs BC35GG, BC35OO, BC35QQ and BC73(f). New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC35AAA. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

A footnote is added to 'paragraph 122 of IAS 1' in paragraph BC35MMM. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraph 122 of IAS 1 to paragraph 27G of IAS 8.

IFRS 8 *Operating Segments*

A footnote is added to the end of paragraph BC46. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced IAS 1 *Presentation of Financial Statements*. IFRS 18 does not include a definition for 'impracticable'. Paragraph 5 of IAS 8 *Basis of Preparation of Financial Statements* includes a definition.

A footnote is added to the end of paragraph BC47. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IFRS 9 *Financial Instruments*

A footnote is added to 'IAS 1 *Presentation of Financial Statements*' in paragraph BC4.45. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to the end of paragraphs BC4.151, BC4.215, BC5.51, BC6.380 and BC7.20. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BCZ4.61 the footnote at the end of the third sentence is amended. New text is underlined and deleted text is struck through.

* As a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ in 2007 these other gains and losses are recognised in other comprehensive income. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC4.247. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC7.10. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IFRS 10 *Consolidated Financial Statements*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC195. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'IAS 1 *Presentation of Financial Statements*' in paragraph BC199C. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC199D. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IFRS 11 *Joint Arrangements*

A footnote is added to 'IAS 1 *Presentation of Financial Statements*' in paragraph BC69A. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC69B. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IFRS 12 *Disclosure of Interests in Other Entities*

A footnote is added to 'paragraph 122 of IAS 1 *Presentation of Financial Statements*' in paragraph BC14. New text is underlined.

* <u>In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over paragraph 122 of IAS 1 *Presentation of Financial Statements* to paragraph 27G of IAS 8 *Basis of Preparation of Financial Statements*.</u>

A footnote is added to the end of paragraphs BC23, BC24, BC38 and BC119A. New text is underlined.

* <u>When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.</u>

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC119C. New text is underlined.

* <u>When it issued IFRS 18, the IASB changed the title of IAS 8.</u>

IFRS 13 *Fair Value Measurement*

A footnote is added to '(in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)' in paragraph BC121. New text is underlined.

* <u>When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.</u>

IFRS 14 *Regulatory Deferral Accounts*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC4. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraphs BC49 and BC59(d). New text is underlined.

* When it issued IFRS 18, the IASB carried over the definition of 'material' from IAS 1 *Presentation of Financial Statements* to IFRS 18.

IFRS 15 *Revenue from Contracts with Customers*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC56. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraph BC320. New text is underlined.

* When it issued IFRS 18, the IASB replaced the requirements in IAS 1 to present separately each class of similar items and items of a dissimilar nature or function (unless they are immaterial) with principles of aggregation and disaggregation in paragraphs 41–43 of IFRS 18.

A footnote is added to the end of paragraph BC332. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'see paragraph 10(e) of IAS 1' in paragraph BC354. New text is underlined.

* When it issued IFRS 18, the IASB carried over the requirements to disclose material accounting policy information from IAS 1 to IAS 8.

IFRS 16 *Leases*

A footnote is added to the end of paragraph BC85. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' from IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to the end of paragraphs BC101 and BC216. New text is underlined.

* When it issued IFRS 18, the IASB carried over the definition of 'material' from IAS 1 to IFRS 18.

A footnote is added to 'paragraph 55 of IAS 1' in paragraph BC208. New text is underlined.

* When it issued IFRS 18, the IASB replaced paragraph 55 of IAS 1 with paragraph 105 of IFRS 18.

A footnote is added to 'paragraphs 30A and 31 of IAS 1.' in paragraph BC216. New text is underlined.

* When it issued IFRS 18, the IASB replaced paragraphs 29–31 of IAS 1 with paragraphs 19–20 and 41–43 of IFRS 18.

A footnote is added to the end of paragraphs BC235 and BC236. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC267ZD. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IFRS 17 *Insurance Contracts*

A footnote is added to 'present finance costs separately,' in paragraph BC41. New text is underlined.

* <u>In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1 *Presentation of Financial Statements*. IFRS 18 does not require separate presentation of finance costs. Paragraph 64(b) of IFRS 18 applies to insurance finance income and expenses.</u>

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC66. New text is underlined.

* <u>When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.</u>

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC372. New text is underlined.

* <u>When it issued IFRS 18, the IASB changed the title of IAS 8.</u>

A footnote is added to the end of paragraphs BC328 and BC329. New text is underlined.

* <u>When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.</u>

A footnote is added to the end of paragraph BC357. New text is underlined.

* <u>When it issued IFRS 18, the IASB replaced IAS 1 with IFRS 18. IFRS 18 requires an entity to present additional line items in the statement of profit or loss if doing so is necessary to provide a useful structured summary of the entity's income and expenses.</u>

A footnote is added to 'paragraphs 134–136 of IAS 1.' in paragraph BC371. New text is underlined.

* <u>When it issued IFRS 18, the IASB carried over paragraphs 134–136 of IAS 1 to paragraphs 126–129 of IFRS 18.</u>

A footnote is added to ‘material accounting policy information (see paragraphs 117–122 of IAS 1)’ in paragraph BC398O. New text is underlined.

* When it issued IFRS 18, the IASB carried over the requirements to disclose material accounting policy information from IAS 1 to IAS 8.

A footnote is added to ‘(see paragraph 31 of IAS 1)’ in paragraph BC398O. New text is underlined.

* When it issued IFRS 18, the IASB replaced paragraph 31 of IAS 1 with paragraphs 19–20 of IFRS 18.

A footnote is added to ‘comparative information as required by IAS 1’ in paragraph BC398O. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IAS 2 *Inventories*

A footnote is added to the end of paragraph BC22. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1 *Presentation of Financial Statements*.

A footnote is added to the end of paragraph BC23. New text is underlined.

* When it issued IFRS 18, the IASB replaced IAS 1 with IFRS 18.

IAS 7 *Statement of Cash Flows*

Paragraphs BC45–BC60 and their respective headings and subheadings are added. For ease of reading, these paragraphs and their headings and subheadings have not been underlined.

Starting point for the indirect method and the classification of interest and dividends

Background to the 2024 amendments

BC45 When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB also amended IAS 7:

(a) to require entities to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities; and

(b) to introduce new requirements for the classification of interest and dividend cash flows in the statement of cash flows.

BC46 The amendments were made in response to requests from users of financial statements for requirements that would improve the comparability of one entity's statement of cash flows with those of others by reducing ways in which the statement may be presented.

Starting point for the indirect method

BC47 The IASB decided to require all entities to use the same starting point for the indirect method because diversity in practice reduces comparability between entities, and so makes analysis by users of financial statements more difficult. The IASB decided to use operating profit or loss, a subtotal in the statement of profit or loss that is required by IFRS 18, as the starting point because:

(a) an entity using operating profit or loss needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category. Fewer adjustments are needed because, compared to profit or loss, operating profit or loss includes fewer items of income and expenses for which the cash effects are classified as investing or financing cash flows. For example, operating profit or loss does not include the share of profit or loss of associates and joint ventures accounted for using the equity method.

(b) the difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals. Some users of financial statements find such a measure useful because it helps them understand how operating profit or loss is converted into cash flows. The IASB acknowledged that the cash conversion analysis may not be as effective given that the operating category as defined in IFRS 18 differs in composition from operating activities as defined in IAS 7.

Classification of interest and dividend cash flows

BC48 Prior to the amendments in 2024, IAS 7 permitted an entity to choose to classify interest and dividend cash flows as operating, investing or financing activities in its statement of cash flows. As a result, classification varied, even among entities in the same industry. The IASB decided to remove the classification choice for most entities, because users of financial statements indicated that diversity in the classification between entities in the same industry:

(a) reduces comparability, making their analyses more difficult; and

(b) is often not meaningful—that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in an entity's business activities.

Dividends paid

BC49 The IASB decided to require all entities to classify dividends paid as cash flows from financing activities because dividends paid are a cost of obtaining financing. Before the amendments, IAS 7 explained that classifying dividends paid as cash flows from operating activities may assist users of financial statements in determining an entity's ability to pay dividends out of operating cash flows. However, although this treatment has some merit, the IASB decided there is greater benefit in no longer allowing classification of dividends paid as cash flows from operating activities because:

(a) classifying dividends paid as a cash flow from operating activities does not provide a faithful representation of the operating cash flows. Dividend payments are financing in nature.

(b) when assessing cash flows available to pay dividends, users tend to use other measures, such as free cash flow, which take into account cash needed for capital expenditure.

(c) users can continue to compare dividends paid with cash flows from operating activities if they wish, because paragraph 31 of IAS 7 requires the separate presentation of dividends paid.

Dividends received and interest paid and received

BC50 The IASB decided to adopt a single category approach to classifying dividends received and interest paid and received. This approach generally seeks to align the classification in the statement of profit or loss with the classification in the statement of cash flows. Consequently, the classification of dividends received and interest paid and received depends on the entity's main business activities (as determined in accordance with IFRS 18).

BC51 When alignment can be achieved, it can increase the understandability of the resulting information. However, the IASB did not seek full alignment between the categories in the statement of profit or loss and the activities in the statement of cash flows. The IASB instead focused on requiring an entity to provide information in the statement of profit or loss that meets the needs of users for that statement. The IASB concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment between the two statements.

BC52 Consistent with the classification of income and expenses in the statement of profit or loss, the IASB distinguished between the following types of entities in the requirements for the statement of cash flows:

(a) entities that invest in assets or provide financing to customers as a main business activity (see paragraphs BC55–BC57); and

(b) entities whose main business activities do not include any of those described in (a) (see paragraphs BC53–BC54).

BC53 The IASB decided to require entities described in paragraph BC52(b) to classify:

(a) cash receipts from interest and dividends as cash flows from investing activities because, in most cases, the related income is expected to be classified in the investing category in the statement of profit or loss.

(b) cash payments arising from interest incurred as cash flows from financing activities because interest paid represents the cost of obtaining financing. The related interest expenses are classified in the financing category in the statement of profit or loss by such entities.

(c) cash payments arising from interest capitalised in accordance with IAS 23 *Borrowing Costs* as cash flows from financing activities. The IASB decided on this classification to avoid requiring potentially arbitrary allocations between operating and investing activities and because this approach would result in the consistent classification of interest paid, regardless of whether it has been capitalised.

BC54 The IASB concluded that classifying interest and dividends in the statement of cash flows as described in paragraph BC53 will align with the classification in the statement of profit or loss in most cases. However, it does not achieve full alignment. For example:

(a) interest expenses not arising from transactions that involve only the raising of finance, for example the unwinding of the discount of pension liabilities will be classified in the financing category in the statement of profit or loss but the contribution paid to the pension plan is generally classified as cash flows arising from operating activities in the statement of cash flows; and

(b) interest capitalised as part of the cost of an item of property, plant and equipment would be recognised in profit or loss as part of depreciation expenses, which would be classified in the operating category in the statement of profit or loss; whereas capitalised interest paid would be classified as cash flows from financing activities in the statement of cash flows.

BC55 The IASB decided to require entities described in paragraph BC52(a) to classify the total of each type of cash flows (dividends received, interest paid and interest received) in a single category of the statement of cash flows, even if the associated income and expenses are classified in more than one category in the statement of profit or loss. The IASB concluded that classification in a single category is:

(a) more useful than alignment with classification in the statement of profit or loss; and

(b) simpler to apply in practice.

BC56 The IASB expects that, in most cases, an entity applying the requirement described in paragraph BC55 will classify interest payments in the same activity of the statement of cash flows as repayment of the principal. Consequently, the IASB decided to delete the example in paragraph 12 of IAS 7 that illustrated when an entity might classify cash flows from a single transaction in multiple activities in the statement of cash flows.

BC57 The IASB considered, but decided against, an alternative requirement for the entities described in paragraph BC52(a). The rejected proposal would have required such entities to classify dividends received and interest paid and received in multiple activities of the statement of cash flows when the associated income and expenses were classified in multiple categories of the statement of profit or loss. The IASB decided against this approach because it may be costly for entities to split dividends received and interest paid and received between different activities of the statement of cash flows when the associated income and expenses are classified in multiple categories of the statement of profit or loss. The IASB also understands that some users of financial statements question the usefulness of the statement of cash flows for entities of the type described in paragraph BC52(a) and, therefore, the benefits of such an approach may not outweigh the costs.

BC58 The IASB also considered requiring all entities to classify dividends received, interest paid and interest received as operating cash flows. This approach would have had some advantages:

(a) it would have achieved the IASB's objective of eliminating options for the classification of interest and dividend cash flows.

(b) it would have allowed users of financial statements easily to identify where in the statement of cash flows dividends received and interest received and paid had been classified because they would all have been classified as operating cash flows. This would have been particularly beneficial to users of financial statements comparing a large number of companies using electronic reports.

(c) it would have been consistent with the principle in IAS 7 that cash flows from operating activities generally result from the transactions and other events that enter into the determination of profit or loss.

(d) unlike the approach that the IASB finally decided upon, it would not have required amending the definition of investing activities to include the receipt of interest and dividends.

(e) it would have been less costly for preparers of financial statements to apply because:

   (i) classifying these cash flows would have been less complex than applying the IASB's final approach; and

   (ii) for many entities this approach would not have resulted in a change to existing practice.

BC59 However, the IASB decided against the approach described in paragraph BC58 because:

(a) the approach would be inconsistent with the definition of financing activities in IAS 7. The definition in IAS 7 captures interest paid, but in applying this approach interest paid would be classified as cash flows from operating activities.

(b) the approach would result in less alignment of operating profit or loss with cash flows from operating activities of the statement of cash flows (see paragraph BC51). As a consequence, the difference between cash flows from operating activities and operating profit or loss would be a poorer measure of operating accruals than the difference that would result from applying the approach that the IASB finally decided upon (see paragraph BC47(b)).

BC60 The IASB decided to require an entity to classify dividends received from associates and joint ventures in the statement of cash flows in accordance with the requirements described in paragraphs BC50–BC56. The IASB concluded:

(a) the measurement basis adopted for associates and joint ventures has no influence on dividends received; and

(b) there is no reason to require entities that invest in financial assets as a main business activity to classify dividends received from associates and joint ventures that are accounted for using the equity method differently from dividends received from associates and joint ventures that are measured at fair value through profit or loss.

The following footnote is added to 'paragraphs 29–31 of IAS 1 *Presentation of Financial Statements*' in paragraph BC38. New text is underlined.

* <u>In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1 *Presentation of Financial Statements*. Paragraphs 29–31 of IAS 1 have been replaced by paragraphs 19–20 and 41–43 of IFRS 18.</u>

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The title of IAS 8 is amended. New text is underlined and deleted text is struck through.

IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~

Paragraphs BC3A, BC12A, BCZ12B–BCZ12I, BC31A, BCZ31B–BCZ31AD, BCZ37A and DO1–DO5, and their respective headings and subheadings, are added. For ease of reading, these paragraphs and their headings and subheadings have not been underlined. Paragraph BC34 is amended with new text underlined and deleted text struck through. The headings 'Introduction' (included above paragraph BC3A) and 'Amended references to the *Conceptual Framework*' (included above paragraph BC34) have not been amended but they are included for ease of reference.

Introduction

...

BC3A In April 2024 the Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced IAS 1 *Presentation of Financial Statements*. In replacing IAS 1 the Board concluded that some requirements setting out general features of financial statements and some disclosure requirements fit better with the content of IAS 8. The Board decided, therefore, to move those requirements from IAS 1 to IAS 8. The requirements that the Board decided to move are: (i) the concepts of fair presentation and compliance with IFRS Accounting Standards, (ii) whether an entity is a going concern, (iii) the accrual basis of accounting and (iv) disclosure of an entity's selection and application of accounting policies. This Basis for Conclusions includes extracts from the Basis for Conclusions on IAS 1 relating to the paragraphs moved to IAS 8. The Board decided to change the title of IAS 8 to *Basis of Preparation of Financial Statements* to better reflect the amended content of IAS 8.

...

Departures from IFRSs

BC12A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to fair presentation and compliance with IFRS Accounting Standards from IAS 1 to paragraphs 6A–6J of IAS 8. Extracts from the Basis for Conclusions on IAS 1 relating to those requirements are included in paragraphs BCZ12B–BCZ12I. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.

BCZ12B Paragraph 6E of IAS 8 permits an entity to depart from a requirement in a Standard 'in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation'. When such a departure occurred, paragraph 6F of IAS 8 requires extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

BCZ12C The Board decided to clarify in IAS 1 at that time that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework* at that time. This clarification is now included in paragraph 6A of IAS 8.

BCZ12D The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

BCZ12E These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.

BCZ12F The Board considered whether IAS 1 at that time should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.

BCZ12G Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. IAS 8 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BCZ12D for departure from a requirement in an IFRS, the entity should proceed as follows:

(a) when the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 6F.

(b) when the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 6I.

This amendment enables entities to comply with the requirements of IAS 8 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.

BCZ12H After considering the comments received on the exposure draft of 2002, the Board required an entity to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.

BCZ12I In view of the strict criteria for departure from a requirement in an IFRS, IAS 8 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework* at that time.

...

Disclosure of selection and application of accounting policies (paragraphs 27A–27I and 31A–31I)

BC31A In April 2024 when it issued IFRS 18, the Board moved the disclosure requirements relating to an entity's selection and application of accounting policies in IAS 1 to paragraphs 27A–27I of IAS 8. Previously, the Board had amended those disclosure requirements. Extracts from the Basis for Conclusions on IAS 1 relating to those earlier amendments were moved to form part of the Basis for Conclusions on IAS 8 by the Board and are included here as paragraphs

BCZ31B–BCZ31AD of this Basis for Conclusions. In those paragraphs cross-references to IAS 1 have been updated to IAS 8 and minor necessary editorial changes have been made.

Disclosure of accounting policies (issued February 2021)

Background

BCZ31B In March 2017 the Board published the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared by an entity applying IFRS Standards. One issue related to the disclosure of information about accounting policies.

BCZ31C The Discussion Paper noted that IAS 1 at that time required entities to disclose their significant accounting policies and that stakeholders, including primary users of financial statements, differ in their views about what constitutes a significant accounting policy.

BCZ31D Feedback on the Discussion Paper suggested that the Board develop requirements and guidance to help entities make more effective accounting policy disclosures. Feedback from stakeholders suggested that materiality be the basis of such requirements or guidance.

BCZ31E In August 2019 the Board published the Exposure Draft *Disclosure of Accounting Policies*, which proposed to amend IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*.

Replacing 'significant' with 'material'

BCZ31F The Board found that, because 'significant' is not defined in IFRS Standards, entities can have difficulty assessing whether an accounting policy is 'significant'. The Board also noted that entities can have difficulty understanding the difference, if any, between 'significant' and 'material' accounting policies. The Board considered developing a definition of 'significant' but concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

BCZ31G Because 'material' is defined in IFRS Standards and is well understood by stakeholders, the Board decided to require entities to disclose their material accounting policy information instead of their significant accounting policies.

BCZ31H The Board observed that accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements. However, accounting policy information may be considered material when that information is considered together with other information in a complete set of financial statements. In the Board's view, accounting policy information is expected to be material if its disclosure were needed for primary users to understand information provided about material transactions, other events or conditions in the financial statements.

Applying the definition of 'material' to accounting policy disclosures

BCZ31I The Board received comments that:

(a) accounting policy disclosures are useful to users of financial statements when they:

  (i) relate to material transactions, other events or conditions; and

  (ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and

(b) users of financial statements find entity-specific information more useful than accounting policy disclosures that:

  (i) contain standardised information, sometimes called boilerplate information; and

  (ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.

BCZ31J To assist an entity in determining whether accounting policy information is material to its financial statements and to respond to the feedback described in paragraphs BCZ31D and BCZ31I, the Board added guidance to:

(a) clarify that not all accounting policy information relating to material transactions, other events or conditions is material (see paragraph 27B of IAS 8). The Board concluded that this amendment would help an entity reduce immaterial accounting policy disclosures in its financial statements.

(b) provide examples of circumstances in which an entity would normally conclude that information about an accounting policy is material to its financial statements (see paragraph 27C of IAS 8). The examples listed in paragraph 27C are not exhaustive but the Board concluded that they would help an entity determine whether accounting policy information is material.

(c) explain that entity-specific accounting policy information is more useful to users of financial statements than accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards (see paragraph 27D of IAS 8). The Board concluded that this amendment would help an entity focus on disclosing accounting policy information that users have identified as the most useful.

BCZ31K The definition of 'material' (see Appendix A and paragraphs B1–B5 of IFRS 18) states that 'materiality depends on the nature or magnitude of information, or both'. Consequently, in assessing whether accounting policy information is material, an entity is required to consider not just the size of the transactions, other events or conditions to which the accounting policy information relates, but also the nature of those transactions, other events or conditions. To clarify this point, the Board included in the amendments an explanation that accounting policy information can be judged material because of the nature of the related transactions, other events or conditions, even if the amounts to which that information relates are immaterial (see paragraph 27B of IAS 8).

BCZ31L Some respondents to the Exposure Draft said that sometimes accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards can provide users of financial statements with material information. In the Board's view, accounting policy information that includes standardised information or that duplicates or summarises some of the requirements of IFRS Standards is generally less useful to users than entity-specific accounting policy information. However, the Board agreed that such accounting policy information is expected to be material if it is needed to understand other material information in the financial statements. The Board concluded that when such information is material, it is required to be disclosed.

BCZ31M Such information could be material, for example, when an entity judges the accounting required for a material transaction, other event or condition to be so complex that a primary user would be unable to understand the related material transaction, other event or condition in the absence of that information (see paragraph 27C(e) of IAS 8). The Board acknowledged that because the complexity of accounting required for particular transactions, other events or conditions is ultimately a subjective question, an entity will need to judge whether the relevant accounting is complex. However, the Board concluded that the guidance in the amendments would be sufficient for an entity, auditors, regulators and others to make appropriate judgements about the materiality of such information.

BCZ31N An entity is permitted to disclose accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards, even when that information is assessed as immaterial. However, if an entity discloses such information, it shall not obscure material accounting policy information (see paragraph 27E of IAS 8).

BCZ31O The Board deleted the discussion of 'measurement basis (or bases)' that was included in IAS 1 at that time. The Board did so to better enable preparers to apply judgement and thereby disclose only material accounting policy information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some cases, the measurement basis (or bases) used for a particular asset or liability would not be material and, therefore, would not need to be disclosed. For example, information about a measurement basis might be immaterial if:

(a) an IFRS Standard required an entity to use a measurement basis—in which case an entity would not apply choice or judgement in complying with the Standard; and

(b) information about the measurement basis would not be needed for users to understand the related material transactions, other events or conditions.

BCZ31P The Board decided to emphasise that the amendments do not relieve an entity from meeting other disclosure requirements within IFRS Standards (see paragraph 27F of IAS 8). For example, if an entity applying the amendments decides that accounting policy information about intangible assets is immaterial to its financial statements, the entity would still need to disclose the information required by IAS 38 *Intangible Assets* that the entity had determined to be material.

References to accounting policies in other IFRS Standards and publications

BCZ31Q Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. The Board considered whether any of these requirements should be changed because of the amendments. However, the Board noted that IAS 1 at that time stated that disclosure requirements in IFRS Standards are subject to materiality judgements—a disclosure required by an IFRS Standard is required to be provided only if the information resulting from that disclosure is material. Consequently, the Board concluded that amendments to requirements relating to accounting policy disclosures in other IFRS Standards are unnecessary.

Effect analysis

BCZ31R The Board acknowledged that the amendments may have:

(a) an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to accounting policy information; and

(b) ongoing costs to preparers, because the amendments require an entity to apply its own judgement to determine what accounting policy information is material and should, therefore, be disclosed in the financial statements.

BCZ31S However, in the Board's view, the amendments will improve the relevance of the financial statements by helping an entity to:

(a) identify and disclose accounting policy information that is material to users of financial statements; and

(b) remove immaterial accounting policy information that may obscure material accounting policy information.

BCZ31T The Board also expects that the amendments:

(a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and

(b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.

BCZ31U Consequently, the Board expects that the benefits of the amendments will outweigh the costs.

Transition and comparative information

BCZ31V The amendments affect the disclosure of narrative and descriptive information. IAS 1 at that time specified that comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In the Board's view, providing comparative accounting policy information would be unnecessary in most circumstances because if the accounting policy:

(a) is unchanged from the comparative periods, the disclosure of the current period's accounting policy is likely to provide users with all the accounting policy information that is relevant to an understanding of the current period's financial statements; or

(b) has changed from the comparative periods, the disclosures required by paragraphs 28–29 of IAS 8 are likely to provide any information about the comparative period's accounting policies that is relevant to an understanding of the current period's financial statements.

Disclosure of the judgements that management has made in the process of applying the entity's accounting policies

BCZ31W IAS 8 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 27G of IAS 8). An example of these judgements is how management determines whether financial assets are held-to-maturity investments. The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

BCZ31X Comments received on the exposure draft of 2002 indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 31A of IAS 8) and added another four examples of the types of judgements disclosed (see paragraphs 27H and 27I of IAS 8).

Disclosure of major sources of estimation uncertainty

BCZ31Y IAS 8 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

(a) their nature; and

(b) their carrying amount as at the end of the reporting period (see paragraph 31A of IAS 8).

BCZ31Z Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.

BCZ31AA The *Framework* at that time stated that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 31A of IAS 8 would be made in respect of relatively few assets or liabilities (or classes of them).

BCZ31AB The exposure draft of 2002 proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:

(a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period'; and

(b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 31D of IAS 8).

BCZ31AC When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value.

BCZ31AD IAS 8 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 8 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

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Amended references to the *Conceptual Framework*

BC34 Following the issue of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*), the Board issued *Amendments to References to Conceptual Framework in IFRS Standards*. In IAS 8, that document amended paragraphs 6 and 11(b). That document also amended paragraphs in IAS 1 that have been carried over to paragraphs 6A, 6E–6F, 6I–6J, and 6N of IAS 8.

...

BCZ37A The Board does not expect the replacement of the references to the *Framework* to have a significant effect on the application of IAS 8 for the following reasons:

(a) in paragraph 6A of IAS 8, replacing the reference to the *Framework* should not change the assessment of whether the financial statements present fairly the financial position, financial performance and cash flows of an entity. Paragraph 6A of IAS 8 explains that the application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation. Revisions of the *Conceptual Framework* will not automatically lead to changes in IFRS Standards. Hence, entities are expected to continue applying IFRS Standards in preparing their financial statements even in cases in which the requirements of a particular Standard depart from aspects of the *Conceptual Framework*.

(b) in paragraphs 6E–6F and 6I–6J of IAS 8, replacing the reference to the *Framework* means referring to the revised description of the objective of financial statements in the 2018 *Conceptual Framework* instead of the description provided by the *Framework*. The objective did not change substantively—it is an adapted and updated version of the objective of financial statements from the *Framework* and IAS 1 at that time. Hence, applying the revised objective is not expected to lead to changes in the application of the requirements in paragraphs 6E–6F and 6I–6J of IAS 8.

(c) in paragraph 6N of IAS 8, replacing the reference to the *Framework* in the discussion of the accrual basis of accounting is not expected to result in any changes because no changes were made to the discussion of the accrual basis of accounting in the 2018 *Conceptual Framework*.

Dissenting opinions

Dissent of Françoise Flores from *Disclosure of Accounting Policies*

DO1 Ms Flores voted against the publication of *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2. The reasons for her dissent are set out below.

DO2 Ms Flores agrees with those amendments to IAS 1 and IFRS Practice Statement 2 which aim to provide primary users of financial statements with all and only relevant accounting policy information. She also supports the Board's past and current efforts to clarify how the concept of materiality should be applied more generally. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2.

DO3 In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.

DO4 A minority of respondents were concerned that the Board's proposals could be read as prohibiting the publication of any accounting policy information that is standardised, or that duplicates or summarises the requirements of IFRS Standards. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.

DO5 Furthermore, Ms Flores notes that paragraph 2.36 of the *Conceptual Framework of Financial Reporting*, paragraph 7 of IAS 1 and the guidance included in paragraphs 13–23 of IFRS Practice Statement 2 state that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity. In her view, investors are responsible for ensuring that their economic decisions are derived from a proper and knowledgeable understanding of an entity's financial statements, which includes understanding the requirements of IFRS Standards. IFRS Standards should be regarded as public knowledge in a financial reporting environment. No mere recitation of the words from the IFRS Standards can meet the definition of material without stretching that definition endlessly. In Ms Flores' view, improving users' understanding of the requirements in IFRS Standards should be achieved through education by the IFRS Foundation. Such an objective should not be achieved by amending the requirements of IFRS Standards.

A footnote is added to the end of paragraph BC3A. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and amended the definition of 'International Financial Reporting Standards (IFRSs)' to 'IFRS Accounting Standards'. All references in this Basis for Conclusions to International Financial Reporting Standards, IFRS Standards or IFRSs refer to IFRS Accounting Standards.

A footnote is added to 'exposure draft of 2002,' in paragraph BCZ12H. New text is underlined.

* The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

A footnote is added to the end of paragraph BC20. New text is underlined.

* When it issued IFRS 18, the IASB carried over the definition of 'material' from IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote to 'IAS 1.' in paragraph BC21A is amended. New text is underlined and deleted text is struck through.

* Refer to paragraphs BCZ26 to BCZ44 of the Basis for Conclusions on IFRS 18~~BC13A–BC13T of the Basis for Conclusions on IAS 1~~.

A footnote is added to 'to disclosures.' in paragraph BC22. New text is underlined.

* When it issued IFRS 18, the IASB carried over the definition of 'material' from IAS 1 to IFRS 18.

A footnote is added to 'exposure draft of 2002' in paragraphs BCZ31X and BCZ31AB. New text is underlined.

* The exposure draft of 2002 refers to the May 2002 Exposure Draft *Improvements to International Accounting Standards* that included proposals to revise IAS 1.

A footnote is added to the end of paragraphs BCZ12C and BCZ31AA. New text is underlined.

* The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) replaced the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*).

A footnote is added to 'IAS 1 at that time.' in paragraph BCZ37A(b). New text is underlined.

* When it issued IFRS 18, the IASB replaced the objective of financial statements in IAS 1 with paragraph 9 of IFRS 18.

A footnote to paragraph BC77 of the Basis for Conclusions on IAS 1 was carried over unchanged and added to 'held-to-maturity investments.' in paragraph BCZ31W. New text is underlined.

* IFRS 9 *Financial Instruments* eliminated the category of held-to-maturity financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

A footnote to paragraph BC83 of the Basis for Conclusions on IAS 1 was carried over unchanged and added to 'predict a future value.' in paragraph BCZ31AC. New text is underlined.

* IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

A footnote is added to 'IFRS Practice Statement 2.' in paragraph DO1. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*. The IASB carried over some paragraphs unchanged from IAS 1 to IFRS 18 and moved paragraphs relating to disclosures of accounting policies from IAS 1 to IAS 8 *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraph DO2. New text is underlined.

* Paragraph 117B(d) of IAS 1 is now paragraph 27C(e) of IAS 8.

A footnote is added to 'perceived complexity.' in paragraph DO5. New text is underlined.

* The statement that 'users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an advisor to cope with perceived complexity' that was in paragraph 7 of IAS 1 is now in paragraph B5 of IFRS 18.

IAS 10 *Events after the Reporting Period*

A footnote to the title 'IAS 10 *Events after the Reporting Period*' is amended. New text is underlined.

* In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007). In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 to IFRS 18.

A footnote to 'the balance sheet date' in paragraph BC4 is amended. New text is underlined and deleted text is struck through.

* IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) replaced the term 'balance sheet date' with 'end of the reporting period'. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IAS 12 *Income Taxes*

A footnote is added to 'material judgements.' in paragraph BC28. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' from IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC33. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IAS 16 *Property, Plant and Equipment*

A footnote is added to the end of paragraph BC16N. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements to disclose information about estimates and judgements in IAS 1 *Presentation of Financial Statements* to IAS 8 *Basis of Preparation of Financial Statements.*

A footnote is added to 'the offsetting of income and expenses;' in paragraph BC16O. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'the presentation of income and expenses as separate line items in the statement of profit or loss.' in paragraph BC16O. New text is underlined.

* When it issued IFRS 18, the IASB replaced IAS 1 with IFRS 18. IFRS 18 requires an entity to present additional line items in the statement of profit or loss if doing so is necessary to provide a useful structured summary of the entity's income and expenses.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraphs BC25D(b) and BC36B. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IAS 19 *Employee Benefits*

A footnote is added to the end of paragraph BC90. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to the end of paragraphs BC94 and BC95. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph BC173C. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraph BC201. New text is underlined.

* When it issued IFRS 18, the IASB replaced IAS 1 with IFRS 18. IFRS 18 includes requirements for classifying the service cost and net interest components in the statement of profit or loss.

A footnote is added to the end of paragraph BC202. New text is underlined.

* When it issued IFRS 18, the IASB replaced IAS 1 with IFRS 18. IFRS 18 does not require separate presentation of finance costs.

A footnote is added to 'paragraphs 17(c) and 31 of IAS 1,' in paragraph BC209. New text is underlined.

* When it issued IFRS 18, the IASB replaced paragraph 31 of IAS 1 with paragraphs 19–20 of IFRS 18 and carried over paragraph 17(c) of IAS 1 to paragraph 6C(c) of IAS 8.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph BC269. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

A footnote to 'separate component of equity' in paragraph BC25A is amended. New text is underlined.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such differences are recognised in other comprehensive income. In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'paragraphs 125–133 of IAS 1 *Presentation of Financial Statements*;' in paragraph BC59. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraphs 125–133 of IAS 1 to paragraphs 31A–31I of IAS 8 *Basis of Preparation of Financial Statements*.

A footnote is added to 'paragraph 122 of IAS 1' in paragraph BC61. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraph 122 of IAS 1 to paragraph 27G of IAS 8.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph BC63. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IAS 23 *Borrowing Costs*

A footnote is added to the end of paragraph BC26. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1 *Presentation of Financial Statements*. IFRS 18 does not require separate presentation of finance costs.

IAS 27 *Separate Financial Statements*

A footnote is added to the end of paragraph BC28. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

IAS 28 *Investments in Associates and Joint Ventures*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC19I. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements.*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC50A. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IAS 32 *Financial Instruments: Presentation*

A footnote is added to the end of paragraph BC4H. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

In paragraph BC8 the footnote to 'income statement' is amended. New text is underlined and deleted text is struck through.

* IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) required ~~requires~~ an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC8 the footnote to 'balance sheet' is amended. New text is underlined.

* IAS 1 (revised 2007) replaced the term 'balance sheet' with 'statement of financial position'. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC22 the footnote to 'balance sheet' is amended. New text is underlined.

* IAS 1 (as revised 2007) replaced the term 'balance sheet' with 'statement of financial position'. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC74. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IAS 33 *Earnings per Share*

Paragraphs BC16–BC18 are added. For ease of reading, these paragraphs have not been underlined. The heading 'Other changes' (included above paragraph BC16 in this document) has not been amended but it is included for ease of reference.

Other changes

...

BC16 IFRS 18 *Presentation and Disclosure in Financial Statements* amended the disclosure requirements in IAS 33 to specify the numerator (or numerators) entities can use to calculate amounts per share using a measure of performance. When disclosing additional amounts per share, an entity can only use as the numerator an amount attributable to ordinary equity holders of the parent of totals or subtotals in paragraphs 69, 86 and 118 of IFRS 18 or a management-defined performance measure as defined by IFRS 18.

BC17 The IASB concluded that it was necessary to specify the numerator (or numerators) an entity can use when disclosing additional amounts per share to ensure that users of financial statements receive the same information about additional amounts per share as they receive for management-defined performance measures. Therefore, the IASB considered the implications of this restriction for entities required by local law or regulation to disclose amounts per share in addition to basic and diluted earnings per share as required by IAS 33. If such an entity concludes that a numerator required by local law or regulation meets the definition of a management-defined performance measure in IFRS 18, that entity would be permitted to disclose the amount per share in its financial statements.

BC18 IFRS 18 also amended IAS 33 to specify that information about amounts per share, in addition to information about basic and diluted earnings per share as required by IAS 33, may only be disclosed in the notes and may not be presented in the primary financial statements. The IASB concluded that additional amounts per share calculations require additional information and reconciliation to the measures presented in the primary financial statements to be understood by users of financial statements. This additional information and reconciliations can only be provided in the notes. Disclosure in the notes also addresses the concerns of some stakeholders that adjusted measures of performance should not be given more prominence than measures specified by IFRS Accounting Standards.

IAS 34 *Interim Financial Reporting*

Paragraphs BCZ5A and BC10A–BC10C and their subheading are added. For ease of reading, these paragraphs and the subheading have not been underlined. The headings ‘Content of an interim financial report’ (included above paragraph BCZ5A), ‘Selected explanatory notes’ (included above paragraph BC10A), and the subheading ‘Other disclosures incorporated by cross-reference to information outside the interim financial statements’ (also included above paragraph BC10A) have not been amended but they are included for ease of reference.

Content of an interim financial report

...

BCZ5A The Board decided not to reflect in paragraph 8 of IAS 34 (which sets out the minimum components of an interim financial report) its decision to require in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period. IAS 34 has a year-to-date approach to interim reporting and does not replicate the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* in terms of comparative information.

Selected explanatory notes

...

Other disclosures incorporated by cross-reference to information outside the interim financial statements

...

Management-defined performance measures

BC10A IFRS 18 amended the disclosure requirements for interim financial reporting. Under IAS 34, as amended by IFRS 18, an entity is required to make disclosures about its management-defined performance measures in the notes to its condensed interim financial statements; they are the same disclosures as those that are required in an entity’s complete set of financial statements by paragraphs 121–125 of IFRS 18. The IASB concluded that requiring information about management-defined performance measures in interim financial reports would provide users of financial statements with transparent information about these measures and allow them to analyse all aspects of an entity’s performance on a timely basis.

BC10B Consistent with the objective of condensed interim financial reports, an entity would not need to duplicate previously reported information about management-defined performance measures—for example, information about why an entity’s management thinks a management-defined performance measure communicates aspects of the entity’s performance.

BC10C Some preparers of financial statements were concerned about the costs of preparing a disclosure of the effects of income tax and non-controlling interest of reconciling items between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. In response to these concerns, the IASB considered not requiring this disclosure in condensed financial statements. However, it rejected this approach because omitting this information from condensed financial statements could, the IASB decided, undermine the usefulness of the disclosure of management-defined performance measures. The IASB noted that its requirements in paragraph B141 of IFRS 18 for determining the tax effect of management-defined performance measure adjustments should also reduce the costs of providing this information.

A footnote is added to 'IAS 1 *Presentation of Financial Statements*.' in paragraph BC5. New text is underlined.

* <u>In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over paragraphs 10(ea) and 10(f) of IAS 1 *Presentation of Financial Statements* to paragraphs 10(f) and 10(g) of IFRS 18.</u>

A footnote is added to 'IAS 1 *Presentation of Financial Statements* in 2007.' in paragraph BC12. New text is underlined.

* <u>When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.</u>

IAS 36 *Impairment of Assets*

A footnote to ‘the income statement’ in paragraph BCZ108 is amended. New text is underlined and deleted text is struck through.

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) required ~~requires~~ an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 to IFRS 18.

A footnote to ‘directly in equity’ in paragraph BCZ108 is amended. New text is underlined.

* As a consequence of the revision of IAS 1 (revised 2007) an impairment loss is recognised in other comprehensive income. The IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote to ‘IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*’ in paragraph BCZ184(c) is amended. New text is underlined.

* IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* was superseded in 2003 by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to ‘concept of materiality as described in IAS 1 *Presentation of Financial Statements* (see paragraph 31 of IAS 1)’ in paragraph BC209M. New text is underlined.

* When it issued IFRS 18, the IASB carried over the definition of ‘material’ from IAS 1 *Presentation of Financial Statements* to IFRS 18 and replaced paragraph 31 of IAS 1 with paragraphs 19–20 of IFRS 18.

A footnote is added to ‘IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.’ in paragraph BC209M. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC21. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IAS 38 *Intangible Assets*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC90. New text is underlined.

* <u>When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.</u>

IAS 40 *Investment Property*

Basis for Conclusions on IAS 40 (2000) *Investment Property*

A footnote to 'IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*,' in paragraph B50 is amended. New text is underlined and deleted text is struck through.

* Revised ~~revised~~ by the IASB in 2003 as IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IAS 41 *Agriculture*

Basis for IASC's Conclusions on IAS 41 *Agriculture*

In paragraph B38 the footnote to 'net profit or loss' is amended. New text is underlined.

* IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'. In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 to IFRS 18.

In paragraph B82(h) the footnote to 'net profit or loss' is amended. New text is underlined.

* IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to 'IAS 1 *Presentation of Financial Statements*;' in paragraph B82(k)(i). New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC12. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

In paragraph BC25(a) the footnote at the end of the first sentence is amended. New text is underlined.

* IAS 1 *Presentation of Financial Statements* (revised 2007) replaced the term 'balance sheet date' with 'end of the reporting period'. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC25(b) the footnote to 'equity,' is amended. New text is underlined and deleted text is struck through.

* As a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ in 2007 the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC29 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* As a consequence of the revision of IAS 1 ~~*Presentation of Financial Statements*~~ in 2007 such changes are presented in the statement of comprehensive income. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC5. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 16,' in paragraph BC17. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

In paragraph BC24 the footnote to 'explains:' is amended. New text is underlined.

* Paragraph 18 has been amended as a consequence of the changes made by IAS 1 *Presentation of Financial Statements* (as revised in 2007). When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC24 the footnote to '*income statement;*' is amended. New text is underlined and deleted text is struck through.

* IAS 1 (revised 2007) required ~~requires~~ an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

In paragraph BC24 the footnote to '*charged to equity*' is amended. New text is underlined.

* Under IAS 1 (revised 2007), such effect is recognised in other comprehensive income. When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

IFRIC 12 *Service Concession Arrangements*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph BC14. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC72. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

A footnote is added to 'IAS 1 *Presentation of Financial Statements* (as revised in 2007),' in paragraph BC36. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

A footnote is added to the end of paragraphs BC41, BC44, BC45, BC48 and BC54. New text is underlined.

* When it issued IFRS 18, the IASB carried over these requirements in IAS 1 to IFRS 18.

A footnote is added to the end of paragraph BC46. New text is underlined.

* When it issued IFRS 18, the IASB carried over paragraph 88 of IAS 1 to paragraph 46 of IFRS 18.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

A footnote is added to '(paragraph 85 of IAS 1 *Presentation of Financial Statements*)' in paragraph BC32(b). New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and replaced paragraph 85 of IAS 1 with paragraph 77 of IFRS 18.

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC33. New text is underlined.

* When it issued IFRS 18, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC20. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements.*

IFRIC 21 *Levies*

A footnote is added to 'IAS 1 *Presentation of Financial Statements*' in paragraph BC21. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements about the accrual basis of accounting and the going concern assumption in IAS 1 *Presentation of Financial Statements* to IAS 8 *Basis of Preparation of Financial Statements*.

IFRIC 23 *Uncertainty over Income Tax Treatments*

A footnote is added to 'IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph BC21. New text is underlined.

* When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of the first sentence of paragraph BC22. New text is underlined.

* When it issued IFRS 18, the IASB carried over these disclosure requirements in IAS 1 *Presentation of Financial Statements* to IAS 8.

SIC-29 *Service Concession Arrangements: Disclosures*

A footnote is added to the references to IAS 1 in the italicised and underlined text above paragraph 10. New text is underlined.

* In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in IAS 1 *Presentation of Financial Statements* to IFRS 18.

HKFRS 18 IE

Issued July 2024

Illustrative Examples

Hong Kong Financial Reporting Standard 18

Presentation and Disclosure in Financial Statements

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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APPENDIX

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Illustrative Examples on IFRS 18 *Presentation and Disclosure in Financial Statements*

These examples accompany, but are not part of, IFRS 18. They illustrate aspects of IFRS 18 but are not intended to provide interpretative guidance.

Introduction

IE1 IFRS 18 sets out requirements for the presentation and disclosure of information in financial statements. These examples are not intended to illustrate all aspects of the presentation and disclosure requirements in IFRS 18, nor do they illustrate a complete set of financial statements.

IE2 As discussed in paragraphs 6–7, 11–12, 106 and 114 of IFRS 18, an entity is permitted to change the order of presentation or disclosures, the titles of financial statements and the descriptions used, provided it complies with the requirements in IFRS Accounting Standards for the presentation and disclosure of information.

IE3 The examples are structured in three parts:

(a) Part I—examples of presentation and disclosure. This part sets out examples of the statements of financial performance, financial position and changes in equity for an entity that does not invest in assets as a main business activity, nor provide financing to customers as a main business activity. Therefore, the requirements in paragraphs 49–51, 55–58 and 65–66 of IFRS 18 are not applicable to this entity. This part also provides examples of some disclosures in the notes.

(b) Part II—additional examples of the statement of profit or loss. This part sets out another example of the statement of profit or loss for an entity that does not invest in assets as a main business activity, nor provide financing to customers as a main business activity. This part also sets out examples of the statement of profit or loss for an entity that either provides financing to customers as a main business activity or invests in assets as a main business activity, or both. Such an entity applies the requirements in paragraphs 49–51 and the requirements in either paragraphs 55–58 or paragraphs 65–66 of IFRS 18, or both, and classifies some income and expenses in the operating category that an entity without such specified main business activities would classify in the investing or financing categories.

(c) Part III—capital disclosures. The examples in this part illustrate the application of paragraphs 126–128 of IFRS 18.

IE4 Part I and Part II include context-setting paragraphs that precede illustrated presentations or disclosures. Those paragraphs are intended to enable a reader to better understand the context in which the illustrated presentations or disclosures are given. Monetary amounts in Part I, Part II and Part III are denominated in 'currency units' (CU).

Part I—Examples of presentation and disclosure

IE5 XYZ Group is a manufacturer that does not invest in assets as a main business activity, nor provide financing to customers as a main business activity. Part I provides examples of some of XYZ Group's primary financial statements and notes, specifically:

(a) statements of financial performance (a statement of profit or loss and a statement presenting comprehensive income);

(b) a statement of financial position;

(c) a statement of changes in equity;

(d) Note 1—Specified expenses by nature (see paragraph 83 of IFRS 18);

(e) Note 2—Management-defined performance measures (see paragraphs 122–123 of IFRS 18);

(f) Note 3—Analysis of reclassification adjustments (see paragraph 90 of IFRS 18); and

(g) Note 4—Analysis of tax effects relating to each component of other comprehensive income (see paragraph 93 of IFRS 18).

IE6 This part does not illustrate XYZ Group's complete set of financial statements. For instance, Part I excludes examples of:

(a) a statement of cash flows. The illustrative examples accompanying IAS 7 *Statement of Cash Flows* provide examples of the statement of cash flows for an entity.

(b) a third statement of financial position as at the beginning of the preceding reporting period. XYZ Group is required to present such a statement as at 1 January **20X1** because it has made a retrospective adjustment of retained earnings as at that date, as illustrated in the statement of changes in equity (see paragraph 37 of IFRS 18).

(c) other disclosures required by IFRS Accounting Standards. In a complete set of financial statements, an entity is required to cross-reference each item in the primary financial statements to any related information in the notes (see paragraph 114 of IFRS 18), and is likely to cross-reference between related notes.

IE7 For the purpose of the examples in this part:

(a) XYZ Group has presented profit or loss and other comprehensive income in two statements (see paragraph 12(b) of IFRS 18). Items of other comprehensive income included in the statement presenting comprehensive income are presented before tax effects, with one amount shown for the aggregate amount of income tax relating to those items in each category (see paragraphs 94(b) and 95 of IFRS 18).

(b) XYZ Group has concluded that the most useful structured summary of its expenses is provided by presenting in the operating category of the statement of profit or loss some expenses classified by function and other expenses classified by nature (see paragraphs 78, B80–B82 and B85 of IFRS 18). Presenting expenses by function most closely represents the way the business is managed and how management reports internally, and is standard practice within the industry in which XYZ Group operates. However, XYZ Group presents goodwill impairment loss separately because any allocation to function line items would be arbitrary and would therefore not provide a faithful representation of the functions. XYZ Group has also concluded that presenting the additional subtotals gross profit, profit before income taxes and profit from continuing operations provides a useful structured summary of its income and expenses.

(c) XYZ Group has concluded that presenting a statement of financial position distinguishing current items from non-current items provides the most useful structured summary of its assets and liabilities (see paragraph 96 of IFRS 18).

Statement of profit or loss

XYZ Group—Statement of profit or loss for the year ended 31 December 20X2

(in thousands of CU)

	Note	20X2	20X1
Revenue		367,000	353,100
Cost of sales	1	(241,600)	(224,100)
Gross profit		**125,400**	**129,000**
Other operating income	2	12,200	4,100
Selling expenses	1	(28,900)	(27,400)
Research and development expenses	1, 2	(25,100)	(25,900)
General and administrative expenses	1, 2	(20,900)	(22,400)
Goodwill impairment loss	1, 2	(4,500)	—
Other operating expenses		(1,200)	(5,600)
Operating profit	2	**57,000**	**51,800**
Share of profit and gains on disposal of associates and joint ventures[(a)]	2	5,300	7,300
Profit before financing and income taxes		**62,300**	**59,100**
Interest expenses on borrowings and lease liabilities		(13,000)	(13,200)
Interest expenses on pension liabilities and provisions		(6,500)	(6,000)
Profit before income taxes		**42,800**	**39,900**
Income tax expense	2	(10,700)	(9,975)
Profit from continuing operations	2	**32,100**	**29,925**
Loss from discontinued operations		—	(5,500)
PROFIT		**32,100**	**24,425**
Profit attributable to:			
Owners of the parent		25,680	19,540
Non-controlling interests		6,420	4,885
		32,100	24,425
Earnings per share from continuing operations:			
Basic and diluted		0.67	0.66
Earnings per share:			
Basic and diluted		0.67	0.54

(a) Share of profit of associates and joint ventures means the share of associates' and joint ventures' profit attributable to owners of the associates and joint ventures after tax and non-controlling interests in the associates and joint ventures.

Statement presenting comprehensive income

XYZ Group—Statement presenting comprehensive income for the year ended 31 December 20X2

(in thousands of CU)

	Note	20X2	20X1
Profit		**32,100**	**24,425**
Income and expenses that will not be reclassified to profit or loss:			
Gains (losses) on remeasurements of defined benefit plans		6,700	(4,600)
Share of other comprehensive income of associates and joint ventures[(a)]		(2,200)	3,300
Income tax relating to income and expenses that will not be reclassified to profit or loss	4	(1,675)	1,150
Total income and expenses that will not be reclassified to profit or loss		**2,825**	**(150)**
Income and expenses that will be reclassified to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operations	3	(5,600)	10,000
Losses on cash flow hedges	3	(1,200)	(4,000)
Income tax relating to income and expenses that will be reclassified to profit or loss when specific conditions are met	4	1,700	(1,500)
Total income and expenses that will be reclassified to profit or loss when specific conditions are met		**(5,100)**	**4,500**
Other comprehensive income, net of tax	4	**(2,275)**	**4,350**
TOTAL COMPREHENSIVE INCOME		**29,825**	**28,775**
Total comprehensive income attributable to:			
Owners of the parent		23,420	23,680
Non-controlling interests		6,405	5,095
		29,825	28,775

(a) Share of other comprehensive income of associates and joint ventures means the share of associates' and joint ventures' other comprehensive income attributable to owners of the associates and joint ventures after tax and non-controlling interests in the associates and joint ventures.

Statement of financial position

XYZ Group—Statement of financial position as at 31 December 20X2

(in thousands of CU)

Assets	31 December 20X2	31 December 20X1
Non-current assets		
Property, plant and equipment	312,000	295,600
Goodwill	160,000	164,500
Other intangible assets	158,400	146,500
Investments in associates and joint ventures	20,200	17,400
Total non-current assets	**650,600**	**624,000**
Current assets		
Inventories	55,500	52,500
Trade receivables	34,000	32,000
Cash and cash equivalents	23,400	22,800
Other current assets	4,600	8,575
Total current assets	**117,500**	**115,875**
TOTAL ASSETS	**768,100**	**739,875**

(in thousands of CU)

Equity and liabilities	31 December 20X2	31 December 20X1
Equity attributable to owners of the parent		
Share capital	110,000	100,000
Retained earnings	139,720	123,040
Other components of equity	2,480	4,740
Total equity attributable to owners of the parent	**252,200**	**227,780**
Non-controlling interests	41,400	34,995
Total equity	**293,600**	**262,775**
Non-current liabilities		
Borrowings	158,700	147,200
Lease liabilities	85,400	97,500
Pension liabilities	112,000	108,000
Provisions	38,000	32,000
Deferred tax liabilities	4,800	8,600
Total non-current liabilities	**398,900**	**393,300**
Current liabilities		
Borrowings	25,000	28,000
Lease liabilities	14,000	18,000
Payables for goods or services received and other payables	21,800	22,400
Provisions	9,700	10,600
Income taxes payable	5,100	4,800
Total current liabilities	**75,600**	**83,800**
Total liabilities	**474,500**	**477,100**
TOTAL EQUITY AND LIABILITIES	**768,100**	**739,875**

Statement of changes in equity

XYZ Group—Statement of changes in equity as at 31 December 20X2

(in thousands of CU)

	Share capital	Retained earnings	Translation of foreign operations	Defined benefit plans	Share of other comprehensive income of associates and joint ventures	Cash flow hedges	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 20X1	**100,000**	**108,100**	**(2,500)**	**2,600**	**(1,500)**	**2,000**	**208,700**	**29,800**	**238,500**
Changes in accounting policy	—	400	—	—	—	—	400	100	500
Adjusted balance	100,000	108,500	(2,500)	2,600	(1,500)	2,000	209,100	29,900	239,000
Changes in equity for 20X1									
Dividends	—	(5,000)	—	—	—	—	(5,000)	—	(5,000)
Profit or loss	—	19,540	—	—	—	—	19,540	4,885	24,425
Other comprehensive income[(a)]	—	—	6,000	(2,760)	3,300	(2,400)	4,140	210	4,350
Total comprehensive income	—	19,540	6,000	(2,760)	3,300	(2,400)	23,680	5,095	28,775
Balance at 31 December 20X1	**100,000**	**123,040**	**3,500**	**(160)**	**1,800**	**(400)**	**227,780**	**34,995**	**262,775**
Changes in equity for 20X2									
Issue of share capital	10,000	—	—	—	—	—	10,000	—	10,000
Dividends	—	(9,000)	—	—	—	—	(9,000)	—	(9,000)
Profit or loss	—	25,680	—	—	—	—	25,680	6,420	32,100
Other comprehensive income[(a)]	—	—	(3,360)	4,020	(2,200)	(720)	(2,260)	(15)	(2,275)
Total comprehensive income	—	25,680	(3,360)	4,020	(2,200)	(720)	23,420	6,405	29,825
Balance at 31 December 20X2	**110,000**	**139,720**	**140**	**3,860**	**(400)**	**(1,120)**	**252,200**	**41,400**	**293,600**

(a) The amounts included in translation of foreign operations, defined benefit plans, share of other comprehensive income of associates and joint ventures, and cash flow hedges represent other comprehensive income for each component, net of tax and non-controlling interests (where applicable).

Note 1—Specified expenses by nature

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.

		(in thousands of CU)
	20X2	**20X1**
Depreciation		
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
Total depreciation	**31,200**	**29,330**
Amortisation		
Research and development expenses	13,840	12,690
Total amortisation	**13,840**	**12,690**
Employee benefits		
Cost of sales	61,640	57,175
Selling expenses	7,515	7,110
Research and development expenses	6,545	6,750
General and administrative expenses	8,920	5,825
Total employee benefits	**84,620**	**76,860**
Impairment losses[(a)]		
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	—
Total impairment losses	**6,100**	**1,500**
Write-down of inventories[(a)]		
Cost of sales	2,775	2,625
Total write-down of inventories	**2,775**	**2,625**

(a) The amounts disclosed represent the total of impairment losses and reversals of impairment losses and the total of write-down of inventories and reversals of write-down of inventories.

The amounts disclosed are those the entity recognised as expenses in the statement of profit or loss for the year, except for depreciation and employee benefits.

The amounts disclosed for depreciation are the charge for the year, calculated in accordance with IAS 16 *Property, Plant and Equipment*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

The amounts disclosed for employee benefits are the costs incurred for the year, including pension costs, for employee services, calculated in accordance with IAS 19 *Employee Benefits*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

Note 2—Management-defined performance measures

IE8 This example illustrates XYZ Group's disclosures for its management-defined performance measures. For the purpose of this example XYZ Group has:

(a) disclosed a statement saying adjusted operating profit and adjusted profit from continuing operations provide management's view of XYZ Group's operating profit and profit from continuing operations and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities (see paragraph 122 of IFRS 18).

(b) labelled and described each of its management-defined performance measures in a clear and understandable manner by explaining that it has adjusted operating profit and profit from continuing operations for non-recurring items of income or expense that it does not expect to arise for several future annual reporting periods (see paragraphs 123 and B134–B135 of IFRS 18).

(c) included a description of the aspect of financial performance each management-defined performance measure communicates. The entity explained that, in management's view, adjusted operating profit and adjusted profit from continuing operations provide useful information about XYZ Group's financial performance because they provide information that is helpful in understanding trends in underlying profitability (see paragraphs 123(a), B137(b) and B138–B139 of IFRS 18).

(d) explained how it calculated adjusted operating profit and adjusted profit from continuing operations by explaining the specific adjusting items (see paragraphs 123(b), B137(b) and B138–B139 of IFRS 18). The entity has cross-referred its adjusting items to related notes in its financial statements and provided a detailed explanation of restructuring expenses in its note on management-defined performance measures (see paragraph 123(a) of IFRS 18).

(e) provided a reconciliation between operating profit and adjusted operating profit, and between profit from continuing operations and adjusted profit from continuing operations—that is, reconciliations to the most directly comparable subtotals presented in XYZ Group's statement of profit or loss (see paragraphs 123(c) and B136–B140 of IFRS 18).

(f) included for each of its adjusting items the income tax effect, the effect on non-controlling interests and the amount(s) related to each line item in XYZ Group's statement of profit or loss (see paragraphs 123(d) and B141 of IFRS 18).

(g) included a description of how it determined the income tax effects (see paragraph 123(e) of IFRS 18).

XYZ Group's management-defined performance measures

XYZ Group uses the management-defined performance measures adjusted operating profit and adjusted profit from continuing operations in its public communications. These measures are not specified by IFRS Accounting Standards and therefore might not be comparable to apparently similar measures used by other entities.

To provide management's view of XYZ Group's financial performance, operating profit and profit from continuing operations have been adjusted for items of income or expense that XYZ Group does not expect to arise for several future annual reporting periods. XYZ Group's management believes adjusting operating profit and profit from continuing operations for such items provides information that is helpful in understanding trends in XYZ Group's underlying profitability.

XYZ Group generally adjusts for these items of income or expense:

- impairment losses (or reversals thereof) of property, plant and equipment (including right-of-use assets) and intangible assets (for information related to impairments refer to Note X Property, plant and equipment, Note X Intangible assets and Note X Research and development expenses);

- restructuring expenses (for information related to restructuring expenses refer to Note X Employee benefits and Note X General and administrative expenses);

- non-recurring litigation expenses (for information related to litigation expenses refer to Note X Provisions and Note X General and administrative expenses);

- gains or losses on disposal of property, plant and equipment and of intangible assets (for information related to disposal of property, plant and equipment and intangible assets refer to Note X Property, plant and equipment, Note X Intangible assets and Note X Other operating income); and

- gains or losses on disposal of subsidiaries, associates and joint ventures.

XYZ Group assesses non-recurrence of litigation expenses on a case-by-case basis. XYZ Group generally categorises litigation expenses arising from intellectual property disputes, regulatory violations and employee claims as 'non-recurring'. This classification is based on XYZ Group's proactive approach of having in place measures designed to prevent such events from occurring.

Management-defined performance measures 20X2 (in thousands of CU)

		Adjusting items			
	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of property, plant and equipment	**Management-defined performance measure**
Other operating income		—	—	(1,800)	
Research and development expenses		1,600	—	—	
General and administrative expenses		—	3,800	—	
Goodwill impairment loss		4,500	—	—	
Operating profit / Adjusted operating profit	**57,000**	6,100	3,800	(1,800)	**65,100**
Income tax expense		—	(589)	297	
Profit from continuing operations / Adjusted profit from continuing operations	**32,100**	6,100	3,211	(1,503)	**39,908**
Profit attributable to non-controlling interests		305	161	—	

Impairment losses	Impairment losses incurred in **20X2** did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.
Restructuring expenses	The restructuring expenses in **20X2** are related to XYZ Group's restructuring programme 'Apollo **20X2**'. These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of **20X2**, which was 15.5%.
Gains on disposal of property, plant and equipment	The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of **20X2**, which was 16.5%.

Management-defined performance measures 20X1 (in thousands of CU)

		Adjusting items			
	IFRS	Impairment losses	Litigation expenses	Gains on disposal of associates and joint ventures	**Management-defined performance measure**
Research and development expenses		1,500	—	—	
General and administrative expenses		—	3,500	—	
Operating profit / Adjusted operating profit	**51,800**	1,500	3,500	—	**56,800**
Share of profit and gains on disposal of associates and joint ventures		—	—	(2,200)	
Income tax expense		—	—	319	
Profit from continuing operations / Adjusted profit from continuing operations	**29,925**	1,500	3,500	(1,881)	**33,044**
Profit attributable to non-controlling interests		75	—	—	

Impairment losses	Impairment losses incurred in **20X1** did not yield any tax benefits because they were not eligible for tax deductions in Country E.
Litigation expenses	Litigation expenses incurred in **20X1** did not yield any tax benefits because they were not eligible for tax deductions in Country F.
Gains on disposal of associates and joint ventures	The tax effect of gains on disposal of associates and joint ventures is calculated based on the statutory tax rate applicable in Country G, at the end of **20X1**, which was 14.5%.

Note 3—Analysis of reclassification adjustments

This table shows the reclassification adjustments of the components of other comprehensive income that will be reclassified to profit or loss when specific conditions are met.

(in thousands of CU)

		20X2		20X1
Income and expenses that will be reclassified to profit or loss when specific conditions are met				
Exchange differences on translating foreign operations		(5,600)		10,000
Losses on cash flow hedges:				
Losses arising during the year	(5,200)		(4,000)	
Minus: reclassification adjustments for losses included in profit or loss	4,000	(1,200)	—	(4,000)

Note 4—Analysis of tax effects relating to each component of other comprehensive income

(in thousands of CU)

	20X2			20X1		
	Amount before tax	Tax (expense) benefit	Amount net of tax	Amount before tax	Tax (expense) benefit	Amount net of tax
Income and expenses that will not be reclassified to profit or loss	**4,500**	**(1,675)**	**2,825**	**(1,300)**	**1,150**	**(150)**
Gains (losses) on remeasurements of defined benefit plans	6,700	(1,675)	5,025	(4,600)	1,150	(3,450)
Share of other comprehensive income of associates and joint ventures	(2,200)	—	(2,200)	3,300	—	3,300
Income and expenses that will be reclassified to profit or loss when specific conditions are met	**(6,800)**	**1,700**	**(5,100)**	**6,000**	**(1,500)**	**4,500**
Exchange differences on translating foreign operations	(5,600)	1,400	(4,200)	10,000	(2,500)	7,500
Losses on cash flow hedges	(1,200)	300	(900)	(4,000)	1,000	(3,000)
Other comprehensive income	**(2,300)**	**25**	**(2,275)**	**4,700**	**(350)**	**4,350**

Part II—Additional examples of the statement of profit or loss

IE9 Part II provides additional examples of the statement of profit or loss for four entities:

(a) Example II-1—Statement of profit or loss for an entity that is a manufacturer;

(b) Example II-2—Statement of profit or loss for an entity that is a manufacturer that provides financing to customers as a main business activity;

(c) Example II-3—Statement of profit or loss for an entity that is an insurer that invests in financial assets as a main business activity; and

(d) Example II-4—Statement of profit or loss for an entity that is an investment and retail bank that invests in financial assets as a main business activity and provides financing to customers as a main business activity.

For simplicity, the examples in this part do not show profit attributable to owners of the parent, profit attributable to non-controlling interests, and earnings per share (basic and diluted).

Example II-1—Statement of profit or loss for an entity that is a manufacturer

IE10 This example illustrates AA Group's statement of profit or loss. For the purpose of this example:

(a) AA Group is a manufacturer that does not invest in assets as a main business activity, nor provide financing to customers as a main business activity.

(b) in accordance with paragraphs 78, B80–B82 and B85 of IFRS 18, AA Group has concluded that presenting in the operating category of the statement of profit or loss all expenses classified by nature provides the most useful structured summary of its expenses. AA Group reached that conclusion because its main drivers of profitability are costs for raw materials and employment.

AA Group—Statement of profit or loss for the year ended 31 December 20X2

	(in thousands of CU)	
	20X2	**20X1**
Revenue	398,700	370,900
Changes in inventories of finished goods and work in progress	3,000	(3,700)
Raw materials used	(146,000)	(143,200)
Employee benefits	(107,000)	(104,600)
Depreciation, amortisation and impairment	(37,500)	(36,300)
Other operating expenses	(17,100)	(15,200)
Operating profit	**94,100**	**67,900**
Share of profit of associates and joint ventures	3,800	2,900
Profit before financing and income taxes	**97,900**	**70,800**
Interest expenses on borrowings and lease liabilities	(3,500)	(4,000)
Interest expenses on pension liabilities	(6,500)	(6,800)
Profit before income taxes	**87,900**	**60,000**
Income tax expense	(21,800)	(15,000)
PROFIT	**66,100**	**45,000**

Example II-2—Statement of profit or loss for an entity that is a manufacturer that provides financing to customers as a main business activity

IE11 This example illustrates BB Group's statement of profit or loss. For the purpose of this example:

(a) BB Group is a manufacturer that also provides financing to its customers as a main business activity (see paragraphs 49–51 and 65–66 of IFRS 18). BB Group does not invest in assets as a main business activity.

(b) in accordance with paragraphs 78, B80–B82 and B85 of IFRS 18, BB Group has concluded that presenting in the operating category of the statement of profit or loss some expenses classified by function and other expenses classified by nature provides the most useful structured summary of its expenses.

(c) BB Group's accounting policy is to include:

(i) in the financing category income and expenses from liabilities that arise from transactions that involve only the raising of finance that do not relate to the provision of financing to customers (see paragraph 65(a)(ii) of IFRS 18); and

(ii) in the investing category income and expenses from cash and cash equivalents that do not relate to the provision of financing to customers (see paragraph 56(b)(ii) of IFRS 18).

BB Group—Statement of profit or loss for the year ended 31 December 20X2

(in thousands of CU)

	20X2	20X1
Revenue	390,000	365,000
Cost of sales	(285,000)	(270,000)
Gross profit from the sale of goods	**105,000**	**95,000**
Interest revenue related to providing financing to customers	119,500	121,000
Interest expenses related to providing financing to customers	(110,000)	(100,800)
Net interest income	**9,500**	**20,200**
Selling expenses	(28,900)	(26,300)
Research and development expenses	(15,800)	(15,400)
General and administrative expenses	(22,900)	(23,600)
Other operating expenses	(4,500)	(5,400)
Operating profit	**42,400**	**44,500**
Income from investments	5,500	4,000
Profit before financing and income taxes	**47,900**	**48,500**
Interest expenses on borrowings not related to providing financing to customers	(3,800)	(3,500)
Interest expenses on pension liabilities	(3,600)	(4,200)
Profit before income taxes	**40,500**	**40,800**
Income tax expense	(10,125)	(10,200)
PROFIT	**30,375**	**30,600**

Example II-3—Statement of profit or loss for an entity that is an insurer that invests in financial assets as a main business activity

IE12 This example illustrates CC Group's statement of profit or loss. For the purpose of this example:

(a) CC Group is an insurer that invests as a main business activity in financial assets that generate a return individually and largely independently of CC Group's other resources (see paragraphs 49–51 and 55–58 of IFRS 18). CC Group does not provide financing to customers as a main business activity.

(b) in accordance with paragraphs 78, B80–B82 and B85 of IFRS 18, CC Group has concluded that presenting in the operating category of the statement of profit or loss some expenses classified by nature and other expenses classified by function provides the most useful structured summary of its expenses.

CC Group—Statement of profit or loss for the year ended 31 December 20X2

(in thousands of CU)

	20X2	**20X1**
Insurance revenue	138,200	133,800
Insurance service expenses	(107,000)	(106,000)
Insurance service result	**31,200**	**27,800**
Investment income	117,000	103,000
Credit impairment losses	(5,000)	(1,500)
Insurance finance expenses	(85,900)	(84,000)
Net financial result	**26,100**	**17,500**
Other operating expenses	(3,100)	(4,600)
Operating profit	**54,200**	**40,700**
Share of profit or loss of associates and joint ventures	(5,400)	4,800
Profit before financing and income taxes	**48,800**	**45,500**
Interest expenses on borrowings and pension liabilities	(2,500)	(2,200)
Profit before income taxes	**46,300**	**43,300**
Income tax expense	(10,200)	(9,000)
PROFIT	**36,100**	**34,300**

Example II-4—Statement of profit or loss for an entity that is an investment and retail bank that invests in financial assets as a main business activity and provides financing to customers as a main business activity

IE13 This example illustrates DD Group's statement of profit or loss. For the purpose of this example:

(a) DD Group is an investment and retail bank that:

(i) invests in financial assets that generate a return individually and largely independently of DD Group's other resources as a main business activity (see paragraphs 49–51 and 55–58 of IFRS 18); and

(ii) provides financing to customers as a main business activity (see paragraphs 49–51 and 65–66 of IFRS 18).

(b) in accordance with paragraphs 78, B80–B82 and B85 of IFRS 18, DD Group has concluded that presenting in the operating category of the statement of profit or loss all expenses classified by nature provides the most useful structured summary of its expenses.

(c) DD Group's accounting policy is to classify in the operating category income and expenses from all liabilities that arise from transactions that involve only the raising of finance, including liabilities that do not relate to the provision of financing to customers (see paragraph 65(a)(ii) of IFRS 18). As a result, DD Group is not permitted to present the subtotal profit before financing and income taxes (see paragraph 73 of IFRS 18).

DD Group—Statement of profit or loss for the year ended 31 December 20X2

(in thousands of CU)

	20X2	20X1
Interest revenue	356,000	333,800
Interest expenses	(281,000)	(259,000)
Net interest income	**75,000**	**74,800**
Fee and commission income	76,800	74,300
Fee and commission expenses	(45,300)	(44,800)
Net fee and commission income	**31,500**	**29,500**
Net trading income	9,100	900
Net investment income	11,600	7,800
Credit impairment losses	(17,300)	(19,100)
Employee benefits	(55,100)	(49,500)
Depreciation and amortisation	(6,700)	(5,950)
Other operating expenses	(5,100)	(4,550)
Operating profit	**43,000**	**33,900**
Share of profit of associates and joint ventures	1,800	2,100
Interest expenses on pension and lease liabilities	(2,200)	(1,800)
Profit before income taxes	**42,600**	**34,200**
Income tax expense	(11,200)	(9,000)
PROFIT	**31,400**	**25,200**

Part III—Capital disclosures

Example III-1—An entity that is not a regulated financial institution

IE14 This example illustrates the application of paragraphs 126–128 of IFRS 18 by EE Group, an entity that is not a financial institution and is not subject to externally imposed capital requirements. In this simple example, EE Group monitors its capital using a debt-to-adjusted capital ratio. Another entity might use a different method to monitor its capital. EE Group decides, in the light of its circumstances, how much detail it provides to satisfy the requirements in paragraphs 126–128 of IFRS 18. In determining the form and content of the disclosure to satisfy those requirements, EE Group also considers the disclosure requirements set out in paragraphs 44A–44E of IAS 7.

IE15 EE Group manufactures and sells cars. EE Group includes a finance subsidiary that provides financing to customers, primarily in the form of leases.

EE Group's capital disclosures

EE Group's objectives in managing its capital are:

(1) to safeguard the entity's ability to continue as a going concern, so it can continue to provide returns for shareholders and benefits for other stakeholders; and

(2) to provide an adequate return to shareholders by pricing its products and services commensurate with the amount of risk.

EE Group sets the amount of its capital in proportion to risk. EE Group manages its capital structure and makes adjustments, taking into consideration changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, EE Group might adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce its debt.

Consistent with other entities in the industry, EE Group monitors capital on the basis of its debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) minus cash and cash equivalents. Adjusted capital comprises all components of equity (that is, share capital, share premium, non-controlling interests, retained earnings and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

During **20X2** EE Group's strategy, which was unchanged from **20X1**, was to maintain its debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1 in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December **20X2** and at 31 December **20X1** were:

(in thousands of CU)

	31 December 20X2	31 December 20X1
Total debt	1,000	1,100
Minus: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Plus: subordinated debt instruments	38	38
Minus: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in EE Group's debt-to-adjusted capital ratio during **20X2** resulted primarily from the reduction in net debt that occurred upon the sale of Subsidiary X. This reduction in net debt, together with improved profitability and lower levels of managed receivables, resulted in the dividend payment increasing to CU2.8 million for **20X2** (from CU2.5 million for **20X1**).

Example III-2—An entity that has not complied with externally imposed capital requirements

IE16 This example illustrates the application of paragraph 127(e) of IFRS 18 if an entity has not complied with externally imposed capital requirements during the reporting period. The example does not illustrate other disclosures that would be provided to comply with the other requirements in paragraphs 126–128 of IFRS 18.

IE17 FF Group provides financing to its customers and is subject to capital requirements imposed by Regulator X. During the year ended 31 December **20X2** FF Group did not comply with the capital requirements imposed by Regulator X. In its financial statements for the year ended 31 December **20X2** FF Group provides disclosures relating to its non-compliance.

FF Group's capital disclosures (application of paragraph 127(e) of IFRS 18)

FF Group filed its quarterly regulatory capital return for 30 September **20X2** on 20 October **20X2**. At that date, FF Group's regulatory capital was CU1.0 million below the capital requirement imposed by Regulator X. As a result, FF Group was required to submit a plan to Regulator X indicating how it would increase its regulatory capital to the amount required. FF Group submitted a plan that entailed selling part of its investment portfolio with a carrying amount of CU11.5 million in the fourth quarter of **20X2**. In the fourth quarter of **20X2** FF Group sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

IFRS 18 SUPPORTING MATERIALS

These figures accompany, but are not part of, IFRS 18. They depict aspects of IFRS 18 but are not intended to provide interpretative guidance.

Figure 1—IFRS 18 on one page

Figure 2—Classification of income and expenses in the statement of profit or loss for entities without specified main business activities

Figure 3—Classification of specific income and expenses in the statement of profit or loss by entities with specified main business activities

Figure 3.1—Classification of specific income and expenses by entities that invest in assets as a main business activity

Figure 3.2—Classification of specific income and expenses by entities that provide financing to customers as a main business activity

Figure 3.3—Classification of income and expenses from cash and cash equivalents by entities with specified main business activities

Figure 4—Classification of income and expenses from hybrid contracts with host liabilities

Figure 5—Classification of gains and losses on derivatives

Figure 6—Identifying management-defined performance measures

Figure 7—Determining informative labels and information for aggregated items

Figure 8—Useful structured summary and the materiality process

Figure 1—IFRS 18 on one page

Figure 1 summarises the requirements in IFRS 18, including requirements introduced by IFRS 18 and requirements carried forward from IAS 1 Presentation of Financial Statements *to IFRS 18 and other IFRS Accounting Standards.*

Financial statements

Provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is **useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources** (paragraph 9)

Primary financial statements

Provide **useful structured summaries** of the entity's assets, liabilities, equity, income, expenses and cash flows (paragraphs 16, 18–24 and B8–B9)

Changes introduced by IFRS 18 focused on:
- Statement of profit or loss (paragraphs 46–50, 52–82 and B29–B85)

Limited changes to specific requirements for:
- Statement of cash flows (see paragraph 3 and IAS 7)
- Statement of financial position (paragraphs 96–106 and B90–B111)

No changes to specific requirements for:
- Statement presenting comprehensive income (paragraphs 86–95 and B86–B89)
- Statement of changes in equity (paragraphs 107–112)

Items in primary financial statements cross-referenced to related information in the notes (paragraph 114)

Amounts in the notes linked to the primary financial statements by disclosing the line item(s) that contain those amounts (paragraph 114)

Notes to the financial statements

Presented in a systematic manner to provide **material information** necessary to understand the line items presented in the primary financial statements and to supplement the financial statements. Disclose material information in the notes if not presented in the primary financial statements (paragraphs 17–20, 113–116, B6–B7 and B112)

Disclosures introduced or amended by IFRS 18 for:
- Management-defined performance measures (paragraphs 117–125 and B113–B142)
- Specified expenses by nature (paragraphs 83–85 and B84)
- Description of nature expenses included in each function line item (paragraph 82(b))
- Information relating to specified main business activities if an entity invests in assets or provides financing to customers as a main business activity (paragraph 51)

Disclosures carried forward, for example:
- Basis of preparation of the financial statements (paragraphs 6A–6N of IAS 8[1])
- Material accounting policy information (paragraphs 27A–27I of IAS 8[1])
- Sources of estimation uncertainty (paragraphs 31A–31I of IAS 8[1])
- Capital management and other disclosure requirements, such as information related to share capital and dividends (paragraphs 126–132)
- Information relating to liabilities with the right to defer settlement of those liabilities subject to complying with covenants within 12 months after the reporting period (paragraph B106)

Aggregation and disaggregation (paragraphs 41–45 and B16–B28)
- Principles to aggregate based on shared characteristics and to disaggregate based on characteristics that are not shared
- Guidance on finding informative labels and for disclosing information on aggregated items

General requirements for financial statements (paragraphs 10–14, 25–40, B1–B5 and B10–B15)
- Complete set of financial statements
- Consistency of presentation, disclosure and classification
- Identification of financial statements
- Comparative information
- Frequency of reporting
- Materiality

[1] These paragraphs were carried forward from IAS 1 *Presentation of Financial Statements* to IAS 8 *Basis of Preparation of Financial Statements* when the IASB issued IFRS 18.

Figure 2—Classification of income and expenses in the statement of profit or loss for entities without specified main business activities

Figure 2 summarises the requirements as set out in paragraphs 47–68 and B42–B76 of IFRS 18 for the classification of income and expenses into categories in the statement of profit or loss for entities without specified main business activities.

Categories and subtotals in the statement of profit or loss[1]

Operating category (paragraphs 52 and B42)
Income and expenses that are not classified in the other categories

Operating profit or loss

Investing category (paragraphs 53–54 and B43–B49)

Income and expenses (as specified in paragraph 54) from:

- investments in associates, joint ventures and unconsolidated subsidiaries;
- cash and cash equivalents; and
- other assets that generate a return individually and largely independently of the entity's other resources

Profit or loss before financing and income taxes

Financing category (paragraphs 59–64 and B50–B58)

- Income and expenses (as specified in paragraph 60) from liabilities that arise from transactions that involve only the raising of finance
- Interest income and expenses and income and expenses arising from changes in interest rates (as specified in paragraph 61) from liabilities that arise from transactions that do not involve only the raising of finance

Income taxes category (paragraph 67)

Discontinued operations category (paragraph 68)

Profit or loss

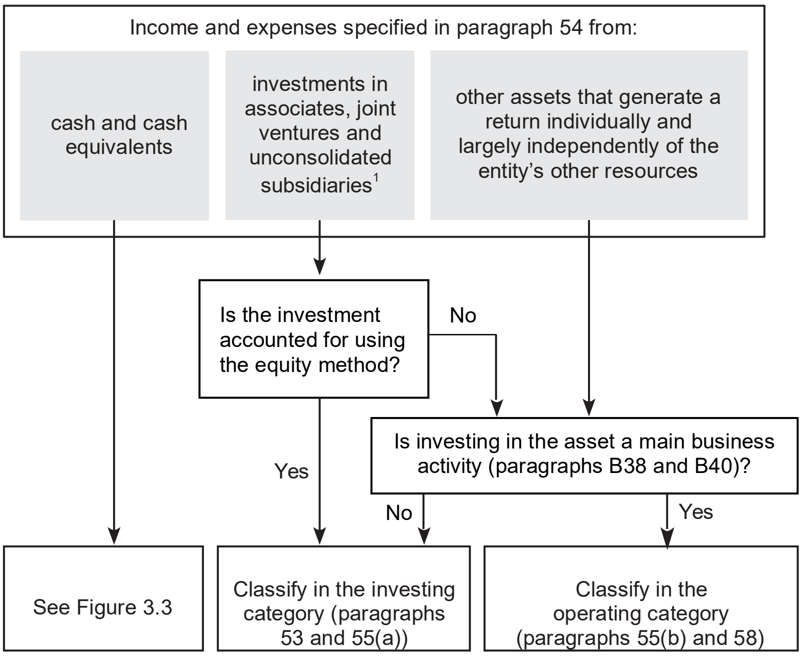
[1] IFRS 18 also sets out requirements on how to classify in the categories in the statement of profit of loss (paragraph 48):

- foreign exchange differences and the gain or loss on the net monetary position (paragraphs B65–B69); and
- gains and losses on derivatives and designated hedging instruments (paragraphs B70–B76).

Figure 3—Classification of specific income and expenses in the statement of profit or loss by entities with specified main business activities

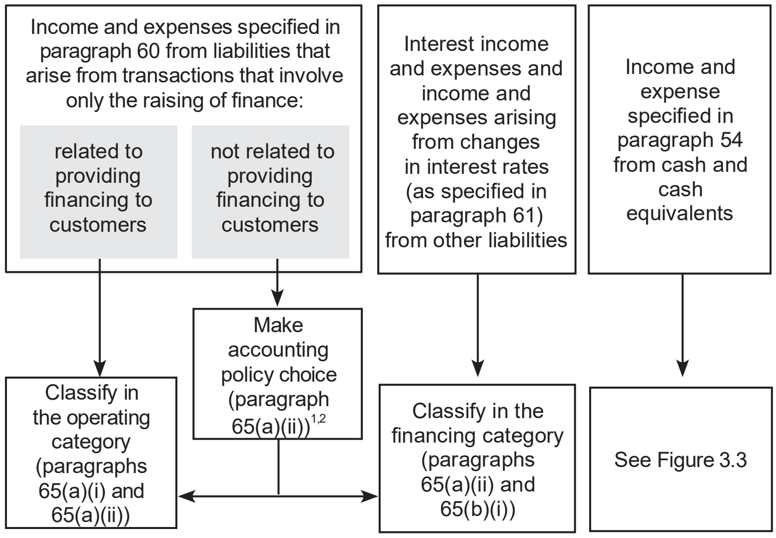
Figures 3.1–3.3 depict aspects of the requirements for entities that invest in assets or provide financing to customers as a main business activity as set out in paragraphs 55–58 and 65–66 of IFRS 18. Such entities classify some income and expenses in the operating category that entities without specified main business activities are required to classify in the investing or financing category.

Figure 3.1—Classification of specific income and expenses by entities that invest in assets as a main business activity



[1] Investments in associates, joint ventures and unconsolidated subsidiaries include investments in such assets in consolidated and separate financial statements.

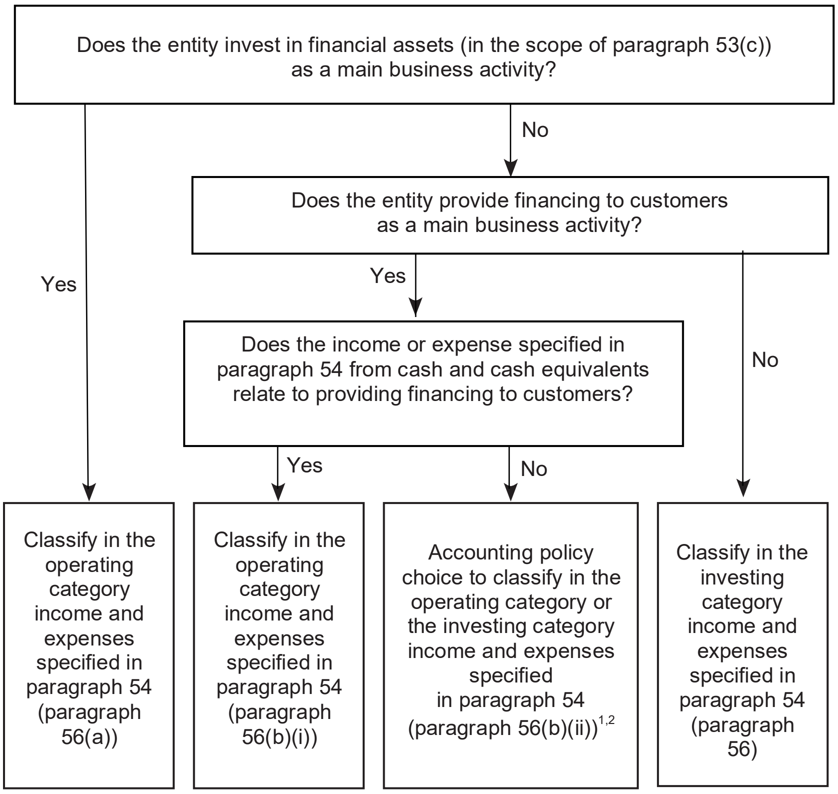
Figure 3.2—Classification of specific income and expenses by entities that provide financing to customers as a main business activity



1 The choice of accounting policy shall be consistent (where applicable) with that made for the classification of income and expenses from cash and cash equivalents (paragraph 65(a)(ii)) (see Figure 3.3).

2 If an entity cannot distinguish which of the liabilities that arise from transactions that involve only the raising of finance relate to providing financing to customers, it shall apply the accounting policy choice to classify income and expenses from all such liabilities in the operating category (paragraph 66).

Figure 3.3—Classification of income and expenses from cash and cash equivalents by entities with specified main business activities



[1] The choice of accounting policy shall be consistent (where applicable) with that made for the classification of income and expenses from liabilities that arise from transactions that involve only the raising of finance that do not relate to providing financing to customers (paragraph 56(b)(ii)) (see Figure 3.2).

[2] If an entity cannot distinguish which cash and cash equivalents relate to providing financing to customers, it shall apply the accounting policy choice to classify income and expenses from all cash and cash equivalents in the operating category (paragraph 57).

Figure 4—Classification of income and expenses from hybrid contracts with host liabilities

Figure 4 depicts how an entity applies the requirements for the financing category to hybrid contracts that contain a host liability as set out in paragraphs B56–B57 of IFRS 18.

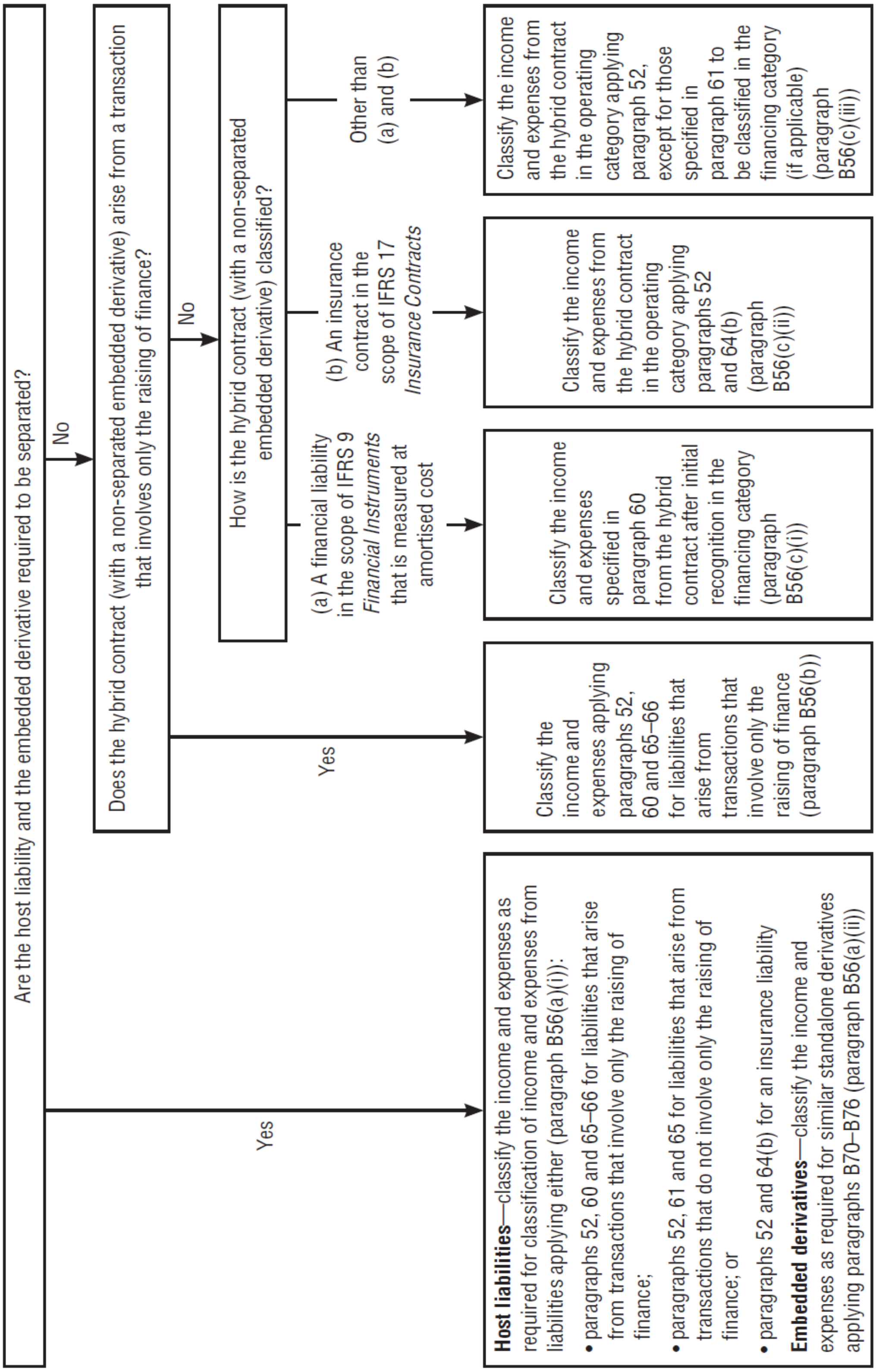
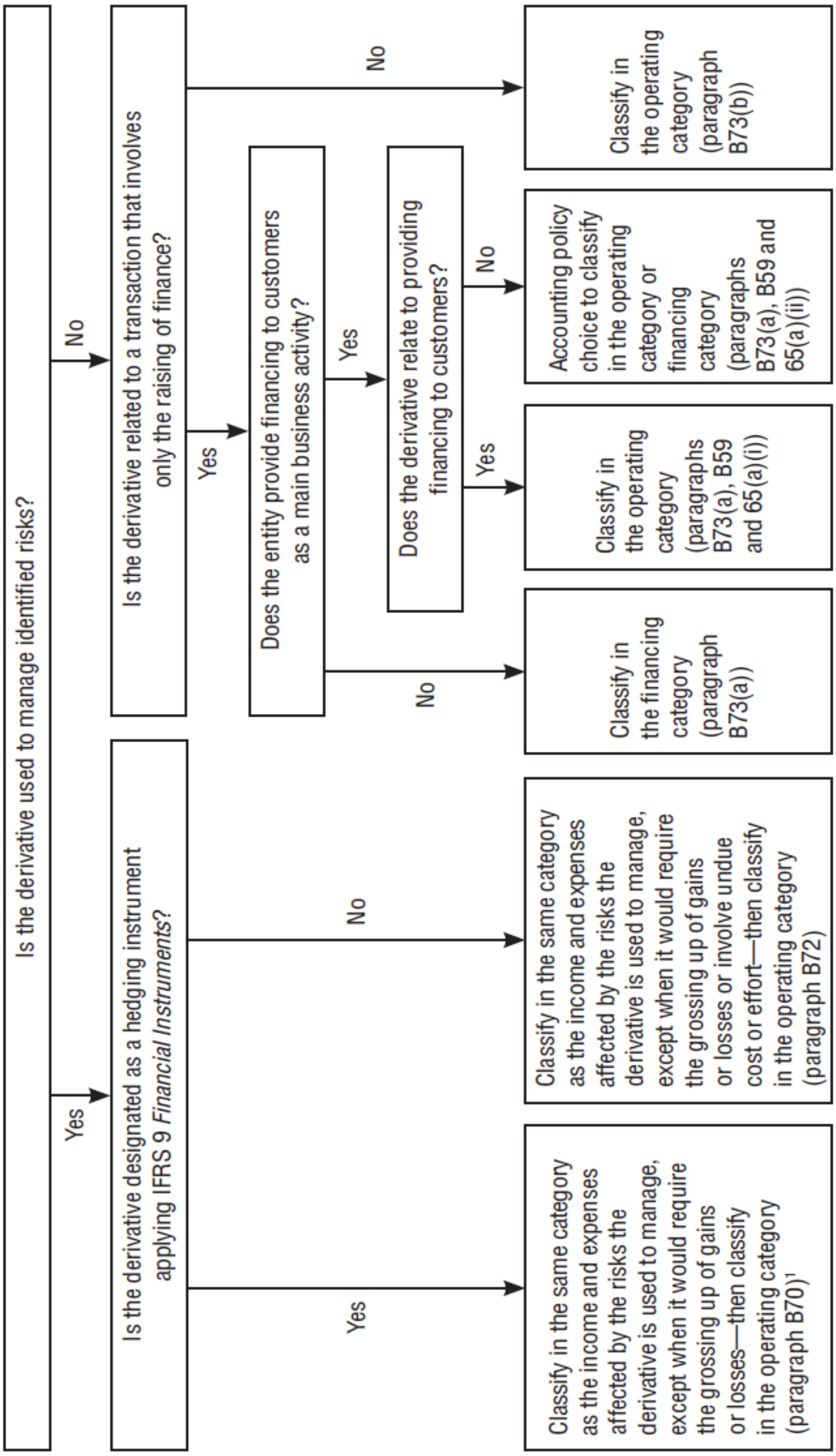


Figure 5—Classification of gains and losses on derivatives

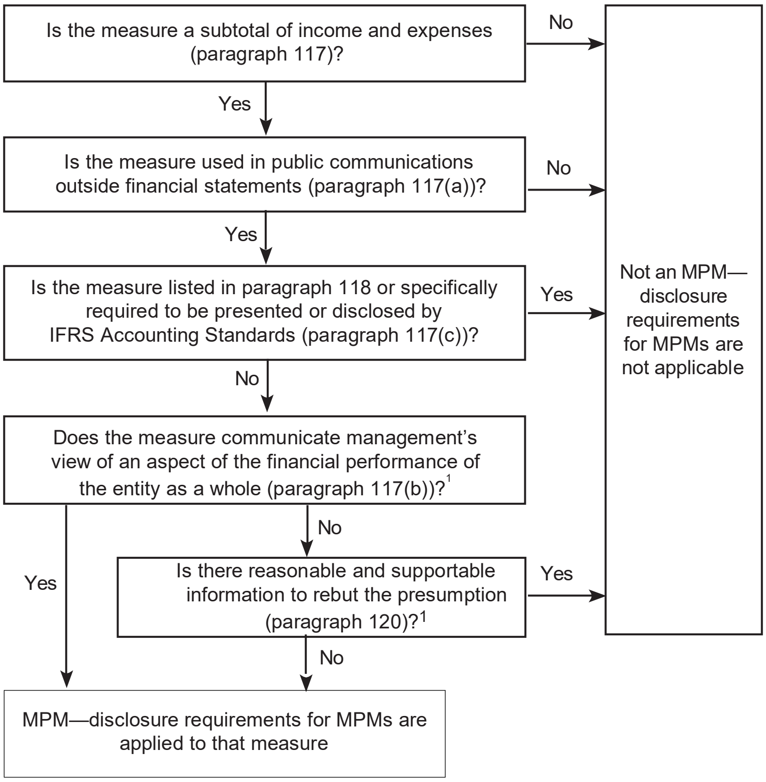
Figure 5 depicts the requirements for classifying gains and losses on derivatives as set out in paragraphs B70–B76 of IFRS 18.



[1] Paragraph B70 also applies to the gains and losses on a financial instrument other than a derivative designated as a hedging instrument applying IFRS 9 *Financial Instruments*.

Figure 6—Identifying management-defined performance measures

Figure 6 depicts the requirements for identifying management-defined performance measures (MPMs) as set out in paragraphs 117–120 of IFRS 18.



1 It is presumed that a subtotal of income and expenses used in public communications communicates management's view (paragraph 119); an entity is not required to consider whether to rebut the presumption.

Figure 7—Determining informative labels and information for aggregated items

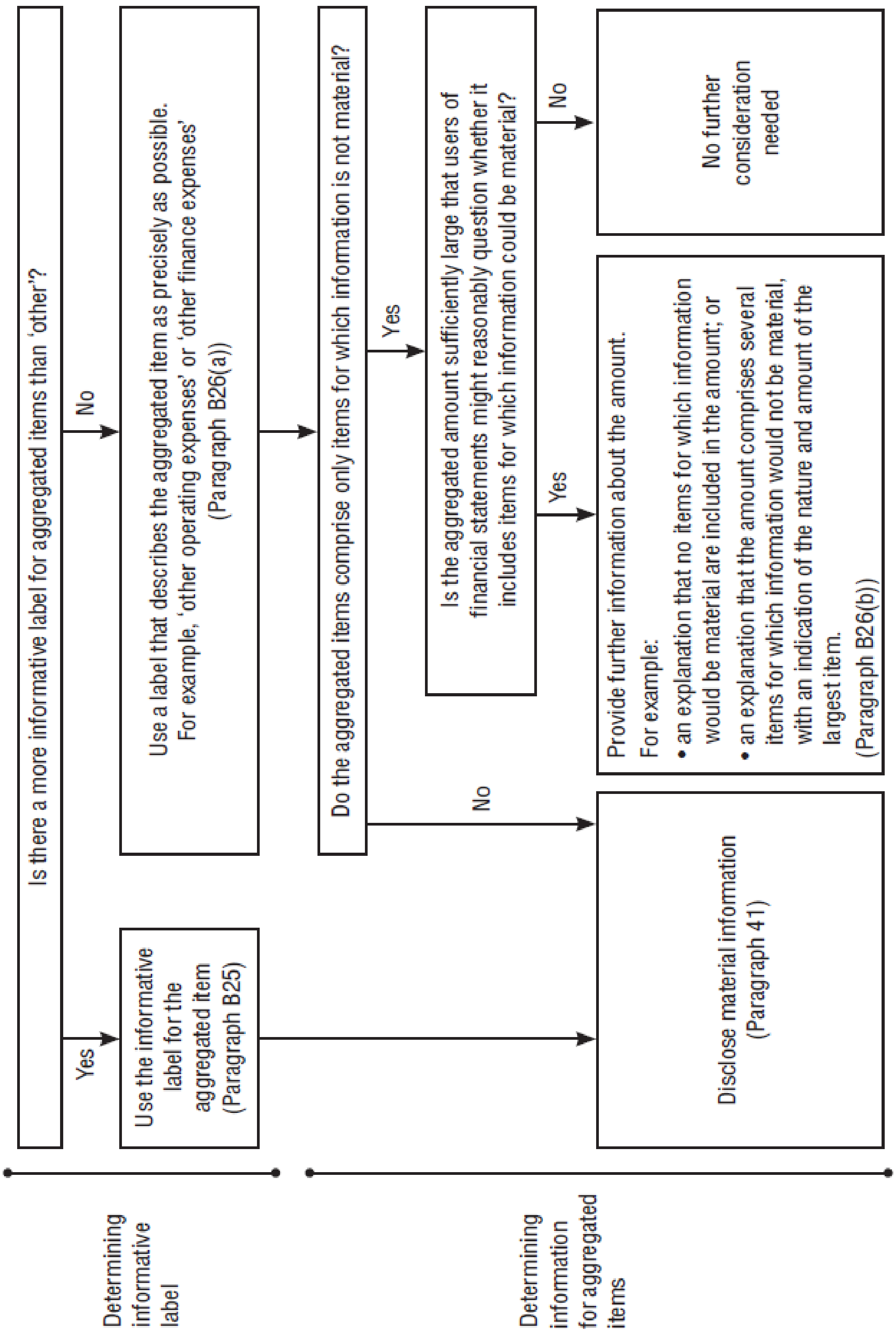


Figure 7 depicts aspects of the requirements for determining informative labels and information for aggregated items as set out in paragraphs B25–B26 of IFRS 18.

Figure 8—Useful structured summary and the materiality process

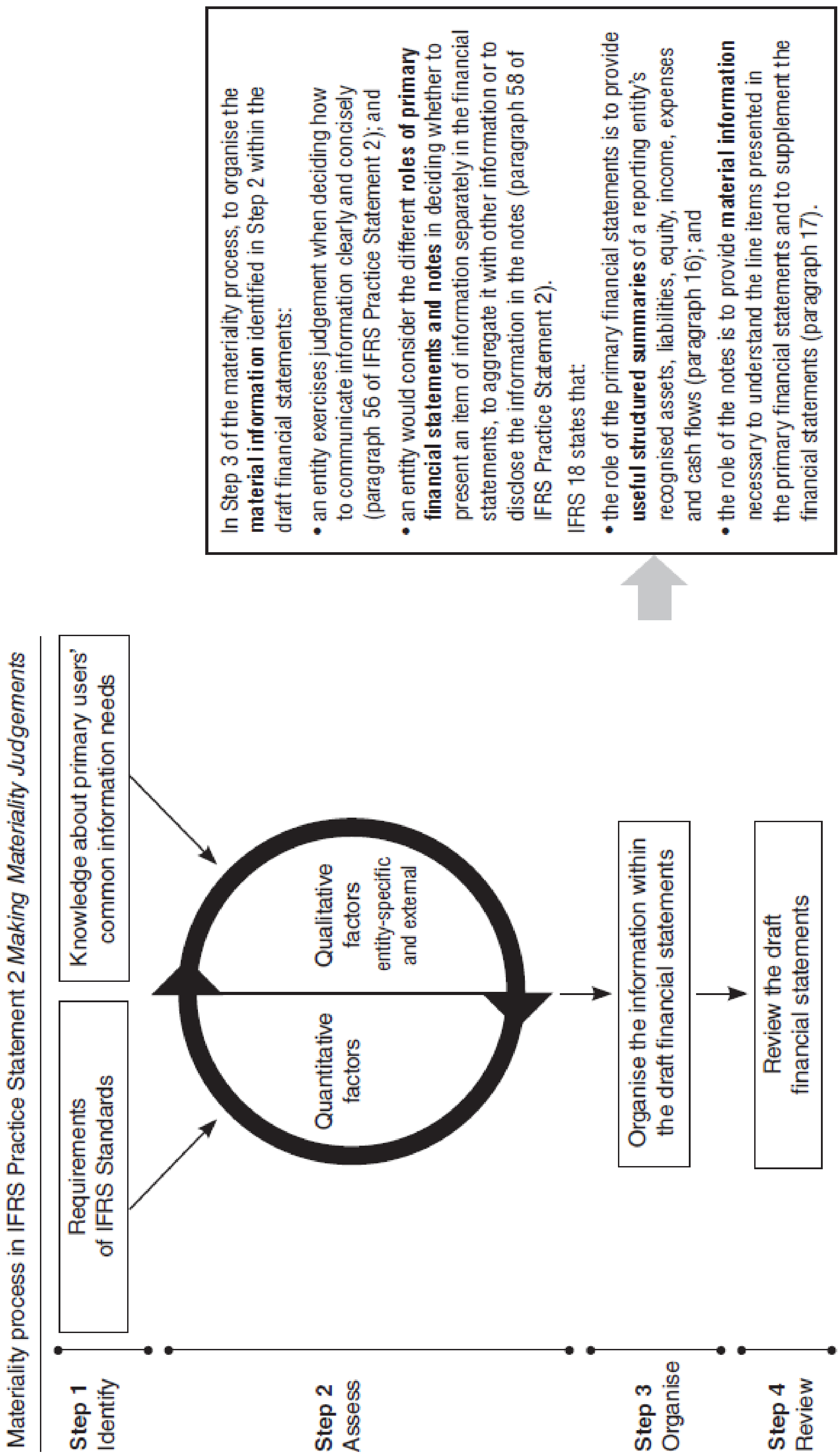


Figure 8 depicts how 'useful structured summary' relates to the materiality process in IFRS Practice Statement 2 Making Materiality Judgements.

Appendix

Amendments to guidance on other IFRS Accounting Standards and to IFRS Practice Statement 2 *Making Materiality Judgements*

These amendments to guidance on other IFRS Accounting Standards and to IFRS Practice Statement 2 Making Materiality Judgements *are necessary in order to ensure consistency with IFRS 18* Presentation and Disclosure in Financial Statements*.*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs IG3, IG37 and IG Example 11 in paragraph IG63 are amended. New text is underlined and deleted text is struck through.

Guidance on implementing IFRS 1 *First-time Adoption of International Financial Reporting Standards*

...

IAS 10 *Events after the Reporting Period*

...

IG3 Paragraphs 14–17 of the IFRS require some modifications to the principles in IAS 10 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of transition to IFRSs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 14–17 of the IFRS do not require modifications to the principles in IAS 10.

(a) Case 1—Previous GAAP required estimates of similar items for the date of transition to IFRSs, using an accounting policy that is consistent with IFRSs. In this case, the estimates in accordance with IFRSs need to be consistent with estimates made for that date in accordance with previous GAAP, unless there is objective evidence that those estimates were in error (see IAS 8 <u>*Basis of Preparation of Financial Statements*</u> ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~). The entity reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of transition to IFRSs.

...

IAS 34 *Interim Financial Reporting*

IG37 IAS 34 <u>and paragraphs 32 and 33 of the IFRS apply</u> ~~applies~~ if an entity is required, or elects, to present an interim financial report in accordance with IFRSs. Accordingly, neither IAS 34 nor the IFRS requires an entity:

(a) to present interim financial reports that comply with IAS 34; or

(b) to prepare new versions of interim financial reports presented in accordance with previous GAAP. However, if an entity does prepare an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity restates the comparative information presented in that report so that it complies with IFRSs.

...

Explanation of transition to IFRSs

IG63 Paragraphs 24(a) and (b), 25 and 26 of the IFRS require a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the statement of financial position, statement of comprehensive income and, if applicable, statement of cash flows. Paragraph 24(a) and (b) requires specific reconciliations of equity and total comprehensive income. IG Example 11 shows one way of satisfying these requirements.

IG Example 11 Reconciliation of equity and total comprehensive income

...

Reconciliation of total comprehensive income for 20X4

Note		*Previous GAAP*	*Effect of transition to IFRSs*	*IFRSs*
		CU	CU	CU
	Revenue	20,910	0	20,910
1,2,3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
~~6~~	~~Other income~~	~~0~~	~~180~~	~~180~~
1	Distribution costs	(1,907)	(30)	(1,937)
1,4	Administrative expenses	(2,842)	(300)	(3,142)
	Operating profit	878	(427)	451
6	Investment ~~Finance~~ income	1,446	180~~0~~	1,626 ~~1,446~~
	Profit before financing and income taxes	–	–	2,077
	Interest expenses on interest-bearing loans~~Finance costs~~	(1,902)	0	(1,902)
	Profit before tax	422	(247)	175
5	Tax expense	(158)	74	(84)
	Profit (loss) ~~**for the year**~~	264	(173)	91
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	Other comprehensive income	0	(69)	(69)
	Total comprehensive income	264	(242)	22

Notes to the reconciliation of total comprehensive income for 20X4:

...

6 Financial assets at fair value through profit or loss increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. Fair value changes have been included in 'Investment ~~Other~~ income'.

IFRS 2 *Share-based Payment*

IG Example 11 is amended. New text is underlined and deleted text is struck through.

Guidance on implementing IFRS 2 *Share-based Payment*

...

Equity-settled share-based payment transactions

...

IG Example 11

Employee share purchase plan

...

Application of requirements

...

However, in some cases, the expense relating to an ESPP might not be material. IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ states that the accounting policies in IFRSs need not be applied when the effect of applying them is immaterial (IAS 8, paragraph 8). IFRS 18 *Presentation and Disclosure in Financial Statements* also ~~IAS 1 *Presentation of Financial Statements*~~ states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole (IFRS 18, paragraphs B1–B5~~IAS 1, paragraph 7~~). Therefore, in this example, the entity should consider whether the expense of CU256,000 is material.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Example 11 accompanying IFRS 5 is updated. New text is underlined and deleted text is struck through.

Guidance on implementing IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

...

Presenting discontinued operations in the statement of comprehensive income

Paragraph 33 of the IFRS requires an entity to disclose a single amount in the statement of comprehensive income for discontinued operations with an analysis in the notes or in a section of the statement of comprehensive income separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GROUP – STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)	**20X2**	**20X1**
Continuing operations		
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other operating income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other operating expenses	(X)	(X)
Operating profit	X	X
~~Finance costs~~	~~(X)~~	~~(X)~~
Share of profit of associates	X	X
Profit before financing and income taxes	X	X
Interest expenses	(X)	(X)
Profit before income taxes~~tax~~	X	X
Income tax expense	(X)	(X)
Profit ~~for the period~~ from continuing operations	X	X

continued…

…continued

XYZ GROUP – STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

Discontinued operations		
Profit ~~for the period~~ from discontinued operations[(a)]	X	X
Profit ~~for the period~~	X	X
Attributable to:		
Owners of the parent		
Profit ~~for the period~~ from continuing operations	X	X
Profit ~~for the period~~ from discontinued operations	X	X
Profit ~~for the period~~ attributable to owners of the parent	X	X
Non-controlling interests		
Profit ~~for the period~~ from continuing operations	X	X
Profit ~~for the period~~ from discontinued operations	X	X
Profit ~~for the period~~ attributable to non-controlling interests	X	X
	X	X

IFRS 7 *Financial Instruments: Disclosures*

Paragraphs IG6 and IG12 are amended. Paragraph IG13 and its subheading are deleted. New text is underlined and deleted text is struck through.

Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

...

Classes of financial instruments and level of disclosure (paragraphs 6 and B1–B3)

...

IG6 Paragraph 6C(c) of IAS 8 *Basis of Preparation of Financial Statements* ~~17(c) of IAS 1~~ requires an entity to 'provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

...

Defaults and breaches (paragraphs 18 and 19)

IG12 Paragraphs 18 and 19 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with IFRS 18~~IAS 1~~.

~~Total interest expense (paragraph 20(b))~~

~~IG13~~ ~~Total interest expense disclosed in accordance with paragraph 20(b) is a component of finance costs, which paragraph 82(b) of IAS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts associated with non-financial liabilities.~~

IG13 [Deleted]

~~IG13A~~

IG13B

The footnote to the heading before paragraph IG13 is deleted. Deleted text is struck through.

* ~~In *Improvements to IFRSs* issued in May 2008, the Board amended paragraph IG13 and removed 'total interest income' as a component of finance costs. This amendment removed an inconsistency with paragraph 32 of IAS 1 *Presentation of Financial Statements*, which precludes the offsetting of income and expenses (except when required or permitted by an IFRS).~~

IFRS 9 *Financial Instruments*

Paragraphs IE18 and IE114 are amended. New text is underlined and deleted text is struck through.

IFRS 9 *Financial Instruments*
Illustrative Examples

...

Impairment (Section 5.5)

Assessing significant increases in credit risk since initial recognition

...

Example 3—highly collateralised financial asset

IE18 Company H invests in ~~owns~~ real estate assets as a main business activity (see IFRS 18 *Presentation and Disclosure in Financial Statements*). Company H ~~which are~~ financed its investments through ~~by~~ a five-year loan from Bank Z with a loan-to-value (LTV) ratio of 50 per cent. The loan is secured by a first-ranking security over the real estate assets. At initial recognition of the loan, Bank Z does not consider the loan to be originated credit-impaired as defined in Appendix A of IFRS 9.

...

Reclassification of financial assets (Section 5.6)

...

Example 15—reclassification of financial assets

...

Scenario 6: Reclassification out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category

IE114 Bank A reclassifies the portfolio of bonds out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category. The portfolio of bonds continues to be measured at fair value. However, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see IFRS 18~~IAS 1 *Presentation of Financial Statements*~~).

IFRS 13 *Fair Value Measurement*

Paragraph IE62 and the table below paragraph IE62 are amended. New text is underlined and deleted text is struck through.

IFRS 13 *Fair Value Measurement* Illustrative Examples

...

Fair value disclosures

...

Example 16—Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy

...

IE62 Gains and losses included in profit or loss for the period (above) are presented in the line item ‘income from financial assets’ ~~financial income~~ and in the line item ‘income from investment property’~~non-financial income as follows~~:

	Income from financial assets ~~Financial income~~	Income from investment property ~~Non-financial income~~
(CU in millions)		
Total gains or losses for the period included in profit or loss	(18)	4
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(13)	4

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

IFRS 14 *Regulatory Deferral Accounts*

The Statement of profit or loss and other comprehensive income in Example 1 and paragraph IE2 are amended. New text is underlined and deleted text is struck through.

IFRS 14 *Regulatory Deferral Accounts*
Illustrative Examples

...

Regulatory deferral account balances

Example 1—Illustrative presentation of financial statements

...

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in currency units)

	20X7	**20X6**
Revenue	390,000	358,784
Cost of sales	(237,062)	(230,000)
Gross profit	152,938	128,784
Other operating income	44,247	16,220
Distribution costs	(9,000)	(13,700)
Administrative expenses	(20,000)	(31,500)
Other operating expenses	(2,100)	(1,200)
~~Finance costs~~	~~(8,000)~~	~~(7,500)~~
Operating profit	166,085	98,604
Share of profit of associates	35,100	15,100
Profit before financing and income taxes	201,185	113,704
Interest expenses	(8,000)	(7,500)
Profit before income taxes~~tax~~	**193,185**	**106,204**
Income tax expense	(43,587)	(44,320)
Profit ~~for the year~~ before net movements in regulatory deferral account balances	**149,598**	**61,884**

continued…

…continued

Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	(27,550)	3,193
Profit ~~for the year~~ and net movements in regulatory deferral account balances	**122,048**	**65,077**
Other comprehensive income: Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans	(7,938)	(3,784)
Net movement in regulatory deferral account balances related to other comprehensive income	7,140	4,207
Other comprehensive income ~~for the year~~, net of income taxes~~tax~~	(798)	423
TOTAL COMPREHENSIVE INCOME ~~FOR THE YEAR~~	**121,250**	**65,500**
Profit and net movements in regulatory deferral account balances attributable to:		
Owners of the parent	97,798	51,977
Non-controlling interests	24,250	13,100
	122,048	65,077
Total comprehensive income attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.61	0.35
Basic and diluted including net movement in regulatory deferral account balances	0.46	0.30

...

IE2 For each type of rate-regulated activity, paragraph 33 requires an entity to disclose~~present~~, for each class of regulatory deferral account balance, a reconciliation of the carrying amount at the beginning and the end of the period. This example illustrates how that requirement may be met for an entity with two types of rate-regulated activity (electricity distribution and gas distribution), but is not intended to illustrate all aspects of this Standard or IFRS more generally.

IFRS 16 *Leases*

Paragraphs IE9 and IE10 are amended. New text is underlined and deleted text is struck through.

IFRS 16 *Leases*
Illustrative Examples

...

Lessee disclosure (paragraphs 59 and B49–B50)

IE9 Example 22 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 59 and B49 of IFRS 16 about variable lease payments. This example shows only current period information. IFRS 18 *Presentation and Disclosure in Financial Statements* ~~IAS 1 *Presentation of Financial Statements*~~ requires an entity to present comparative information.

...

IE10 Example 23 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 59 and B50 of IFRS 16 about extension options and termination options. This example shows only current period information. IFRS 18 ~~IAS 1~~ requires an entity to present comparative information.

IAS 7 *Statement of Cash Flows*

The illustrative examples accompanying IAS 7 are amended. In the first illustrative example (A—Statement of cash flows for an entity other than a financial institution), the title, paragraphs 1 and 3, the Consolidated statement of comprehensive income for the period ended 20X2, the Consolidated statement of financial position as at end of 20X2, the Direct method statement of cash flows, the Indirect method statement of cash flows, the Notes to the statement of cash flows (direct method and indirect method) (particularly, A. Obtaining control of subsidiary, D. Segment information, E. Reconciliation of liabilities arising from financing activities) and Alternative presentation (indirect method) are amended. In the second illustrative example (B—Statement of cash flows for a financial institution), the title, paragraph 1 and the Direct method statement of cash flows are amended. In the third illustrative example (C—Reconciliation of liabilities arising from financing activities), paragraph 2 is amended. New text is underlined and deleted text is struck through.

Illustrative Examples

...

A Statement of cash flows for an entity <u>that does not invest in assets or provide financing to customers as a main business activity</u>~~other than a financial institution~~

1 The examples show only current period amounts. <u>Comparative information</u> ~~Corresponding amounts~~ for the preceding period <u>is</u> ~~are~~ required to be presented in accordance with ~~IAS 1 *Presentation of Financial Statements*~~<u>IFRS 18 *Presentation and Disclosure in Financial Statements*</u>.

...

3 The following additional information is also relevant for the preparation of the statements of cash flows:

- all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Trade<u> and other</u> ~~Accounts~~ receivable<u>s</u>	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

...

- during the period, the group acquired property, plant and equipment and right-of-use assets relating to property, plant and equipment with an aggregate cost of 1,250, of which 900 related to right-of-use assets. Cash payments of 350 were made to purchase property, plant and equipment.
- <u>depreciation on property, plant and equipment and amortisation of intangible assets for the period amounted to 350 and 100 respectively.</u>

- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- trade and other ~~accounts~~ receivables as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of comprehensive income for the period ended 20X2[(a)]

Sales	30,650
Cost of sales	(26,450) ~~(26,000)~~
Gross profit	4,200 ~~4,650~~
~~Depreciation~~	~~(450)~~
Selling ~~Administrative and selling~~ expenses	(600)~~(910)~~
General and administrative expenses	(310)
Operating profit	3,290
Share of profit or loss of associates and joint ventures	50
~~Interest expense~~	~~(400)~~
Investment income	450~~500~~
Foreign exchange loss	(40)
Profit before financing and income taxes	3,750
Interest expenses	(400)
~~Foreign exchange loss~~	~~(40)~~
Profit before income taxes~~taxation~~	3,350
Income tax expense~~Taxes on income~~	(300)
Profit/total comprehensive income	3,050

Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Assets		
Current assets		
Cash and cash equivalents	230	160
Trade and other ~~Accounts~~ receivables	1,900	1,200
Inventories ~~Inventory~~	1,000	1,950

continued…

…continued

Consolidated statement of financial position as at end of 20X2

		20X2		**20X1**
Non-current assets				
Investments in associates and joint ventures		500		450
Investments in other financial instruments		2,000		2,050
~~Portfolio investments~~		~~2,500~~		~~2,500~~
~~Property, plant and equipment at cost~~	~~3,730~~		~~1,910~~	
~~Accumulated depreciation~~	~~(1,450)~~		~~(1,060)~~	
Property, plant and equipment ~~net~~		1,880 ~~2,280~~		350 ~~850~~
Intangible assets		400		500
Total assets		7,910		6,660
Liabilities				
Current liabilities				
Trade payables		250		1,890
Interest payable		230		100
Income taxes payable		400		1,000
Non-current liabilities				
Long-term debt		2,300		1,040
Total liabilities		3,180		4,030
Equity~~Shareholders' equity~~				
Share capital		1,500		1,250
Retained earnings		3,230		1,380
Total ~~shareholders'~~ equity		4,730		2,630
Total liabilities and ~~shareholders'~~ equity		7,910		6,660

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash from operating activities before income taxes~~Cash generated from operations~~	2,550	
~~Interest paid~~	~~(270)~~	
Income taxes paid	(900)	
Net cash from operating activities		1,650 ~~1,380~~
Cash flows from investing activities		
Acquisition of Subsidiary~~subsidiary~~ X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Interest paid	(270)	
Dividends paid~~[(a)]~~	(1,200)	
Net cash used in financing activities		(1,060) ~~(790)~~
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120

continued…

…continued

Direct method statement of cash flows (paragraph 18(a))

	20X2
Cash and cash equivalents at end of period (Note C)	230

~~(a) This could also be shown as an operating cash flow.~~

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from operating activities		
Operating profit~~Profit before taxation~~	3,290 ~~3,350~~	
Adjustments for:		
Depreciation	350~~450~~	
Amortisation	100	
~~Foreign exchange loss~~	~~40~~	
~~Investment income~~	~~(500)~~	
~~Interest expense~~	~~400~~	
Operating profit before depreciation and amortisation	3,740	
Increase in trade ~~and other~~ receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
Cash from operating activities before income taxes~~Cash generated from operations~~	2,550	
~~Interest paid~~	~~(270)~~	
Income taxes paid	(900)	
Net cash from operating activities		1,650 ~~1,380~~
Cash flows from investing activities		
Acquisition of Subsidiary~~subsidiary~~ X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)

continued…

…continued

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Interest paid	(270)	
Dividends paid~~[a]~~	(1,200)	
Net cash used in financing activities		(1,060) ~~(790)~~
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

~~(a) This could also be shown as an operating cash flow.~~

Notes to the statement of cash flows (direct method and indirect method)

A. Obtaining control of subsidiary

During the period the Group obtained control of Subsidiary ~~subsidiary~~ X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Trade and other ~~Accounts~~ receivables	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of Subsidiary ~~subsidiary~~ X acquired	(40)
Cash paid to obtain control net of cash acquired	550

...

D. Segment information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,720 ~~1,520~~	(70) ~~(140)~~	1,650 ~~1,380~~
Investing activities	(640)	160	(480)
Financing activities	(770) ~~(570)~~	(290) ~~(220)~~	(1,060) ~~(790)~~
	310	(200)	110

E. Reconciliation of liabilities arising from financing activities

	20X1	Cash flows	Non-cash changes			20X2
			Interest expenses	Acquisition	New leases	
Long-term borrowings	1,040	250	–	200	–	1,490
Lease liabilities	–	(90)	–	–	900	810
Long-term debt	1,040	160	–	200	900	2,300
Interest payable	100	(270)	400	–	–	230
	1,140	(110)	400	200	900	2,530

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Sales~~Revenues excluding investment income~~	30,650	
Cost of sales	(26,000)	
Selling expenses	(600)	
General and administrative expenses	(310)	
~~Operating expense excluding depreciation~~	~~(26,910)~~	
Operating profit before depreciation and amortisation~~before working capital changes~~		3,740

B Statement of cash flows for an entity that invests in assets or provides financing to customers as a main business activity~~a financial institution~~

1 The example shows only current period amounts. Comparative information ~~amounts~~ for the preceding period is ~~are~~ required to be presented in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*~~IAS 1 *Presentation of Financial Statements*~~.

...

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Interest[a] and commission receipts	28,747 ~~28,447~~	
Interest payments[a]	(23,463)	
Dividends received[a]	200	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	~~4,224~~	
(Increase) decrease in operating assets:		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
Increase (decrease) in operating liabilities:		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income taxes~~tax~~	3,940 ~~3,440~~	
Income taxes paid	(100)	
Net cash from operating activities		3,840 ~~3,340~~

continued…

…continued

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from investing activities		
Disposal of ~~subsidiary~~Subsidiary Y	50	
~~Dividends received~~	~~200~~	
~~Interest received~~	~~300~~	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
Net cash from investing activities		150~~650~~
Cash flows from financing activities		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
Net cash from financing activities		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		8,840

(a) An entity classifies each of these cash flows in a single category.

C Reconciliation of liabilities arising from financing activities

...

2 The example shows only current period amounts. Comparative information ~~Corresponding amounts~~ for the preceding period is ~~are~~ required to be presented in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*~~IAS 1 *Presentation of Financial Statements*~~.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The title of IAS 8 is amended. New text is underlined and deleted text is struck through.

IAS 8 *Basis of Preparation of Financial Statements~~Accounting Policies, Changes in Accounting Estimates and Errors~~*

A footnote is added to the heading 'Beta Co Extract from the statement of comprehensive income' in Example 1 – Retrospective restatement of errors. New text is underlined.

* This statement of comprehensive income does not aim to illustrate the requirements in IFRS 18 for the structure of the statement of profit or loss.

IAS 32 *Financial Instruments: Presentation*

Paragraph IE32, Example 7 in paragraph IE32, paragraph IE33 and Example 8 in paragraph IE33 are amended. New text is underlined and deleted text is struck through.

IAS 32 *Financial Instruments: Presentation*
Illustrative Examples

...

Entities such as mutual funds and co-operatives whose share capital is not equity as defined in IAS 32

Example 7: Entities with no equity

IE32 The following example illustrates a format of a statement of comprehensive income and statement of financial position that may be used by entities such as mutual funds that do not have equity as defined in IAS 32 and that do not provide financing to customers as a main business activity. Other formats are possible.

Statement of comprehensive income for the year ended 31 December 20X1

	20X1 CU	**20X0** CU
Revenue	2,956	1,718
Expenses (classified by nature or function, in accordance with IFRS 18)	(644)	(614)
Operating profit/profit before financing~~Profit from operating activities~~	2,312	1,104
~~Finance costs~~		
Interest expenses~~– other finance costs~~	(47)	(47)
Distributions~~– distributions~~ to unitholders	(50)	(50)
Change in net assets attributable to unitholders	2,215	1,007

Statement of financial position at 31 December 20X1

		20X1		20X0
	CU	CU	CU	CU
ASSETS				
Non-current assets (classified in accordance with IFRS 18~~IAS 1~~)	91,374		78,484	
Total non-current assets		91,374		78,484
Current assets (classified in accordance with IFRS 18~~IAS 1~~)	1,422		1,769	
Total current assets		1,422		1,769
Total assets		92,796		80,253
LIABILITIES				
Current liabilities (classified in accordance with IFRS 18~~IAS 1~~)	647		66	
Total current liabilities		(647)		(66)
Non-current liabilities excluding net assets attributable to unitholders (classified in accordance with IFRS 18~~IAS 1~~)	280		136	
		(280)		(136)
Net assets attributable to unitholders		91,869		80,051

Example 8: Entities with some equity

IE33 The following example illustrates a format of a statement of comprehensive income and statement of financial position that may be used by entities that do not provide financing to customers as a main business activity and whose share capital is not equity as defined in IAS 32. The entities' share capital is not classified as equity because the entity has an obligation to repay the share capital on demand but does not have all the features or meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D. Other formats are possible.

Statement of comprehensive income for the year ended 31 December 20X1

	20X1	20X0
	CU	CU
Revenue	472	498
Expenses (classified by nature or function, in accordance with IFRS 18)	(367)	(396)
Operating profit/profit before financing~~Profit from operating activities~~	105	102
~~Finance costs~~		
Interest expenses~~– other finance costs~~	(4)	(4)
Distributions~~– distributions~~ to members	(50)	(50)
Change in net assets attributable to members	51	48

Statement of financial position at 31 December 20X1

		20X1		20X0
	CU	**CU**	**CU**	**CU**
ASSETS				
Non-current assets (classified in accordance with IFRS 18~~IAS 1~~)	908		830	
Total non-current assets		908		830
Current assets (classified in accordance with IFRS 18~~IAS 1~~)	383		350	
Total current assets		383		350
Total assets		1,291		1,180
LIABILITIES				
Current liabilities (classified in accordance with IFRS 18~~IAS 1~~)	372		338	
Share capital repayable on demand	202		161	
Total current liabilities		(574)		(499)
Total assets less current liabilities		717		681

continued…

…continued

Statement of financial position at 31 December 20X1

		20X1		20X0
	CU	**CU**	**CU**	**CU**
Non-current liabilities (classified in accordance with IFRS 18~~IAS 1~~)	187		196	
		(187)		(196)
OTHER COMPONENTS OF EQUITY[(a)]				
Reserves eg revaluation surplus, retained earnings etc	530		485	
		530		485
		717		681
MEMORANDUM NOTE – Total members' interests				
Share capital repayable on demand		202		161
Reserves		530		485
		732		646

IAS 41 *Agriculture*

Example 1 is amended. New text is underlined and deleted text is struck through.

Illustrative Examples

These examples, which were prepared by the IASC staff but were not approved by the IASC Board, accompany, but are not part of, IAS 41. They have been updated to take account of the changes made by IFRS 18 Presentation and Disclosure in Financial Statements ~~*IAS 1* Presentation of Financial Statements *(as revised in 2007)*~~ *and* Improvements to IFRSs *issued in 2008.*

...

Example 1 XYZ Dairy Ltd

...

Statement of comprehensive income

XYZ Dairy Ltd **Statement of comprehensive income**	**Notes**	**Year ended 31 December 20X1**
Fair value of milk produced		518,240
Gains arising from changes in fair value less costs to sell of dairy livestock	3	39,930
		~~**558,170**~~
Inventories used		(137,523)
Employee benefits~~Staff costs~~		(207,283) ~~(127,283)~~
Depreciation expense		(15,250)
Professional services expenses		(98,847)
Other operating expenses		(18,245) ~~(197,092)~~
		~~**(477,148)**~~
Operating profit/profit before financing and income taxes~~Profit from operations~~		**81,022**
Income tax expense		(43,194)
Profit/total comprehensive income~~ for the year~~		**37,828**

Statement of changes in equity

XYZ Dairy Ltd **Statement of changes in equity**			**Year ended 31 December 20X1**
	Share capital	**Retained earnings**	**Total**
Balance at 1 January 20X1	1,000,000	865,000	**1,865,000**
Profit/<u>total </u>comprehensive income~~ for the year~~		37,828	**37,828**
Balance at 31 December 20X1	**1,000,000**	**902,828**	**1,902,828**

Statement of cash flows

XYZ Dairy Ltd **Statement of cash flows**	**Notes**	**Year ended 31 December 20X1**
Cash flows from operating activities		
Cash receipts from sales of milk		498,027
Cash receipts from sales of livestock		97,913
Cash paid for supplies and to employees		(460,831)
Cash paid for purchases of livestock		(23,815)
<u>**Cash flows from operating activities before income taxes**</u>		**111,294**
Income taxes paid		(43,194)
Net cash from operating activities		**68,100**
Cash flows from investing activities		
Purchase of property, plant and equipment		(68,100)
Net cash used in investing activities		**(68,100)**
Net increase in cash		**0**
Cash at beginning of the year		**10,000**
Cash at end of the year		**10,000**

The footnote to 'Statement of comprehensive income' in Example 1 is amended. New text is underlined and deleted text is struck through.

* This statement of comprehensive income presents an analysis of expenses <u>classified in the operating category </u>using ~~a classification based on ~~the nature of expenses. <u>IFRS 18 *Presentation and Disclosure in Financial Statements* </u>~~IAS 1 *Presentation of Financial Statements* ~~requires that an entity<u>, in the operating category of the statement of profit or loss, classify and present expenses in a way that provides the most useful structured summary of the expenses using the nature of expenses and their function within the entity</u>~~present, either in the statement of comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. IAS 1 encourages presentation of an analysis of expenses in the statement of comprehensive income~~.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Paragraphs IE4 and IE5 of Example 1 and paragraph IE13 of Example 3 that accompany IFRIC 1 are amended. New text is underlined and deleted text is struck through.

Illustrative Examples

...

Example 1: Cost model

...

IE4 Following this adjustment, the carrying amount of the asset is CU82,000 (CU120,000 – CU8,000 – CU30,000), which will be depreciated over the remaining 30 years of the asset's life giving a depreciation expense for the next year of CU2,733 (CU82,000 ÷ 30). The next year's <u>increase in the liability</u> ~~finance cost~~ for the unwinding of the discount will be CU415 (CU8,300 × 5 per cent).

IE5 If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's <u>increase in the liability for the unwinding of the discount</u> ~~finance cost~~ would have reflected the new discount rate.

...

Example 3: Transition

IE13 The following example illustrates retrospective application of the Interpretation for preparers that already apply IFRSs. Retrospective application is required by IAS 8 <u>*Basis of Preparation of Financial Statements*</u>~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~, where practicable, and is the benchmark treatment in the previous version of IAS 8. The example assumes that the entity:

IFRIC 12 *Service Concession Arrangements*

Add a footnote to 'Table 1.5 *Statement of comprehensive income (currency units)*' of Example 1, 'Table 2.5 *Statement of comprehensive income (currency units)*' of Example 2 and 'Table 3.8 *Statement of comprehensive income (currency units)*' of Example 3 that accompanies IFRIC 12. New text is underlined.

* <u>This statement of comprehensive income does not aim to illustrate the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements* for the structure of the statement of profit or loss.</u>

IFRS Practice Statement 2 *Making Materiality Judgements*

Paragraphs 5, 73, 88A, 88D–88E and 88G are amended. Example P, Example S, Example T, Diagram 2 and the Appendix are also amended. New text is underlined and deleted text is struck through. The footnotes to the text are not reproduced. Amendments to footnotes are included after amendments to the Practice Statement.

General characteristics of materiality

Definition of material

5 The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) provides the following definition of material information (Appendix A and paragraph B1 of IFRS 18 *Presentation and Disclosure in Financial Statements* provide ~~paragraph 7 of IAS 1 *Presentation of Financial Statements* provides~~ a similar definition):

...

Specific topics

...

Errors

...

73 An entity must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance or cash flows, to ensure compliance with IFRS Standards. The entity should refer to IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ for guidance on how to correct an error.

...

Information about covenants

...

Example P—assessing whether information about covenants is material

...

Application

...

Paragraph B106 of IFRS 18 ~~76ZA of IAS 1~~ requires an entity to disclose, in specified circumstances, information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

...

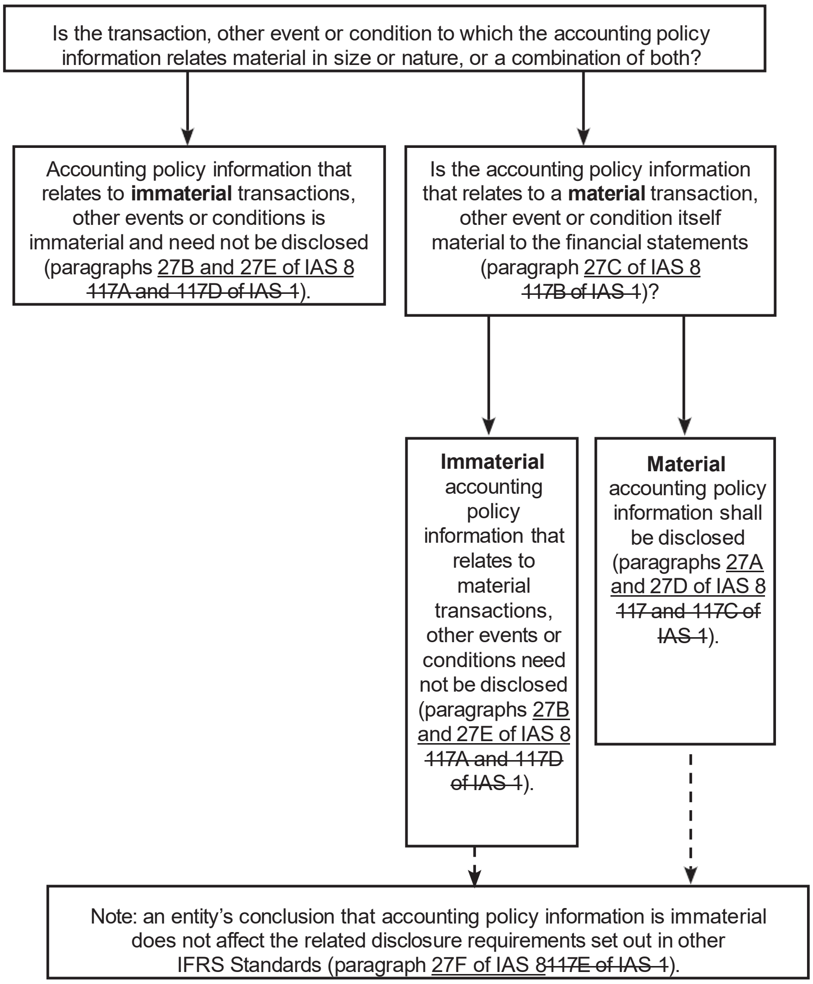
...

Information about accounting policies

88A Paragraph 27A of IAS 8 ~~117 of IAS 1~~ requires an entity to disclose material accounting policy information.

...

Diagram 2—determining whether accounting policy information is material



88D Paragraph 27C of IAS 8 ~~117B of IAS 1~~ includes examples of circumstances in which an entity is likely to consider accounting policy information to be material to its financial statements. The list is not exhaustive, but provides guidance on when an entity would normally consider accounting policy information to be material.

88E Paragraph 27D of IAS 8 ~~117C of IAS 1~~ describes the type of material accounting policy information that users of financial statements find most useful. Users generally find information about the characteristics of an entity's transactions, other events or conditions—entity-specific information—more useful than disclosures that only include standardised information, or information that duplicates or summarises the requirements of the IFRS Standards. Entity-specific accounting policy information is particularly useful when that information relates to an area for which an entity has exercised judgement—for example, when an entity applies an IFRS Standard differently from similar entities in the same industry.

...

88G Paragraph 27E of IAS 8 ~~117D of IAS 1~~ states that if an entity discloses immaterial accounting policy information, such information shall not obscure material information. Paragraphs 56–59 provide guidance about how to communicate information clearly and concisely in the financial statements.

Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised (boilerplate) accounting policy information
... **Application** ... The entity evaluates the effect of disclosing the accounting policy information by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies: ... (c) were not developed in accordance with IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ in the absence of an IFRS Standard that specifically applies; and ...

Example T—making materiality judgements on accounting policy information that only duplicates requirements in the IFRS Standards
... **Application** ... However, the entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions, as described in paragraphs 27G and 31A of IAS 8~~122 and 125 of IAS 1~~. Given the entity's specific circumstances, it concludes that information about its significant judgements and assumptions related to its impairment assessments could reasonably be expected to influence the decisions of the primary users of the entity's financial statements. The entity notes that its disclosures about significant judgements and assumptions already include information about the significant judgements and assumptions used in its impairment assessments. ...

...

Appendix
References to the *Conceptual Framework for Financial Reporting* and IFRS Standards

...

Extracts from IFRS 18 *Presentation and Disclosure in Financial Statements*~~IAS 1 *Presentation of Financial Statements*~~

~~**Paragraph 7**~~

~~Referred to in paragraphs 5, 41 and 60 of the Practice Statement~~

~~***Material***~~**:**

~~**Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity.**~~

~~Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.~~

~~**Paragraph 7**~~

~~Referred to in paragraph 6 of the Practice Statement~~

~~Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances. […] At times, even well informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.~~

~~**Paragraph 15**~~

~~Referred to in paragraph 62 of the Practice Statement~~

~~**Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**~~

~~**Paragraph 17**~~

~~Referred to in paragraph 10 of the Practice Statement~~

~~In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:~~

~~(a)~~ ~~to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.~~

~~(b)~~ ~~to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.~~

~~(c)~~ ~~to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.~~

Paragraph 15

Referred to in paragraph 58 of the Practice Statement

To achieve the objective of financial statements (see paragraph 9), an entity presents information in the primary financial statements and discloses information in the notes. An entity need only present or disclose material information (see paragraphs 19 and B1–B5).

Paragraph 16

Referred to in paragraph 58 of the Practice Statement

The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:

(a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

Paragraph 17

Referred to in paragraph 58 of the Practice Statement

The role of the notes is to provide material information necessary:

(a) to enable users of financial statements to understand the line items presented in the primary financial statements (see paragraph B6); and

(b) to supplement the primary financial statements with additional information to achieve the objective of financial statements (see paragraph B7).

Paragraph 18

Referred to in paragraph 58 of the Practice Statement

An entity shall use the roles of the primary financial statements and the notes, described in paragraphs 16–17, to determine whether to include information in the primary financial statements or in the notes. The different roles of the primary financial statements and the notes mean that the extent of the information required in the notes differs from that in the primary financial statements. The differences mean that:

(a) to provide the structured summaries described in paragraph 16, information provided in the primary financial statements is more aggregated than information provided in the notes; and

(b) to provide the information described in paragraph 17, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including the disaggregation of information presented in the primary financial statements, is provided in the notes.

Paragraph 19

Referred to in paragraph 10 of the Practice Statement

Some IFRS Accounting Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by IFRS Accounting Standards if the information resulting from that presentation or disclosure is not material. This is the case even if IFRS Accounting Standards contain a list of specific requirements or describe them as minimum requirements.

Paragraph 20

Referred to in paragraph 10 of the Practice Statement

> **An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.**

Paragraph 41

Referred to in paragraphs 28, 57 and 69 of the Practice Statement

> **For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the primary financial statements. Other material information about items is disclosed in the notes. Unless doing so would override specific aggregation or disaggregation requirements in IFRS Accounting Standards, an entity shall (see paragraphs B16–B23):**
>
> **(a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;**
>
> **(b) disaggregate items based on characteristics that are not shared;**
>
> **(c) aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);**
>
> **(d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and**
>
> **(e) ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3).**

Paragraph 42~~Paragraph 29~~

Referred to in paragraph 43 of the Practice Statement

> Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 41(c), an entity does not present material information in the primary financial statements, it shall disclose the information in the notes. Paragraphs B79 and B111 set out examples of income, expenses, assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss or statement of financial position or disclosure in the notes is necessary to provide material information.
>
> ~~**An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.**~~

~~**Paragraph 30A**~~

~~Referred to in paragraphs 28, 57 and 69 of the Practice Statement~~

> ~~When applying this and other IFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.~~

~~**Paragraph 31**~~

~~Referred to in paragraph 10 of the Practice Statement~~

> ~~Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific~~

~~requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.~~

Paragraph 31~~38~~

Referred to in paragraphs 67 and 70 of the Practice Statement

Except when IFRS Accounting Standards permit or require otherwise, an entity shall provide comparative information (that is, information for the preceding reporting period) for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is necessary for an understanding of the current period's financial statements (see paragraph B13).

~~Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements~~.

Paragraph 32~~38A~~

Referred to in paragraph 67 of the Practice Statement

An entity shall present a current reporting period and preceding period in each of its primary financial statements and in the notes. Paragraphs B14–B15 set out requirements relating to additional comparative information.

~~An entity shall present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related notes.~~

Appendix A

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

***material information*:**

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Paragraph B2

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Paragraph B4

Referred to in paragraph 6 of the Practice Statement

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Paragraph B5

Referred to in paragraph 6 of the Practice Statement

…At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Paragraph B14~~38C~~

Referred to in paragraph 69 of the Practice Statement

An entity may provide comparative information in addition to the comparative information required by IFRS Accounting Standards, as long as that information is prepared in accordance with IFRS Accounting Standards. This additional comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose in the notes information for those additional primary financial statements.

~~An entity may present comparative information in addition to the minimum comparative financial statements required by IFRSs, as long as that information is prepared in accordance with IFRSs. This comparative information may consist of one or more statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.~~

~~**Paragraph 117**~~

~~Referred to in paragraphs 88A and 88C of the Practice Statement~~

~~**An entity shall disclose material accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.**~~

~~**Paragraph 117A**~~

~~Referred to in paragraph 88C of the Practice Statement~~

~~Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.~~

~~**Paragraph 117B**~~

~~Referred to in paragraphs 88C and 88D of the Practice Statement~~

~~Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:~~

~~(a)~~ ~~the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;~~

~~(b)~~ ~~the entity chose the accounting policy from one or more options permitted by IFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;~~

~~(c)~~ ~~the accounting policy was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;~~

~~(d)~~ ~~the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or~~

~~(e)~~ ~~the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions.~~

~~**Paragraph 117C**~~

~~Referred to in paragraphs 88C and 88E of the Practice Statement~~

> ~~Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.~~

~~**Paragraph 117D**~~

~~Referred to in paragraphs 88C and 88G of the Practice Statement~~

> ~~If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.~~

~~**Paragraph 117E**~~

~~Referred to in paragraph 88C of the Practice Statement~~

> ~~An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs.~~

Paragraph BC73 ~~BC30F~~ of the Basis for Conclusions

Referred to in paragraphs 28 and 69 of the Practice Statement

> Aggregating and disaggregating information requires an entity to avoid both omitting useful information by providing insufficient detail and obscuring information with too much detail. For example, an entity's total assets, total liabilities, total equity, total income, total expenses and total cash flows provide some information about the entity's financial position, financial performance and cash flows, but are too aggregated to be useful on their own. Conversely, disaggregated information about individual transactions or other events provides detailed information, but may be so detailed as to obscure material information. Accordingly, an entity uses its judgement to determine how much detail is necessary to provide useful information.
>
> ~~Paragraph 30A was added to IAS 1 to highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. Paragraph 30A emphasises that an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements makes the material information less visible and therefore makes the financial statements less understandable. The amendments do not actually prohibit entities from disclosing immaterial information, because the Board thinks that such a requirement would not be operational; however, the amendments emphasise that disclosure should not result in material information being obscured.~~

Extracts from IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~

Paragraph 5

Referred to in paragraphs 72 and 78 of the Practice Statement

> ***Prior period errors*** **are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:**
>
> (a) **was available when financial statements for those periods were authorised for issue; and**
>
> (b) **could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**
>
> **Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.**

Paragraph 6A

Referred to in paragraph 62 of the Practice Statement

> **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

Paragraph 6C

Referred to in paragraph 10 of the Practice Statement

> In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:
>
> (a) to select and apply accounting policies in accordance with this Standard. This Standard sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.
>
> (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
>
> (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Paragraph 8

Referred to in paragraph 8 of the Practice Statement

> IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Paragraph 27A

Referred to in paragraph 88A and 88C of the Practice Statement

An entity shall disclose material accounting policy information (see paragraph 5). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Paragraph 27B

Referred to in paragraph 88C of the Practice Statement

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

Paragraph 27C

Referred to in paragraphs 88C and 88D of the Practice Statement

Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by IFRSs—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

(c) the accounting policy was developed in accordance with this Standard in the absence of an IFRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 27G and 31A; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one IFRS to a class of material transactions.

Paragraph 27D

Referred to in paragraphs 88C and 88E of the Practice Statement

Accounting policy information that focuses on how an entity has applied the requirements in the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.

Paragraph 27E

Referred to in paragraphs 88C and 88G of the Practice Statement

If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Paragraph 27F

Referred to in paragraph 88C of the Practice Statement

An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other IFRSs.

Paragraph 41

Referred to in paragraph 73 of the Practice Statement

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

Extracts from IAS 34 *Interim Financial Reporting*

…

Paragraph 20

Referred to in paragraph 85 of the Practice Statement

Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) **statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.**

(b) **statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the current interim period and cumulatively for the current financial year to date, with comparative statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by IFRS 18~~IAS 1 (as amended in 2011)~~, an interim report may present for each period a statement (or statements) ~~or statements~~ of financial performance~~profit or loss and other comprehensive income~~.**

(c) **statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

(d) **statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

…

In paragraph 5 the footnote at the end of the first sentence is amended. New text is underlined and deleted text is struck through.

* See Appendix A and paragraph B2 of Appendix B of IFRS 18 *Presentation and Disclosure in Financial Statements*~~paragraph 7 of IAS 1 *Presentation of Financial Statements*~~.

In paragraph 6 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* See Appendix A and paragraph B4 of IFRS 18~~paragraph 7 of IAS 1~~.

In paragraph 8 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* See paragraph 8 of IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

In paragraph 10 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* See paragraph 6C(c) of IAS 8 and paragraphs 19–20 of IFRS 18~~paragraphs 17(c) and 31 of IAS 1~~.

In paragraph 28 the footnote at the end of the paragraph is amended. New text is underlined and deleted text is struck through.

* See paragraph 41 of IFRS 18 and paragraph BC73 of the Basis for Conclusions on IFRS 18~~paragraph 30A of IAS 1 and paragraph BC30F of the Basis for Conclusions on IAS 1~~.

In paragraph 41 the footnote at the end of the first sentence is amended. New text is underlined and deleted text is struck through.

* See Appendix A and paragraph B2 of IFRS 18~~paragraph 7 of IAS 1~~.

In paragraph 43 the footnote after ‘much detail’ is amended. New text is underlined and deleted text is struck through.

* See paragraph 42 of IFRS 18~~paragraph 29 of IAS 1~~.

In paragraph 57 the footnote after ‘is obscured’ is amended. New text is underlined and deleted text is struck through.

* See paragraph 41 of IFRS 18~~paragraph 30A of IAS 1~~.

In paragraph 60 the footnote after 'other information' is amended. New text is underlined and deleted text is struck through.

* See Appendix A and paragraph B2 of IFRS 18~~paragraph 7 of IAS 1~~.

In paragraph 62(d) the footnote added to the end of the sub-paragraph is amended. New text is underlined and deleted text is struck through.

* See paragraph 6A of IAS 8~~15 of IAS 1~~.

In paragraph 67 the footnotes at the end of the first, second, third and fourth sentences are amended. New text is underlined and deleted text is struck through.

* Except when IFRS Standards permit or require otherwise. See paragraph 31 of IFRS 18~~38 of IAS 1~~.

† See paragraph 31 of IFRS 18~~38 of IAS 1~~.

‡ See paragraph 32 of IFRS 18~~38A of IAS 1~~.

§ Paragraph 10(g) of IFRS 18 ~~10(f) of IAS 1~~ also requires an entity to provide a statement of financial position as at the beginning of the preceding period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 37–40 of IFRS 18~~40A–40D of IAS 1~~.

In paragraph 69 the footnote after 'with the Standards' and the footnote at the end of the third sentence are amended. New text is underlined and deleted text is struck through.

* See paragraph B14 of IFRS 18~~38C of IAS 1~~.

† See paragraph 41 of IFRS 18 and paragraph BC73 of the Basis for Conclusions on IFRS 18~~paragraph 30A of IAS 1 and paragraph BC30F of the Basis for Conclusions on IAS 1~~.

In paragraph 70 the footnote after 'current-period financial statements,' is amended. New text is underlined and deleted text is struck through.

* See paragraph 31 of IFRS 18~~38 of IAS 1~~.