

# UKEB educational and outreach webinar on IFRS 18 *Presentation and Disclosure in Financial Statements*

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# Today's speakers

The views expressed in this presentation are those of the speakers.



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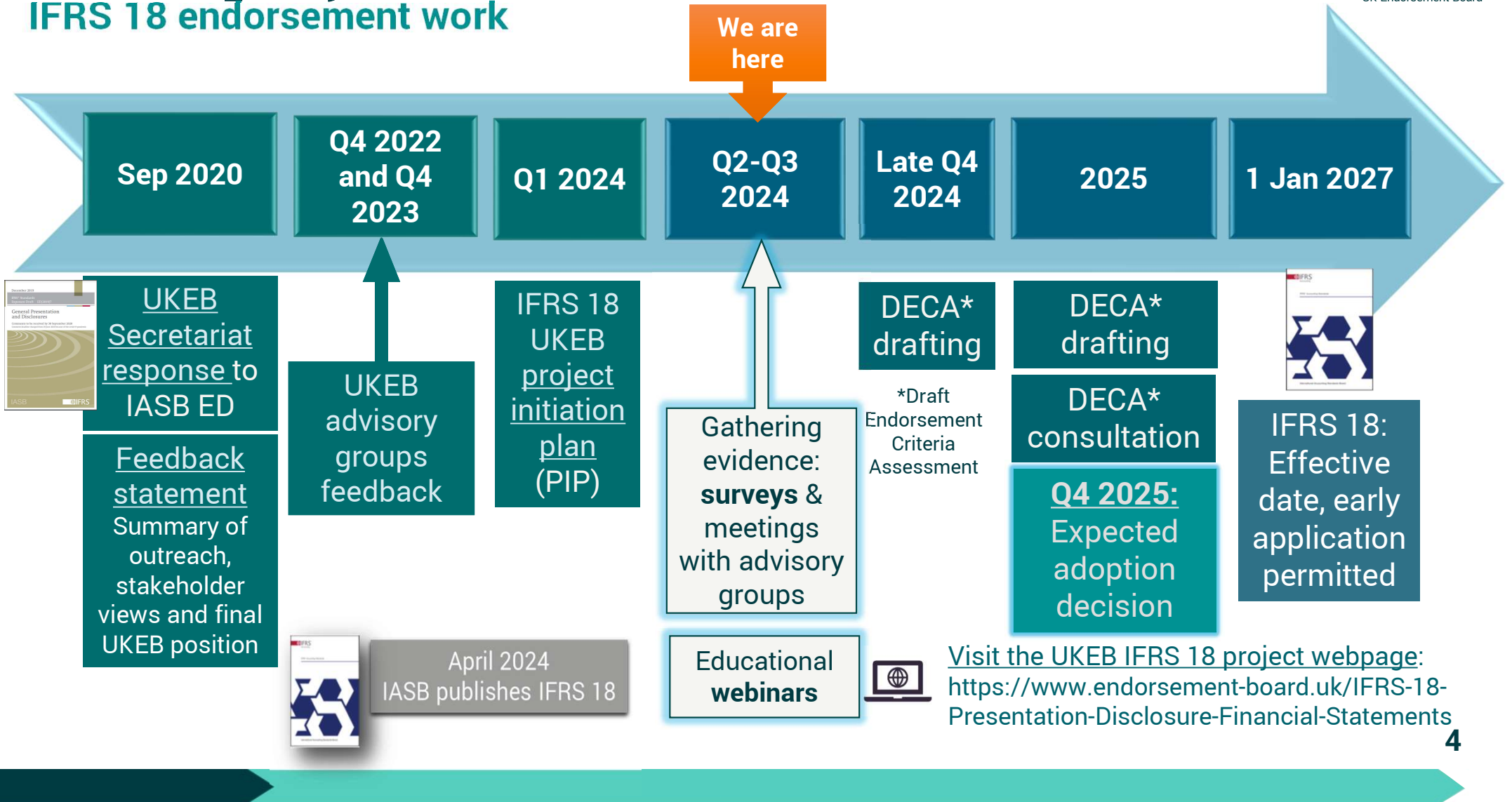
UKEB/IASB joint webinar  
*IFRS 18 Presentation and Disclosure  
in Financial Statements*

## Contents

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2. Topic 1: Categories and subtotals and panel discussion
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4. Topic 3: Aggregation and disaggregation and panel discussion
5. Q&A session
6. Closing remarks

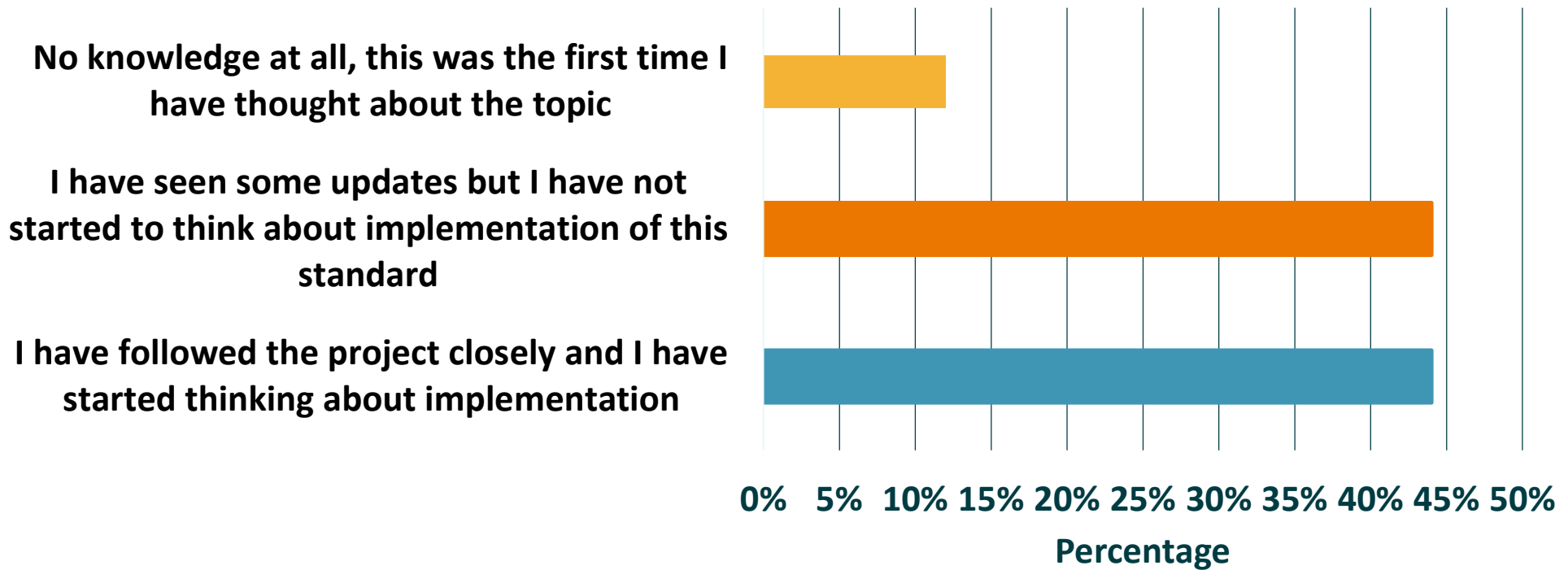
# UKEB project timeline

## IFRS 18 endorsement work



# Familiarity with IFRS 18 – Polling question for the audience

How familiar are you with the requirements of IFRS 18? (73 responses)



Source: UKEB webinar (29 July 2024) on IFRS 18 *Presentation and Disclosure in Financial Statements* – polling questions responses (using Slido).

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# Primary Financial Statements

Nick Anderson, IASB Member

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## Helicopter view

### **New IFRS Accounting Standard to improve reporting of financial performance**

Responds to investors' demand for better information about companies' financial performance



Improves how information is communicated in the financial statements



Gives investors a better basis for analysing and comparing companies' performance

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## IFRS 18 – the new requirements



New required subtotals in statement of profit or loss, including 'operating profit'



Disclosures about management-defined performance measures (MPMs)



Enhanced requirements on grouping of information (aggregation and disaggregation)

### **Better information for better decisions**

– increases comparability, transparency and usefulness of information



**Effective date:** 1 January 2027





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## Categories and subtotals in the statement of profit or loss

### Investors' concerns

- Difficulty comparing financial performance because companies' statement of profit or loss vary in content and structure

### IFRS 18 introduces

- Three new defined categories to provide a consistent structure of the statement of profit or loss:
  - operating
  - investing
  - financing
- Two new required subtotals to enable analysis:
  - operating profit
  - profit before financing and taxes

## New required subtotals

### Operating profit

Gives a complete picture of a company's operations

### Profit before financing and income tax

Gives a picture of a company's performance before the effects of its financing

### Statement of profit or loss

Revenue

Cost of sales

**Gross profit**

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Goodwill impairment loss

Other operating expenses

**Operating profit**

Share of profit or loss of associates and joint ventures

Other investment income

**Profit before financing and income tax**

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities and provisions

**Profit before tax**

Income tax expense

**PROFIT**

Operating

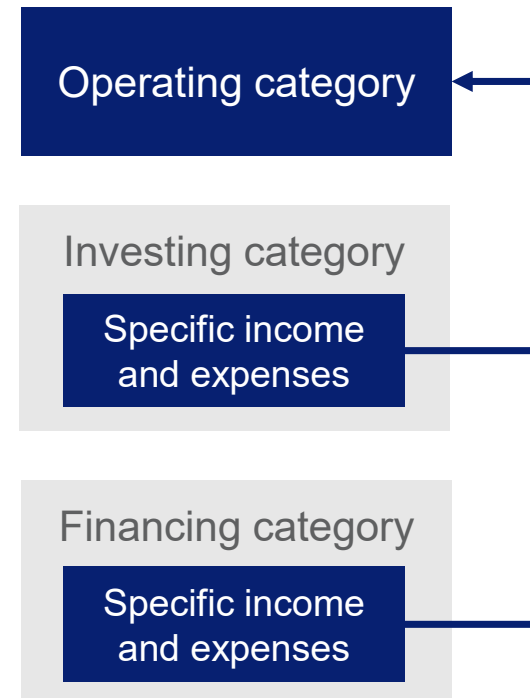
Investing

Financing

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## Requirements for specific companies

- For some companies, financing and investing activities are their main business activities – for example banks and insurers
- These companies include income and expenses in their operating profit that for other companies would be included in the investing or financing categories



## Statement of profit or loss - financing and investing as main business activities

Interest revenue

Interest expense

**Net interest income**

Fee and commission income

Fee and commission expenses

**Net fee and commission income**

Net trading income

Net investment income

Credit impairment losses

Employee benefits

Depreciation and amortisation

Other operating expenses

**Operating profit**

Share of profit of associates and joint ventures

Interest expenses on pension and lease liabilities

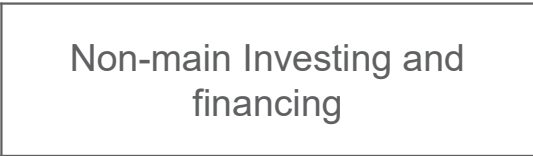
**Profit before income taxes**

Income tax expense

**PROFIT**



Operating



Non-main Investing and  
financing

## Statement of profit of loss - insurance as a main business activity

Insurance revenue

Insurance service expenses

**Insurance service result**

Investment income

Credit impairment losses

Insurance finance expenses

**Net financial result**

Other operating expenses

**Operating profit**

Share of profit or loss of associates and joint ventures

**Profit before financing and income tax**

Interest expense on borrowings and pension liabilities

**Profit before income taxes**

Income tax expense

**PROFIT**

Operating

Investing

Financing

# Categories and subtotals – What the UKEB has heard so far



Views

Some areas that stakeholders have highlighted as requiring further assessment:

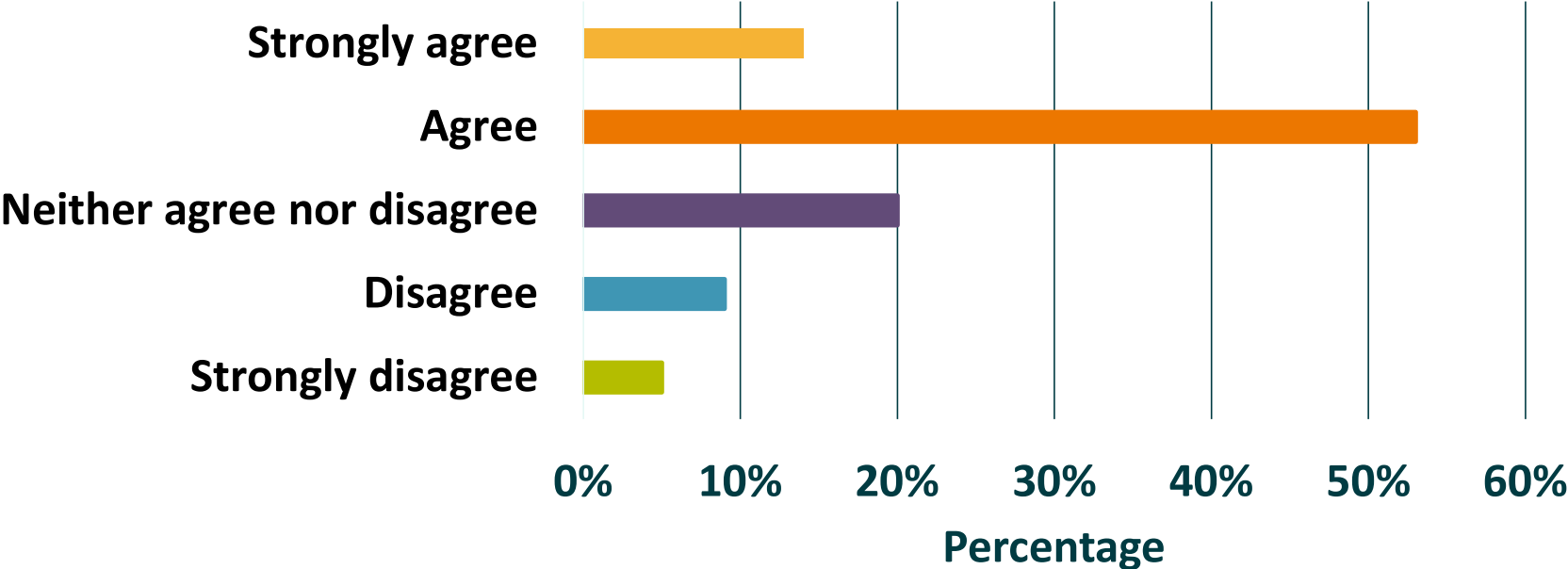
Requiring the classification of **foreign exchange differences in the same category as the income and expenses from the items** that gave rise to these differences could be **challenging** due to **constraints in accounting systems**.

Permitting an **accounting policy choice** for entities that provide financing to customers could **reduce comparability**.

In certain industries **income and expenses from investments in subsidiaries, associates and joint ventures accounted for using the equity method** are considered part of an entity's main business activities and should therefore be presented in the **operating category**.

# Categories and subtotals–Polling question for the audience

To what extent do you agree that the requirements on categories and subtotals will improve the structure of the income statement? (66 responses)



Source: UKEB webinar (29 July 2024) on IFRS 18 *Presentation and Disclosure in Financial Statements* – polling questions responses (using Slido).





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## Management-defined Performance Measures (MPMs)

### Investors' concerns

- Investors find MPMs useful but they have concerns about lack of transparency of how these measures are calculated

### Examples of alternative performance measures (APMs) or non-GAAP measures used today

- Adjusted operating profit
- Adjusted profit or loss
- Adjusted EBITDA
- Free cash flow
- Return on equity

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## Management-defined Performance Measures (MPMs)



**Subtotals of income and expenses** not required or specifically exempted by IFRS Accounting Standards



Included in **public communications outside financial statements**



Measures that communicate **management's view** of a company's financial performance

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## Disclosures for MPMs

### IFRS 18 introduces requirements to disclose in a single note

- **Reconciliation** back to IFRS-defined subtotal
- Explanation of **why** the MPM is reported
- Explanation of **how** the MPM is calculated
- Explanation of any **changes** to the MPM



## What might a reconciliation look like?

	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of PP&E	MPM
Other operating income		-	-	(1,800)	
Research and development expenses		1,600	-	-	
General and administrative expenses		-	3,800	-	
Goodwill impairment loss		4,500	-	-	
<b>Operating profit / Adjusted operating profit</b>	<b>57,000</b>	6,100	3,800	(1,800)	<b>65,100</b>
Income tax expense		-	(589)	297	
<b>Profit from continuing operations / Adjusted profit from continuing operations</b>	<b>32,100</b>	6,100	3,211	(1,503)	<b>39,908</b>
Profit attributable to non-controlling interests		305	161	-	

# MPMs– What the UKEB has heard so far



Views

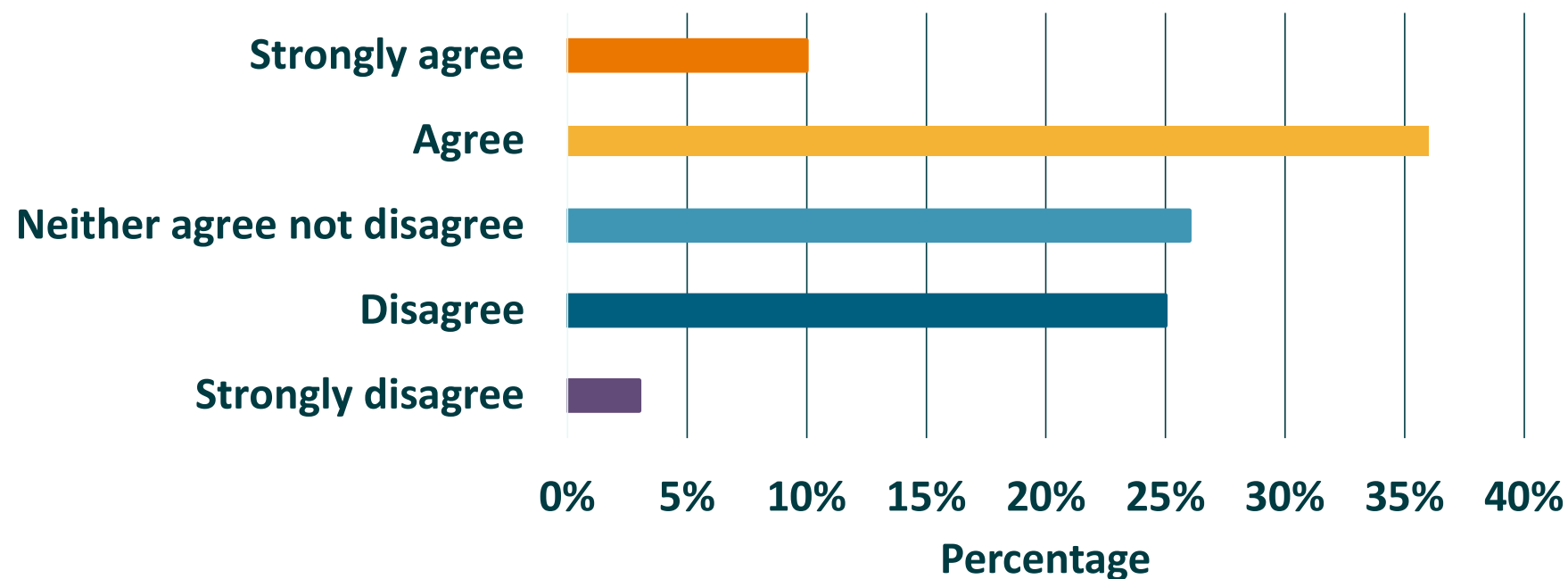
Areas that stakeholders have highlighted as requiring further assessment:

Disclosing the **effects of income taxes and non-controlling interest (NCI)** in the MPM reconciliations could lead to **additional costs**

Having **two sets of performance measure in the annual report** (Management-defined performance measures or 'MPMs' and Alternative Performance Measures or 'APMs') **may lead to user confusion**

# MPMs–Polling question for the audience

To what extent do you agree that the requirements on the disclosure of management-defined performance measures would represent an improvement over current practices for communicating performance measures? (61 responses)



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## Grouping – aggregation and disaggregation – of information

### Investors' concerns

- some companies don't provide enough detailed information
- important information is obscured

### IFRS 18 introduces

- enhanced requirements for grouping of information, including requirements for presenting and disclosing operating expenses
- guidance on whether information should be in the primary financial statements or the notes
- disclosures about items labelled as 'other'

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## Roles of the primary financial statements and the notes

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### Primary financial statements (PFS)

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Statement of  
financial  
position  
(balance sheet)



Statement of  
profit or loss  
(income  
statement)



Statement  
presenting  
comprehensive  
income (OCI)



Statement of  
changes in  
equity



Statement of  
cash flows



Notes to the  
financial  
statements

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Role is to provide structured summaries of a company's  
assets, liabilities, equity, income, expenses and cash flows

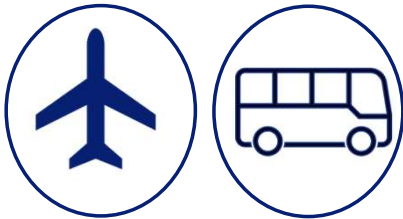
Role is to  
provide further  
information and  
supplement PFS

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## Aggregation, disaggregation and meaningful labels



Aggregate based on shared characteristics



Single dissimilar characteristic can be enough to disaggregate if resulting information is material



Use meaningful labels

- use the label 'other' only when unable to find a more informative label
- label as precisely as possible (eg 'other operating expenses')

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## Disclosure of specified expenses by nature

**Disclose the amounts included in each line item in the operating category of the statement of profit or loss for**

Depreciation	Amortisation	Employee benefits	Specified impairments	Write-down of inventories
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Qualitative explanation is required to be disclosed if part of the amount disclosed has been included in the carrying amount of assets

## Specified expenses by nature note

(in currency units)	20X2	20X1
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
<b>Total depreciation</b>	<b>31,200</b>	<b>29,330</b>
Research and development expenses	13,840	12,690
<b>Total amortisation</b>	<b>13,840</b>	<b>12,690</b>
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
<b>Total employee benefits</b>	<b>84,620</b>	<b>76,860</b>
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
<b>Total impairment loss</b>	<b>6,100</b>	<b>1,500</b>
Cost of sales	2,775	2,625
<b>Total write-down of inventories</b>	<b>2,775</b>	<b>2,625</b>

The amounts disclosed are those 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.

## Aggregation/disaggregation– What the UKEB has heard so far

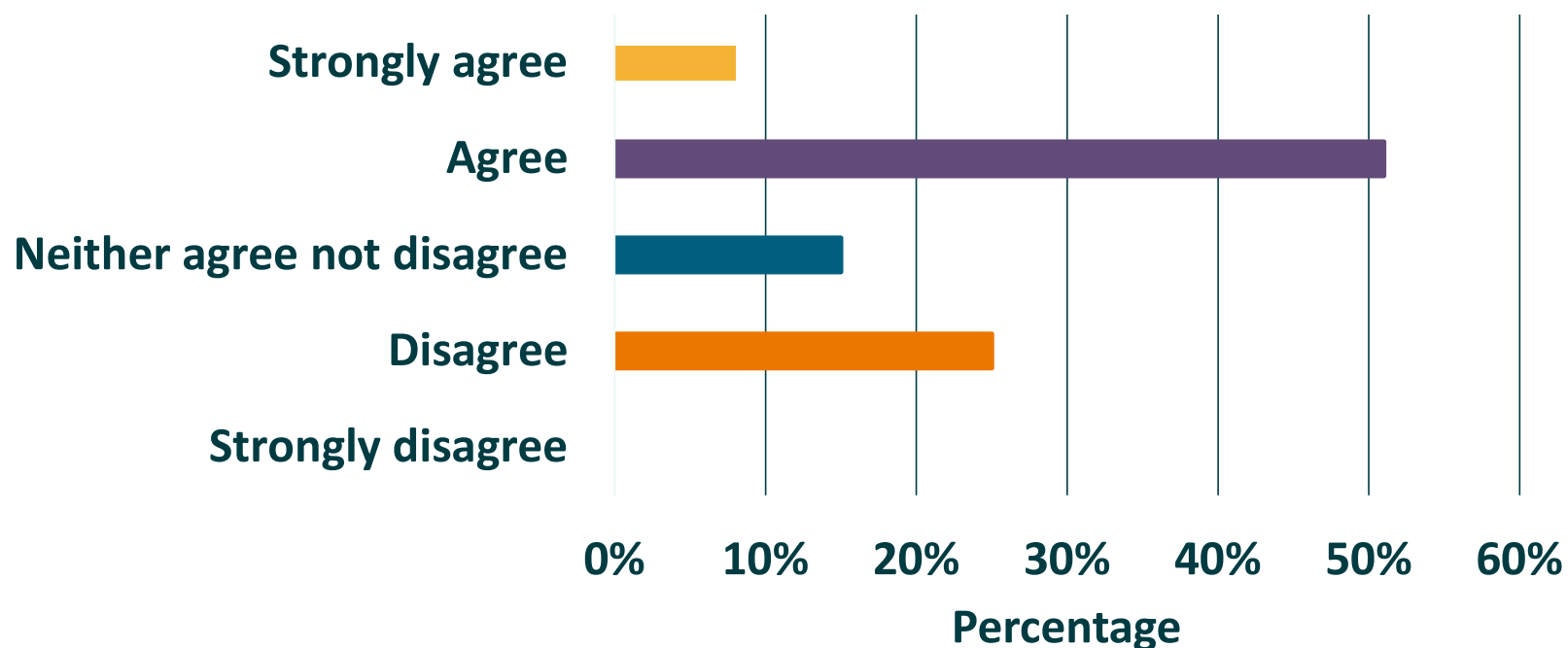


An area that stakeholders highlighted as requiring further assessment:

The disclosure of **specified expenses by nature** (i.e., amortisation, depreciation, employee benefits, impairment losses, write-down of inventories) could be **difficult to prepare and could be costly** because this information may not be tracked by current systems.

# Aggregation and disaggregation–Polling question for the audience

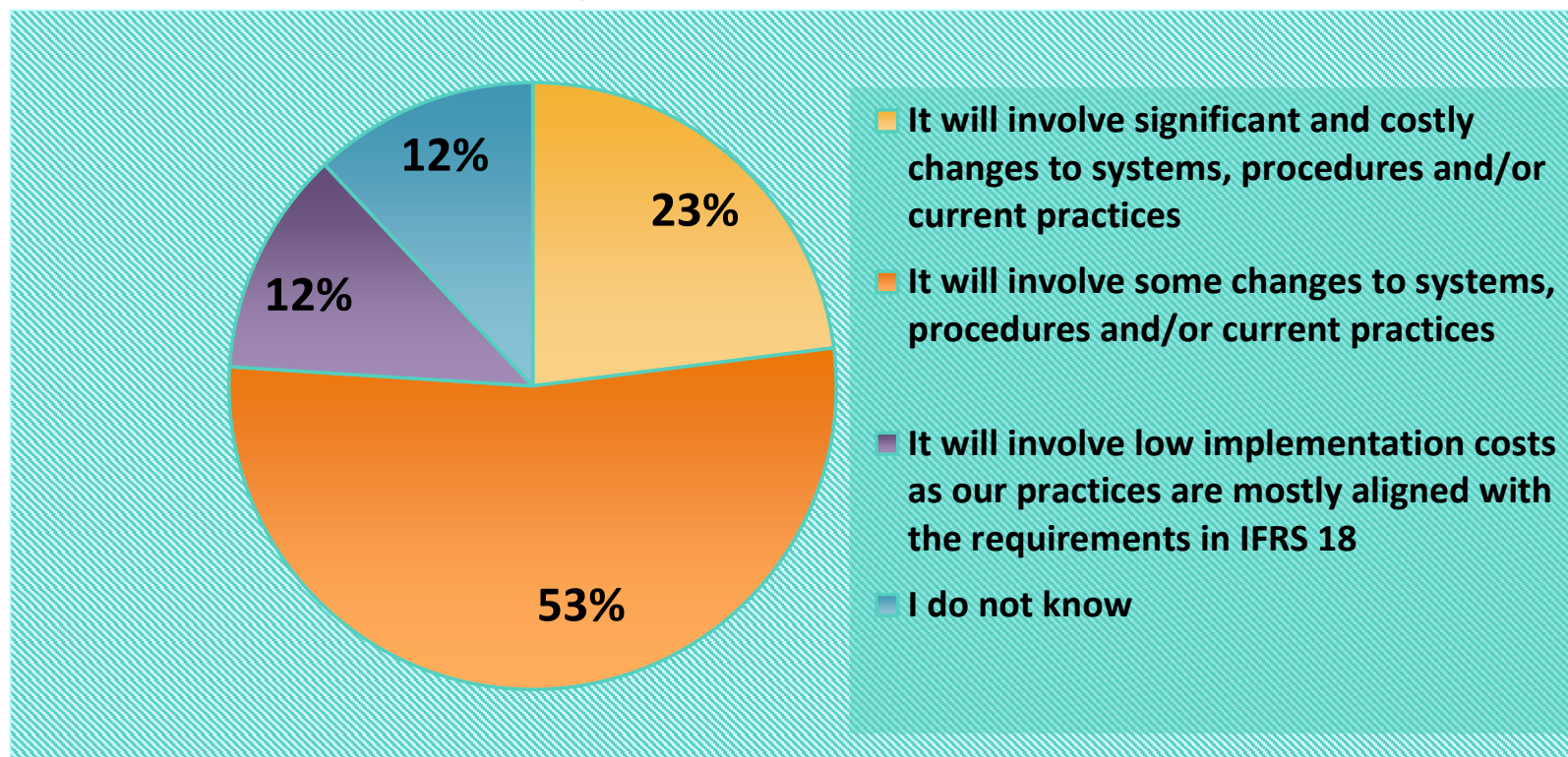
To what extent do you agree that the enhanced requirements on grouping of information (aggregation and disaggregation) would provide more detailed and useful information?  
(51 responses)



Source: UKEB webinar (29 July 2024) on IFRS 18 *Presentation and Disclosure in Financial Statements* – polling questions responses (using Slido).

# IFRS 18 implementation costs–Polling question for the audience

Tell us about the costs you expect to incur to implement IFRS 18 on transition and in the first year of adoption (43 responses)

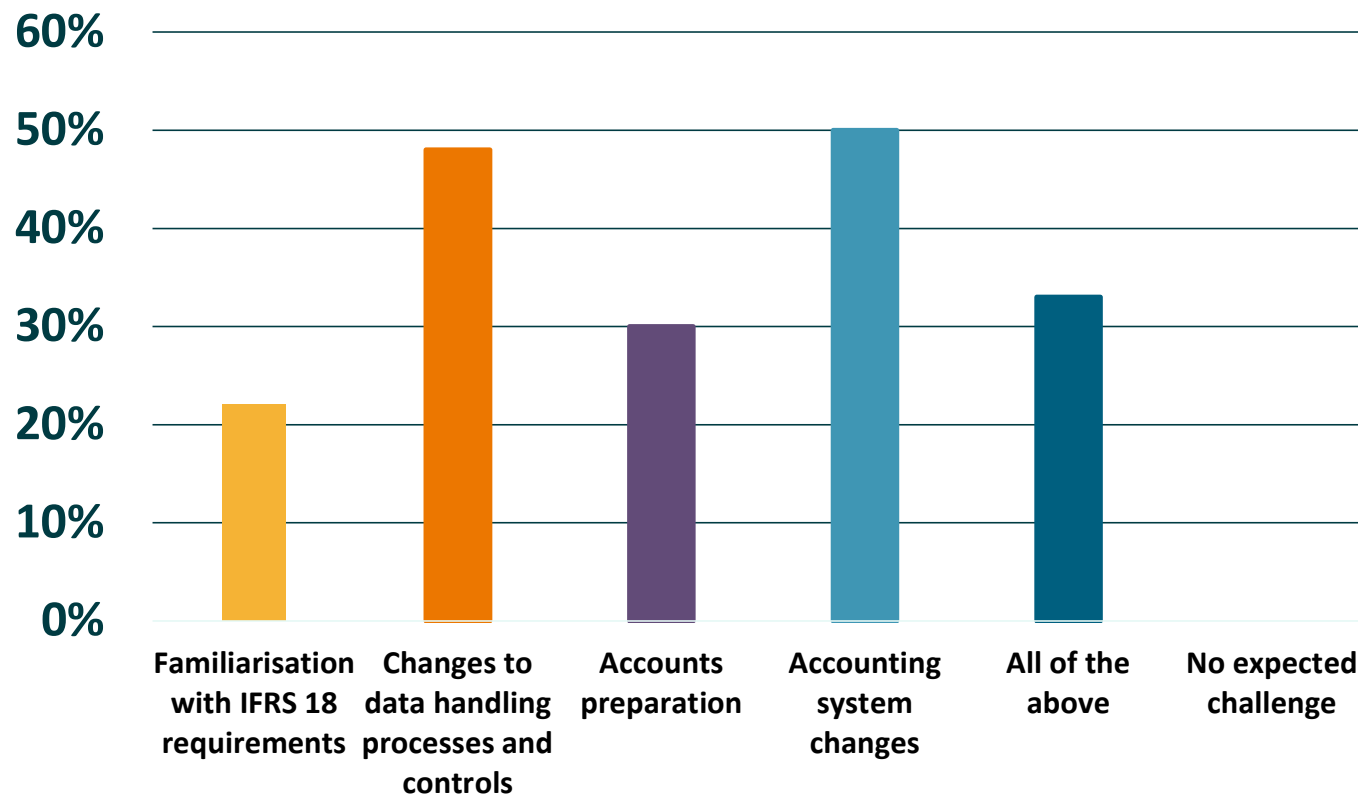


Source: UKEB webinar (29 July 2024) on IFRS 18 *Presentation and Disclosure in Financial Statements* – polling questions responses (using Slido).



# IFRS 18 main challenges–Polling question for the audience

What are the main challenges expected in the implementation of IFRS 18? (46 responses)



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# Q&A session



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Please submit your questions through the chat function



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This event is recorded and will be published on our website



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## Implementation support



# Published materials

 April 2024 <b>IFRS 18</b> IFRS <sup>®</sup> Accounting Standard <hr/> <b>Presentation and Disclosure in Financial Statements</b>	 April 2024 <b>IFRS 18</b> IFRS <sup>®</sup> Accounting Standard <hr/> <b>Basis for Conclusions on Presentation and Disclosure in Financial Statements</b>	 April 2024 <b>IFRS 18</b> IFRS <sup>®</sup> Accounting Standard <hr/> <b>Illustrative Examples on Presentation and Disclosure in Financial Statements</b>	 April 2024 <b>Reference Material</b> IFRS <sup>®</sup> Accounting Standard <hr/> <b>IFRS 18 Presentation and Disclosure in Financial Statements</b>
<p>International Accounting Standards Board      International Accounting Standards Board      International Accounting Standards Board      International Accounting Standards Board</p>			

**IFRS 18 will improve communication in financial statements**

**Primary financial statements**  
 Present useful, condensed summaries of the company's assets, liabilities, equity, income, expenses and cash flow.

**Changes introduced by IFRS 18**

- Two new defined subtotals – operating profit and profit before financing and income taxes
- Categories for classifying income and expense – operating, financing, investing, income taxes and discontinued operations

**Notes to the financial statements**  
 Disclose additional information to supplement the primary financial statements.

**Disclosures introduced or amended by IFRS 18**

For example:

- Management-defined performance measures
- Detailed responses to notes

**Other disclosures required by IAS 1**

For example:

- Related accounting policies
- Sources of estimation uncertainty
- Capital management
- Other elements

**Enhanced guidance for providing (aggregation and disaggregation) of information**  
 Applicable to all primary financial statements and the notes

General requirements for financial statements continue from IAS 1

- IFRS 18 *Presentation and Disclosure in Financial Statements*
- Basis for Conclusions
- Illustrative Examples and supporting materials
- Effects analysis
- Project summary
- Feedback statement
- Reference material
- IFRS 18 on one page

 April 2024 <b>Effects Analysis</b> IFRS <sup>®</sup> Accounting Standards <hr/> <b>IFRS 18 Presentation and Disclosure in Financial Statements</b>	 April 2024 <b>Project Summary</b> IFRS <sup>®</sup> Accounting Standards <hr/> <b>IFRS 18 Presentation and Disclosure in Financial Statements</b>	 April 2024 <b>Feedback Statement</b> IFRS <sup>®</sup> Accounting Standards <hr/> <b>IFRS 18 Presentation and Disclosure in Financial Statements</b>

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# UKEB Endorsement of IFRS 18

## Upcoming activities

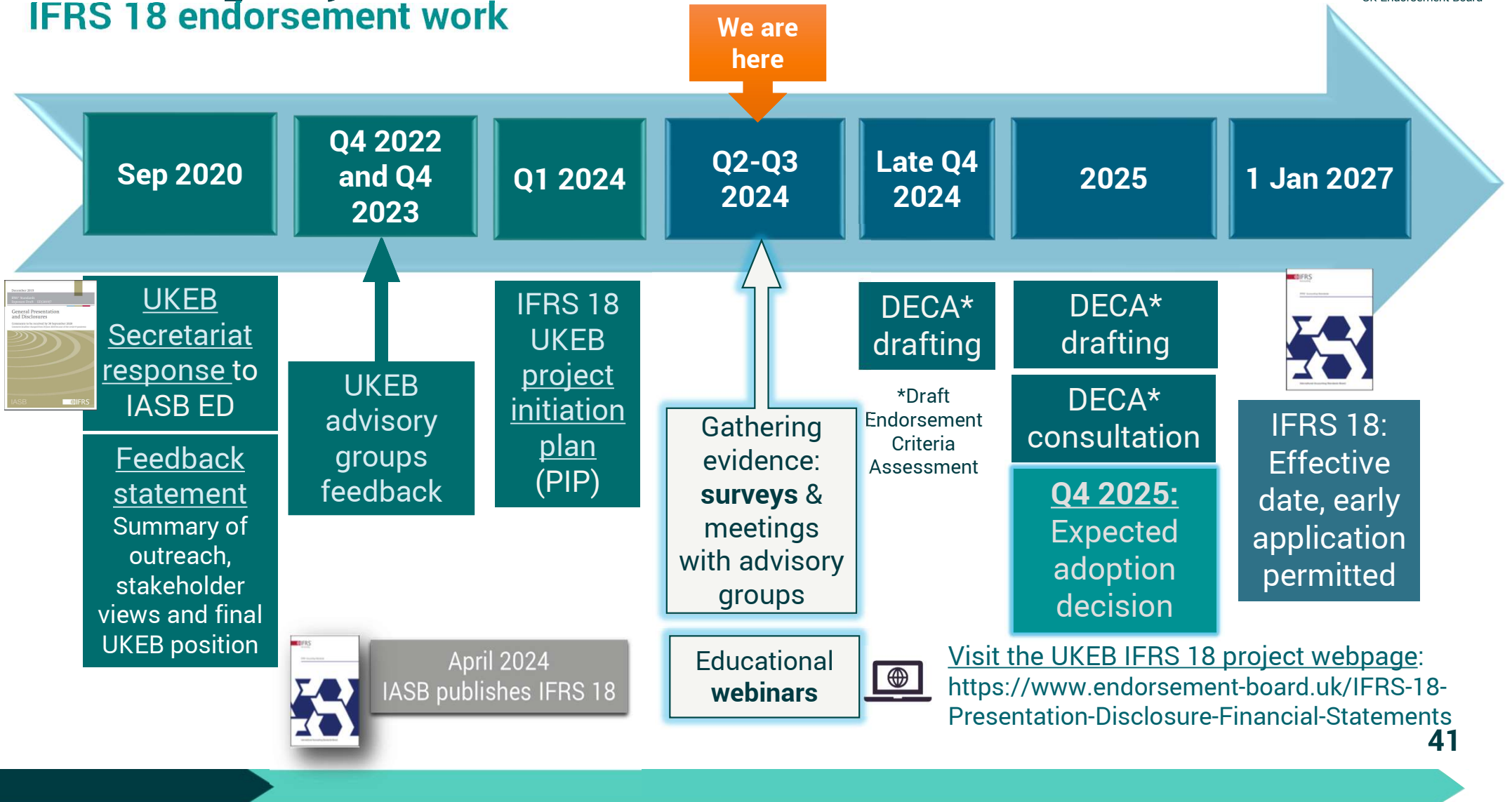
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# UKEB project timeline

## IFRS 18 endorsement work



# Preparer and user surveys

Respond to our surveys



Preparer Survey



User Survey

We welcome your views

## Contact us

IFRS18@endorsement-board.uk

## Follow us



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<https://www.linkedin.com/company/uk-endorsement-board/mycompany/>



UKEB IFRS 18 project webpage:

<https://www.endorsement-board.uk/IFRS-18-Presentation-Disclosure-Financial-Statements>