Financial reporting guide

AASB 18 Presentation and disclosure in financial statements

This publication provides a high-level summary of the key changes to the presentation and disclosure requirements of financial statements arising from the issue of the new AASB 18 *Presentation and Disclosure in Financial Statements.*

AASB 18 will replace AASB 101 *Presentation of Financial Statements* with a number of the requirements in AASB 101 carried forward to AASB 18 along with the introduction of some new requirements to help achieve comparability of the financial performance of similar entities.

When does the new standard apply?

AASB 18 applies to entities as follows, with earlier application permitted:

(a) For-profit entities, other than superannuation entities, for annual periods beginning on or after 1 January 2027; and

(b) Not-for-profit (NFP) private sector entities, NFP public sector entities and superannuation entities for annual periods beginning on or after 1 January 2028.

The deferred application date for NFPs and superannuation entities allows the Australian Accounting Standards Board ('AASB') to conduct further outreach with stakeholders and consider if modifications are required for application by these entities. The AASB will also consider whether the new presentation and disclosure requirements introduced in AASB 18 would be relevant for entities preparing financial statements in accordance with the AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

Retrospective application is required, and so comparative information needs to be presented and disclosed in accordance with AASB 18.

Key new requirements

The key new requirements introduced by AASB 18 relate to:

1. Structure of the statement of profit or loss
2. Disclosure of management-defined performance measures (or non-GAAP performance measures)
3. Guidance on aggregation and disaggregation.

1. Structure of the statement of profit or loss

The changes introduce three categories of income and expenses depending on an entity's main business activities and two new income statement sub-totals. The new sub-totals are 'Operating profit' and 'Profit or loss before financing and income tax'. The new categories of income and expenses are in addition to the existing two categories that are currently required – the discontinuing operations category and the income tax expenses category.

The 'main business activities' of an entity will depend on the facts and circumstances which requires judgement. An entity may have more than one main business activity, which may add complexity to the structure of the statement of profit or loss.

The new categories of income and expenses are ‘Operating’, ‘Investing’ and ‘Financing’.

Operating	Income/expenses: • Arising from the entity’s ‘main business activities’ or ‘specified main business activity’; and • Not included in other categories (like a residual category).
Investing	Income/expenses from: • investments in associates, joint ventures and unconsolidated subsidiaries (for example, share of profits); • cash and cash equivalents (for example, interest revenue); and • assets that generate a return individually and largely independently (for example, rental income or dividends).
Financing	Income/expenses from: • liabilities related to raising finance only (for example, interest expense on borrowings); and • other interest from other liabilities (for example, interest expense on lease liabilities).

In classifying income and expenses in the relevant categories, an entity should assess whether it has a ‘specified main business activity’ – that is a main business activity of:

- investing in particular types of assets; or
- providing financing to customers.

Examples of entities that might invest in assets as a main business activity include ‘investment entities’ as defined in AASB 10 *Consolidated Financial Statements* (like a listed investment company or a registered managed investment scheme)*,* investment property companies and insurers. Examples of entities that might provide financing to customers as a main business activity include banks and other lending institutions, lessors that provide financing to customers in finance leases, entities that provide financing to customers to enable those customers to buy the entity’s products.

If an entity has a ‘specified main business activity’ then it should classify in the operating category some income and expenses that would otherwise been classified in the investing or financing category if the activity were not a main business activity. For example, a listed investment company whose main purpose is investing in assets, will present their income from those assets (for example dividends, interest and fair value movements) as part of their operating activities.

Further changes to the structure of the statement of profit or loss include the presentation of the analysis of operating expenses. This analysis is required to be presented on the face of the statement of profit or loss and can be presented <u>either</u> by function, by nature or using a mixed presentation. The current AASB 101 allows this analysis to be presented in the notes to the financial statements and requires the analysis to be by either ‘nature’ or ‘function’.

2. Disclosure of management-defined performance measures (‘MPMs’)

MPMs are required to be disclosed in the notes to the financial statements and labelled in a clear and understandable manner so as to not mislead users. They are non-GAAP (or alternative profit) measures that are sub-totals of income and expenses that:

- an entity uses in public communications outside of the financial statements; or
- an entity uses to communicate to users of the financial statements management’s view of an aspect of the financial performance of the entity as a whole; and

are not a subtotal specifically listed in paragraph 118 of AASB 18 or specifically required to be presented or disclosed by Australian Accounting Standards.

AASB 18 specifies certain sub-totals of income and expenses that are not MPMs and therefore are not subject to the detailed disclosure requirements highlighted below. These sub-totals include operating profit or loss before depreciation, amortisation and impairments within the scope of AASB *136 Impairment of Assets*.

Along with disclosure of MPMs in the notes to the financial statements (noting that all MPMs are to be disclosed in a single note), other disclosures relating to MPMs include:

- a statement that the MPMs provide management's view of an aspect of financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities;
- a description of how the measure is calculated;
- a description of the aspect of financial performance that it communicates, including why management believes the MPM provides useful information about the entity's financial performance;
- a reconciliation to the most directly comparable sub-total in AASB 18 or another accounting standard; and
- the income tax effect and effect on non-controlling interests and how the entity has determined the income tax effect.

3. Guidance on aggregation and disaggregation

AASB 18 provides additional guidance on aggregating and disaggregating information in the financial statements, which focuses on grouping items based on their shared characteristics (for example nature, function, geographical location, etc). The principles are applied across all the financial statements and discourage entities from labelling items as 'other'; and aggregating items into large amounts presented as a single amount.

What other changes have been made?

The following is a summary of the other changes:

- Some of the content of AASB 101 has been relocated to AASB 108 *Accounting Policies, Changes in Estimates and Errors* and AASB 108 has been renamed to *Basis of Preparation of Financial Statements*.
- AASB 107 *Statement of Cash Flows* has been changed to remove the option for classifying interest and dividend cash flows as operating activities and to require the new sub-total 'Operating Profit' to be the starting point for the reconciliation to the net cash flows from operating activities.
- AASB 133 *Earnings Per Share* has been amended to permit an entity to disclose an additional earnings per share (in the notes only) based on any component in the statement of comprehensive income or a MPM.

What's the impact?

AASB 18 does not impact the recognition and measurement of amounts in the financial statements, including net profit numbers.

It will enable entities to better communicate their story and focus on the result from main business activities. It will improve consistency of presentation in the statement of profit or loss and the statement of cash flows especially between entities within the same industry.

Difficulties may be encountered when an entity has multiple main business activities, or where a consolidated group has multiple main business activities. As a result, the main business activities of the subsidiary may be different to that of the consolidated group, requiring adjustments to be made as part of the consolidation process.

Further, it will make certain 'non-GAAP' measures part of the audited financial statements, which traditionally may have been presented outside of the financial statements, such as the directors report, review of operations or the commentary attached to the Appendix 4D or 4B announcements to the market for ASX listed entities.

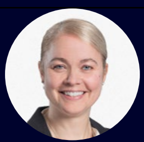
What does the new statement of profit or loss look like?

The statement of profit or loss will look different for different types of entities, depending on what the entity determines as their main business activities.

Example for a general corporate entity (excluding discontinued operations) with no specified main business activity *

Revenue	X	Operating
Operating expenses [analysed by nature, function or both as appropriate]	(X)	Operating
Operating profit ← NEW	**X**	
Share of profit/loss of equity accounted investees	X	Investing
Income from other investments	X	Investing
Interest income from cash and cash equivalents	X	Investing
Profit or loss before financing and income tax ← NEW	**X**	
Interest expense on borrowings and lease liabilities	(X)	Financing
Profit before tax	**X**	
Income tax	(X)	
Profit for the year	**X**	

* This presentation is not suitable for an entity with specified main business activities of either investing in assets or providing financing to customers.



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