A more structured statement of profit or loss under IFRS 18 *Presentation and Disclosure in Financial Statements*

In our last article, we looked at the background of IFRS 18 and an overview of the three (3) key requirements introduced by the standard.

This article focuses on one of the key requirements - changes to the structure of the statement of profit or loss.

To improve the structure of the statement of profit or loss, IFRS 18 introduces:

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

Besides these new introductions, companies are expected to continue:

- Classifying income and expenses in these two previous categories:
  - income taxes category; and
  - discontinued operations category.
- Presenting this total/subtotal in the statement of profit or loss:
  - Profit or loss for the period.

What is classified in each of the new categories?

In line with the revised structure, companies will be required to identify and classify their income and expenses in the statement of profit or loss into the three defined categories – operating, investing, and financing.

The guiding principles for the classification are summarised below:

Operating category	Income and expenses from a company's main business activities, regardless of whether they are volatile or unusual in some way.
Investing category	Income and expenses from: ▪ Assets that generate a return individually and largely independently of other resources held by a company (e.g. dividends from equity investments, interest income from financial assets, rental income from investment property*). ▪ Investments in associates, joint ventures and non-consolidated subsidiaries. ▪ Cash and cash equivalents.

**Rental income from investment property may be considered within the operating category where a company engages in real estate as its main business activity.*

Financing category	Income and expenses from: ▪ Liabilities from transactions that involve only the raising of finance (e.g. interest on bank loans). ▪ Interest expense and effects of changes in interest rates from other liabilities (e.g. interest expense on lease liabilities, interest expense on pension liabilities).

Illustrative statement of profit or loss under IFRS 18

An illustration of the new statement of profit or loss for companies **without** specified main business activities is as follows:

Statement of profit or loss Companies **without** specified main business activities	**20X1**	
Revenue	xx	Operating
Cost of sales	xx	
Gross profit	**xx**	
Other operating income	xx	
Selling expenses	xx	
Research and development expenses	xx	
General and administrative expenses	xx	
Goodwill impairment loss	xx	
Other operating expenses	xx	
Operating profit	**xx**	
Share of profit and gains on disposal of associates and joint ventures	xx	Investing
Profit before financing and income taxes	**xx**	
Interest expenses on borrowings and lease liabilities	xx	Financing
Interest expenses on pension liabilities and provisions	xx	
Profit before income taxes	**xx**	
Income tax expense	xx	Income taxes
Profit from continuing operations	**xx**	
Loss from discontinued operations	xx	Discontinued operations
Profit for the year	**xx**	

Required sub-totals	**Mandatory**
Additional sub-totals	**Additional**

*The statement of profit or loss for companies **with** specified business activities – i.e. companies investing in assets (e.g. real estate companies, insurers) or providing financing to customers (e.g. banks) – will look slightly different as such companies, financing and investing activities are their main business activities.*

Potential changes to the company's processes and systems

These changes do not affect the overall financial performance of a company. However, companies must carefully analyse these changes and assess their potential impact on their accounting and reporting processes and systems.

For example, under IAS 1 *Presentation of Financial Statements*, items such as foreign exchange differences may currently be presented as a single income or expense item within the statement of profit and loss. The classification has also been diverse, for instance, some companies have been classifying foreign exchange differences above the operating profit subtotal and others below the operating profit subtotal.

However, IFRS 18 requires foreign exchange differences to be presented separately within the operating, investing and financing categories depending on the underlying items that gave rise to them.

For example:

Foreign exchange differences arising from trade receivables will be classified in the operating category. (These were included in finance costs under IAS 1).	Operating
Foreign exchange differences arising from borrowings will be classified in the financing category. (These were included in finance costs under IAS 1).	Financing

To effectively comply with such presentation requirements, companies will need to update their accounting and reporting processes and systems to capture the foreign exchange movements at a category level. This may include updating the company's chart of accounts.

Simplifications and reliefs on classification and presentation requirements

On the other hand, IFRS 18 acknowledges that the classification requirements could impose substantial implementation costs on some companies. The Standard has provided some simplifications and reliefs to help companies avoid incurring undue costs and efforts.

Foreign exchange differences	A company will classify foreign exchange differences in the operating category if classifying them in the same category as the income and expenses from the items that gave rise to them would involve undue cost or effort.

Similar requirements and simplification apply to fair value gains or losses on derivatives not designated as hedging instruments under IFRS 9 *Financial Instruments*.

References

IFRS Foundation. Effect Analysis - IFRS 18 *Presentation and Disclosure in Financial Statements* [April 2024].

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