Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**AASB 1060 Review**	**Meeting:**	212
Topic:	**Consideration of the potential effects of AASB 18 on AASB 1060**	**Agenda Item:**	8.3
		Date:	15 April 2025
Contact(s):	Jia Wei jwei@aasb.gov.au Lan Lu llu@aasb.gov.au Helena Simkova hsimkova@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Decide on areas for inclusion in the ITC on AASB 1060 review

Objective of this paper

1 The objective of this agenda item is for the Board to

(a) consider potential amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* as a result of AASB 18 *Presentation and Disclosure in Financial Statements;*

(b) decide on questions and areas for inclusion in an Invitations to Comment (ITC) to seek stakeholders' feedback.

Structure of this paper

2 This Staff Paper is set out as follows:

(a) Background (paragraphs 3 to 11);

(b) Consideration of AASB 18 presentation and classification (paragraphs 12 to 17);

(c) Consideration of AASB 18 new disclosure requirements (paragraphs 18 to 19);

(d) Consideration of AASB 18 defined terms (paragraphs 20 to 23);

(e) Proposed ITC questions and matters for inclusion (paragraph 24);

(f) Consideration of not-for-profit sector (paragraphs 25 to 29);

(g) Next steps and questions for Board members (paragraph 30); and

(h) Paragraph extract of the new requirements in AASB 18 (Appendix A).

Background

3 In June 2024, the AASB issued AASB 18 to replace AASB 101 *Presentation of Financial Statements*, effective for annual reporting periods beginning on or after 1 January 2027[1], with earlier application permitted.

4 AASB 101 dealt exclusively with presentation and disclosure requirements. Therefore, AASB 101 requirements were included in AASB 1060, as the following sections:

(a) Financial Statement Presentation (AASB 101): paragraphs 8 – 33;

(b) Statement of Financial Position (AASB 101): paragraphs 34 – 47;

(c) Statement of Profit or Loss and Other Comprehensive Income (AASB 101): paragraphs 48 – 58; and

(d) Statement of Changes in Equity and Statement of Income and Retained Earnings (AASB 101): paragraphs 59 – 63.[2]

5 AASB 1060 also includes certain guidance from AASB 101 (e.g. on application of materiality or offsetting prohibition).

6 AASB 18 introduces new presentation and disclosure requirements including:

(a) a defined Statement of Profit or Loss (P&L) structure which requires entities:

(i) to classify income and expenses into operating, investing, or financing categories; and

(ii) present two newly defined subtotals: 'operating profit or loss' and 'profit or loss before financing and income tax';

(b) 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 if operating expenses are classified by function;

(c) the disclosure of management-defined performance measures (MPM); and

(d) enhanced requirements for grouping information (i.e. aggregation and disaggregation).

Fora paragraph extract of the new requirements in AASB 18, refer to Appendix A.

7 The second comprehensive review of *IFRS for SMEs* did not consider the effect of IFRS 18, possibly due to the timing of the comprehensive review. As such, it is likely to be considered during the next review of the *IFRS for SMEs*.

---

1 The effective date of 1 January 2027 applies to for-profit entities (other than superannuation entities applying AASB 1056 Superannuation Entities) preparing Tier 1 general purpose financial statements. For not-for-profit private sector entities, not-for-profit public sector entities and superannuation entities applying AASB 1056, AASB 18 applies to annual reporting periods beginning on or after 1 January 2028. Earlier application is also permitted for these entities.

2 Partially extracted from paragraph BC54 of AASB 1060.

8 Staff noted that IFRS 19 *Subsidiaries without Public Accountability: Disclosures* includes most of IFRS 18's disclosure requirements. The new disclosure requirements introduced by IFRS 18 were included in IFRS 19 without any reductions.

9 With AASB 18 replacing AASB 101, the Board will need to consider the following options:

(a) amend AASB 1060 so it aligns with the requirements in AASB 18. The Board would retain the general principle of maintaining the same presentation requirements for Tier 1 and Tier 2 entities (as explained in BC47 of AASB 1060); or

(b) do not amend AASB 1060 for the effects of AASB 18 until the next edition of the *IFRS for SMEs* Accounting Standard and only consider amendments to the Fourth Edition of IFRS for SMEs when finalised. The next review of the *IFRS for SMEs* is expected to commence in five years. This would result in presentation differences between Tier 1 and Tier 2 entities' financial statements.

10 Staff considered seeking stakeholders' feedback on the preferred option and including relevant questions in the ITC.

11 If AASB 1060 is to be aligned with AASB 18, then the areas to be considered include:

(a) whether the relevant classification and presentation guidance in AASB 18 should be incorporated into AASB 1060;

(b) which of the newly added disclosure requirements in AASB 18 (if any) should be included in AASB 1060, i.e.:

(i) requirement 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 if operating expenses are classified by function;

(ii) MPMs and relevant disclosures;

(iii) the aggregation and disaggregation principles; and

(c) amendments to definitions and newly defined terms in AASB 18.

Consideration of AASB 18 presentation and classification requirements

12 When AASB 1060 was developed, the purpose of the standard was to reduce disclosure requirements for Tier 2 entities while retaining the recognition and measurement (R&M) principles from the full standards.

13 Paragraph BC47 of AASB 1060 states that "*as a general rule, the presentation requirements of full AAS have been retained, and the Board noted that it did not intend to make any changes to the presentation requirements or accounting treatments available under AAS*."

14 AASB 18 not only changes the presentation principles of the profit and loss statement, but it also provides specific guidance on how to classify individual income or expense items. The

new requirements for the structure of the statement of profit or loss should help to increase the comparability and understandability of information presented in that statement.[3]

15 Currently, no such guidance is incorporated into AASB 1060.

16 Staff acknowledge that the preliminary feedback received on AASB 1060 did not indicate any issue with the current presentation of Tier 2 financial statements. Reclassification of items within P&L may require some system changes and may result in additional costs to Tier 2 entities.

17 However, considering the principles of retaining the presentation requirements of full AAS in AASB 1060, staff think that the presentation and classification requirements of AASB 18 should replace those based on AASB 101 or *IFRS for SMEs*. This would increase the comparability and understandability of the information presented in the statement of profit or loss.

Consideration of newly added disclosure requirements in AASB 18

18 If the AASB 1060 is to be updated for AASB 18 requirements, the Board will need to consider whether the new disclosure requirements introduced by AASB 18 should be also incorporated in AASB 1060.

19 Staff considered the possible effect of the newly added disclosure requirements in AASB 18 on AASB 1060 below.

AASB 18 new disclosure requirements	Staff comments on the possible effect on Tier 2 entities
<u>Operating expenses are presented by function</u> (as required under paragraph 83 of AASB 18) For entities electing to present expenses by function, they must disclose in a single note disaggregated information on five types of expenses - employee benefits, depreciation, amortisation, impairments and write-down of inventories. For each type of expense, entities need to disclose: (a) the total; (b) the amount related to each line item in the operating category; and (c) a list of any line items outside the operating category that also include amounts relating to the total.	The IASB concluded that these disclosures would be useful to users of the financial statements because it would enable them to better understand: (a) 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); (b) how information presented in the primary financial statements relates to information disclosed in the notes; and (c) 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. This disclosure requirement applies only to entities that choose to present their expenses by function. Staff understand that tracking the expenses to comply with this requirement may require changes to the system and, therefore, initial investment. Staff suggest collecting feedback from the stakeholders and include the question on operating expenses in the ITC document.
<u>Management-defined performance measures</u> (as required under paragraph 123 of AASB 18) For entities using MPMs, they must label and describe each MPM clearly and understandably so	This disclosure requirement applies only to entities electing to use MPMs. Not all measures satisfy the MPM criteria and would, therefore, not require additional disclosure. Staff do not expect many Tier 2 entities to use MPMs. If an entity use MPMs, the users may find the additional disclosures helpful. The Board may also

3 Paragraph BC81 of IFRS 18 Basis for Conclusions

AASB 18 new disclosure requirements	Staff comments on the possible effect on Tier 2 entities
that it does not mislead users of financial statements. For each MPM, entities must disclose: (a) explanation of use – a statement that the MPM reflects management's view of financial performance and an explanation of why the MPM is reported and how it provides useful information; (b) calculation – describe how the MPM is calculated; (c) reconciliation – reconcile each MPM to the most directly comparable subtotal or total specified by the Australian Accounting Standards; and (d) tax effect – the tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation; and (e) a description of how the income tax effect is determined.	consider providing relief from any disclosure requirements that, in their view, would result in significant additional costs for preparers (for example, tax effect and determination of tax). Staff suggest collecting feedback from stakeholders and including the question on the importance of additional MPM disclosures in the ITC document.
<u>Aggregation and disaggregation</u> (as required under paragraphs 43, B24 and B26(b) of AASB 18) Entities must label and describe items in financial statements or notes in a way that accurately represents their characteristics. AASB 18 outlines the following guidance for disclosures: (a) Grouping Material Items with Other Material Items - details about each material item must still be disclosed; (b) Grouping Material Items with Immaterial Items - disclosure of disaggregated information is required only if the immaterial information obscured the material information. (c) Grouping Immaterial Items with Other Immaterial Items - detailed disclosure is not required, unless the "other" label is used for the group. AASB 18 restricts vague labels like "other" and contains application guidance to help entities determine a more informative label than "other." If the "other" label is used to group immaterial items, entities must provide additional disclosure about the amount to either: (a) explain that no material items are included in the amount, or (b) clarify that the amount consists of several immaterial items, specifying the nature and size of the largest item.	The IASB found that in some cases, the labels and/or descriptions used in financial statements are not always complete (e.g. the labels "unusual" and "other"), which are not helpful to users of the financial statements. Therefore, the guidance and disclosure requirements on aggregation and disaggregation should enhance the understandability of financial statements. Staff think that implementing clear labels and descriptions for these items in the financial statements and/or notes would not result in significant costs to Tier 2 entities. Staff suggest collecting feedback from stakeholders and including the question on whether AASB 1060 should be updated with the new guidance on aggregation and disaggregation.

Consideration of AASB 18 defined terms

20 In considering the new requirements in AASB 18, staff also reviewed the defined terms in AASB 18 and compared them with the defined terms in AASB 1060. The results of the comparison are presented in the following tables:

(a) Tabel 1: Terms defined in AASB 1060 (and AASB 101) but not in AASB 18

(b) Table 2: Defined terms in AASB 18 but not in AASB 1060 (and not in AASB 101)

(c) Table 3: Defined terms in AASB 18 that are also in AASB 1060 (and AASB 101)

Table 1: Terms defined in AASB 1060 (and AASB 101) but not in AASB 18

Term	Definition in AASB 1060
Accounting policies	*Accounting policies* are defined in paragraph 5 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and the term is used in this Standard with the same meaning. Note: AASB 18 does not amend this definition in AASB 108.
Impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. Note: The definition of 'Impracticable' is identical to that provided in AASB 108 and is not amended by AASB 18.

21 When AASB 18 replaces AASB 101, the above definitions will be located in AASB 108. As explained above, AASB 1060 only included definitions from the standards that were replaced in their entirety by AASB 1060. For all other terms Tier 2 entities are required to comply with definitions in other AASB Standards. To retain this principle, staff recommend removing these defined terms from AASB 1060.

Table 2: Defined Terms in AASB 18 but not in AASB 1060 (and not in AASB 101)

Term	Defined Terms in AASB 18
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.

Term	Defined Terms in AASB 18
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.
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 AASB 18, or specifically required to be presented or disclosed by Australian Accounting Standards.
Operating profit or loss	The total of all income and expenses classified in the operating category.
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 before financing and income taxes	The total of operating profit or loss and all income and expenses classified in the investing category.
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.

22 Staff recommend including the above definitions to AASB 1060 only if they are relevant (ie. only if relevant requirements or guidance from AASB 18 are integrated into AASB 1060).

Table 3: Defined terms in AASB 18 that are also in AASB 1060 (and AASB 101)

Term	Defined terms in AASB 18	Definitions in AASB 1060 (and AASB 101)
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.	*General purpose financial statements* (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.
IFRS Accounting Standards/ International Financial Reporting Standards (IFRS)	IFRS Accounting Standards: Accounting standards issued by the International Accounting Standards Board. They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations. IFRS Accounting Standards were previously known as International Financial Reporting Standards, IFRS, IFRSs and IFRS Standards.	*International Financial Reporting Standards (IFRSs)* are Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
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	*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. 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) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear; (b) information regarding a material 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

Term	Defined terms in AASB 18	Definitions in AASB 1060 (and AASB 101)
		(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. 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. 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.
Notes	Information in financial statements provided in addition to that presented in the primary financial statements.	*Notes* contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
Other comprehensive income	Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other Australian Accounting Standards.	*Other comprehensive income* comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Australian Accounting Standards. The components of other comprehensive income include: (a) changes in revaluation surplus (see AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*); (b) remeasurements of defined benefit plans (see AASB *119 Employee Benefits*); (c) gains and losses arising from translating the financial statements of a foreign operation (see AASB 121 *The Effects of Changes in Foreign Exchange Rates*); (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 AASB 9 *Financial Instruments*; (da) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9; (e) 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

Term	Defined terms in AASB 18	Definitions in AASB 1060 (and AASB 101)
		equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of AASB 9 (see Chapter 6 of AASB 9); (f) 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 AASB 9); (g) 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 AASB 9); (h) 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 AASB 9); (i) insurance finance income and expenses from contracts issued within the scope of AASB 17 *Insurance Contracts* 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 AASB 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 AASB 17; and (j) 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 AASB 17.
Owners	Holders of claims classified as equity.	*Owners* are holders of instruments classified as equity.
Profit or loss	The total of income less expenses included in the statement of profit or loss.	*Profit or loss* is the total of income less expenses, excluding the components of other comprehensive income.
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.	*Reclassification* adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous 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.	*Total comprehensive income* is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Term	Defined terms in AASB 18	Definitions in AASB 1060 (and AASB 101)
		Total comprehensive income comprises all components of ‘profit or loss’ and of ‘other comprehensive income’.

23 The relevant terms in AASB 1060 were originally based on the definitions in AASB 101, rather than those in the *IFRS for SMEs* Standard. Since AASB 101 is being replaced by AASB 18, staff recommend adhering to the Board’s original principle to amend the AASB 1060 defined terms in Table 3 with those in AASB 18.

Proposed ITC questions and areas for inclusion

24 Staff propose to include the following questions related to AASB 18 effect in the ITC document:

1) Should the AASB consider the influence of AASB 18 in advance of the IASB considers the suitability of these requirements for IFRS for SMEs.

   If you agree, please consider the following questions.

   If you disagree, please explain your reasons?

2) Do you agree with replacing the AASB 101 presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements to align with the presentation and classification of Tier 1 entities?

   If you disagree, with which aspects do you disagree and what would you suggest instead?

3) Should AASB 1060 include a requirement to disclose specified expenses by nature in a single note when operating expenses are presented by function in the statement of profit or loss (as required by paragraph 83 of AASB 18 for Tier 1 entities)?

   Please provide the reasons for your view.

4) Should AASB 1060 include AASB 18 requirements to disclose:

   a) management-defined performance measures (MPMs) and all related information required by paragraphs 117 to 125 of AASB 18 (the same requirements as for Tier 1 entities);

   b) MPMs and only some disclosure requirements (e.g. only qualitative information or reconciliation of each MPM to the most directly comparable subtotal or total specified by the Australian Accounting Standards); or

   c) no disclosure requirements for MPMs?

   Please provide the reasons for your view. If you support only some disclosure requirements, please identify which disclosures should be required and why.

5) Should AASB 1060 include additional guidance to disclose further information regarding the aggregation and disaggregation of line items in its financial statement and/or notes?

   Please provide the reasons for your view.

Consideration of not-for-profit entities

25 In Agenda Item 5 of this meeting, the Board is asked to decide on the application of AASB 18 for not-for-profit (NFP) entities in the private and public sectors preparing Tier 1 general purpose financial statements (GPFS). The Board's decisions in Agenda Item 5 could have an important impact on this project regarding whether AASB 1060 should be updated to align with AASB 18 for these NFP entities.

<u>NFP private sector consideration</u>

26 As noted in Agenda Paper 5.2, stakeholder feedback indicated that clarification on the following AASB 18 principles might be needed in an NFP context for NFP entities preparing Tier 1 GPFS:

(a) the objective of financial statements in AASB 18 – that refers to assessing the prospects for future net cash **inflows** to the entity; and

(b) the criterion outlined in AASB 18.B80(a) regarding presentation and disclosure of expense line items – that refers to main components or drivers of the entity's **profitability**.

27 As these principles are also relevant for Tier 2 NFP entities, any guidance or modifications to AASB 18 the Board might decide to provide for NFP entities preparing Tier 1 GPFS might affect the Board's decisions on AASB 1060 relating to Tier 2 NFP entities.

<u>NFP public sector consideration</u>

28 In Agenda Paper 5.1, the Board is asked to decide whether it is justified under the *AASB Not-for-Profit Entity Standard-Setting Framework* to permit NFP public sector entities preparing Tier 1 GPFS to depart from AASB 18. Any relief from, or modifications of, AASB 18 requirements the Board might decide to provide for these entities might affect the Board's decisions on AASB 1060 relating to NFP public sector entities preparing Tier 2 GPFS.

29 Subject to the Board's decisions Agenda Paper 5.1, the content and questions included in this ITC may need to be tailored for NFP public sector entities preparing Tier 2 GPFS.

Next steps

30 Subject to the Board agreeing to issue one ITC as per staff paper 8.0, staff will draft a consultation document as per the proposed timeline in paragraph 29 of staff paper 8.1 at this meeting.

Questions for Board members

Q1. Do Board members agree with the inclusion of the following in the ITC document:

(a) paragraph extract of the new requirements introduced by AASB 18 (similar to the content presented in Appendix A of this staff paper)?

(b) staff analysis of the additional disclosure requirement for Tier 2 entities

(c) the ITC questions in paragraph 24

Q2. Are there any other questions or matters that Board members would like to be included in the ITC document?

Appendix A Paragraph extract of the new requirements in AASB 18

<table>
<tr><th>Topic</th><th>Paragraph</th></tr>
<tr><td>Statement of Profit or Loss Structure

Categories of income and expenses (paragraphs 47–68, 88, B29–B79 of AASB 18)</td><td>
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
</td></tr>
</table>

Topic	Paragraph
	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:

Topic	Paragraph
	(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).**

Topic	Paragraph
	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 Australian 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 Australian 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 AASB 9 *Financial Instruments* (see paragraph B58); and (b) insurance finance income and expenses included in the statement of profit or loss applying AASB 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

Topic	Paragraph
	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 AASB 112 *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 AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. **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.** **Appendix B: Application guidance** **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).

Topic	Paragraph
	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 AASB 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 AASB 8 *Operating Segments*. Specifically:

Topic	Paragraph
	(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 AASB 127 *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 AASB 127. 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 AASB 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.

Topic	Paragraph
	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 AASB 128 *Investments in Associates and Joint Ventures* and paragraph 10(c) of AASB 127; (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 AASB 9 applying paragraphs 18–19 of AASB 128 and paragraph 11 of AASB 127; and (c) investments in associates and joint ventures in separate financial statements that are accounted for at cost applying paragraph 10(a) of AASB 127 or in accordance with AASB 9 applying paragraph 10(b) of AASB 127. 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 AASB 127; (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 AASB 10 and paragraph 11A of AASB 127; and (c) investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of AASB 127 or in accordance with AASB 9 applying paragraph 10(b) of AASB 127. *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.

Topic	Paragraph
	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

Topic	Paragraph
	(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:

Topic	Paragraph
	(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 AASB 9; (b) interest expenses on a contract liability with a significant financing component as specified by AASB 15; (c) interest expenses on a lease liability, applying AASB 16; (d) net interest expense (income) on a net defined benefit liability (asset), applying AASB 119; 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 AASB 137. 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 AASB 119; and (c) remeasurements of the fair value of a liability for contingent consideration in a business combination recognised applying AASB 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:

Topic	Paragraph
	(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 AASB 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 AASB 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 AASB 9 or applying paragraph 4.3.5 of AASB 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 AASB 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 AASB 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

Topic	Paragraph
	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 AASB 116 to investment property in the scope of AASB 140. *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

Topic	Paragraph
	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 AASB 121. (b) in the operating category – an impairment loss arising on the classification of a disposal group as held for sale by the entity applying AASB 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 AASB 121. **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 AASB 121 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).

Topic	Paragraph
	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 AASB 129 *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 AASB 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 AASB 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:

Topic	Paragraph
	(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 AASB 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 Australian 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 Australian 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 AASB 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.

Topic	Paragraph
	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).

Topic	Paragraph
Mandatory subtotals (paragraphs 69–74 of AASB 18)	**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.

Classification of operating expenses (paragraphs 78–85 and B80– 85 of AASB 18)	**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 AASB 102 *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 AASB 116 *Property, Plant and Equipment*, paragraph 79(d)(iv) of AASB 140 *Investment Property* and paragraph 53(a) of AASB 16 *Leases*;** **(ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of AASB 138 *Intangible Assets*;**

Topic	Paragraph
	(iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying AASB 119 *Employee Benefits* and the amount for services received from employees recognised by an entity applying AASB 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 AASB 136 *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 AASB 102; 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 an Australian 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 Australian Accounting Standards. **Appendix B: Application guidance** **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

Topic	Paragraph
	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.

Topic	Paragraph
	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 AASB 102, 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.

Management-defined performance measures *(paragraphs 117–125 and B113–B142 of AASB 18)*	**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 Australian 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 AASB 136; (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 Australian 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**

Topic	Paragraph
	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 Australian 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 AASB 108. 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. **Appendix B: Application guidance** **Management-defined performance measures**

Topic	Paragraph
	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 Australian 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 AASB 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.

Topic	Paragraph
	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;

Topic	Paragraph
	(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

Topic	Paragraph
	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 Australian 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 AASB 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 AASB 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 Australian 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

Topic	Paragraph
	(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 Australian 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).

Topic	Paragraph
	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 Australian 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.

Aggregation and disaggregation principles (paragraphs 41–43, B16–B26, B78–B79 of AASB 18)	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 AASB 128 *Investments in Associates and Joint Ventures* and paragraph 10(c) of AASB 127; (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 AASB 9 applying paragraphs 18–19 of AASB 128 and paragraph 11 of AASB 127; and (c) investments in associates and joint ventures in separate financial statements that are accounted for at cost applying paragraph 10(a) of AASB 127 or in accordance with AASB 9 applying paragraph 10(b) of AASB 127. 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;

Topic	Paragraph
	(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

Topic	Paragraph
	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. 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;

Topic	Paragraph
	(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).

Return to the background section of this staff paper.