



Project:	Application of AASB 18 and AASB 107 by Superannuation Entities and Not-for-Profit Entities	Meeting:	AASB June 2026 (M221)
Topic:	Operating cash flow reconciliation – amendments to AASB 1039 and AASB 1054	Agenda Item:	8.1
		Date:	2 June 2026
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		Decision-Making:	High
		Project Status:	Consider ED 338 feedback

Objective of this paper

- The objectives of this paper are for the Board to:
 - consider** stakeholder feedback on the proposals in ED 338 regarding the reconciliation of operating cash flows; and
 - decide** on whether to proceed with or modify these proposals.
- The abbreviations noted in the Cover Memo apply to this paper.

AASB rationale for the ED 338 proposals regarding the operating cash flows reconciliation

- Paragraph 16 of AASB 1054 *Australian Additional Disclosures* currently requires an entity that uses the direct method to present its statement of cash flows to provide a reconciliation of the net cash flow from operating activities, using the “profit or loss” total presented in the statement of profit or loss as the starting point.
- AASB 18 modified the indirect method requirements in paragraphs 18 and 20(b) of AASB 107 by requiring an entity to adjust the “operating profit or loss” subtotal presented in the statement of profit or loss, instead of the “profit or loss” total, to report cash flows from operating activities.
- In addition, paragraph 21 of AASB 1039 *Concise Financial Reports* states that the Standard does not require an entity using the direct method in its statement of cash flows to provide a reconciliation of cash flows from operating activities to the **profit or loss** total.
- Accordingly, AASB 1054.16 and AASB 1039.21 require amendments to align with the revised requirements in AASB 107. The proposed amendments and related SMCs are set out below, with new text underlined and deleted text shown as strikethrough.

Proposed amendments to AASB 1054.16

Reconciliation of Net Operating Cash Flow to Profit (Loss)

16 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to ~~profit (loss)~~:

- (a) the operating profit or loss subtotal in the statement of profit or loss, when the entity presents that subtotal in the statement of profit or loss in accordance with paragraph 69(a) of AASB 18;
or
- (b) the profit or loss total reported in the statement of profit or loss, when the entity does not present the operating profit or loss subtotal in the statement of profit or loss.

...

Proposed amendments to AASB 1039.21

Financial Statements

...

21 All the notes to the financial statements required by other Accounting Standards are not required in the concise financial report. For example, this Standard does not require an entity that uses the direct method in the statement of cash flows to provide a reconciliation of cash flows arising from operating activities to 'operating profit or loss' or 'profit and loss', as the case may be ~~profit or loss~~. However, information required in some notes by other Accounting Standards is required when specified in this Standard.

SMC 1

In respect to entities preparing Tier 1 GPFS, other than superannuation entities and NFP public sector entities, do you agree with the proposed paragraph 16(a) in AASB 1054 that an entity should provide a reconciliation of the net cash flow from operating activities to the operating profit or loss subtotal in the statement of profit or loss, if the entity presents that subtotal in accordance with AASB 18.69(a)? Please explain your reasons.

SMC 2

Do you agree with the proposed amendments to AASB 1039.21? Please explain your reasons.

ED 338 submissions received on this topic

7 Ten comment letters included responses to SMCs 1 and 2. They are: Deloitte, Mercer, PwC, KPMG, Grant Thornton (GT), Institute of Public Accountants (IPA), CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CA ANZ), Australasian Council of Auditors-General (ACAG) and BDO.

Summary of stakeholder feedback

8 All 10 comment letters agreed with the proposed amendments to AASB 1054.16 and AASB 1039.21 because they align with the amendments to AASB 107.

- (a) If an entity presents a subtotal in the statement of profit or loss, comparing operating profit or loss to net cash flows from operating activities enables like for like comparison and disclosure consistency (Mercer and GT).

- (b) The proposed amendments promote consistency across standards and supports understanding of the relationship between the statement of profit or loss and the cash flow statement (KPMG, IPA, CAANZ and ACAG).
- (c) The proposed amendments provide useful information for users, and ensures the existing principle is maintained regardless of the presentation and classification adopted in the income statement (CAANZ and ACAG).
- (d) In regard to proposed paragraph 16(b), permitting superannuation entities to use the 'profit or loss total' as the reconciliation starting point reflects their distinct performance reporting (PwC). CAANZ supported proposed paragraph 16(b) for both superannuation and NFP public sector entities.

Concern raised

- 9 ACAG noted that some NFP public sector entities within the scope of proposed AASB 1054.16(b) might present an "operating profit or loss" (or similarly labelled) subtotal that does not align with the definition of operating profit or loss in AASB 18. (AASB 18 Appendix A defines "operating profit or loss" as "The total of all income and expenses classified in the operating category".) ACAG questioned:
- (a) whether such a defined subtotal should be permitted when the AASB 18 operating category is not presented in the statement of profit or loss; and
 - (b) whether the proposed AASB 1054.16(b) would apply in those circumstances.

Staff analysis and recommendations

- 10 In relation to the question in paragraph 9(a), staff observed that some NFP public sector entities currently present an "operating profit or loss" (or similarly labelled) subtotal. There is no evidence to suggest that this practice should be prohibited upon application of AASB 18. This is because:
- (a) it is consistent with the Board's rationale for providing relief from certain AASB 18 requirements to NFP public sector entities – to enable relevant regulators to continue prescribing presentation formats that best meet users' information needs. Accordingly, where a regulator considers such labelling to be appropriate, staff see no basis for prohibiting its use; and
 - (b) these entities would be subject to AASB 18.43 in any case, which requires an entity to: "... label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that **faithfully represents the characteristics of the item**". (emphasis added)
- 11 **Staff recommendation 1:** Given that AASB 18 Appendix A defines some subtotals, staff recommend clarifying in a new paragraph Aus11.1 that an entity which is applying AASB 18 modified by the proposed paragraph Aus47.1 may present totals and subtotals using the defined labels in AASB 18 for amounts that do not necessarily meet those definitions. AASB 18.11 is quoted below for context.

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

Aus11.1 An entity applying paragraph Aus47.1 may use the labels for totals and subtotals defined in this Standard with meanings that differ from their defined meanings in Appendix A. For example, a not-for-profit public sector entity that does not classify income and expenses into the operating, investing, and financing categories in its statement of profit or loss may use the term ‘operating profit or loss’ as the label for a subtotal that does not meet the definition of that term in Appendix A, provided the label faithfully represents the characteristics of the items included in the subtotal, as required by paragraph 43.

12 For context, the proposed paragraph AASB 18.Aus47.1 states:¹

Aus47.1 For the purposes of paragraph 46 and notwithstanding paragraph 47:

- (a) a superannuation entity applying AASB 1056 shall not classify income and expenses into the operating, investing, financing and discontinued operations categories in its statement of profit or loss. A superannuation entity shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. A superannuation entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss; and
- (b) a not-for-profit public sector entity is not required to classify income and expenses into the operating, investing and financing categories in the statement of profit or loss. A not-for-profit public sector entity that elects to apply this relief shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. Such an entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss, including when applying paragraphs 75(a)(ii), 79–82 and 85.

13 **Staff recommendation 2:** To address ACAG’s question described in paragraph 9(b), and avoid confusion, staff recommend amending the proposed paragraph AASB 1054.16(b) as follows (new text underlined and deleted text shown as strikethrough):

“the profit or loss total reported in the statement of profit or loss, when the entity presents its statement of profit or loss applying paragraph Aus47.1 of AASB 18 ~~when the entity does not present the ‘operating profit or loss subtotal’ in the statement of profit or loss.~~”

14 **Staff recommendation 3:** Staff observed a typographical error in the proposed amendments to AASB 1039.21, where the phrase “profit or loss” was incorrectly presented as “profit and loss”. Accordingly, staff recommend amending that paragraph to state (emphasis added):

“All the notes to the financial statements required by other Accounting Standards are not required in the concise financial report. For example, this Standard does not require an entity that uses the direct method in the statement of cash flows to provide a reconciliation of cash flows arising from operating activities to ‘operating profit or loss’ or ‘**profit or loss**’, as the case may be. However, information required in some notes by other Accounting Standards is required when specified in this Standard.

Questions to Board members

- Q1: Do Board members agree with staff recommendation 1 to add paragraph Aus11.1 to AABS 18 as described in paragraph 11? If not, what alternatives do Board members suggest?
- Q2: Do Board members agree with staff recommendation 2 to amend AASB 1054.16 as described in paragraph 13? If not, what alternatives do Board members suggest?
- Q3: Do Board members agree with staff recommendation 3 to amend AASB 1039.21 as described in paragraph 14? If not, what alternatives do Board members suggest?

¹ This paragraph was paragraph Aus46.1 in ED 338. At its May 2026 meeting, the Board decided to relocate it as paragraph Aus47.1.