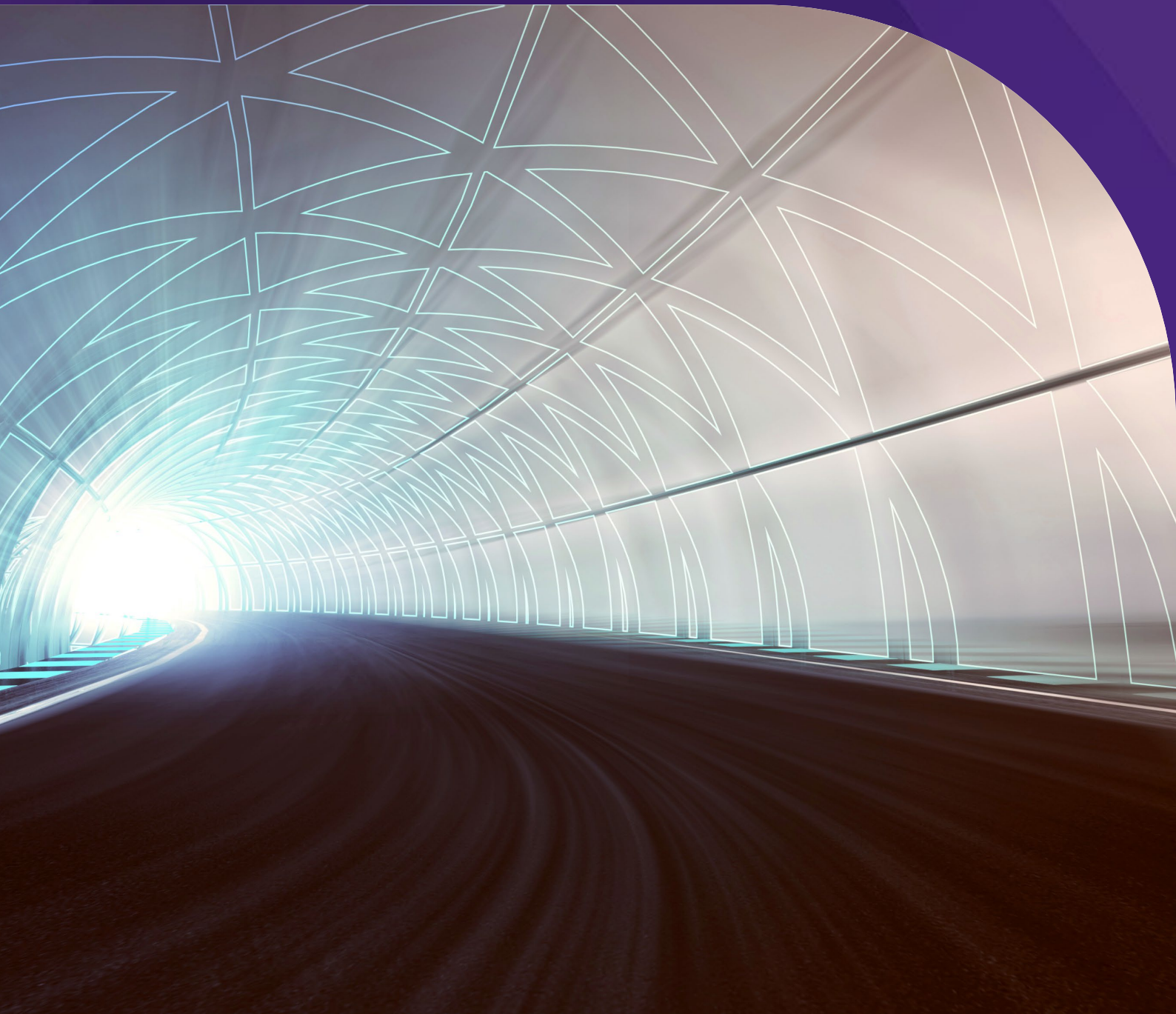


IFRS Quarterly Navigator: Your Financial Reporting Roadmap

Quarter 2 2024



Introduction

IFRS News is your quarterly update on issues relating to International Financial Reporting Standards (IFRS) Accounting Standards. We'll bring you up to speed on topical issues and all recent developments, provide comments and give our perspective on relevant topics.

We are pleased to welcome you to this IFRS-related news edition by Grant Thornton Greece, your quarterly update on issues related to International Financial Reporting Standards (IFRS) Accounting Standards.

The main objective of this edition is to keep you informed about the recent news and advancements in the field of IFRS Accounting Standards.

Our aim is to provide you with relevant support, useful information, and an understanding of the potential impact these developments may have on your business, by bringing to you the most relevant and up-to-date information and keeping you at the forefront of the ever-evolving world of financial reporting.

From significant standard updates and IASB proposed amendments to thought-provoking articles, our team of experts has crafted this edition to address your informational needs. This edition includes:

- **Latest IFRS updates**
 - Amendments to the Classification and Measurement of Financial Instruments
 - IFRS 19-Simplifying financial reporting for eligible subsidiaries
 - Introducing IFRS 18-The IASB's new presentation and disclosure standard
- **IASB proposed amendments**
 - Power Purchase Agreements (PPAs)
- **Technical insights from our experts**
 - IFRS 18 "Presentation and Disclosure in Financial Statements": Introduction to new requirements
- **Grant Thornton International's Thought Leadership**
 - IFRS Example Interim Condensed Consolidated Financial Statements 2024



We also invite you to actively engage with us by sharing your thoughts, questions, or suggestions. Your input is invaluable in shaping the content of future editions.

We hope that you find our IFRS Quarterly Navigator edition enlightening and a valuable resource for your professional journey, and should you wish to discuss any of the topics covered, please feel free to contact us.

Contents

01	Latest IFRS updates	4
	Amendments to the Classification and Measurement of Financial Instruments	5
	IFRS 19 – Simplifying financial reporting for eligible subsidiaries	8
	Introducing IFRS 18 – The IASB’s new presentation and disclosure standard	10
02	Technical Insights	15
	IFRS 18 ‘Presentation and Disclosure in Financial Statements’: Introduction to new requirements	16
03	IASB proposed amendments	17
	Exposure Draft: Power Purchase Agreements (PPAs)	18
04	Grant Thornton International Ltd’s Thought Leadership	19
	The Interim Financial Statements illustrate a six-month accounting period beginning on 1 January 2024.	20
05	Appendixes	21
	IFRS 18 ‘Presentation and Disclosure in Financial Statements’: Introduction to new requirements	22

01 Latest IFRS updates

This section presents IASB new amendments which have been published in the period from April 2024 until June 2024.

Latest IFRS updates



Amendments to the Classification and Measurement of Financial Instruments

Executive summary

The International Accounting Standards Board (IASB) has issued amendments to IFRS 9 “Financial Instruments” and some amendments have also been made to IFRS 7 “Financial Instruments: Disclosures”, following a post-implementation review (“PIR”) of IFRS 9. The amendments also include consequential changes to IFRS 19 “Subsidiaries without Public Accountability: Disclosures” to reflect the amendments made to IFRS 7.

Background

The IASB’s PIR of the classification and measurement requirements in IFRS 9 and the related requirements in IFRS 7 concluded that overall, the requirements set out in these two standards can be applied consistently and they also provide useful information to users of the financial statements. However, the PIR process did reveal some areas that could be improved and they included:

- accounting for the settlement of a financial asset or liability using an electronic payment system
- applying the requirements for assessing contractual cash flow characteristics to financial assets with features related to environmental, social, and governance (ESG) matters

To address these matters and to improve clarity and understanding, the IASB has issued some amendments to the classification and measurement of financial instruments to promote consistency.

The amendments

I. Derecognition of financial instruments when an electronic payment system is used

New guidance has been added to IFRS 9 to specifically address when a financial liability should be derecognised when it is settled by electronic payment. Previously, an entity was required to wait until the settlement date of the transaction to discharge the liability, but the new guidance allows for the liability to be discharged before the settlement date if:

- the payment cannot be withdrawn, stopped or cancelled
- the entity no longer has the practical ability to access the cash
- settlement risk associated with the electronic payment system is insignificant

II. Classification of financial assets

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

IFRS 9 has always required an entity to consider the characteristics of its contractual cash flows to appropriately classify a financial asset. The amendments provide some additional guidance to help an entity assess whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement. Given the importance of this determination, new guidance has been provided, including examples of contractual cash flows that are solely payments of principal and interest on the principal outstanding, to ascertain whether or not the arrangements would be consistent with a basic lending arrangement.

Latest IFRS updates



Amendments to the Classification and Measurement of Financial Instruments

IFRS 9 also describes certain situations where financial assets may have contractual cash flows that are described as principal and interest, but the payments made do not actually represent a basic lending arrangement. This may be the case if a financial asset has non-recourse features. The amendments to IFRS 9 provide a clearer definition of a non-recourse feature, which is now outlined as a financial asset where the entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.

Contractually linked instruments

IFRS 9 has also been updated to provide additional guidance to clarify the characteristics of contractually linked instruments as well as the definition of the underlying pool used to assess whether a transaction contains contractually linked instruments. The amendments also specify that transactions that contain multiple debt instruments are not automatically contracts with multiple contractually linked instruments, and so they must be carefully assessed before a final determination is made.

III. IFRS 7: Disclosures

Investments in equity instruments designated at fair value through other comprehensive income

The amendments to IFRS 7 add new required disclosures for any investments in equity instruments designated at fair value through other comprehensive income. These include disclosures of the fair value gain or loss presented in other comprehensive income for the period, showing separately the fair value gain or loss related to investments derecognised or held, as well as the transfer of cumulative gain or loss within equity related to derecognised investments.

Contractual terms that could change the amount of contractual cash flow based on contingent events

IFRS 7 has been amended to require additional new disclosures for each class of financial asset measured at amortised cost or fair value through other comprehensive income, as well as financial liabilities measured at amortised cost. When there are contractual terms that could change the contractual cash flows based on the outcome of a contingent event not directly related to basic lending risk, an entity must now disclose certain information surrounding the related contingent event as well as possible changes to cash flows and the gross carrying value and amortised cost of the related financial asset or liability.

These new disclosures are also now reflected in IFRS 19.

Latest IFRS updates



Amendments to the Classification and Measurement of Financial Instruments

Effective date

The amendments are effective from annual reporting periods beginning on or after 1 January 2026. Early adoption of the Standard is permitted, with a choice to either apply all amendments at the same time and disclose that fact or to apply only the amendments to the Application Guidance sections for the earlier period and disclose that fact.

An entity is required to apply these amendments retrospectively. However, an entity is not required to restate prior periods to reflect the application of the amendments unless it can clearly demonstrate that hindsight has not been used to make those changes.

Our thoughts

We were pleased to see the IASB taking on board many of the comments submitted to it during the PIR process on IFRS 9 and responding to them in a timely way. One of the goals of the IASB in making these amendments was to reduce diversity in practice, and we believe this will happen.

The guidance set out in these amendments for preparers on the derecognition of financial liabilities settled through electronic transfer will be helpful. So will the amendments clarifying how to assess the contractual cash flows characteristics of financial assets when ESG-linked features are present, when non-recourse features exist and when contractually linked arrangements are in place. For investors the additional disclosure requirements now reflected in IFRS 7, to deal with both financial equity investments designated at fair value through other comprehensive income and financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event, will be insightful.

Latest IFRS updates



IFRS 19 – Simplifying financial reporting for eligible subsidiaries

Executive summary

Following release of IFRS 18 “Presentation and Disclosure in Financial Statements”, the International Accounting Standards Board (IASB) has published another new standard — IFRS 19 ‘Subsidiaries without Public Accountability: Disclosures’. The new Standard creates a reduced set of disclosures that certain in-scope entities can elect to apply instead of the disclosure requirements set out in other IFRS. IFRS 19 will work alongside other IFRS, with eligible subsidiaries applying the measurement, recognition and presentation requirements set out in other IFRS and the revised disclosures outlined in IFRS 19.

The objective of the Standard is to alleviate the reporting burden for subsidiaries without public accountability.

Background

The release of the Standard is the final stage of the ‘Disclosure Initiative – Targeted Standards-level Review of Disclosures’ project, which came about due to subsidiaries struggling to meet the requirements for reporting information to their parent entity to be used in consolidated financial statements. When reporting to a parent that applies full IFRS, subsidiaries must apply the recognition and measurement requirements in IFRS. This creates difficult circumstances for entities that qualify to apply IFRS for Small and Medium-Sized Entities (SMEs) for their standalone reporting. IFRS for SMEs has fewer disclosure requirements than full application of IFRS; however, the recognition and measurement requirements differ to those of full IFRS. As a result, some subsidiaries choose not to take advantage of the reduced disclosures for IFRS for SMEs as it results in additional accounting to agree information reported to the parent entity with full IFRS recognition and measurement principles.

This new Standard aims to create a more attractive option for subsidiaries without public accountability. Eligible entities will now be able to elect to apply IFRS 19, which has the same recognition, measurement, and presentation principles as full IFRS, but allows for specific reduced disclosures in most topic areas.

The IASB believes IFRS 19 will provide a solution that will alleviate the reporting burden for in-scope entities.

Scope

In order to apply IFRS 19, an entity must meet all of the following criteria at the end of its reporting period:

- is a subsidiary
- does not have public accountability
- has a parent that produces consolidated financial statements available for public use that comply with full application of IFRS

For purposes of applying IFRS 19, an entity has public accountability **if**:

- it has debt or equity instruments that are traded on a public market or is in the process of issuing such instruments, **or**
- holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business activities

Latest IFRS updates



IFRS 19 – Simplifying financial reporting for eligible subsidiaries

Disclosure requirements

IFRS 19 includes reduced disclosures for almost all existing IFRS, the details of which are specific to each impacted standard. To apply IFRS 19, entities will first apply the recognition, measurement, and presentation requirements in each applicable IFRS. The entity will then not apply the disclosure requirements in the applicable IFRS but will instead refer to IFRS 19 for required disclosures.

Standards with no reduced disclosures

The IASB assessed each individual standard to determine whether to reduce disclosures and how best to do so while still meeting the fair presentation requirements and investor needs. The following standards do not have reduced disclosure requirements under IFRS 19 and the disclosures set out in each standard still apply:

- IAS 33 “Earnings per Share”
- IFRS 8 “Operating Segments”
- IFRS 17 “Insurance Contracts”

Subsidiaries that are eligible to apply IFRS 19 are not required to apply IAS 33 or IFRS 8 but may do so voluntarily. If either are applied, the full disclosures required by IAS 33 or IFRS 8 will apply.

Maintenance of IFRS 19

Due to the nature of IFRS 19, it will need to be amended whenever there are any new or amended disclosure requirements in other IFRS. To ensure that IFRS 19 is always up to date, any proposed amendments to IFRS 19 will be included in an exposure draft for the corresponding new or amended IFRS.

Effective date of IFRS 19

The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing eligible reporting entities and their auditors time to assess whether electing to apply IFRS 19 would benefit them. Early adoption of the Standard is permitted. It is important to note that if an entity applies IFRS 19 in the current period but not in the period immediately preceding, comparative prior period information is required to be provided for amounts reported in the current period financial statements.

Our thoughts

We support the release of this new Standard, which should reduce the cost of preparing financial statements for eligible subsidiaries while maintaining the usefulness of the presented information.

While the effective date is a while away, we would encourage entities to consider whether they are eligible and to assess whether applying IFRS 19 would reduce their reporting burden. We have plans to release an article later in the year that will provide a more detailed look at the requirements of this Standard.

Latest IFRS updates



Introducing IFRS 18 – The IASB’s new presentation and disclosure standard

Executive summary

On 9 April 2024 the International Accounting Standards Board (IASB) published a new standard, its first since 2017. The new standard, IFRS 18 “Presentation and Disclosure in Financial Statements” replaces IAS 1 “Presentation of Financial Statements” and will impact every reporting entity that currently uses International Financial Reporting Standards (IFRS).

The objective of the Standard is to improve how information is communicated in an entity’s financial statements, particularly in the statement of profit or loss and in its notes to the financial statements.

Key changes

- Changes to presentation requirements in the statement of profit or loss
- Foreign exchange differences
- Entities with specified main business activities
- New requirements to be included in the notes to the financial statements
- Management-defined performance measures
- Updated guidance for the aggregation and disaggregation of information
- Changes to how expenses in the operating category are presented
- Consequential changes made to other standards

Background

The release of IFRS 18 is the final stage of the Primary Financial Statements project, which came about due to the lack of detailed requirements in IAS 1 for the following areas:

- the classification of income and expenses in the statement of profit or loss
- the presentation of subtotals in the statement of profit or loss
- the aggregation and disaggregation of information presented in the primary financial statements or disclosed in the notes

This led to diversity in practice as entities defined their own subtotals and performance measures, which made comparison of financial performance between entities difficult for investors. The IASB believes IFRS 18 will resolve these issues and improve the overall quality of financial reporting.

The key changes in the new Standard

Overall, the majority of changes made in IFRS 18 impact the statement of profit or loss and notes to the financial statements, but there are also limited changes to specific requirements that are set out in IAS 7 “Statement of Cash Flows”. Only minimal changes were made to the disclosures required for the statement presenting comprehensive income, the statement of changes in equity and the statement of financial position. While much has been carried forward from IAS 1, there are some key changes that reporting entities need to be aware of.

Latest IFRS updates



Introducing IFRS 18 – The IASB’s new presentation and disclosure standard

Changes to presentation requirements in the statement of profit or loss

The main change introduced by IFRS 18 is to the way in which reporting entities will structure their statement of profit or loss.

Firstly, the Standard introduces two new defined subtotals:

- Operating profit
- Profit before financing and income taxes

These new required subtotals are intended to increase comparability by ensuring that information presented for investors is consistent across different entities.

Additionally, the Standard requires an entity to classify all income and expenses into one of the following five categories:

- operating
- investing
- financing
- income taxes
- discontinued operations

The **investing category** includes income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries, cash and cash equivalents, and any other assets (such as cash and cash equivalents) that generate returns separately from the entity’s other resources.

The **financing category** distinguishes between transactions that are solely for the purpose of raising finance, and those that are not. Income and expenses from all liabilities that result solely from the raising of finance are included in this category, along with some elements of interest income or expense recognised by applying other IFRS. This category, together with the subtotal for profit before financing and income taxes enables investors to assess the reporting entity’s performance before the effects of its financing.

The **income taxes and discontinued operations** categories include income and expenses resulting from the application of IAS 12 “Income Taxes” and any related foreign exchange differences, and IFRS 5 ‘Non-Current Assets Held for Sale and Discontinued Operations’ respectively.

Finally, the **operating category** includes all other items of income and expense that are not allocated to one of the other four categories. It is a default category, so it is important to note this category will include income and expenses from an entity’s main business activities, regardless of whether the income or expenses are volatile or unusual. The operating profit subtotal provides not only a measure of past performance, but also a starting point for forecasting an entity’s future cash flows.

Latest IFRS updates



Introducing IFRS 18 – The IASB’s new presentation and disclosure standard

Foreign exchange differences

IFRS 18 requires foreign exchange differences to be classified in the same category of the statement of profit or loss as the income and expenses from items that gave rise to the foreign exchange differences. This means, for example, that foreign exchange differences on bank loans would be classified in the financing category. However, if classifying foreign exchange differences this way would involve undue cost or effort, an entity is permitted to classify them in the operating category. Careful attention should be given to specific requirements for classifying income and expenses from hybrid contracts and fair value gains and losses on derivatives.

Entities with specified main business activities

While the above applies to most entities, it is complicated for reporting entities such as investment firms, financial institutions and insurers where their main business activities (for which income and expenses would usually be classified in the operating category), would fall into the definition of investing or financing activities.

When a reporting entity has assessed that it invests in assets as its main business activity, income and expenses are split between the investing category and operating category, depending on how the underlying assets are accounted for. For all assets accounted for using the equity method, income and expenses are included in the investing category, and for all other assets income and expenses are included in the operating category.

When a reporting entity has assessed that it provides financing to customers as its main business activity, it will classify income and expenses from liabilities relating to providing such finance in the operating category.

The assessment of an entity’s main business activities is therefore going to be a key judgement which may significantly impact the geography of where items appear in the statement of profit or loss. This is likely to prove particularly challenging for mixed groups and groups of reporting entities which provide multiple services.

New requirements to be included in the notes to the financial statements

The Standard also introduces new disclosures, in addition to those carried forward from IAS 1, to supplement the primary financial statements. They are:

- Management-defined performance measures
- Specified expenses by nature

Management-defined performance measures

In order to address the significant diversity in practice currently seen when it comes to so-called ‘Alternative Performance Measures’ and any non-GAAP performance measures, IFRS 18 introduces the concept of a ‘Management-defined Performance Measure’ (MPM).

MPMs are subtotals of income and expenses other than those listed by IFRS 18 or specifically required by another IFRS, that an entity uses:

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

Latest IFRS updates



Introducing IFRS 18 – The IASB’s new presentation and disclosure standard

Alongside any MPMs that are disclosed, a reporting entity will also be required to disclose information including:

- a reconciliation between the MPM and the most directly comparable IFRS 18 subtotal, total or subtotal required by another IFRS
- a description of how the MPM communicates management’s view and how it is calculated\an explanation of changes to the MPMs disclosed or to how any of the measures are calculated
- a statement indicating that measures used reflect management’s view of the financial performance of the entity as a whole and indicates that the measure may not always be directly comparable to any measures sharing similar labels and descriptions provided by other reporting entities

These disclosures will be required for any measure that meets the definition of a MPM and when applicable and they must be included in a single note in the reporting entity’s financial statements.

Updated guidance for the aggregation and disaggregation of information

The Standard provides specific guidance to ensure that aggregation and disaggregation in the financial statements is consistent and provides investors with the information they need for analysis. The basic principles set out in IFRS 18 require entities to:

- aggregate or disaggregate items based on whether they share similar characteristics or have different characteristics
- ensure that the method of grouping items does not obscure material information or reduce understanding
- apply aggregation or disaggregation based on characteristics in both in the primary financial statements and the notes to the financial statement.

Changes to how expenses in the operating category are presented

Consistent with IAS 1, IFRS 18 requires an entity to present in a structured and meaningful way its operating expenses based either on their nature or their function. This means some entities might decide to classify some expenses by nature and other expenses by function. The Standard requires entities that present expenses classified by function to disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line in the operating category of the statement of profit or loss.

Consequential changes made to other Standards

Consequential changes have been made to the standard on cash flow statements. IAS 7 now requires entities to use the operating profit total as defined in IFRS 18 as the starting point for reporting cash flows from operating activities using the indirect method. In addition, the interest and dividend presentation alternatives that previously existed have also been removed to simplify practice and reduce diversity in preparation.

Elsewhere, IAS 33 “Earnings per Share” (EPS) requirements have been amended to permit an entity to disclose additional EPS information over and above reporting basic and diluted EPS amounts. However, additional amounts can only be included in the EPS calculation if the numerator is either a total or subtotal identified in IFRS 18 or a MPM. IAS 34 “Interim Financial Reporting” has also been updated to require disclosure of information about MPMs in interim financial statements and guidance is now provided on how subtotals should be dealt with in interim financial statements.

Latest IFRS updates



Introducing IFRS 18 – The IASB’s new presentation and disclosure standard

Effective date of IFRS 18

The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing reporting entities and their auditors time to properly prepare for the transition to IFRS 18. Early adoption of the Standard is permitted. It is important to note, IFRS 18 must be applied retrospectively, so restatement of all comparative information is required when the Standard is adopted.

Our thoughts

We support the release of this new Standard, which should improve the overall quality of financial reporting and enable better comparison of financial statements by investors.

While the effective date is a while away, we would encourage entities to start considering the impact sooner rather than later. To assist with this, we have plans to release a ‘Getting ready for IFRS 18’s guide later in the year that will provide a more detailed look at the requirements of this Standard, and the likely impact on reporting entities.

02 Technical Insights

In this section of our IFRS Accounting Standards Quarterly Navigator edition, we bring you technical insights and viewpoints from experts in the field of financial reporting. We encourage you to dive into these articles and join us on this intellectual journey as we explore the frontiers of financial reporting and unlock new insights that will empower you to navigate the complexities of IFRS Accounting Standards.

Technical Insights

IFRS 18 “Presentation and Disclosure in Financial Statements’: Introduction to new requirements

As mentioned above in “Latest IFRS updates” section, the International Accounting Standards Board (IASB) published IFRS 18 ‘Presentation and Disclosure in Financial Statements’ which replaces IAS 1 ‘Presentation of Financial Statements’ and which is expected to impact every reporting entity that currently uses International Financial Reporting Standards (IFRS). In this article, we will provide an introductory overview of the new standard that already described above.



The article focuses on new requirements introduced by IFRS 18 and refers to an entity that does not have a main business activity of providing financing to customers or investing in assets, as separate requirements arise for such entities.

You can access the article [here](#).

03 IASB proposed amendments

This section presents IASB proposed amendments for which exposure drafts have been published in period from April until June 2024.

IASB proposed amendments



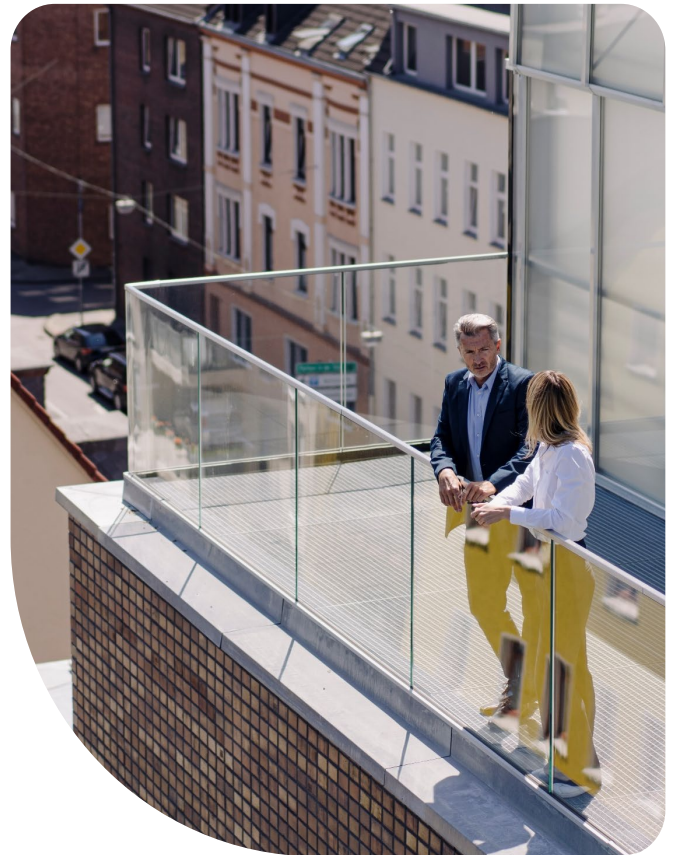
Exposure Draft: Power Purchase Agreements (PPAs)

Contracts for electricity from renewable energy sources, such as wind and solar power, play an important role in many entities' sustainability commitments. Entities increasingly use Power Purchase Agreements (PPAs) for the procurement of renewable energy.

PPAs are broadly categorized into "physical PPA" and "virtual PPAs". In a physical PPA, the supplier sells its power into the same power pricing hub as the one where the off-taker takes its power. As a result, there is direct physical delivery of the power. Virtual PPAs' (also referred to as financial PPAs) are PPAs that require net settlement of the difference between the prevailing market price and the contractually agreed price for the volume of electricity produced from a referenced production facility. In these arrangements, the power is not physically delivered to the off-taker. The objective of both physical PPAs and virtual PPAs is to ensure long-term access to renewable electricity and to fix the price per unit of electricity purchased or sold.

There is no direct link between the seller's production and the purchaser's needs at the time of production for the PPA contracts described above. This creates accounting challenges in relation to the application of own-use requirements under IFRS 9 (for physical PPAs) and the designation of a PPA as a hedging instrument in a cash flow hedging relationship (for physical and virtual PPAs).

On 08 May 2024 the International Accounting Standards Board (IASB) published for public comment the Exposure Draft Contracts for Renewable Electricity, which proposes narrow-scope amendments to ensure that financial statements more faithfully reflect the effects that renewable electricity contracts (commonly referred to as power purchase agreements) have on a company. The IASB is proposing narrow -scope amendments to the own use requirements and the hedge accounting requirements of IFRS 9, in addition to new disclosure requirements in IFRS 7.



The Exposure Draft is open for comment
until **7 August 2024**

04 Grant Thornton International Ltd's Thought Leadership

Grant Thornton International has published 'IFRS Example Interim Condensed Consolidated Financial Statements 2024' (Interim Financial Statements).

Grant Thornton International Ltd's Thought Leadership

The Interim Financial Statements illustrate a six-month accounting period beginning on 1 January 2024.

The publication has been reviewed and updated to reflect changes in IAS 34 and other IFRS that are effective for the year ending 31 December 2024 that have been issued prior to 31 March 2024. The publication draws attention to climate change considerations. Also included is a new note dealing with required Pillar Two income tax disclosures.

Our objective is to illustrate one possible approach to reporting by an entity engaging in transactions that are 'typical' across a range of non-specialist sectors. However, as with any example, this illustration does not envisage every possible transaction and therefore cannot be regarded as comprehensive. Other approaches may be more appropriate in specific circumstances.

You can access the publication here:

[IFRS Example Interim Financial Statements 2024 | Grant Thornton insights](#)



05 Appendixes

IFRS 18 ‘Presentation and Disclosure in Financial Statements’: Introduction to new requirements

Introduction

On 9 April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 ‘Presentation and Disclosure in Financial Statements’ in response to strong demand from users of financial statements, for improvements to financial performance reporting. IFRS 18 replaces IAS 1 “Presentation of Financial Statements”.

This Standard sets out requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity’s assets, liabilities, equity, income and expenses.

While many requirements have been carried forward from IAS 1, IFRS 18 introduces new requirements related to the following:

Primary financial statements

Provide **useful structured summaries** of the company’s assets, liabilities, equity, income, expenses and cash flows.

Changes introduced by IFRS 18

Statement of profit or loss:

- Two (2) new required subtotals to improve analysis: Operating profit and Profit before financing and income taxes.
- Five (5) categories for classifying income and expenses, to provide a consistent structure for the statement of profit or loss: operating, investing, financing, income taxes and discontinued operations.

Limited changes to specific requirements for:

- Statement of cash flows
- Statement of Financial Position (balance sheet)

No changes to specific requirements for:

- Statement presenting comprehensive income,
- Statement of changes in equity

Notes to the financial statements

Provide **material information** to supplement the primary financial statements.

New disclosures introduced or amended by IFRS 18. For example:

- Disclosure of **Management-defined performance measures** (MPMs) in a single note including explanations and reconciliations.
- Disclosure of specified expenses by nature included in each line item in the operating category.

Other disclosures carried forward from IAS 1. For example:

- Material accounting policies
- Sources of estimation uncertainty
- Capital management.
- Debt covenants

Enhanced requirements for grouping (aggregation and disaggregation) of information

Guidance on whether information should be in the primary financial statements or in the notes

Disclosures about items labelled “other”

Applicable in all primary financial statements and the notes

General requirements for the financial statements carried forward from IAS 1

IFRS 18 will improve communication in financial statements and is expected to impact every reporting entity that currently uses International Financial Reporting Standards (IFRS).

An entity shall apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes. It is important to note, IFRS 18 must be applied retrospectively, so restatement of all comparative information is required when the Standard is adopted.

This article focuses on the new requirements that have been introduced by IFRS 18 and the related amendments to IAS 7 and IAS 33.

This article focuses on the requirements for an entity that does not have a main business activity of providing financing to customers or investing in assets, as separate requirements arise for such entities. For such entities additional requirements for classification of income and expenses are included in the standard.

The key changes in the new Standard

Overall, the majority of changes made in IFRS 18 impact the statement of profit or loss and notes to the financial statements, but there are also limited changes to specific requirements that are set out in IAS 7 “Statement of Cash Flows”.

Only minimal changes were made to the disclosures required for the statement presenting comprehensive income, the statement of changes in equity and the statement of financial position. While much has been carried forward from IAS 1, there are some key changes that reporting entities need to be aware of.

As will be mentioned below, under IFRS 18, entities must classify income and expenses into operating, investing, and financing categories. This classification depends on whether the entity's primary business activities involve investing in assets or providing financing to customers. Determining if an entity has such a primary business activity requires judgment based on the specific facts and circumstances. An entity may have multiple main business activities. For instance, a company that both manufactures products and provides financing to customers might determine that both manufacturing and customer financing are its primary business activities.



A. Changes to presentation requirements in the statement of profit or loss

The main change introduced by IFRS 18 is the way in which reporting entities will structure their statement of profit or loss.

IAS 1 required entities to present profit or loss but did not mandate specific subtotals, so this led to variations in the presentation and calculation of subtotals, even among entities within the same industry. Entities applying IAS 1 often used identical labels for subtotals, but these subtotals encompassed different income and expense items. Such inconsistencies made it challenging for users

of financial statements to understand and compare the information effectively.

Firstly, the Standard introduces two new defined subtotals, “Operating profit” and “Profit before financing and income taxes”. These new required subtotals are intended to increase comparability by ensuring that information presented for investors is consistent across different entities.

Additionally, the Standard requires an entity to classify all income and expenses into one of the following five categories: (1) operating, (2) investing, (3) financing, (4) income taxes and (5) discontinued operations. The classification of items into these categories can differ depending on the main business activity of the entity.

The operating category

[IFRS 18.52]

The operating category includes all income and expenses that are not classified in the other four categories (i.e. the investing category, the financing category, the income taxes category or the discontinued operations category).

The investing category

[IFRS 18.53-58]

The investing category includes income and expenses from:

- investments in associates, joint ventures and unconsolidated subsidiaries
- cash and cash equivalents
- any other assets that generate returns separately from the entity’s other resources (the return may be positive or negative and typically may include (a) debt or equity investments and (b) investment properties, and receivables for rent generated by those properties)

The income and expenses from above identified assets comprise the amounts included in the statement of profit or loss for:

- the income generated by the assets
- the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets
- the incremental expenses directly attributable to the acquisition and disposal of the assets (for example transaction costs and costs to sell the assets)



The financing category

[IFRS 18.59-66]

To determine what income and expenses to classify in the financing category, an entity shall distinguish between:

- liabilities that arise from transactions that involve only the raising of finance (for example income and expenses that arise from the initial and subsequent measurement of the liabilities, including derecognition of liabilities and incremental expenses directly attributable to the issue and extinguishment of the liabilities)
- liabilities other than those described above – that is, liabilities that arise from transactions that do not involve only the raising of finance (for example interest income and expenses for the purposes of applying other requirements in IFRS Accounting Standards and income and expenses arising from changes in interest rates for the purpose of applying other requirements in IFRS Accounting Standards | an example could be unwinding of the discount on a pension liability)

The income taxes category

[IFRS 18.67]

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 IAS 12 “Income Taxes”
- any related foreign exchange differences

The discontinued operations category

[IFRS 18.68]

The discontinued operations category comprises income and expenses from discontinued operations as required by IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

Classification of specific income and expenses



Foreign exchange differences

Foreign exchange differences are classified in the same category as the income and expenses from the items that gave rise to those differences. For example, foreign exchange differences:

- on a foreign-currency denominated receivable for a sale of goods will be classified in the operating category (the same category as the sale of goods)
- on bank loans will be classified in the financing category

However, IFRS 18 provides undue cost or effort relief for the classification of foreign exchange differences. A company will classify foreign exchange differences in the operating category if classifying them in the same category as the income and expenses from the items that gave rise to them would involve undue cost or effort.

Fair value gains and losses on derivatives

The classification of fair value gains and losses on derivatives depends on whether the derivatives are used to manage exposure to identified risks (for example, to mitigate an exposure FX risk, commodity price risk or interest rate risk) and whether they are designated as hedging instruments.

IFRS 18 provides undue cost or effort relief for the classification of gains or losses on derivatives used to manage identified risks but not designated as hedging instruments.

Income and expenses from hybrid contracts

The classification of income and expenses from hybrid contracts comprising host liabilities and embedded derivatives depends on whether the embedded derivative is separated from the host liability and the nature of the hybrid contract.



Illustrative example of Statement of profit or loss for a general corporate entity



The following is an example of a statement of profit or loss for a corporate entity that does not invest in assets as a main business activity nor provides financing to customers as a main business activity. It should be noted that in addition to presenting required totals and subtotals, a company is required to present additional subtotals in the statement of profit or loss when such presentations are necessary to provide a useful structured summary of the company's income and expenses.



XYZ Group – Statement of profit or loss for the year ended 31 December 20X2

	(in thousands of CU)	
	20X2	20X1
Revenue	367.000	353.100
Cost of sales	(241.600)	(224.100)
Gross profit	125.400	129.000
Other operating income	12.200	4.100
Selling expenses	(28.900)	(27.400)
Research and development expenses	(25.100)	(25.900)
General and administrative expenses	(20.900)	(22.400)
Goodwill impairment loss	(4.500)	-
Other operating expenses	(1.200)	(5.600)
Operating profit	57.000	51.800
Share of profit and gains on disposal of associates and joint ventures	5.300	7.300
Profit before financing and income taxes	62.300	59.100
Interest expenses on borrowings and lease liabilities	(13.000)	(13.200)
Interest expenses on pension liabilities and provisions	(6.500)	(6.000)
Profit before income taxes	42.800	39.900
Income tax expense	(10.700)	(9.975)
Profit from continuing operations	32.100	29.925
Loss from discontinued operations	-	(5.500)
PROFIT	32.100	24.425

(Extracted from Illustrative Examples on IFRS 18 "Presentation and Disclosure in Financial Statements")

B. Management-defined performance measures

In order to address the significant diversity in practice currently seen when it comes to “Alternative Performance Measures”, IFRS 18 introduced the concept of a “Management-defined Performance Measure” (“MPM”).



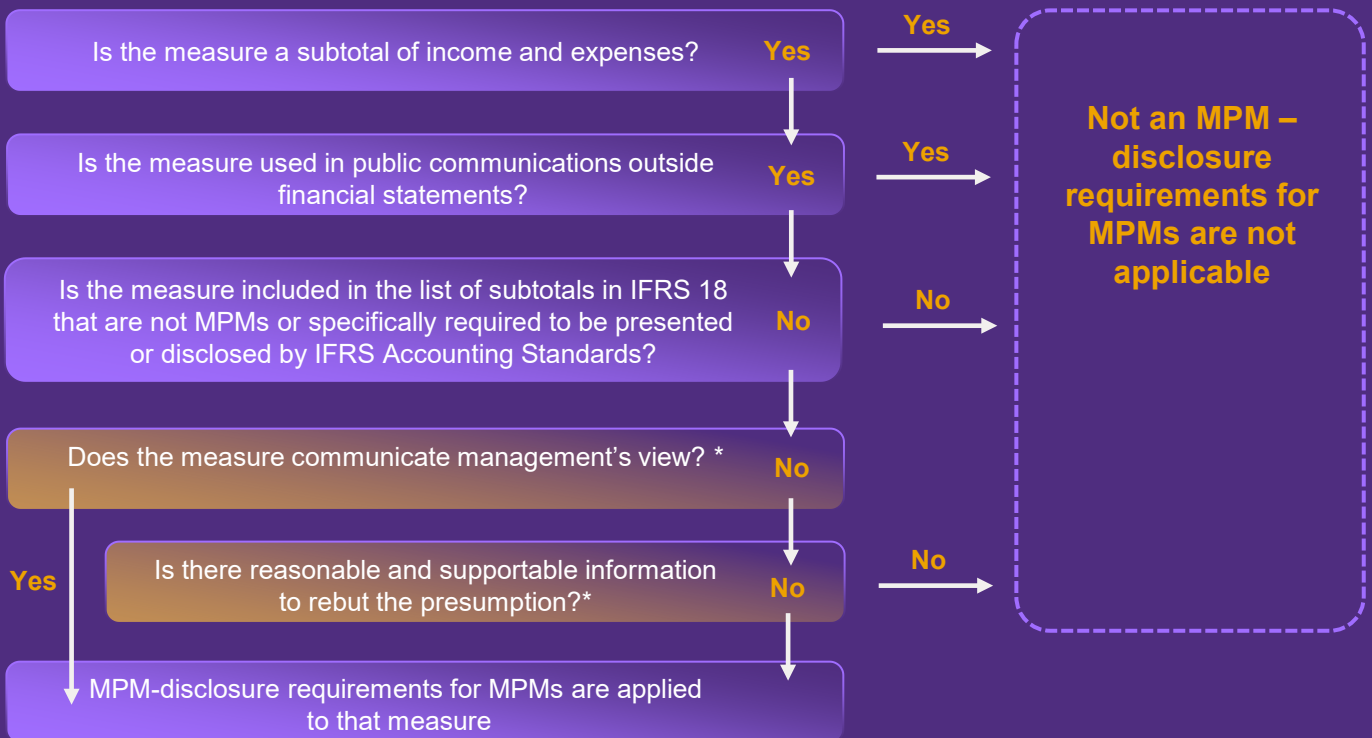
Identification of management-defined performance measures

An MPM is a subtotal of income and expenses that:

- an entity uses in public communications outside financial statements
- an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of an entity as a whole
- is not listed in IFRS 18¹ or specifically required to be presented or disclosed by IFRS Accounting Standards

The following figure depicts the requirements for identifying management-defined performance measures:

Illustrative examples: Figure 6 — Identifying management-defined performance measures



It is presumed that a subtotal of income and expenses used in public communications communicates management’s view: a company is not required to consider whether to rebut the presumption.

¹The IASB decided subtotals listed in paragraph 118 of IFRS 18 or specifically required to be disclosed by IFRS Accounting Standards are not management-defined performance measures. Some subtotals are not defined by IFRS Accounting Standards but are commonly used in financial statements and are well understood by users of financial statements—for example, a “gross profit” subtotal. In the IASB’s view, providing the management-defined performance measures disclosures for such measures would not provide useful information because their purpose and relationship to totals or subtotals defined by IFRS Accounting Standards are well understood or would usually be apparent from their presentation in the statement(s) of financial performance.

Disclosure of management-defined performance measures

IFRS 18 requires entities to disclose information about all its MPMs to provide information to help a user of financial statements understand the aspect of financial information that, in management's view, is communicated by a MPM and how the MPM compares with the measures defined by IFRS Accounting Standards.

An entity shall label and describe each MPM in a clear and understandable manner that does not mislead users of financial statements and shall disclose:

- **a description of the aspect of financial performance that it communicates**, including explanations of why, in management's view, the MPM measure provides useful information about the entity's financial performance
- **how the MPM is calculated**
- **a reconciliation between the MPM and the most directly comparable IFRS 18 subtotal, total or subtotal required by another IFRS** including for each item disclosed in the reconciliation a) the income tax effect and b) the effect on non-controlling interests
- **the income tax effect and the effect on non-controlling interests** for each item disclosed in the reconciliation

If an entity changes how it calculates a MPM, adds a new MPM, or ceases using a previously disclosed MPM, then it shall disclose:

- an explanation that enables users of financial statements to understand the change, addition or cessation and its effects
- the reasons for the change, addition, or cessation
- restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a MPM is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements of paragraphs 50-53 of IAS 8



Illustrative example of Management-defined performance measures 20X2

Management-defined performance measures (MPM) 20X2 (in thousands of CU)

Other operating income	IFRS	Adjusting items			MPM
		Impairment losses	Restructuring expenses	Gains on disposal of PPE	
R&D expenses		1.600	-	-	
G&A expenses		-	3.800	-	
Goodwill impairment loss		4.500	-	-	
Operating profit /Adjusted operating profit		6.100	3.800	(1.800)	65.100
Income tax expense		-	(589)	297	
Profit from continuing operations/ Adjusted profit from continuing operations	32.100	6.100	3.211	(1.503)	39.908
Profit attributable to non-controlling interests		305	161		
Impairment losses		Impairment losses incurred in 20X2 did not yield any tax benefits because they were not eligible for tax reductions in Country A and Country B.			
Restructuring expenses		The restructuring expenses in 20X2 are related to XYZ Group's restructuring program "Apollo 20X2". These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in County C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of 20X2, which was 15.5%.			
Gains on disposal of PPE		The tax effect of gains on disposal of Property, Plant and Equipment is calculated based on the statutory tax rate applicable in Country D at the end of 20X2, which was 16.5%.			

C. Updated guidance for the aggregation and disaggregation of information

The IASB replaced requirements in IAS 1 for aggregation and disaggregation, including a requirement for an entity to present separately each material class of similar items, with the principles of aggregation and disaggregation in IFRS 18. The concept of a 'material class of items' was replaced with a requirement to aggregate and disaggregate items based on characteristics and guidance on the roles of the primary financial statements and the notes to help an entity determine the line items to be presented in the primary financial statements and the items to be disclosed in the notes.

IFRS 18 requires companies to aggregate or disaggregate information about individual transactions and other events into the information presented in the primary financial statements and disclosed in the notes.

The requirements are based on principles for grouping (aggregation and disaggregation) of information. IFRS 18 requires companies to ensure that:

- items are aggregated based on shared characteristics and disaggregated based on characteristics that are not shared
- items are aggregated or disaggregated such that the primary financial statements and the notes fulfil their roles
- the aggregation and disaggregation of items does not obscure material information

Entities are specifically required to disaggregate information whenever the resulting information is material.

To help companies apply the principles, IFRS 18 provides application guidance on grouping items and labelling aggregated items, including which characteristics to consider when assessing whether items have similar or dissimilar characteristics.

D. Changes to how expenses in the operating category are presented

Consistent with IAS 1, IFRS 18 requires an entity to present in a structured and meaningful way its operating expenses based either on their nature or their function. This means some entities might decide to classify some expenses by nature and other expenses by function. The Standard requires entities that present expenses classified by function to disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line in the operating category of the statement of profit or loss.



E. Consequential changes made to other standards

Changes to IAS 7 “Statement of Cash Flows”

Consequential changes have been made to the standard on cash flow statements which include **changing the starting** point for determining cash flows from operations under the indirect method, from “profit or loss” to “operating profit or loss”. In addition, the interest and dividend presentation alternatives that previously existed have also been removed to simplify practice and reduce diversity in preparation as shown in the following table.

Changes to IAS 33 “Earnings per Share”

In addition to reporting basic and diluted earnings per share, entities are permitted by IAS 33 ‘Earnings per Share’ to disclose additional earnings per share calculated based on any component of the statement of comprehensive income. The amendments to IAS 33 permit a company to disclose these additional earnings per share only if the numerator is either a total or subtotal identified in IFRS 18 or is an MPM.

A company cannot present additional earnings per share in the primary financial statements. It can only disclose additional earnings per share in the notes.

Cash Flow Item	Classification BEFORE amendments to IAS 7	Classification AFTER amendments to IAS 7	
		Companies with no specified main business activities	Companies with specified main business activities
Interest received	Operating or investing	Investing	A single category for each item—operating, investing or financing.
Interest paid	Operating or investing	Financing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or investing	Financing	Financing

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- examples of best practice disclosures
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