Financial reporting update

June 2024

Building a better working world

With you today

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Agenda

1. IFRS 18 *Presentation and Disclosure in Financial Statements*
2. IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
3. IFRS Practice Statement 2: *Making Materiality Judgements*
4. Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* - Supplier Finance Arrangements
5. Amendments to IAS 1 *Presentation of Financial Statements* - Non-current Liabilities with Covenants

1

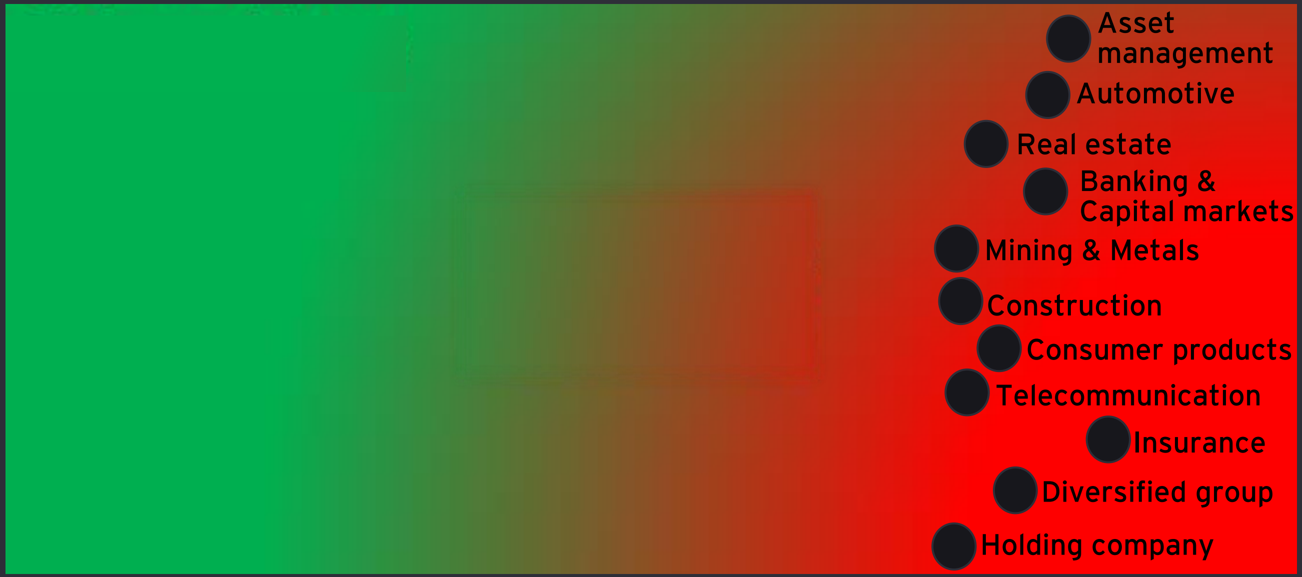
IFRS 18 *Presentation and Disclosure in Financial Statements*

Why should I start thinking about this now?

"IFRS 18 is expected to affect all companies that apply IFRS Accounting Standards.

The effects of IFRS 18 will vary depending on the presentation and disclosure practices used by a company and the type and range of its business activities."

- International Accounting Standards Board*



*Source: effect-analysis-ifrs18-april2024.pdf

2027

Timeline

Summary of new requirements

1

New required subtotals in statement of profit or loss

2

Disclosures about management-defined performance measures (MPMs)

3

Enhanced requirements on aggregation and disaggregation

Publication date: 9 April 2024
Effective date: 1 January 2027

New categories and subtotals in the statement of profit or loss

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Categories and subtotals in the statement of profit or loss

Revenue	Operating
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

Some companies, such as banks and investment property companies, will classify income and expenses in their operating profit that other companies would classify in the investing or financing categories.

This will allow such entities to report key performance metrics within the operating section.

▭ NEW ITEMS

▨ Required items

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Categories in the statement of profit or loss: Investing

What is typically included in the investing category?

Income and expenses from assets that generate a return individually and largely independently

- rental income and remeasurements of investment property
- interest income and fair value changes on financial assets
- dividends and fair value changes on non-consolidated equity investments

Income and expenses from unconsolidated subsidiaries, associates and joint ventures

Income and expenses from cash and cash equivalents

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Categories in the statement of profit or loss: Financing

What is typically included in the financing category?

All income and expenses from liabilities from transactions that involve only the raising of finance

- Receipt and return of cash or company's own shares
- Debt instruments that will be settled in cash
- E.g. bank loans

Interest expense and effects of changes in interest rates from other liabilities

- Lease liabilities
- Defined benefit pension liabilities

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Categories in the statement of profit or loss: Operating

What is typically included in the operating category?

Income and expenses:

- From an entity's main business activities
- Not classified in other categories (residual category)
- Also includes volatile and unusual income and expenses

Provides a picture of the entity's operations

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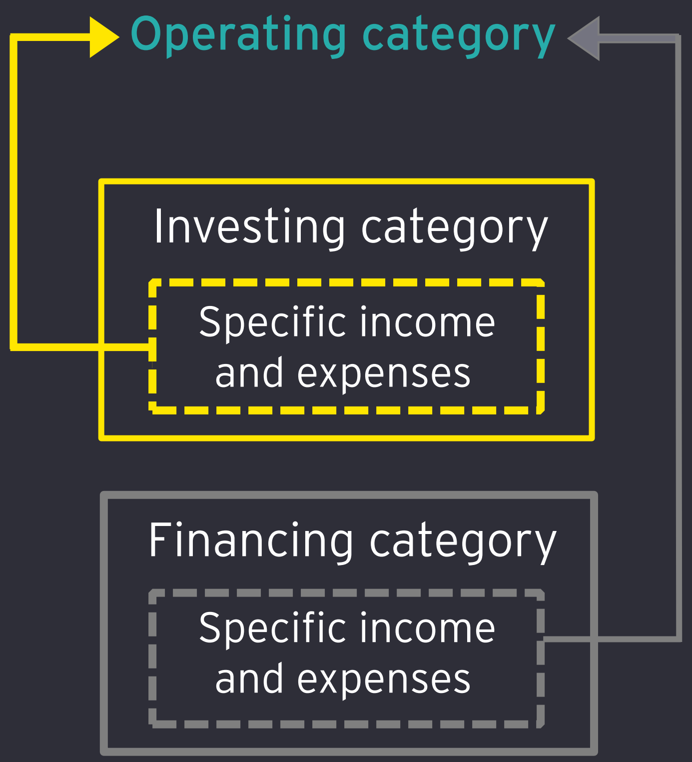
Specified main business activities

IFRS 18 requires an entity to assess whether it

- invests in assets that generate a return individually and largely independently of other resources held by an entity as a main business activity?
- provides financing to customers as a main business activity?

Whether an entity has specified main business activities

- Is a matter of fact and not merely an assertion
- Entity uses judgement to assess
- Based on observable evidence to the extent available
- Assessed for the reporting entity as a whole



The assessment is a continuous one and may change over time

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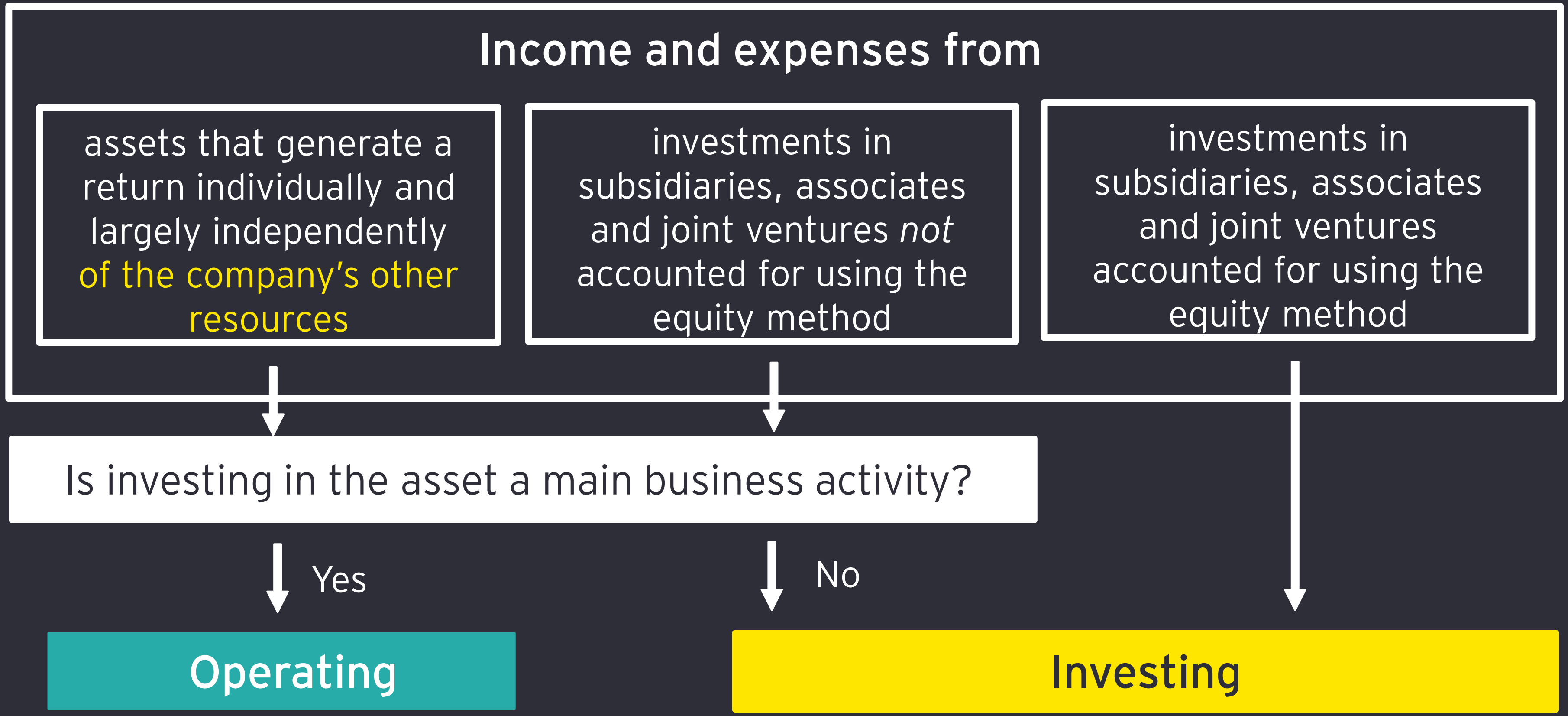
Main business activities: Investing in assets



Entity needs to disclose the fact it has investing in assets as its main business activity

Source: ifrs.org

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Main business activities: Provision of financing to customers

Income and expenses from liabilities that arise from transactions that involve only the raising of finance

related to providing finance to customers

other than those relating to providing finance to customers

Particular income and expenses from other liabilities

Accounting policy choice

Operating

Financing

Entity needs to disclose the fact it has provision of financing to customers as its main business activity

Source: ifrs.org

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Categories and subtotals in the statement of profit or loss

The new subtotals and categories are intended to:

- Provide a **consistent structure** of the statement of profit or loss
- Improve **comparability** of companies' financial performance
- **Aid investors' forecasts** of cash flows and assessment of margins

Management-defined performance measures (MPMs)

Management-defined performance measures (MPMs)

Altron expects 35% jump in Heps

Altron expects to report at least a 35% improvement in annual headline earnings per share from continuing operations.

By Staff Reporter — 17 May 2024

Electronics Mart posts 12% rise in Q4 PAT; EBITDA margin at 7.1%

Last Updated : May 27 2024 | 2:50 PM IST

Boeing sees free cash burn in 2024 as deliveries remain sluggish

Story by Allison Lampert and David Shepardson • 3d • 3 min read

FirstRand half year profits jump 15% on new loans and deposits

Normalised earnings rise to R18bn during the six months period to December 2022.

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Definition of management-defined performance measures (MPMs)

Subtotals of income and expenses not specified by IFRS Accounting Standards

Used in public communications outside financial statements

Measures that communicate management's view of an entity's financial performance

What are management-defined performance measures?

Performance measures

Financial performance measures

Subtotals of income & expenses

MPMs

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

IFRS-defined / specified

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt
- Adjusted revenue

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

Source: ifrs.org

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Required disclosure

IFRS 18 introduces requirement to disclose in a single note:

- Statement that the MPM reflects **management's view**
- Explanation of **why** the MPM is reported
- **Reconciliation** with IFRS-defined number
- Explanation of any **changes** to the MPM

		Tax	NCI
Operating profit (IFRS-specified)	**36,520**		
Restructuring in Country X (incl. in employee benefits)	8,600	(600)	1,240
Revenue adjustment (incl. in revenue)	3,800	(320)	-
Adjusted operating profit (MPM)	**48,920**		

Aggregation and disaggregation

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Aggregation and disaggregation

Roles of primary financial statements and the notes

- Primary financial statements are to provide a **useful structured summary**
- Notes are to provide **further information** and **supplement** the primary financial statements

Principles for aggregation and disaggregation

Considering similar and dissimilar characteristics

- in the **primary financial statements** would result in a useful structured summary
- in the **notes** would result in material information

Aggregating items and using meaningful labels

Use **meaningful labels**

- use the label 'other' only when unable to find a more informative label
- label as precisely as possible

Consequential amendments to other standards

Consequential amendments to other standards

Other narrow scope amendments made to:

IAS 7 *Statement of Cash Flows*

- Change in starting point in determining cash flows from operations under the indirect method
- Optionality around classification of cash flows from dividends and interest largely removed

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

- Name changed to IAS 8 *Basis of Preparation of Financial Statements*
- Some requirements previously included within IAS 1 moved to IAS 8

IAS 34 *Interim Financial Reporting*

- Amended to require disclosure of MPMs

Transition

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Transition

- Effective for reporting periods beginning on or after 1 January 2027
- Early application permitted
- To be applied retrospectively
- In the year of adoption, entities that prepare condensed interim financial statements in compliance with IAS 34 must present the same headings and subtotals it expects to use in their annual financial statements

2

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Overview

IFRS 19 enables eligible entities to provide reduced disclosures compared to the requirements in other IFRS accounting standards

Key facts of the new standard:

- **Voluntary** IFRS Accounting Standard
- The Standard **simplifies** the preparation of financial statements for eligible subsidiaries while maintaining the **usefulness** for the users
- **Reduced** disclosure requirements except for:
  - IFRS 8 *Operating Segments*
  - IAS 33 *Earnings per Share*
  - IFRS 17 *Insurance Contracts*
- **Eligible entities** that elect to apply the reduced disclosure requirements would still be required to apply the **recognition, measurement and presentation requirements** of IFRS Accounting Standards.

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Scope

An entity may elect to apply IFRS 19 if at the end of the reporting period:

- It is a **subsidiary** as defined (IFRS 10 *Consolidated Financial Statements*);
- It does not have **public accountability**; and
- It has a **parent** (either ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS accounting standards.

What is public accountability

- Equity or debt instruments **traded in public market**
- **Hold assets entrusted** to them by their customers

An eligible entity (including an intermediate parent) can apply IFRS 19 in its consolidated, separate or individual financial statements

Applicable for both annual and interim reporting

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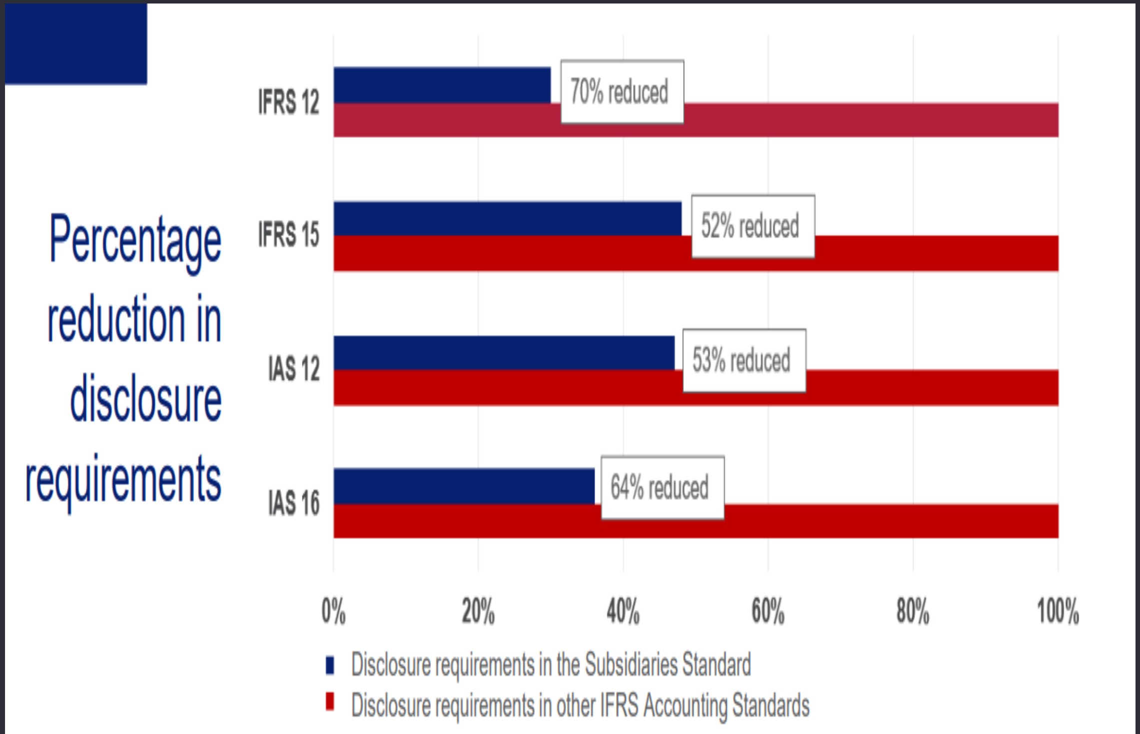
Benefits for companies applying IFRS 19

Benefits for companies to apply IFRS 19

- Reduced **cost** of preparing financial statements
- Reporting process **simplified**
- Will **enable** subsidiaries to use group's accounting policies
- Will **eliminate** the need to keep dual accounting records and the need for disclosures that are disproportionate to the information needs of users of their financial statements



Source – IASB Presentation

Transition

- Effective for reporting periods beginning on or after 1 January 2027
- Early application permitted
- During the first period (annual and interim) in which IFRS 19 is applied, an entity is required to disclose comparative information for the current year amounts unless IFRS 19 or another IFRS accounting standard permits or requires otherwise

Narrative and descriptive information

3

IFRS Practice Statement 2: *Making Materiality Judgements*

2023

Definition of ‘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 reports make on the basis of those reports, which provide financial information about a specific reporting entity.

Whether information is material is a matter of **judgement**

Entity specific

2023

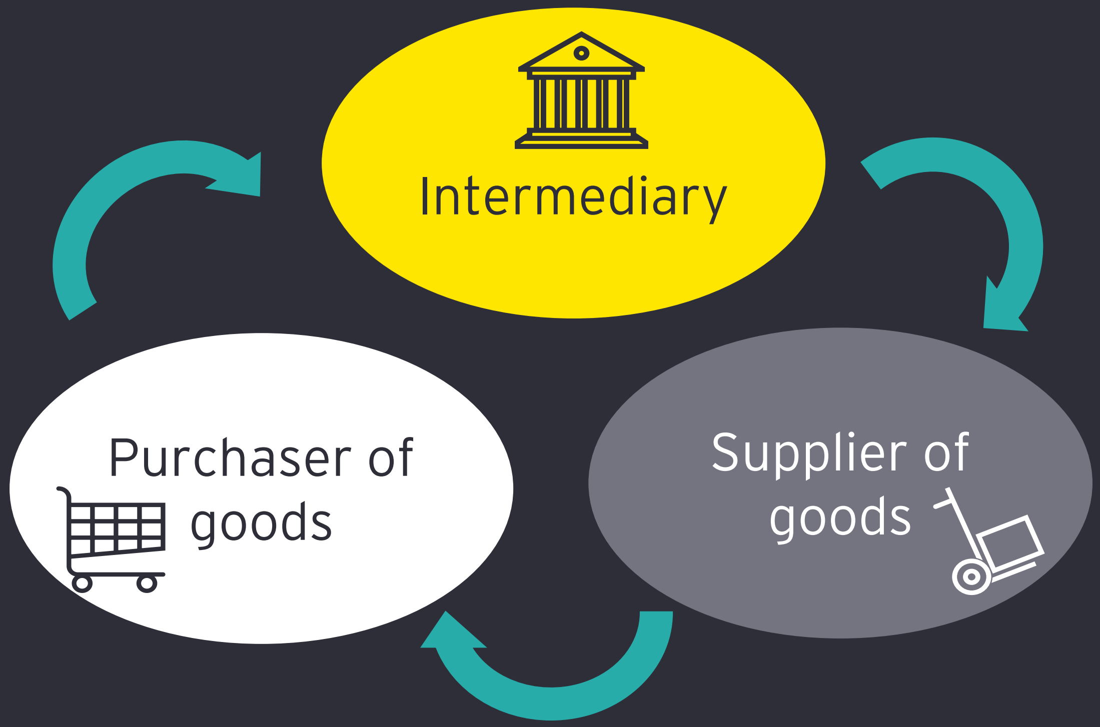
'Materiality' process

1	**Identify**	An entity identifies information about its transactions, other events and conditions that primary users might need to understand to make decisions about providing resources to the entity
2	**Assess**	An entity assesses whether the potentially material information identified in Step 1 is, in fact, material
3	**Organise**	Classifying, characterising and presenting information clearly and concisely makes it understandable
4	**Review**	An entity needs to assess whether information is material both individually and in combination with other information in the context of its financial statements as a whole

4

Amendments to IAS 7 and IFRS 7: Supplier finance arrangements

What is a supplier finance arrangement?



- One or more finance providers pay amounts an entity owes to its suppliers
- The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the finance providers pay the entity's suppliers
- **As a result, supplier finance arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the original payment due dates**

Scope

1

Should capture all supplier finance arrangements irrespective of reason for entering, form/ labelling or accounting

2

Scope confined to arrangements that finance 'amounts an entity owes its suppliers'

3

Does not apply to an entity's arrangements that finance receivables or inventory

2024

Scope: Practical examples

Q

Is an entity is required to provide **disclosure** around supplier finance arrangements where the entity is **not** itself a direct party to an arrangement?

Purchasing entity may be aware that the supplier has factored its debtors, and the purchaser settles the debt with a third party.

Consider the following scenarios:

Scenario 1: Transaction is at **normal industry terms (no benefit to purchaser)**

Scenario 2: Purchasing entity **obtains extended payment terms**

Scenario 3: Purchasing entity can **opt-in to the arrangement** to obtain an extension of the due date

A

Depends on the specific facts and circumstances and involves judgement, including whether the entity itself is a party to the financing arrangement

Disclosures

The disclosure requirements in the amendments enhance the current requirements and are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk

Note X—Supplier Finance Arrangements

The entity entered into arrangements with the following terms and conditions:

- Type A...
- Type B...

Carrying amount of liabilities	Reporting date 20X2	Reporting date 20X1
Presented within trade and other payables	CU1,500	CU1,000
– of which suppliers have received payment	CU1,050	CU800
Presented within finance payables	CU1,000	CU750
– of which suppliers have received payment	CU900	CU650
Range of payment due dates		
Liabilities that are part of the arrangement	85–90 days after invoice date	80–90 days after invoice date
Comparable trade payables that are not part of an arrangement	60–70 days after invoice date	60–65 days after invoice date

Non-cash changes

There were no material business combinations or foreign exchange differences in either period. There were non-cash transfers from trade payables to finance payables of CU1,200 and CU900 in 20X2 and 20X1.

- **Description** of the terms and conditions
- The **carrying amounts** of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and the line items, for which the finance providers have already settled the corresponding trade payables
- **The range of payment due dates** for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements
- The type and effect of **non-cash changes** in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable

Source: Investor Perspectives: Supplier finance—new disclosure (ifrs.org)

5

Amendments to IAS 1: Non-current Liabilities with Covenants

2024

Amendments to IAS 1

1

‘Unconditional’ removed

2

Right must have substance

3

Covenants with which the entity must comply on or before end of reporting period **affect** classification

4

Covenants with which the entity must comply after the end of the reporting period (‘future covenants’) **do not** affect classification

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Amendments to IAS 1

NEW!

IAS 1.72B(b)

An entity's **right to defer settlement** of a liability arising from a loan arrangement for at least twelve months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants').

For the purposes of applying paragraph 69(d), such covenants:

(a)....

(b) **do not affect whether that right exists at the end of the reporting period** if an entity is required to comply with the covenant **only after the reporting period.**

IAS 1.75

However, an entity classifies the liability as **non-current** if the lender agreed **by the end of the reporting period** to provide a period of **grace ending at least twelve months after the reporting period**, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Practical example

Breach and removal of covenant before year-end

Q

How should the liability be classified at 31 December 2024?

Scenario 1:

- Entity has a 31 December 2024 reporting date and a loan repayable at 31 December 2028
- Covenants are tested twice yearly at 31 May and 30 November

A

Non-current – The covenant has been waived prior to the reporting date and future covenants do not affect whether the right to defer payment exists at the reporting date

Practical example

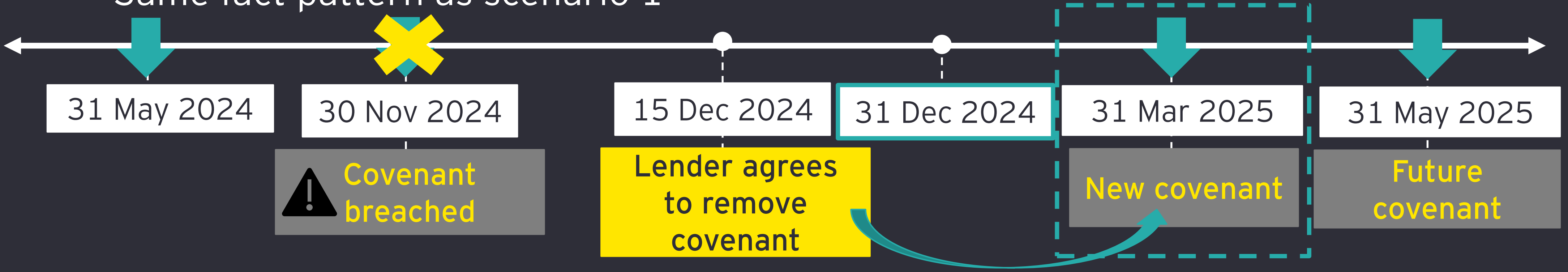
Breach and removal of covenant before year-end and new future covenant added

Q

How should the liability be classified at 31 December 2024?

Scenario 2:

- Same fact pattern as scenario 1



A

Non-current classification is acceptable – The covenant has been waived prior to the reporting date and future covenants (including the new covenant test) do not affect whether the right to defer payment exists at the reporting date

Amendments to IAS 1

Management intention does not play a role in determining classification

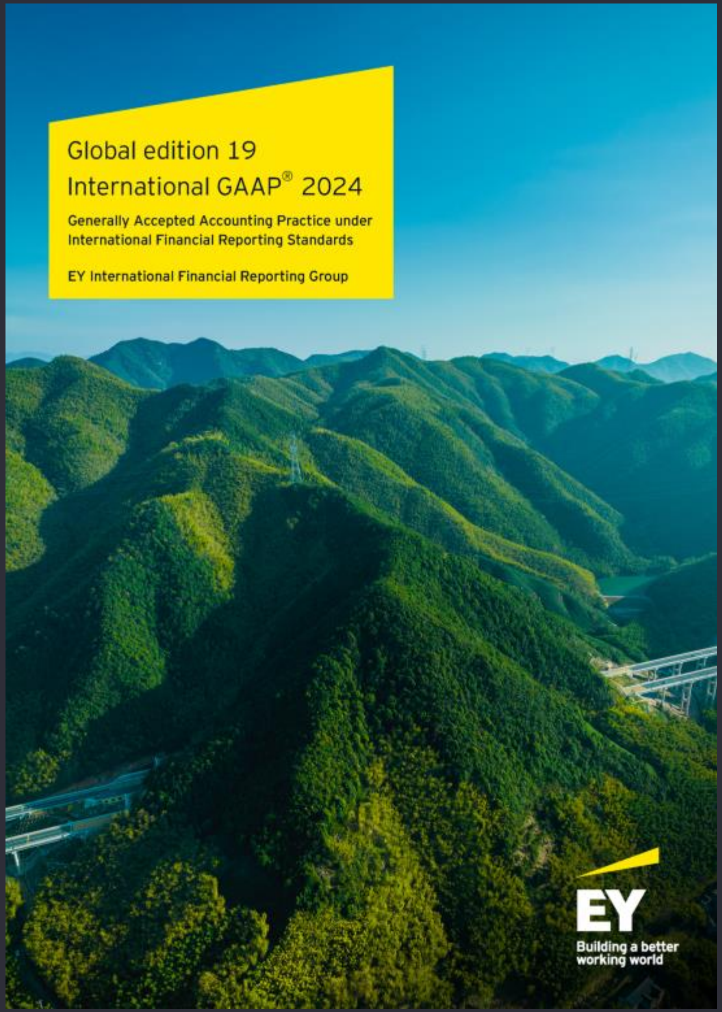
Exception for settlement by equity instruments only relates to options classified as equity instruments

New disclosure requirements:

- Nature of covenants
- When the entity must comply
- Carrying amount of related liabilities
- Facts & circumstances indicating the entity may have difficulty complying with covenants

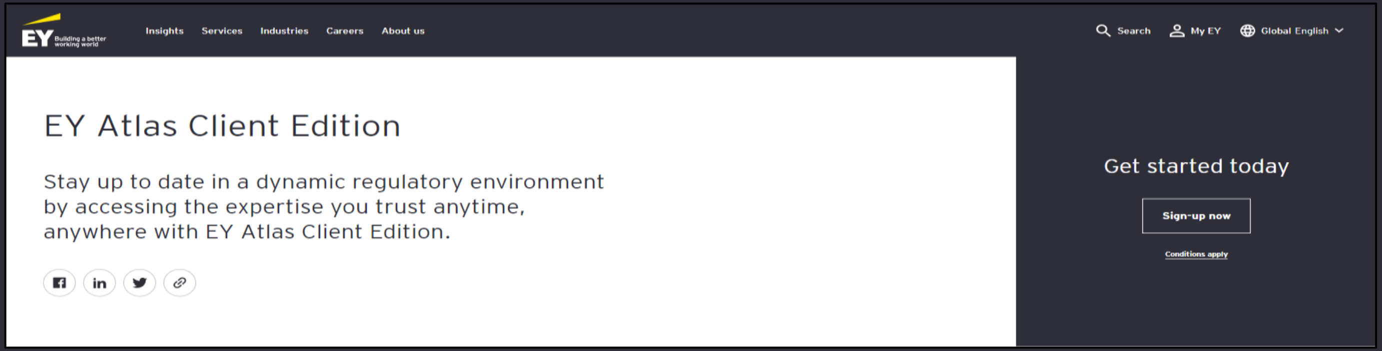
One minute recap

Resources

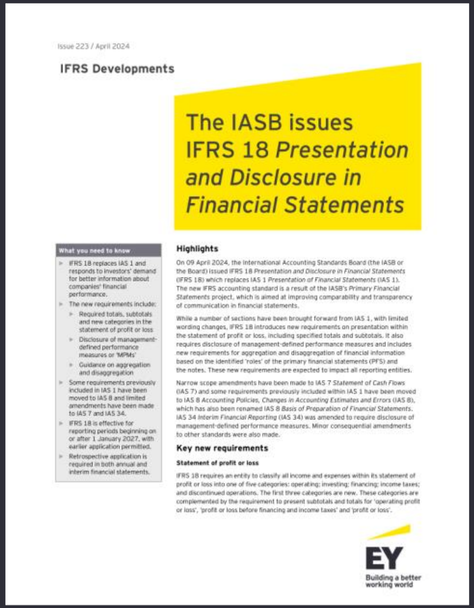


Available and free!
Link: EY Atlas Client Edition | EY - Global

[ePub version also available]



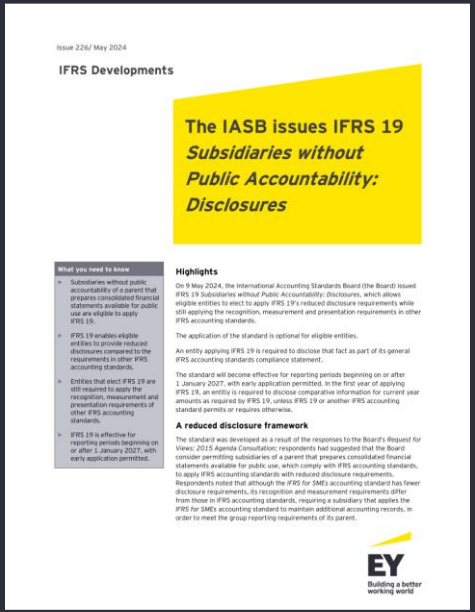
Resources


Issue 223 / April 2024

IFRS Developments

The IASB issues IFRS 18 *Presentation and Disclosure in Financial Statements*

IFRS 18 *Presentation and Disclosure in Financial Statements*


Issue 226/ May 2024

IFRS Developments

The IASB issues IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

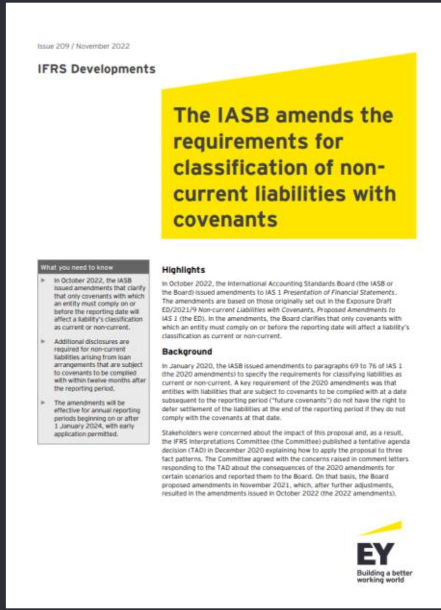
IFRS 19 *Subsidiaries without Public Accountability: Disclosures*


Issue 217/May 2023

IFRS Developments

Supplier finance arrangements - new disclosure requirements

Supplier Finance Arrangements


Issue 209 / November 2022

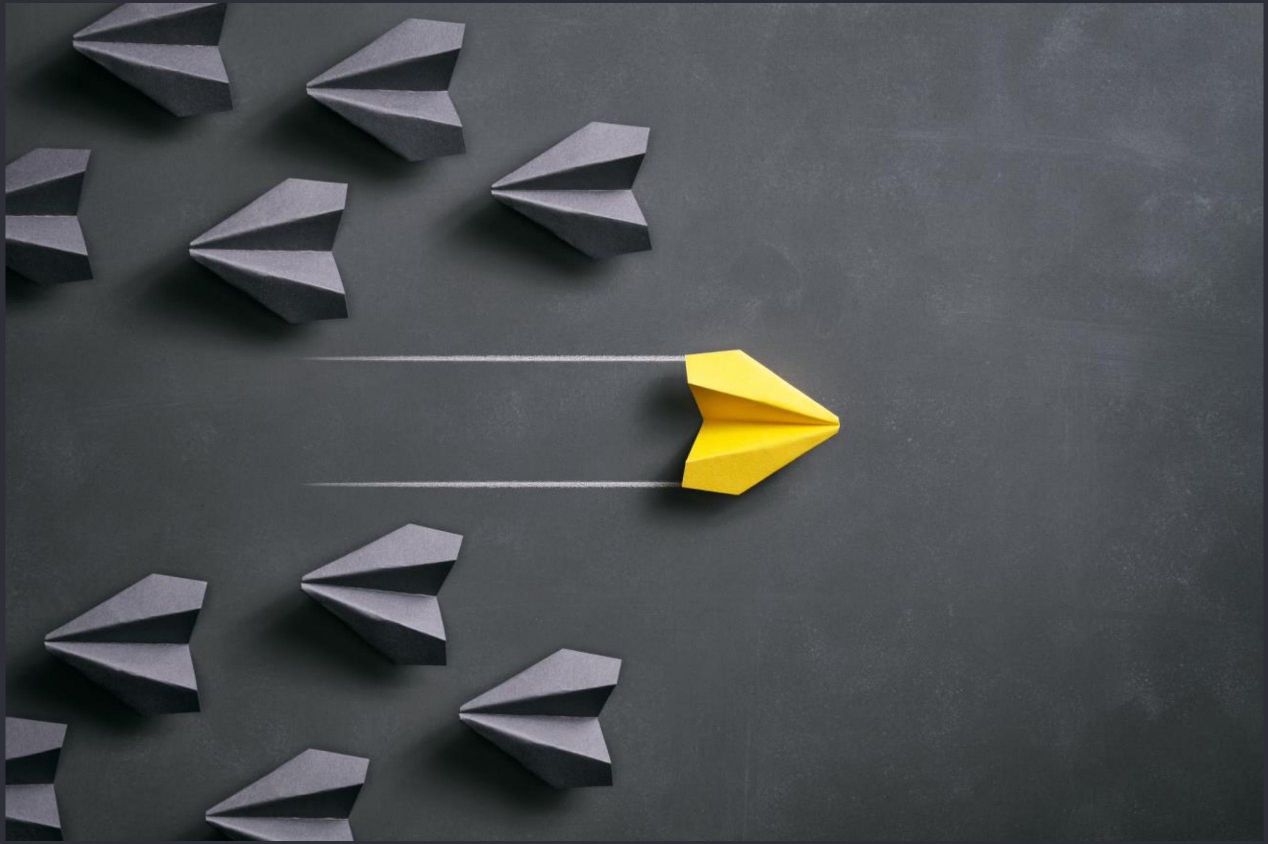
IFRS Developments

The IASB amends the requirements for classification of non-current liabilities with covenants

Non-current Liabilities with Covenants

Feedback

Please provide us with feedback on today's session



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