



लेखामान बोर्ड

ACCOUNTING STANDARDS BOARD

(Formed by the Government of Nepal under the Nepal Chartered Accountants Act, 1997)

September 2026

Exposure Draft

Nepal Financial Reporting Standards

NFRS 18: Presentation and Disclosure in Financial Statements

Comments to be received by 24 November 2026

Preface

Introduction

Accounting Standards Board, Nepal (ASB Nepal) was formed by the Government of Nepal on July 8, 2002 (2059 Ashad 24) through an amendment to the Nepal Chartered Accountants Act, 1997, with a mandate to formulate and issue accounting standards for business enterprises in line with the International Financial Reporting Standards (IFRSs) and to provide interpretations of those standards. Since its establishment, ASB Nepal has issued various frameworks, including multiple versions of Nepal Financial Reporting Standards (NFRSs), standards for SMEs, Micro Entities and Not for Profit Organizations, along with implementation guidelines and application guidance notes. The Board consists of 13 members, including a Chairman nominated by the Government of Nepal from among the Fellow Chartered Accountants, and representatives from key government and regulatory institutions, along with nominated Chartered Accountants and a Registered Auditor.

The International Accounting Standards Board (IASB) issued IFRS 18, *Presentation and Disclosure in Financial Statements*, in April 2024, replacing IAS 1 *Presentation of Financial Statements*. IFRS 18 represents a significant shift in how financial performance is presented and explained, introducing mandatory categories and defined subtotals in the statement of profit or loss, and enhancing requirements for aggregation and disaggregation of information. It becomes effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The proposed NFRS 18 is based on IFRS 18 and reflects ASB Nepal's commitment to alignment with global standards and to enhancing the relevance, transparency, comparability and decision-usefulness of financial information in Nepal.

ASB Nepal is committed to strengthening the financial reporting framework in Nepal in line with international best practices. In response to the need for updated presentation and disclosure requirements, ASB Nepal is releasing the **Exposure Draft on *NFRS 18: Presentation and Disclosure in Financial Statements***.

Rationale for the Proposed Standard

Primary users of general-purpose financial statements require consistent, comparable and verifiable information to support informed economic and investment decision-making. The presentation and disclosure of financial performance are critical to assessing an entity's prospects for future cash flows and management's stewardship of resources. NFRS 18 responds to long-standing concerns from investors and analysts about inconsistent presentation of performance and excessive use of entity-specific subtotals. By introducing a structured statement of profit or loss and enhanced disclosure requirements, NFRS 18 aims to improve the

comparability and transparency of financial statements across entities. The proposed standard draws on internationally recognized frameworks and best practices. Through its development, ASB Nepal aims to strengthen the financial reporting landscape in Nepal, enhance investor confidence and support sustainable economic development.

Stakeholder Engagement

ASB Nepal emphasizes the importance of a transparent and inclusive standard-setting process. A comprehensive gap analysis was undertaken to assess Nepal's existing financial reporting regulatory landscape and to benchmark it against international best practices. In developing the draft version of NFRS 18, the Board has built upon globally accepted standards that have undergone extensive deliberation and completed the due process of standard-setting as per the laid down procedures of the Board. The development of this Exposure Draft has followed the due process of the Board, including technical discussions, review and approval prior to its issuance.

Participation of stakeholders remains central to this standard-setting process. Feedback from preparers, users, regulators, auditors and other stakeholders is essential to ensure that the standard is relevant, practical and capable of meeting users' expectations for complete, sufficient, dependable and faithful information. ASB Nepal will consider such feedback carefully in refining and finalizing the standard.

Expectations from Stakeholders

Feedback from stakeholders will play a critical role in finalizing the standard and ensuring its effective implementation. ASB Nepal plans to redeliberate the Exposure Draft within its Standards Development and Revision Technical Committee and the Board based on feedback or comments from stakeholders, with a view to issuing the final standard expeditiously. Stakeholder comments will be most useful if they are specific (with reference to particular paragraphs), provide clear rationale, highlight any wording that is unclear or difficult to understand and suggest any alternative that ASB Nepal should consider.

Submission of Feedback

Concerned stakeholders are encouraged to participate in the standard-setting process by providing valuable and constructive comments, feedback or suggestions either directly (in person or via letter) to the Board's Secretariat or by sending an email to secretariat@asbnepal.gov.np within two months from the date of release of this Exposure Draft, i.e., on or before Mangsir 08, 2083 (24 November 2026).

Message from Chairman

Accounting Standards Board (ASB), Nepal is pleased to issue the Exposure Draft of NFRS 18: Presentation and Disclosure in Financial Statements, for public comment.

NFRSs are developed in alignment with IFRS Accounting Standards issued by the International Accounting Standards Board (IASB). In April 2024, the IASB issued IFRS 18, replacing IAS 1 and introducing enhanced requirements for the presentation and disclosure of financial performance, including defined categories and subtotals in profit or loss, management-defined performance measures, and improved principles for aggregation and disaggregation.

ASB Nepal has developed NFRS 18 based on IFRS 18, with the effective date to be decided later by the Board.

ASB Nepal has therefore issued this Exposure Draft of NFRS 18 for public consultation. As the proposed Standard introduces a significant change in the presentation and structure of the statement of profit or loss, including new categories of income and expenses and defined subtotals, its implementation will have an important impact on how financial performance of Nepalese entities are presented and understood.

ASB Nepal encourages all stakeholders including preparers, auditors, investors, sectoral regulators, professional bodies, academics and other users of financial statements to review the Exposure Draft and provide their valuable comments and suggestions.

Your feedback is an important part of the standard-setting process and will assist the ASB Nepal in finalizing NFRS 18 in a manner that is appropriate and effective for Nepal.

Ramesh Kumar Dhital, FCA
Chairman
Accounting Standards Board, Nepal

NFRS 18

**Presentation and Disclosure in Financial
Statements**

Exposure Draft of NFRS 18

CONTENTS

*from paragraph***NFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS**

OBJECTIVE	1
SCOPE	2
GENERAL REQUIREMENTS FOR FINANCIAL STATEMENTS	9
Objective of financial statements	9
A complete set of financial statements	10
The roles of the primary financial statements and the notes	15
Identification of the financial statements	25
Frequency of reporting	28
Consistency of presentation, disclosure and classification	30
Comparative information	31
AGGREGATION AND DISAGGREGATION	41
Principles of aggregation and disaggregation	41
Offsetting	44
STATEMENT OF PROFIT OR LOSS	46
Categories in the statement of profit or loss	47
Totals and subtotals to be presented in the statement of profit or loss	69
Items to be presented in the statement of profit or loss or disclosed in the notes	75
STATEMENT PRESENTING COMPREHENSIVE INCOME	86
Other comprehensive income	88
STATEMENT OF FINANCIAL POSITION	96
Classification of assets and liabilities as current or non-current	96
Items to be presented in the statement of financial position or disclosed in the notes	103
STATEMENT OF CHANGES IN EQUITY	107
Information to be presented in the statement of changes in equity	107
Information to be presented in the statement of changes in equity or disclosed in the notes	109
NOTES	113
Structure	113
Management-defined performance measures	117
Capital	126
Other disclosures	130
APPENDICES	
A Defined terms	

continued...

...continued

B Application guidance

C Effective date and transition

D Amendments to other NFRS Accounting Standards

Exposure Draft of NFRS 18

NFRS 18 *Presentation and Disclosure in Financial Statements* is set out in paragraphs 1–132 and appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary. The Standard should be read in the context of its objective, the *Preface to NFRS Accounting Standards* and the *Conceptual Framework for Financial Reporting*. NAS 8 *Basis of Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Nepal Financial Reporting Standard 18

Presentation and Disclosure in Financial Statements

Objective

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

Scope

- 2 **An entity shall apply this Standard in presenting and disclosing information in financial statements prepared in accordance with NFRS Accounting Standards.**
- 3 This Standard sets out general and specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. This Standard also sets out requirements for the disclosure of information in the *notes*. NAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information. However, the general requirements for financial statements in paragraphs 9–43 and 113–114 apply to the statement of cash flows.
- 4 Other NFRS Accounting Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.
- 5 This Standard does not apply to the presentation and disclosure of information in condensed interim financial statements prepared applying NAS 34 *Interim Financial Reporting*. However, paragraphs 41–45 and 117–125 apply to such financial statements.
- 6 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.
- 7 Similarly, entities that do not have equity as defined in NAS 32 *Financial Instruments: Presentation* (for example, some mutual funds) and entities whose share capital is not equity (for example, some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

- 8 Many entities provide a financial review by management, which is separate from the financial statements (see paragraph 10), that describes and explains the main features of the entity's financial performance and financial position, as well as the principal uncertainties it faces. Such a review is outside the scope of NFRS Accounting Standards.

General requirements for financial statements

Objective of financial statements

- 9 The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

A complete set of financial statements

- 10 **A complete set of financial statements comprises:**
- (a) **a statement (or statements) of financial performance for the reporting period (see paragraph 12);**
 - (b) **a statement of financial position as at the end of the reporting period;**
 - (c) **a statement of changes in equity for the reporting period;**
 - (d) **a statement of cash flows for the reporting period;**
 - (e) **notes for the reporting period;**
 - (f) **comparative information in respect of the preceding period as specified in paragraphs 31–32; and**
 - (g) **a statement of financial position as at the beginning of the preceding period if required by paragraph 37.**
- 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'.
- 12 An entity shall present its statement(s) of financial performance as either:

- (a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections—if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or
- (b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss—if this option is chosen, the statement of profit or loss shall immediately precede the statement presenting comprehensive income.

13 In this Standard:

- (a) the profit or loss section described in paragraph 12(a) and the statement of profit or loss described in paragraph 12(b) are referred to as the statement of profit or loss; and
- (b) the other comprehensive income section described in paragraph 12(a) and the statement presenting comprehensive income described in paragraph 12(b) are referred to as the statement presenting comprehensive income.

14 An entity shall present each of the primary financial statements with equal prominence in a complete set of financial statements.

The roles of the primary financial statements and the notes

15 **To achieve the objective of financial statements (see paragraph 9), an entity presents information in the primary financial statements and discloses information in the notes. An entity need only present or disclose *material information* (see paragraphs 19 and B1–B5).**

16 **The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements 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.

17 **The role of the notes is to provide material information necessary:**

- (a) to enable users of financial statements to understand the line items presented in the primary financial statements (see paragraph B6); and

- (b) **to supplement the primary financial statements with additional information to achieve the objective of financial statements (see paragraph B7).**

18 An entity shall use the roles of the primary financial statements and the notes, described in paragraphs 16–17, to determine whether to include information in the primary financial statements or in the notes. The different roles of the primary financial statements and the notes mean that the extent of the information required in the notes differs from that in the primary financial statements. The differences mean that:

- (a) to provide the structured summaries described in paragraph 16, information provided in the primary financial statements is more aggregated than information provided in the notes; and
- (b) to provide the information described in paragraph 17, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including the *disaggregation* of information presented in the primary financial statements, is provided in the notes.

Information presented in the primary financial statements or disclosed in the notes

19 **Some NFRS Accounting Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by NFRS Accounting Standards if the information resulting from that presentation or disclosure is not material. This is the case even if NFRS Accounting Standards contain a list of specific requirements or describe them as minimum requirements.**

20 **An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in NFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.**

Information presented in the primary financial statements

21 Paragraph 16 establishes that the role of the primary financial statements is to provide structured summaries that are useful for the purposes specified in that paragraph (referred to hereafter as a *useful structured summary*). An entity shall use the role of the primary financial statements to determine what material information to present in those statements, as set out in paragraphs 22–24.

22 **To provide a useful structured summary in a primary financial statement, an entity shall comply with specific requirements that determine the structure of the statement. The specific requirements are:**

- (a) **for the statement of profit or loss—the requirements in paragraphs 47, 69, 76 and 78;**

- (b) for the statement presenting comprehensive income—the requirements in paragraphs 86–88;
- (c) for the statement of financial position—the requirements in paragraphs 96 and 104;
- (d) for the statement of changes in equity—the requirements in paragraph 107; and
- (e) for the statement of cash flows—the requirements in paragraph 10 of NAS 7.

23 Some NFRS Accounting Standards require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if NFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).

24 An entity shall present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary. When an entity presents additional line items or subtotals, those line items or subtotals shall (see paragraph B9):

- (a) comprise amounts recognised and measured in accordance with NFRS Accounting Standards;
- (b) be compatible with the statement structure created by the requirements listed in paragraph 22;
- (c) be consistent from period to period, in accordance with paragraph 30; and
- (d) be displayed no more prominently than the totals and subtotals required by NFRS Accounting Standards.

Identification of the financial statements

25 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraph B10).

26 NFRS Accounting Standards apply only to financial statements, and not necessarily to other information provided in an annual report, a regulatory filing or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using NFRS Accounting Standards from other information that may be useful to users but is not the subject of those requirements.

27 An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall disclose prominently, and repeat when necessary for the information provided to be understandable:

- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
- (b) whether the financial statements are of an individual entity or a group of entities;
- (c) the date of the end of the reporting period or the period covered by the financial statements;
- (d) the presentation currency, as defined in NAS 21 *The Effects of Changes in Foreign Exchange Rates*; and
- (e) the level of rounding used for the amounts in the financial statements (see paragraph B11).

Frequency of reporting

28 An entity shall provide a complete set of financial statements at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:

- (a) the reason for using a longer or shorter period; and
- (b) the fact that amounts included in the financial statements are not entirely comparable.

29 Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Consistency of presentation, disclosure and classification

30 An entity shall retain the presentation, disclosure and *classification* of items in the financial statements from one reporting period to the next unless:

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for selecting and applying accounting policies in NAS 8 *Basis of Preparation of Financial Statements* (see paragraph B12); or
- (b) an NFRS Accounting Standard requires a change in presentation, disclosure or classification.

Comparative information

31 Except when NFRS Accounting Standards permit or require otherwise, an entity shall provide comparative information (that is, information for the preceding reporting period) for all amounts reported in the current period's financial statements. An entity shall include comparative

information for narrative and descriptive information if it is necessary for an understanding of the current period's financial statements (see paragraph B13).

- 32 An entity shall present a current reporting period and preceding period in each of its primary financial statements and in the notes. Paragraphs B14–B15 set out requirements relating to additional comparative information.

Change in accounting policy, retrospective restatement or reclassification

- 33 If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

- 34 When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- (a) the reason for not reclassifying the amounts; and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

- 35 Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

- 36 NAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

- 37 An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the comparative information required in paragraphs 31–32 if:

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- (b) the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position as at the beginning of the preceding period.

- 38 In the circumstances described in paragraph 37 an entity shall present three statements of financial position—a statement of financial position as at:
- (a) the end of the current reporting period;
 - (b) the end of the preceding period; and
 - (c) the beginning of the preceding period.
- 39 When an entity is required to present a third statement of financial position applying paragraph 37, it shall disclose the information required by paragraphs 33–36 and NAS 8. However, it need not provide the related notes to the statement of financial position as at the beginning of the preceding period.
- 40 The date of that third statement of financial position shall be as at the beginning of the preceding period regardless of whether an entity's financial statements provide comparative information for earlier periods (as permitted by paragraphs B14–B15).

Aggregation and disaggregation

Principles of aggregation and disaggregation

- 41 **For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any *aggregation* or *disaggregation* of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the primary financial statements. Other material information about items is disclosed in the notes. Unless doing so would override specific aggregation or disaggregation requirements in NFRS Accounting Standards, an entity shall (see paragraphs B16–B23):**
- (a) **classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;**
 - (b) **disaggregate items based on characteristics that are not shared;**
 - (c) **aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);**
 - (d) **aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and**
 - (e) **ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3).**
- 42 Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 41(c), an entity does not present material information in the primary financial statements, it shall disclose the information in the notes. Paragraphs B79 and B111 set out examples of income, expenses, assets, liabilities and items of

equity that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss or statement of financial position or disclosure in the notes is necessary to provide material information.

- 43 **An entity shall 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 (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.**

Offsetting

- 44 **An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an NFRS Accounting Standard (see paragraphs B27–B28).**
- 45 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, reduces users' ability to understand the transactions and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and allowances for expected credit losses on financial assets—is not offsetting.

Statement of profit or loss

- 46 **An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an NFRS Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).**

Categories in the statement of profit or loss

- 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 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:

- (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).**

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 NFRS 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 NFRS 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 NFRS 9 *Financial Instruments* (see paragraph B58); and
- (b) insurance finance income and expenses included in the statement of profit or loss applying NFRS 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 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 NAS 12 *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 NFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Totals and subtotals to be presented in the statement of profit or loss

- 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.

Items to be presented in the statement of profit or loss or disclosed in the notes

75

An entity shall present in the statement of profit or loss line items for (see paragraph B77):

- (a) amounts required by this Standard, namely:
 - (i) revenue, presenting separately the line items described in (b) (i) and (c)(i);
 - (ii) operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);
 - (iii) share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (iv) income tax expense or income; and
 - (v) a single amount for the total of discontinued operations (see NFRS 5);
- (b) amounts required by NFRS 9, namely:
 - (i) interest revenue calculated using the effective interest method;
 - (ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of NFRS 9;
 - (iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;
 - (iv) any gain or loss arising from the difference between the fair value of a financial asset and its previous amortised cost at the date of reclassification from amortised cost measurement to measurement at fair value through profit or loss; and
 - (v) any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss at the date of reclassification of a financial asset from measurement at fair value through other comprehensive income to measurement at fair value through profit or loss; and
- (c) amounts required by NFRS 17, namely:
 - (i) insurance revenue;
 - (ii) insurance service expenses from contracts issued within the scope of NFRS 17;
 - (iii) income or expenses from reinsurance contracts held;
 - (iv) insurance finance income or expenses from contracts issued within the scope of NFRS 17; and

- (v) **finance income or expenses from reinsurance contracts held.**

76 **An entity shall present in the statement of profit or loss (outside all the categories described in paragraph 47) an allocation of profit or loss for the reporting period attributable to:**

- (a) **non-controlling interests; and**
 (b) **owners of the parent.**

77 Paragraphs B78–B79 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of profit or loss or disclose items in the notes.

Presentation and disclosure of expenses classified in the operating category

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 NAS 2 *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 NAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of NAS 40 *Investment Property* and paragraph 53(a) of NFRS 16 *Leases*;**
 - (ii) **amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of NAS 38 *Intangible Assets*;**
 - (iii) **employee benefits, comprising the amount for employee benefits recognised by an entity applying NAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying NFRS 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 NAS 36 *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 NAS 2; 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 NFRS 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 NFRS Accounting Standards.

Statement presenting comprehensive income

- 86 **An entity shall present in the statement presenting comprehensive income totals for:**
- (a) **profit or loss;**
 - (b) **other comprehensive income (see paragraphs B86–B87); and**
 - (c) **comprehensive income, being the total of profit or loss and other comprehensive income.**

87 **An entity shall present an allocation of comprehensive income for the reporting period attributable to:**

- (a) **non-controlling interests; and**
- (b) **owners of the parent.**

Other comprehensive income

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.**

89 **An entity shall present, in each of the categories of the statement presenting comprehensive income, line items for:**

- (a) **the share of other comprehensive income of associates and joint ventures accounted for using the equity method; and**
- (b) **other items of other comprehensive income.**

90 **An entity shall present in the statement presenting comprehensive income or disclose in the notes *reclassification adjustments* relating to components of other comprehensive income (see paragraphs B88–B89).**

- 91 Other NFRS Accounting Standards specify whether and when amounts previously included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. An entity includes a reclassification adjustment with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. An entity might have included these amounts in other comprehensive income as unrealised gains in the current or prior periods. An entity shall deduct them from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.
- 92 An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.
- 93 **An entity shall either present in the statement presenting comprehensive income or disclose in the notes the amount of income taxes relating to each item of other comprehensive income, including reclassification adjustments (see paragraphs 61A and 63 of NAS 12).**
- 94 An entity may present items of other comprehensive income either:
- (a) net of related tax effects; or
 - (b) before related tax effects, with one amount shown for the aggregate amount of income taxes relating to those items.
- 95 If an entity selects the alternative in paragraph 94(b), it shall allocate the tax between the categories set out in paragraph 88.

Statement of financial position

Classification of assets and liabilities as current or non-current

- 96 **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 99–102 except when a presentation based on liquidity provides a more useful structured summary. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B90–B93).**
- 97 **Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled:**
- (a) **no more than 12 months after the reporting period; and**
 - (b) **more than 12 months after the reporting period.**

- 98 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**

Current assets

- 99 **An entity shall classify an asset as current when (see paragraphs B94–B95):**
- (a) **it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
 - (b) **it holds the asset primarily for the purpose of trading;**
 - (c) **it expects to realise the asset within 12 months after the reporting period; or**
 - (d) **the asset is cash or a cash equivalent (as defined in NAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.**

- 100 **An entity shall classify all assets other than those specified in paragraph 99 as non-current.**

Current liabilities

- 101 **An entity shall classify a liability as current when:**
- (a) **it expects to settle the liability in its normal operating cycle (see paragraphs B96 and B107–B108);**
 - (b) **it holds the liability primarily for the purpose of trading (see paragraph B97);**
 - (c) **the liability is due to be settled within 12 months after the reporting period (see paragraphs B97–B98 and B107–B108); or**
 - (d) **it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period (see paragraphs B99–B108).**

- 102 **An entity shall classify all liabilities other than those specified in paragraph 101 as non-current.**

Items to be presented in the statement of financial position or disclosed in the notes

- 103 **An entity shall present in the statement of financial position line items for:**

- (a) **property, plant and equipment;**
- (b) **investment property;**
- (c) **intangible assets;**
- (d) **goodwill;**
- (e) **financial assets (excluding amounts shown under (g), (j) and (k));**

- (f) **portfolios of contracts within the scope of NFRS 17 that are assets, disaggregated as required by paragraph 78 of NFRS 17;**
- (g) **investments accounted for using the equity method;**
- (h) **biological assets within the scope of NAS 41 *Agriculture*;**
- (i) **inventories;**
- (j) **trade and other receivables;**
- (k) **cash and cash equivalents;**
- (l) **the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with NFRS 5;**
- (m) **trade and other payables;**
- (n) **provisions;**
- (o) **financial liabilities (excluding amounts shown under (m) and (n));**
- (p) **portfolios of contracts within the scope of NFRS 17 that are liabilities, disaggregated as required by paragraph 78 of FRS 17;**
- (q) **liabilities and assets for current tax, as defined in NAS 12;**
- (r) **deferred tax liabilities and deferred tax assets, as defined in NAS 12; and**
- (s) **liabilities included in disposal groups classified as held for sale in accordance with NFRS 5.**

104 **An entity shall present in the statement of financial position:**

- (a) **non-controlling interests; and**
- (b) **issued capital and reserves attributable to owners of the parent.**

105 Paragraphs B109–B111 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of financial position or disclose items in the notes.

106 Subject to paragraph 96, this Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. In addition, the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide a useful structured summary of the entity's assets, liabilities and equity. For example, a financial institution may amend the descriptions in paragraph 103 to provide a useful structured summary of the assets, liabilities and equity of a financial institution.

Statement of changes in equity

Information to be presented in the statement of changes in equity

107 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity shall include:

- (a) total comprehensive income for the reporting period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with NAS 8; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) presenting changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

108 NAS 8 requires retrospective adjustments for changes in accounting policies, to the extent practicable, except when the transition requirements in another NFRS Accounting Standard require otherwise. NAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when NFRS Accounting Standards require retrospective adjustment of another component of equity. Paragraph 107(b) requires an entity to present in the statement of changes in equity the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. An entity shall present these adjustments for each prior reporting period and the beginning of the period.

Information to be presented in the statement of changes in equity or disclosed in the notes

109 For each component of equity an entity shall either present in the statement of changes in equity or disclose in the notes an analysis of other comprehensive income by item (see paragraph 107(c)(ii)).

110 An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share.

- 111 In paragraph 107, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.
- 112 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period.

Notes

Structure

- 113 **An entity shall disclose in the notes:**
- (a) **information about the basis of preparation of the financial statements (see paragraphs 6A–6N of NAS 8) and the specific accounting policies used (see paragraphs 27A–27I of NAS 8);**
 - (b) **information required by NFRS Accounting Standards that is not presented in the primary financial statements; and**
 - (c) **other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them (see paragraph 20).**
- 114 **An entity shall, as far as practicable, present notes in a systematic manner (see paragraph B112). In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes. If amounts disclosed in the notes are included in one or more line items in the primary financial statements, an entity shall disclose in the note the line item(s) in which the amounts are included.**
- 115 **An entity may disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies used in a separate section of the financial statements.**
- 116 **If not disclosed elsewhere in information published with the financial statements, an entity shall disclose in the notes:**
- (a) **the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);**
 - (b) **a description of the nature of the entity's operations and its principal activities;**
 - (c) **the name of the parent and the ultimate parent of the group; and**

- (d) if it is a limited-life entity, information regarding the length of its life.

Management-defined performance measures

Identification of management-defined performance measures

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 NFRS Accounting Standards.

118 Subtotals of income and expenses that are not management-defined performance measure 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 NAS 36;
- (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 NFRS 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 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 NFRS 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 NAS 8.

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.

Capital

126 **An entity shall disclose in the notes information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

127 To comply with paragraph 126 an entity shall disclose in the notes:

- (a) qualitative information about its objectives, policies and processes for managing capital, including:
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges).
- (c) any changes in (a) and (b) from the preceding reporting period.
- (d) whether during the reporting period it complied with any externally imposed capital requirements to which it is subject.
- (e) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

128 An entity shall base the note disclosures in paragraph 127 on the information provided internally to key management personnel.

129 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's

understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

130 **An entity shall either present in the statement of financial position or the statement of changes in equity or disclose in the notes:**

- (a) **for each class of share capital:**
 - (i) **the number of shares authorised;**
 - (ii) **the number of shares issued and fully paid, and issued but not fully paid;**
 - (iii) **par value per share, or a statement that the shares have no par value;**
 - (iv) **a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;**
 - (v) **the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**
 - (vi) **shares in the entity held by the entity or by its subsidiaries or associates; and**
 - (vii) **shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and**
- (b) **a description of the nature and purpose of each reserve within equity.**

131 **An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 130(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.**

132 **An entity shall disclose in the notes:**

- (a) **the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the related amount per share; and**
- (b) **the amount of any cumulative preference dividends not recognised.**

Appendix A Defined terms

This appendix is an integral part of the NFRS Accounting Standard.

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.
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.
general purpose financial statements	A particular form of <i>general purpose financial reports</i> that provide information about the reporting entity's assets, liabilities, equity, income and expenses.
NFRS Accounting Standards	Accounting standards issued by the Accounting Standards Board, Nepal. They comprise: (a) Nepal Financial Reporting Standards; (b) Nepal Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
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 NFRS 18, or specifically required to be presented or disclosed by NFRS Accounting Standards.

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.
notes	Information in financial statements provided in addition to that presented in the primary financial statements.
operating profit or loss	The total of all income and expenses classified in the operating category.
other comprehensive income	Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other NFRS Accounting Standards.
owners	Holders of claims classified as equity.
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	The total of income less expenses included in the statement of profit or loss.
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.
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.
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.
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.

Exposure Draft of NFRS 18

Appendix B

Application guidance

This appendix is an integral part of the NFRS Accounting Standard. It describes the application of paragraphs 1–132 and has the same authority as the other parts of the NFRS Accounting Standard.

General requirements for financial statements

Materiality

- B1 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.
- B2 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.
- B3 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) material information about an item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
 - (b) material information about an 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
 - (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.
- B4 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.
- B5 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.

The roles of the primary financial statements and the notes

- B6 Applying paragraph 17(a), an entity provides in the notes information necessary for users of financial statements to understand the line items presented in the primary financial statements. Examples of such information include:
- (a) disaggregation of the line items presented in the primary financial statements;
 - (b) descriptions of the characteristics of the line items presented in the primary financial statements; and
 - (c) information about the methods, assumptions and judgements used in recognising, measuring and presenting the items included in the primary financial statements.
- B7 Applying paragraph 17(b), an entity supplements the primary financial statements with additional information necessary to achieve the objective of financial statements—that is:
- (a) information specifically required by NFRS Accounting Standards (see paragraph 19)—for example:
 - (i) information required by NAS 37 *Provisions, Contingent Liabilities and Contingent Assets* about an entity's unrecognised contingent assets and contingent liabilities; and
 - (ii) information required by NFRS 7 *Financial Instruments: Disclosures* about an entity's exposure to various types of risks, such as credit risk, liquidity risk and market risk; and
 - (b) information additional to that specifically required by NFRS Accounting Standards (see paragraph 20).

Information presented in the primary financial statements

- B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by NFRS Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in

paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).

- B9 Conversely, applying paragraph 24, an entity shall present additional line items to those listed in paragraphs 75 and 103 if such presentations are necessary for the statement of profit or loss to provide a useful structured summary of income and expenses or for the statement of financial position to provide a useful structured summary of assets, liabilities and equity (see paragraphs B78–B79 and B109–B111).

Identification of the financial statements

- B10 Paragraph 25 requires an entity to clearly identify the financial statements and distinguish them from other information in the same published document. An entity meets these requirements by providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of providing such information. For example, if an entity provides the financial statements electronically, an entity considers other ways to meet the requirements—for example, by appropriate digital tagging of information provided in the financial statements.

- B11 An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This practice is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Consistency of presentation, disclosure and classification

- B12 Paragraph 30(a) requires an entity to change the presentation, disclosure or classification of items in the financial statements if it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the financial statements, might suggest that the financial statements need to be changed. An entity is permitted to change the presentation, disclosure or classification of items in its financial statements only if the change provides information that is more useful to users of financial statements and if the entity is likely to continue using the revised presentation, disclosure or classification, so that inter-period comparability is not impaired. When making such changes, an entity reclassifies its comparative information in accordance with paragraphs 33–34.

Comparative information

Required comparative information

- B13 In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding

period and is yet to be resolved. Users of financial statements might benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Additional comparative information

- B14 An entity may provide comparative information in addition to the comparative information required by NFRS Accounting Standards, as long as that information is prepared in accordance with NFRS Accounting Standards. This additional comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose in the notes information for those additional primary financial statements.
- B15 For example, an entity may present a third statement (or statements) of financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (that is, an additional primary financial statement comparative). The entity is required to disclose in the notes the comparative information related to that additional statement(s) of financial performance.

Aggregation and disaggregation

Principles of aggregation and disaggregation

Process of aggregation and disaggregation

- 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;
 - (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 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 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.

If an entity cannot find a more informative label than 'other':

B26

- (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.

Offsetting

B27

Paragraph 44 prohibits an entity from offsetting assets and liabilities or income and expenses unless required or permitted by an NFRS Accounting Standard. For example, NFRS 15 *Revenue from Contracts with Customers* requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. The amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. In contrast, an entity might undertake, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The entity would present in the primary financial statements or disclose in the notes the results of such transactions, when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents in the primary financial statements or discloses in the notes gains and losses on the disposal of non-current assets by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with NAS 37 and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

B28

In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions—for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance

applying paragraphs 47–68. However, an entity shall disclose such gains and losses separately in the notes if doing so provides material information.

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). 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 NFRS 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

B34 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.

B35 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.

Evidence that subtotals similar to gross profit described in paragraph B123 are important indicators of operating performance includes using such subtotals to:

- B36
- (a) explain operating performance externally; or
 - (b) assess or monitor operating performance internally.

Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies NFRS 8 *Operating Segments*. Specifically:

- B37
- (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.

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 NAS 27 *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 NAS 27. 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 NFRS 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.

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

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estments comprise:

- (a) investments in associates and joint ventures accounted for using the equity method in accordance with paragraph 16 of NAS 28 *Investments in Associates and Joint Ventures* and paragraph 10(c) of NAS 27;
- (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 NFRS 9 applying paragraphs 18–19 of NAS 28 and paragraph 11 of NAS 27; and
- (c) investments in associates and joint ventures in separate financial statements that are accounted for at cost applying paragraph 10(a) of NAS 27 or in accordance with NFRS 9 applying paragraph 10(b) of NAS 27.

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 NAS 27;
- (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 NFRS 10 and paragraph 11A of NAS 27; and
- (c) investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of NAS 27 or in accordance with NFRS 9 applying paragraph 10(b) of NAS 27.

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.

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
- (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 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:

- (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

- B54 (f) a litigation provision—an entity does not receive finance as described in paragraph B50(a).

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 NFRS 9;
- (b) interest expenses on a contract liability with a significant financing component as specified by NFRS 15;
- (c) interest expenses on a lease liability, applying NFRS 16;
- (d) net interest expense (income) on a net defined benefit liability (asset), applying NAS 19; and
- B55 (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 NAS 37.

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 NAS 19; and
- (c) remeasurements of the fair value of a liability for contingent consideration in a business combination recognised applying NFRS 3 *Business Combinations*.

B56

Classification of income and expenses from hybrid contracts containing a host that is a liability

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:
- (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 NFRS 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 NFRS 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 NFRS 9 or applying paragraph 4.3.5 of NFRS 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 NFRS 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 NFRS 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 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 NAS 16 to investment property in the scope of NAS 40.

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 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 NAS 21.
- (b) in the operating category—an impairment loss arising on the classification of a disposal group as held for sale by the entity applying NFRS 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 NAS 21.

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 NAS 21 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

B67 activity and classifies the income and expenses from the liability in the operating category applying paragraph 65).

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 NAS 29 *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.

B70

Classification of gains and losses on derivatives and designated hedging instruments

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 NFRS 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 NFRS 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:
- (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 NFRS 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.

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 NFRS Accounting Standards.

B76

Items to be presented in the statement of profit or loss or disclosed in the notes

An entity may be required to present a line item listed in paragraph 75, or specified in another NFRS 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 NFRS 9 in:

B77

- (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.

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).

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 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.

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 NAS 2, 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.

Statement presenting comprehensive income

Other comprehensive income

- B86 Some NFRS Accounting Standards specify circumstances when an entity includes particular items outside the statement of profit or loss in the current reporting period. NAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other NFRS Accounting Standards require or permit an entity to exclude from profit or loss components of other comprehensive income that meet the *Conceptual Framework for Financial Reporting*’s definition of income or expenses (see paragraph B87).
- B87 Appendix A defines ‘other comprehensive income’. The components of other comprehensive income include:
- (a) changes in revaluation surplus (see NAS 16 and NAS 38);
 - (b) remeasurements of defined benefit plans (see NAS 19);
 - (c) gains and losses arising from translating the financial statements of a foreign operation (see NAS 21);

- (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 NFRS 9;
- (e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NFRS 9;
- (f) 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 equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NFRS 9 (see Chapter 6 of NFRS 9);
- (g) 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 NFRS 9);
- (h) 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 NFRS 9);
- (i) 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 NFRS 9);
- (j) insurance finance income and expenses from contracts issued within the scope of NFRS 17 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 NFRS 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 NFRS 17; and
- (k) 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 NFRS 17.

B88 Reclassification adjustments arise, for example, on disposal of a foreign operation (see NAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of NFRS 9 in relation to cash flow hedges).

B89 Paragraph 90 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments do not arise on changes in revaluation surplus recognised in

accordance with NAS 16 or NAS 38 or on remeasurements of defined benefit plans recognised in accordance with NAS 19. An entity recognises these components in other comprehensive income and does not reclassify them to profit or loss in subsequent reporting periods. An entity may transfer changes in revaluation surplus to retained earnings in subsequent periods as the asset is used or when it is derecognised (see NAS 16 and NAS 38). In accordance with NFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) results in amounts that an entity removes from the cash flow hedge reserve or a separate component of equity, respectively, and includes directly in the initial cost or other carrying amount of an asset or a liability. An entity transfers these amounts directly to assets or liabilities.

Statement of financial position

Classification of assets and liabilities as current or non-current

- B90 In applying paragraph 96, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. Such separate classification also highlights assets that an entity expects to realise within the current operating cycle and liabilities that are due for settlement within the same period.
- B91 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides a more useful structured summary than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- B92 In applying paragraph 96, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when doing so provides a more useful structured summary. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- B93 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NFRS 7 requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories, and the expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that it expects to recover more than 12 months after the reporting period.

Current assets

- B94 Paragraph 100 requires an entity to classify as non-current all assets not classified as current. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- B95 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When an entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in NFRS 9) and the current portion of non-current financial assets.

Current liabilities

Normal operating cycle (see paragraph 101(a))

- B96 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in an entity's normal operating cycle. An entity classifies such items as current liabilities even if they are due to be settled more than 12 months after the reporting period. The same normal operating cycle applies to the classification of the entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

Held primarily for the purpose of trading (see paragraph 101(b)) or due to be settled within 12 months (see paragraph 101(c))

- B97 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within 12 months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in NFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (that is, are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within 12 months after the reporting period are non-current liabilities, subject to paragraphs B99–B103.
- B98 An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the reporting period, even if:
- (a) the original term was for a period longer than 12 months; and
 - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

Right to defer settlement for at least 12 months (paragraph 101(d))

- B99 An entity's right to defer settlement of a liability for at least 12 months after the reporting period must have substance and, as illustrated in paragraphs B100–B103, must exist at the end of the reporting period.
- B100 An entity's right to defer settlement of a liability arising from a loan arrangement for at least 12 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 101(d), such covenants:
- (a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs B102–B103—if an entity is required to comply with the covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at the end of the reporting period but assessed for compliance only after the reporting period).
 - (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 (for example, a covenant based on the entity's financial position six months after the end of the reporting period).
- B101 If an entity has the right, at the end of the reporting period, to roll over an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- B102 When an entity breaches a covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.
- B103 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 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- B104 Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria in paragraphs 101–102 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability

between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 6C(c) of NAS 8 and B105(d)).

B105 If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with NAS 10 *Events after the Reporting Period*:

- (a) refinancing on a long-term basis of a liability classified as current (see paragraph B98);
- (b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph B102);
- (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph B103); and
- (d) settlement of a liability classified as non-current (see paragraph B104).

B106 In applying paragraphs 101–102 and B96–B103 an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within 12 months after the reporting period (see paragraph B100(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within 12 months after the reporting period, including:

- (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.
- (b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

Settlement (paragraphs 101(a), 101(c) and 101(d))

B107 For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

- (a) cash or other economic resources—for example, goods or services; or
- (b) the entity's own equity instruments, unless paragraph B108 applies.

- B108 Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying NAS 32, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

Items to be presented in the statement of financial position or disclosed in the notes

- B109 Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of financial position if doing so is necessary to provide a useful structured summary of the entity's assets, liabilities and equity. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 103). 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). For additional line items for assets and liabilities, an entity bases its judgements on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) might assist an entity in identifying the nature or function of assets and liabilities.

- B110 Paragraphs 20 and 41(d) require an entity to disaggregate items to disclose material information in the notes. An entity uses its judgement to do this based 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;
- (b) function (role) in the entity's business activities;
- (c) duration and timing of recovery or settlement (including whether an asset or liability is classified as current or non-current or whether its recovery or settlement forms part of the entity's operating cycle);
- (d) liquidity;
- (e) measurement basis;
- (f) measurement uncertainty or outcome uncertainty (or other risks associated with an item);
- (g) size;
- (h) geographical location or regulatory environment;
- (i) type, for example, the type of good, service or customer;
- (j) tax effects—for example, if assets or liabilities have different tax bases; and
- (k) restrictions on the use of an asset or on the transferability of a liability.

B111 Assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:

- (a) property, plant and equipment disaggregated into classes in accordance with NAS 16;
- (b) receivables disaggregated into amounts receivable from trade customers, amounts receivable from related parties, prepayments and other amounts;
- (c) inventories disaggregated, applying NAS 2, into items such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) trade payables disaggregated, applying NAS 7, to provide separately the amounts of those payables that are part of supplier finance arrangements;
- (e) provisions disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and
- (f) equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium and reserves.

Notes

Structure

B112 Paragraph 114 requires an entity to present notes in a systematic manner, so far as is practicable. Examples of systematic ordering or grouping of the notes include:

- (a) giving prominence to the areas of its activities that an entity considers to be most important to an understanding of its financial performance and financial position, such as grouping together information about particular business activities;
- (b) grouping together information about items measured similarly such as assets measured at fair value; or
- (c) following the order of the line items in the statement(s) of financial performance and the statement of financial position, such as:
 - (i) statement of compliance with NFRS Accounting Standards (see paragraph 6B of NAS 8);
 - (ii) material accounting policy information (see paragraph 27A of NAS 8);

- (iii) supporting information for items presented in the statement of financial position, the statement(s) of financial performance, the statement of changes in equity and the statement of cash flows, in the order in which each statement is provided and each line item is presented; and
- (iv) other disclosures, including:
 - (1) contingent liabilities (see NAS 37) and unrecognised contractual commitments; and
 - (2) non-financial disclosures—for example an entity's financial risk management objectives and policies (see NFRS 7).

Management-defined performance measures

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 NFRS 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 NFRS 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.
- 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;
- (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).

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 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 NFRS 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

B132 *Single note for information about management-defined performance measures*

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 NFRS 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 NFRS 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 NFRS 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
- (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 NFRS 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).

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 NFRS 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.

Appendix C

Effective date and transition

This appendix is an integral part of the NFRS Accounting Standard.

Effective date

- C1 An entity shall apply this Standard for annual reporting periods **beginning on or after xx xxxx**. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

Transition

- C2 An entity shall apply this Standard retrospectively applying NAS 8. However, an entity is not required to present the quantitative information specified in paragraph 28(f) of NAS 8. An entity applying NFRS 19 *Subsidiaries without Public Accountability: Disclosures* is not required to present the quantitative information required by paragraph 178(f) of NFRS 19.
- C3 In its annual financial statements an entity shall disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:
- (a) the restated amounts presented applying this Standard; and
 - (b) the amounts previously presented applying NAS 1 *Presentation of Financial Statements*.
- C4 If an entity applies NAS 34 in preparing condensed interim financial statements in the first year of applying this Standard, the entity shall present in the condensed interim financial statements each heading it expects to use in applying the Standard and the subtotals required by paragraphs 69–74 of this Standard, despite the requirements in paragraph 10 of NAS 34. An entity shall not apply the requirements in paragraph 10 of NAS 34 for headings and subtotals in condensed interim financial statements until it has issued its first set of annual financial statements prepared in accordance with this Standard.
- C5 If an entity applies NAS 34 in preparing interim financial statements in the first year of applying this Standard, the entity shall, as part of the information required by paragraph 16A(a) of NAS 34, disclose reconciliations for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods. The reconciliations are required between:
- (a) the restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applies this Standard; and
 - (b) the amounts previously presented applying the accounting policies for the comparative period and cumulative comparative period when the entity applied NAS 1.

An entity applying NFRS 19 *Subsidiaries without Public Accountability: Disclosures* shall instead disclose such a reconciliation as part of the information required by paragraph 246(a) of NFRS 19.

- C6 An entity is permitted, but not required, to disclose the reconciliations described in paragraphs C3 and C5 for the current period or earlier comparative periods.
- C7 At the date of initial application of this Standard, an entity eligible to apply paragraph 18 of NAS 28 is permitted to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with NFRS 9. If an entity makes such a change, the entity shall apply the change retrospectively applying NAS 8. An entity applying paragraph 11 of NAS 27 shall make the same change in its separate financial statements.

Withdrawal of NAS 1

- C8 This Standard supersedes NAS 1.

Appendix D

Amendments to other NFRS Accounting Standards

This Appendix describes the amendments to other Standards that the ASB made when it finalized NFRS 18. An entity shall apply the amendments for annual periods beginning on or after XX XXXX. If an entity applies NFRS 18 for an earlier period, these amendments shall be applied for that earlier period.

The amendments contained in this appendix will be incorporated into the text of the relevant Standards when ASB publishes the next updated volume.