



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

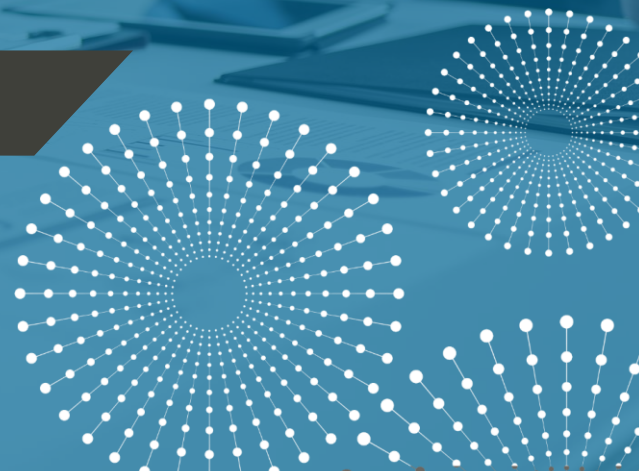
Deep Dive on NZ IFRS 18 Presentation and Disclosure in Financial Statements

New categories and subtotals in the statement of profit or loss



Thursday 5 June 2025

12:30pm – 1:30pm



External Reporting Board

Our purpose – Promoting trust and confidence, transparency and accountability through high-quality external reporting and assurance. We do this by establishing and maintaining robust frameworks and standards that are internationally credible and relevant to New Zealand.

Presenters

Nimash Bhikha

Technical Director, Accounting Standards

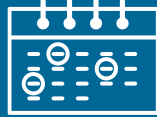
(nimash.bhikha@xrb.govt.nz)

Carly Berry

Senior Project Manager, Accounting Standards

(carly.berry@xrb.govt.nz)

NZ IFRS 18 *Presentation and Disclosure in Financial Statements*



Mandatory date: 1 January 2027

- **Replaces** NZ IAS 1 *Presentation of Financial Statements* when applied
- **Impacts all for-profit reporting entities** in New Zealand
- **Introduces new requirements** relating to:

New categories and subtotals required in the statement of profit or loss

Today's deep dive

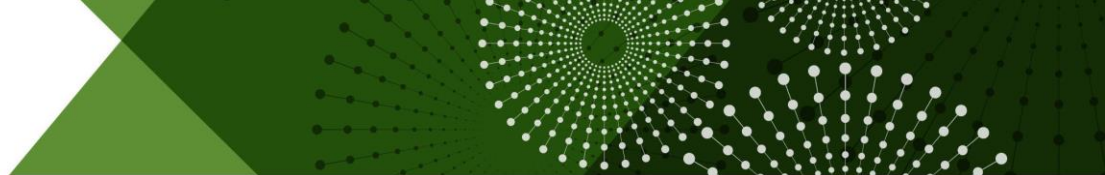
Enhanced requirements for grouping of information

Deep dive – Aug 2025

New disclosures about management-defined performance measures

Deep dive – Oct 2025

Reason for change



Current standard

NZ IAS 1 does not have requirements about:

- where to classify and present income and expenses.
- what subtotals to report – other than total profit or loss.

Investor concerns

- Diversity of reporting in practice, with a variation in the structure and content of the statement of profit or loss.
- Diversity makes it difficult to analyse and compare entities' performance.

Solution

NZ IFRS 18 creates a new structure for the statement of profit or loss.

This structure improves comparability and understandability.

Categories and subtotals in the statement of profit or loss

Categories

Operating

Investing

Financing

Income taxes

Discontinued
operations

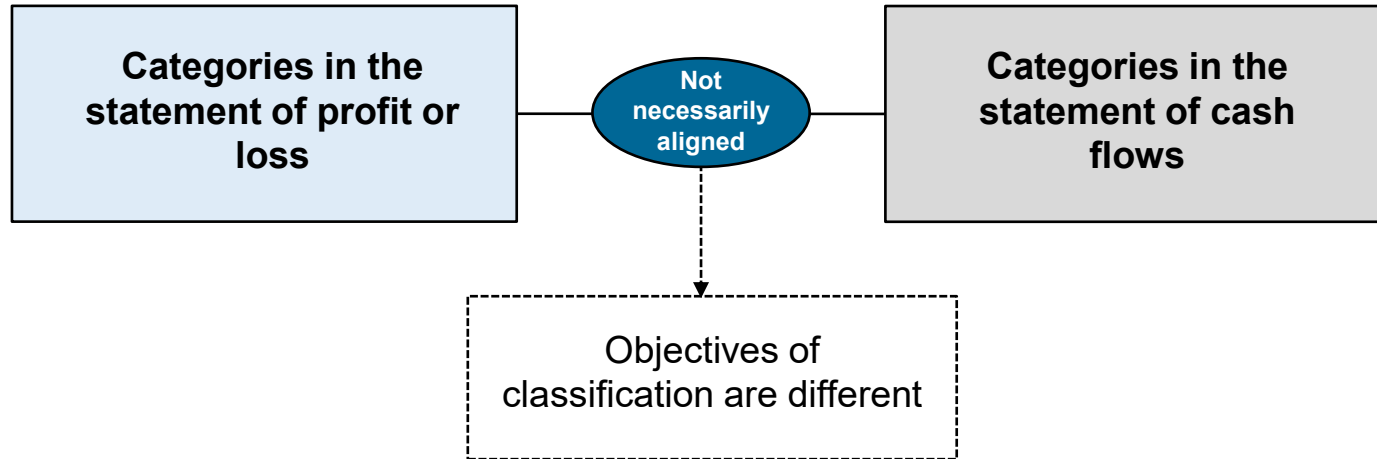
Subtotals

Operating profit or loss

Profit or loss before financing
and income taxes

Profit or loss

Categories in the statements of profit or loss and cash flows



Operating category

Operating

Income and expenses
arising from an
entity's operations

**Operating profit or
loss** is a new required
subtotal

- Includes all income and expenses that are not classified in any other category (a default category).
 - Irrespective of whether they are volatile, non-recurring or unusual in some way.
- Operating profit or loss subtotal comprises all income and expenses classified in the operating category.
 - Provides a consistent starting point for investors' analyses and is generally comparable between entities.



Includes some income and expenses otherwise classified in the investing or financing category when there is a specified main business activity.

Example – Operating category

Statement of profit or loss	20X2	20X1	Categories
Revenue	367,000	353,100	Operating
Cost of sales	(241,600)	(224,100)	
Gross profit	125,400	129,000	
Other operating income	12,200	4,100	
Selling expenses	(28,900)	(27,400)	
Research and development expenses	(25,100)	(25,900)	
General and administrative expenses	(20,900)	(22,400)	
Goodwill impairment loss	(4,500)	–	
Other operating expenses	(1,200)	(5,600)	
Operating profit	57,000	51,800	
Share of profit and gains on disposal of associates and joint ventures	5,300	7,300	Investing
Profit before financing and income taxes	62,300	59,100	Financing
Interest expenses on borrowings and lease liabilities	(13,000)	(13,200)	
Interest expenses on pension liabilities and provisions	(6,500)	(6,000)	Income taxes
Profit before income taxes	42,800	39,900	
Income tax expense	(10,700)	(9,975)	Discontinued operations
Profit from continuing operations	32,100	29,925	
Loss from discontinued operations	–	(5,500)	
Profit	32,100	24,425	

Category labels are **not** required to be presented

Investing category

Investing

Income and expenses from assets generating a return individually and largely independently from other resources

Profit or loss before financing and income taxes is a new required subtotal

Examples

Income – interest revenue from debt investments, dividends, rental income and fair value gains from investment properties

Expenses – depreciation and amortisation, fair value losses from investment properties, transaction costs and costs to sell the asset.

- This category always includes income and expenses from:
 - **investments in associates, joint ventures and unconsolidated subsidiaries**; and
 - **cash and cash equivalents**.
- **Profit or loss before financing and income taxes** comprises operating profit or loss and all income and expenses in the investing category.



Classification differs if there is a specified main business activity

Example – Investing category

Statement of profit or loss	20X2	20X1	Categories
Revenue	367,000	353,100	Operating
Cost of sales	(241,600)	(224,100)	
Gross profit	125,400	129,000	
Other operating income	12,200	4,100	
Selling expenses	(28,900)	(27,400)	
Research and development expenses	(25,100)	(25,900)	
General and administrative expenses	(20,900)	(22,400)	
Goodwill impairment loss	(4,500)	–	
Other operating expenses	(1,200)	(5,600)	
Operating profit	57,000	51,800	
Share of profit and gains on disposal of associates and joint ventures	5,300	7,300	Investing
Profit before financing and income taxes	62,300	59,100	
Interest expenses on borrowings and lease liabilities	(13,000)	(13,200)	Financing
Interest expenses on pension liabilities and provisions	(6,500)	(6,000)	
Profit before income taxes	42,800	39,900	
Income tax expense	(10,700)	(9,975)	Income taxes
Profit from continuing operations	32,100	29,925	
Loss from discontinued operations	–	(5,500)	Discontinued operations
Profit	32,100	24,425	

Category labels are **not** required to be presented

Financing category

Financing

Income and expenses
on liabilities relating to
the raising of finance

Interest income and
expense on other
liabilities

- Liabilities that arise from transactions that involve only the raising of finance include bank loans, bonds and mortgages.

Examples of income and expense on these liabilities

Fair value gains and losses, income from derecognition, dividends on issued shares classified as liabilities, interest expense on issued debt instruments.

- Other liabilities (i.e., arising from transactions that do not involve only the raising of finance) include payables, provisions and lease liabilities.



Classification differs if there is a specified main business activity

Example – Financing category

Statement of profit or loss	20X2	20X1	Categories
Revenue	367,000	353,100	Operating
Cost of sales	(241,600)	(224,100)	
Gross profit	125,400	129,000	
Other operating income	12,200	4,100	
Selling expenses	(28,900)	(27,400)	
Research and development expenses	(25,100)	(25,900)	
General and administrative expenses	(20,900)	(22,400)	
Goodwill impairment loss	(4,500)	–	
Other operating expenses	(1,200)	(5,600)	
Operating profit	57,000	51,800	
Share of profit and gains on disposal of associates and joint ventures	5,300	7,300	Investing
Profit before financing and income taxes	62,300	59,100	Financing
Interest expenses on borrowings and lease liabilities	(13,000)	(13,200)	
Interest expenses on pension liabilities and provisions	(6,500)	(6,000)	Income taxes
Profit before income taxes	42,800	39,900	
Income tax expense	(10,700)	(9,975)	Discontinued operations
Profit from continuing operations	32,100	29,925	
Loss from discontinued operations	–	(5,500)	
Profit	32,100	24,425	

Category labels are **not** required to be presented

Other categories

Income taxes category

- Tax expense or tax income applying NZ IAS 12 *Income Taxes*; and
- Any related foreign exchange differences.



Discontinued operations category

- Income and expenses from discontinued operations required by NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.



Example – Statement of profit or loss

Statement of profit or loss	20X2	20X1	Categories
Revenue	367,000	353,100	Operating
Cost of sales	(241,600)	(224,100)	
Gross profit	125,400	129,000	
Other operating income	12,200	4,100	
Selling expenses	(28,900)	(27,400)	
Research and development expenses	(25,100)	(25,900)	
General and administrative expenses	(20,900)	(22,400)	
Goodwill impairment loss	(4,500)	–	
Other operating expenses	(1,200)	(5,600)	
Operating profit	57,000	51,800	
Share of profit and gains on disposal of associates and joint ventures	5,300	7,300	Investing
Profit before financing and income taxes	62,300	59,100	Financing
Interest expenses on borrowings and lease liabilities	(13,000)	(13,200)	
Interest expenses on pension liabilities and provisions	(6,500)	(6,000)	Income taxes
Profit before income taxes	42,800	39,900	
Income tax expense	(10,700)	(9,975)	Discontinued operations
Profit from continuing operations	32,100	29,925	
Loss from discontinued operations	–	(5,500)	
Profit	32,100	24,425	

Category labels are **not** required to be presented

Specified main business activity

Differing classification requirements for entities with specified main business activities involving:



investing in particular types of assets; and/or



providing financing to customers.

Entities that do not have a specified main business activity follow the general classification requirements.

Disclosure required if there is a specified main business activity.

Operating category

Investing category

Specific income
and expenses

Financing category

Specific income
and expenses

Examples

Investing in assets	Investment entities under NZ IFRS 10, investment property companies, insurers.
Providing financing to customers	Banks, entities providing financing to customers to buy their products, financing through finance leases.

Assessment of specified main business activity

- Main business activity is a matter of fact, not an assertion.
- Likely to be a main business activity if using a particular type of subtotal similar to gross profit as an important indicator of operating performance.
- Segment information may provide evidence of a main business activity.
- **No need to assess** whether investing as a main business activity in:
 - cash and cash equivalents; or
 - equity-accounted associates, joint ventures and non-consolidated subsidiaries.

Assessment is for the reporting entity as a whole.

Examples – Net interest income, net rental income, insurance service result.

Assessment would not affect classification.

A change in the outcome of the assessment is applied **prospectively** from the date of the change

Investing in assets as a main business activity



Type of asset	Classification of the related income and expenses
Investments in associates, joint ventures or unconsolidated subsidiaries	<ul style="list-style-type: none">• Investing (if the investments are equity accounted under NZ IAS 28)• Operating (if main business activity is to invest in these types of assets and they are not equity-accounted)
Cash and cash equivalents	<ul style="list-style-type: none">• Operating (if main business activity to invest in financial assets which generate returns individually or largely independently from other resources);• Otherwise Investing
Other assets – if they generate a return individually or largely independently of the entity’s resources – that the entity invests in as a main business activity	<ul style="list-style-type: none">• Operating

Refer to paragraphs [55–58](#) in the Standard

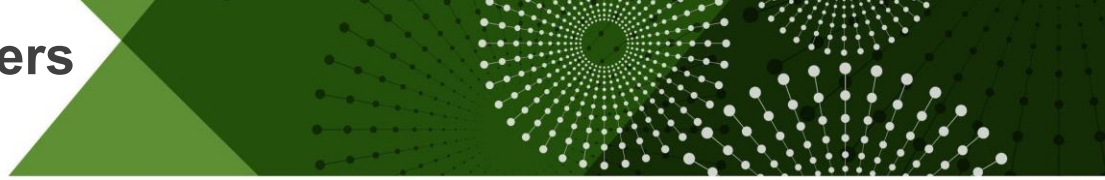
Example – investing in assets

Statement of profit or loss - insurer	20X2	20X1	Categories
Insurance revenue	138,200	133,800	Operating
Insurance service expenses	(107,000)	(106,000)	
Insurance service result	31,200	27,800	
Investment income	117,000	103,000	
Credit impairment losses	(5,000)	(1,500)	
Insurance finance expenses	(85,900)	(84,000)	
Net financial result	26,100	17,500	
Other operating expenses	(3,100)	(4,600)	
Operating profit	54,200	40,700	
Share of profit or loss of associates and joint ventures	(5,400)	4,800	Investing
Profit before financing and income taxes	48,800	45,500	
Interest expenses on borrowings and pension liabilities	(2,500)	(2,200)	Financing
Profit before income taxes	(46,300)	(43,300)	
Income tax expense	10,200	(9,000)	Income taxes
Profit	36,100	34,300	

Category labels are **not** required to be presented

[IASB Illustrative example II-3 \(page 148\)](#)

Providing financing to customers as a main business activity



Type of asset or liability	Classification of the related income and expenses
Cash and cash equivalents	<ul style="list-style-type: none">• Operating (if cash and cash equivalents relate to providing financing to customers)• *Choice of operating or investing (if cash and cash equivalents do not relate to providing financing to customers)
Liabilities that arise from transactions that involve only the raising of finance	<ul style="list-style-type: none">• Operating (if liabilities relates to providing financing to customers)• *Choice of operating or financing (if liabilities do not relate to providing financing to customers)
Liabilities that arise from transactions that do not involve only the raising of finance	<ul style="list-style-type: none">• Financing (interest income/expense and income/expense from changes in interest rates <i>only if</i> identified for the purpose of applying other requirements in NZ IFRS)• Operating (other income/expenses)

Example – providing financing to customers & investing in assets

*The 'profit before financing and income taxes' subtotal **must not** be presented if the entity elects to classify all income and expenses arising from transactions involving the raising of finance in the **operating category**.*

Statement of profit or loss	20X2	20X1	Categories
Interest revenue	356,000	333,800	Operating
Interest expense	(281,000)	(259,000)	
Net interest income	75,000	74,800	
Fee and commission income	76,800	74,300	
Fee and commission expenses	(45,300)	(44,800)	
Net fee and commission income	31,500	29,500	
Net trading income	9,100	900	
Net investment income	11,600	7,800	
Credit impairment losses	(17,300)	(19,100)	
Employee benefits	(55,100)	(49,500)	
Depreciation and amortisation	(6,700)	(5,950)	
Other operating expenses	(5,100)	(4,550)	
Operating profit	43,000	33,900	
Share of profit of associates and joint ventures	1,800	2,100	Non-main investing
Interest expenses on pension and lease liabilities	(2,200)	(1,800)	Non-main financing
Profit before income taxes	42,600	34,200	
Income tax expense	(11,200)	(9,000)	Income taxes
Profit	31,400	25,200	

Category labels are **not** required to be presented

Specific classifications

Foreign exchange differences

- These are classified in the same category as the income and expenses from the items that gave rise to those differences.

For example – foreign exchange differences on a foreign-currency denominated receivable due for sale of goods are classified in the operating category (the same category as the sale of goods).

- NZ IFRS 18 provides some undue cost or effort relief where these cannot be identified and measured easily.

Specific classifications

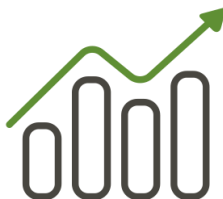


Gains or losses on type of financial instrument (B70-B76)	Classified as hedging instrument	Used to manage identified risks	Classification of the related income and expenses
Derivatives	Yes	Yes	<ul style="list-style-type: none">• Same category as the income and expenses affected by the risks the financial instrument in used to manage• Operating if this would involve grossing up gains or losses
	No	Yes	<ul style="list-style-type: none">• Same category as the income and expenses affected by the risks the financial instrument in used to manage• Operating if this would involve grossing up gains or losses or involves undue cost or effort
	No	No	<ul style="list-style-type: none">• Financing if derivative relates to transaction that only involves the raising of finance (and dependent upon specified main business activity)• Operating if for any other reason.

Specific classifications



Gains or losses on type of financial instrument (B70-B76)	Classified as hedging instrument	Used to manage identified risks	Classification of the related income and expenses
Other financial instruments	Yes	Yes	<ul style="list-style-type: none">• Same category as the income and expenses affected by the risks the financial instrument in used to manage• Operating if this would involve grossing up gains or losses
	No	No	<ul style="list-style-type: none">• Operating, investing or financing based on general classification principles (and dependent upon specified main business activity)



Changes to NZ IAS 7 *Statement of Cash Flows*



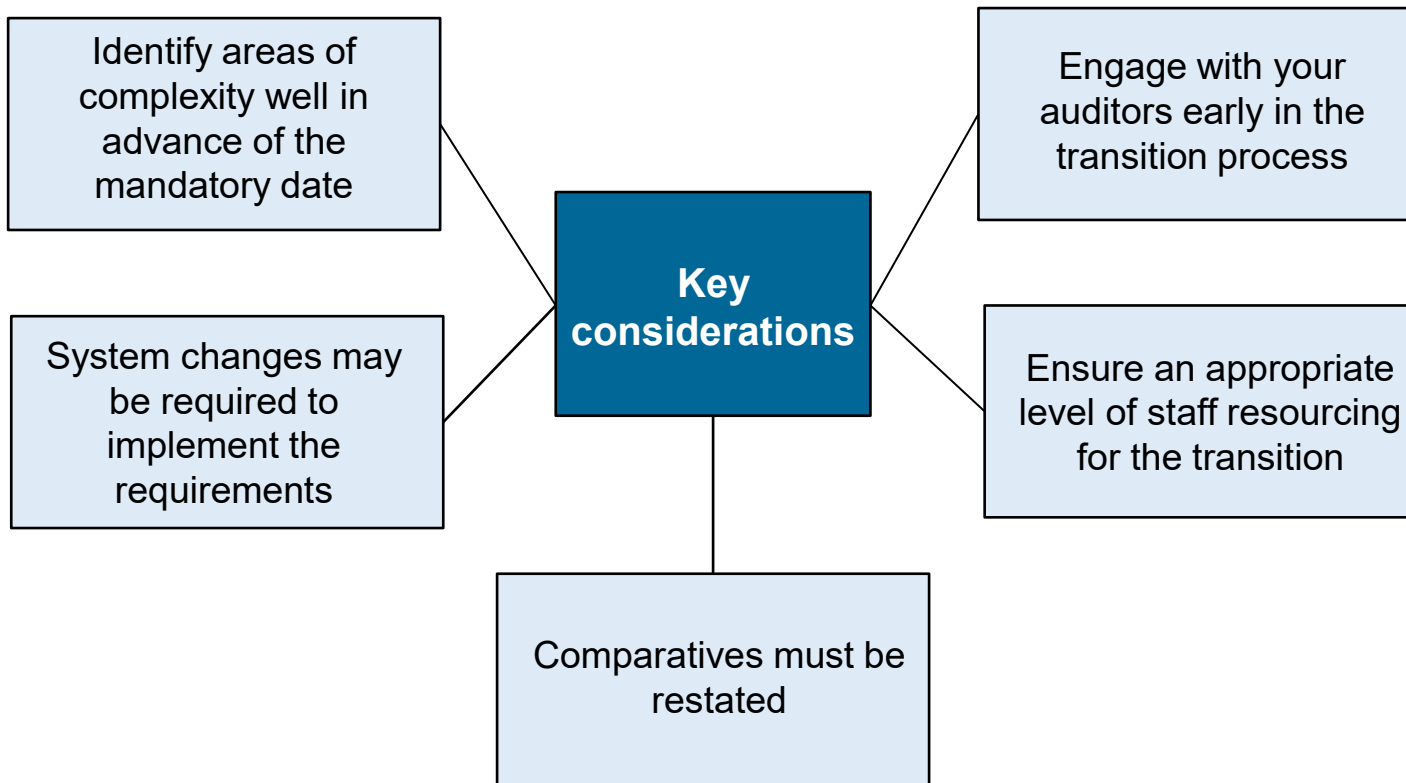
- If using indirect method – must use **operating profit or loss subtotal** as the starting point for operating cash flows reconciliation.
- Presentation alternatives for interest and dividend for most entities have been removed:
 - Dividends and interest paid are classified in cash flows from financing activities, and
 - Dividends and interest received are classified in cash flows from investing activities.
- These changes to NZ IAS 7 are intended to simplify practice and reduce diversity in presentation.

Classification of interest and dividend cash flows



Cash flow item	Classification <i>before</i> amendments to NZ IAS 7	Classification <i>after</i> amendments to NZ IAS 7 (mandatory 1 January 2027)	
		No specified main business activity	<i>With</i> specified main business activity
Interest received	Operating or investing	Investing	Operating, investing or financing following the classification in the P/L
Interest paid	Operating or financing	Financing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

Key considerations for preparers



Upcoming amending standard

RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements

- Consultation has recently closed – we expect to issue the amending standard at the end of June 2025.
- We have provided disclosure concessions relating to:
 - management-defined performance measures; and
 - expenses by nature, when using functional classification in the statement of profit or loss
- **Note: Disclosure concessions in NZ IAS 1 have been carried over into NZ IFRS 18, where the related disclosure requirement is unchanged.**

Open consultation

Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18

- Consultation closes on **Thursday 31 July 2025**. You can view the consultation and provide feedback [here](#).
- The proposed amendments aim to ensure:
 - the presentation of prospective and summary financial statements are consistent, where appropriate, with NZ IFRS 18.
 - consistency with the requirements in NZ IFRS 18 and changes to NZ IAS 7 *Statement of Cash Flows* (as amended by NZ IFRS 18).

Educational material

Monthly NZ
IFRS 18
newsletter

One-page
reference
material

IASB
educational
material

IASB panel
discussion from
November 2024

NZ IFRS 18
overview
webcast

NZ IFRS 18 – Illustration of categories and subtotals in the statement of profit or loss
Mandatory from 1 January 2027

Category labels are not required to be provided

Example statement of profit or loss
(Extract of IASB IFRS 18 Illustrative Example 8)

Operating category (para 52)	Income and expenses that are not classified in other categories. This is the default category. If you have a specified main business activity (due to investing in assets or providing financing to customers) then some income and expenses that would have been classified in the investing or financing category would be classified in the operating category (refer to para 48–51). Refer to IASB Illustrative examples II-2 and II-3 for specific illustrative examples of this classification.	Revenue Cost of sales Gross profit Other operating income Selling expenses Research and development costs General and administrative expenses Goodwill impairment loss Other operating expenses
NEW MANDATORY SUBTOTAL (para 70)		Operating profit (loss)
Investing category (para 53–54)	Income and expenses from: • Investments in associates, joint ventures and unconsolidated subsidiaries. • Cash and cash equivalents. • Other assets that generate a return individually and largely independently of the entity's other resources	Share of profit and gains on disposals of associates and joint ventures
NEW MANDATORY SUBTOTAL (para 71)		Profit (loss) before financing and income taxes
Financing category (para 55–56)	Income and expenses relating to liabilities arising from transactions involving only the raising of finance and incremental expenses directly attributable to the liability (e.g. transaction costs). Interest income / expenses and income / expenses arising from changes in interest rates for liabilities arising from transactions that do not only involve the raising of finance (excluding derivatives, hedging instruments, investment contracts with participatory features and insurance finance income / expenses).	Interest expenses on borrowings and lease liabilities Interest expenses on pension liabilities and provisions Profit before income taxes
Taxes category (para 57)	Tax expense or tax income that is included in the statement of profit or loss applying NZ IAS 12 Income Taxes and related foreign exchange differences.	Income tax expenses
Discontinued category (para 62)	Income and expenses from discontinued operations as required by NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.	Profit from continued operations Loss from discontinued operations
EXISTING REQUIRED TOTAL (para 72)		Total profit (loss)
	Foreign exchange differences are classified in the same category as the income and expenses from the items giving rise to the differences (unless unusual cost or effort is involved, in which case classify in the operating category) – see para 865–869. Gains and losses on derivatives and designated hedging instruments follow different classification requirements – see para 870–876.	Profit attributable to: (Para 70) • Owners of the parent • Non-controlling interests

This publication has been prepared by staff of External Reporting Board (XRB) for information or illustration purposes. It does not form part of the standards or authoritative publications issued by the XRB. It should not be used as a substitute for meeting the relevant standard requirements of NZ IFRS 18, nor as a substitute for professional accounting advice.

accounting@xrb.govt.nz xrb.govt.nz xrb www.linkedin.com Subscribe

All educational material is available on our **NZ IFRS 18 webpage**

Questions?

Follow



Subscribe

<https://www.xrb.govt.nz/sign-up/>

Contact
us

accounting@xrb.govt.nz