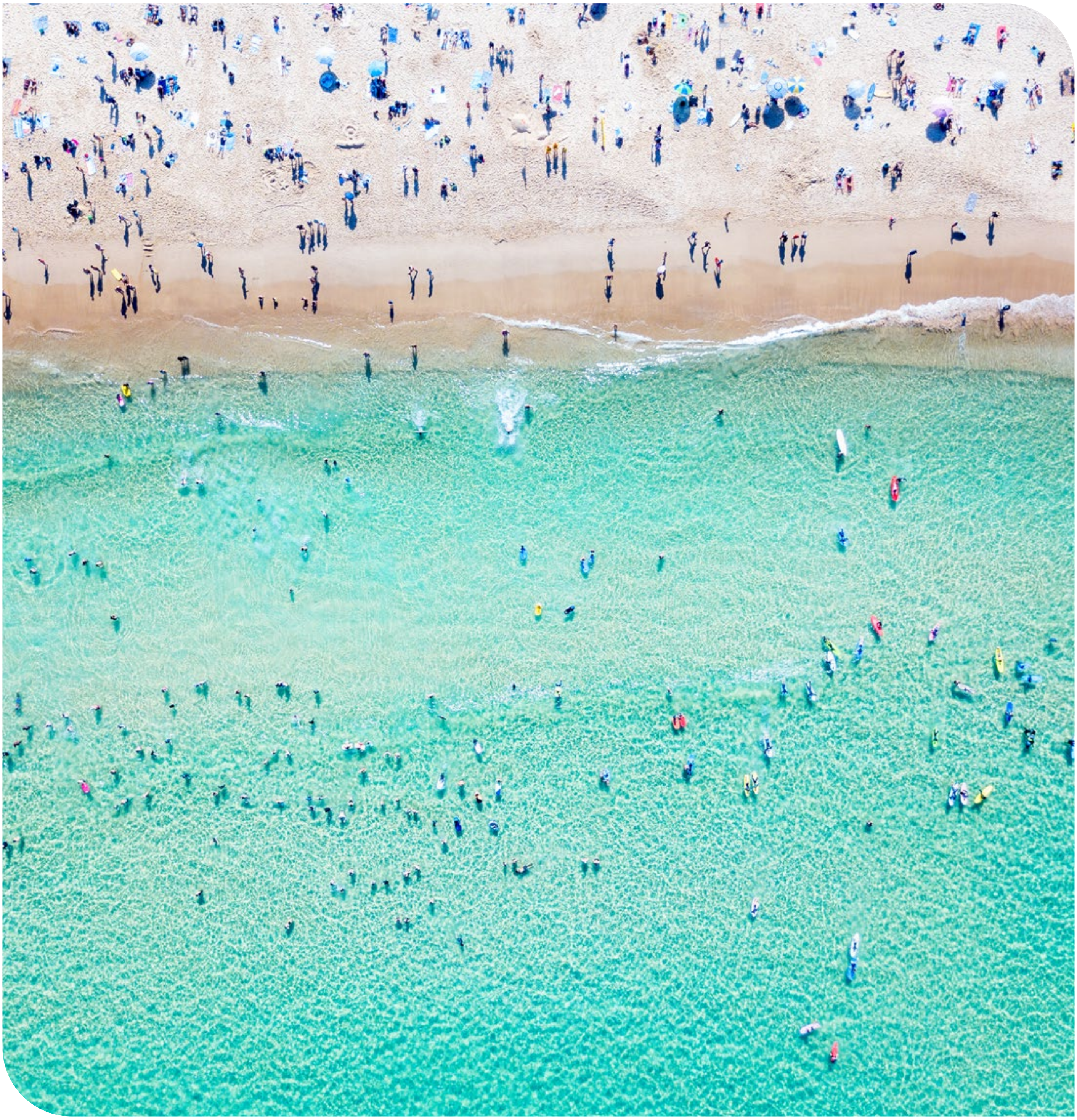
AASB 18: What clients need to know

A practical guide to the new presentation and disclosure requirements for financial statements



Contents

Nexia Australia

Executive summary

AASB 18 *Presentation and Disclosure in Financial Statements* is the new Australian Accounting Standard that replaces AASB 101 *Presentation of Financial Statements*. It changes how entities present financial performance, with the most significant effects expected in the statement of profit or loss and related notes. The Standard introduces mandatory subtotals, defined income and expense categories, new disclosures for management-defined performance measures (MPMs), and enhanced requirements for aggregation and disaggregation of individual line items.

For clients, AASB 18 will not change recognition or measurement of transactions. However, it may significantly change financial statement presentation, chart of accounts mapping, management reporting, board packs, investor communications, disclosure controls and audit evidence. Because retrospective application is required, entities should start preparing before the first mandatory reporting period.

At a glance	What changes?	Why it matters
Statement of profit or loss	Income and expenses classified into five categories – operating, investing, financing, income taxes and discontinued operations.	Greater comparability, but more judgement and remapping may be needed.
New subtotals	Two new subtotals become mandatory – Operating Profit and Profit Before Financing and Income Taxes.	Users receive a more consistent starting point for performance analysis.
MPMs	Certain management performance subtotals used in public communications must be disclosed and reconciled in the notes.	Common measures such as "underlying profit" or "adjusted EBITDA" may become audited note disclosures.
Aggregation and disaggregation	More discipline around grouping, labelling and "other" balances.	Financial statements may require additional line items or more specific note disclosures.

When does AASB 18 apply?

AASB 18 applies to annual reporting periods beginning on or after the dates below, with earlier application permitted. It applies retrospectively, meaning comparative information will need to be presented under the new requirements in the first year of application.

Entity type	Mandatory application date	Practical implication
For-profit entities, other than superannuation entities applying AASB 1056.	Annual periods beginning on or after 1 January 2027.	For 30 June year ends, first mandatory annual report is 30 June 2028, with comparatives restated.
Not-for-profit private sector entities, not-for-profit public sector entities and superannuation entities applying AASB 1056.	Annual periods beginning on or after 1 January 2028.	The extended application date allows the AASB to consider whether modifications are needed for these entities.

Our view: For-profit entities should not wait until the year of adoption. The comparative period will need to be captured and analysed under the new structure, and public communications may need to be assessed for MPMs before year end.

What is changing in the statement of profit or loss?

AASB 18 introduces a more structured statement of profit or loss. Income and expenses are classified into five categories that help users understand how performance is generated.

Category	What it generally captures	Key client questions
Operating	Income and expenses from the entity's main business activities and items not classified elsewhere.	What are the entity's main business activities? Is management aware that some items previously considered investing or financing may be operating?
Investing	Income and expenses from the initial and subsequent measurement of, and income from, assets that generate returns individually and largely independently of other assets, unless investing is a specified main business activity. Expenses relating to property, plant and equipment, such as depreciation and impairment, and any gain or loss on disposal are not included in the investing category.	Are investments incidental, or a main business activity?
Financing	Income and expenses from the initial and subsequent measurement of liabilities, including on derecognition, arising from transactions involving only the raising of finance, unless providing finance is a specified main business activity.	Does the entity have a main business activity of providing finance to customers? How should interest expense, lease interest, transaction costs and financing-related foreign exchange be classified?
Income taxes	Tax expense or income included in profit or loss.	Are levies and other amounts payable to tax authorities income taxes?
Discontinued operations	Results of discontinued operations under AASB 5.	Are discontinued operations clearly presented and disclosed?

AASB 18 does not define a main business activity, although an entity may have more than one main business activity. Whether an activity represents a main business activity involves judgement but must be based on evidence. In most cases, an entity's main business activities will be self-evident.

Management's monitoring and reporting of subtotals of operating performance such as net interest income, net fee and commission income, net financial result (investment income minus finance expenses), net rental income, or information about reportable business segments where the entity applies AASB 8 *Operating Segments*, may be evidence of a main business activity.

Classification of income and expense as operating, investing or financing depends on whether the entity has a 'specified main business activity'.

Specified main business activity

Special classification rules apply to entities that have a 'specified main business activity'. If an entity has a specified main business activity, items of income and expenses relating to that activity that would otherwise have been included in either the investing or financing categories are generally included in the operating category.

A main business activity is a specified main business activity if it involves:

a) Investing in associates, joint ventures and unconsolidated subsidiaries; cash and cash equivalents; or other assets that generate a return individually and largely independently of other assets; or

b) Providing financing to customers.

Assets that generate a return individually and largely independently of the entity's other resources typically include debt or equity investments and investment properties.

Examples of entities that are likely to invest in assets as a main business activity include investment entities as defined by AASB 10 *Consolidated Financial Statements*, listed investment companies, some managed investment schemes and insurers. However, any entity with a large investment portfolio, including universities, some independent schools, foundations and not-for-profit entities will need to assess whether it has a specified main business activity of investing in assets.

Income and expenses relating to investments in associates, joint ventures and unconsolidated subsidiaries that an entity invests in as a main business activity are classified in the investing category if those assets are accounted for applying the equity method; otherwise, they are classified in the operating category.

Interest and finance costs incurred on borrowings used for investing purposes are classified as financing.

Our view: Entities will need to assess whether investing in cash and other assets is a main business activity requiring classification of income and expenses as operating, or an ancillary activity with those income and expenses classified as investing.

Examples of entities that might provide financing to customers as a main business activity include those that provide financing to customers to enable those customers to buy the entity's products, lessors that provide financing to customers by way of finance leases, banks and other lending institutions.

If an entity provides financing to customers as a main business activity, it classifies:

a) 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; and

b) 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 the operating category or the investing category.

If the entity cannot distinguish between the cash and cash equivalents that relate to providing financing and those that do not, income and expenses from all cash and cash equivalents are classified in the operating category.

Our view: Entities that provide financing to customers as a main business activity will need to assess whether cash and cash equivalents related to that activity can be separately identified and classified.

Nexia Australia

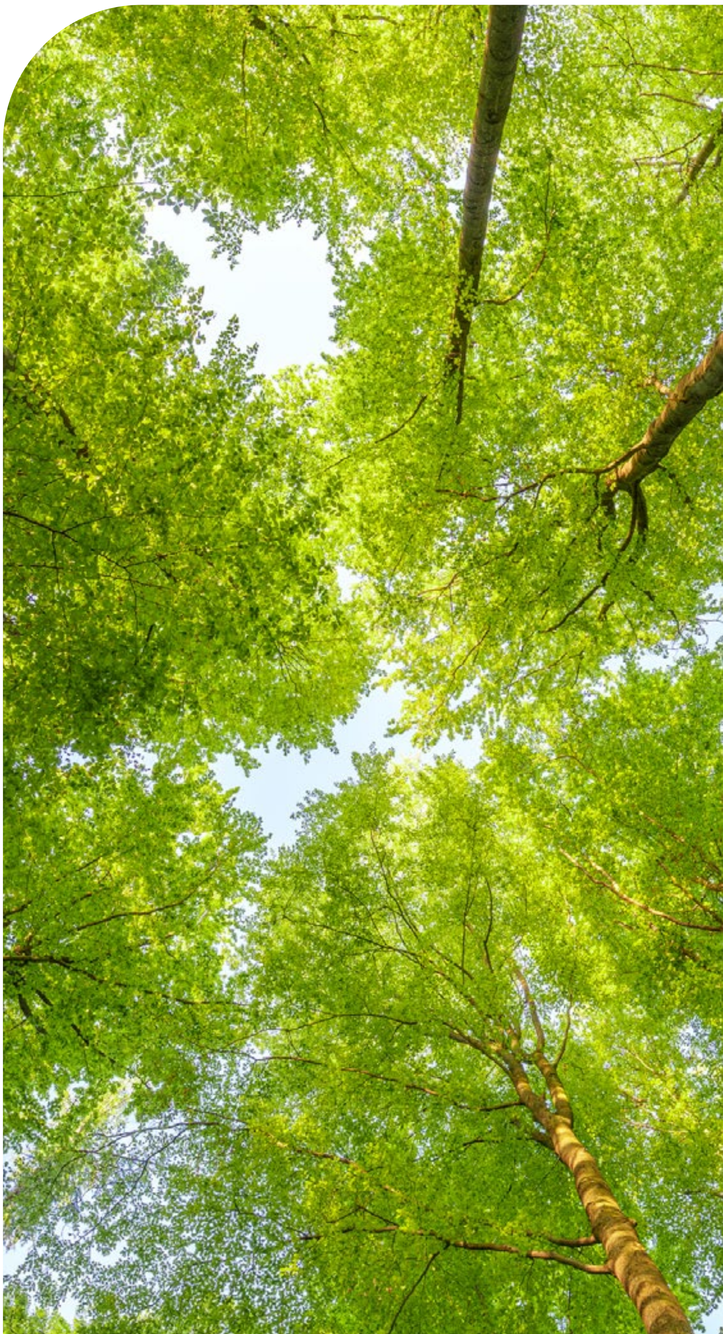
New mandatory subtotals

AASB 18 requires entities to present newly defined subtotals, including **operating profit** and **profit before financing and income taxes**. These subtotals are intended to make performance reporting more comparable across entities and periods.

Subtotal	Purpose	Implementation focus
Operating profit	Provides a consistent measure of profit from operating activities.	Define policies for classifying income and expenses, including foreign exchange and derivatives.
Profit before financing and income taxes	Shows performance before the effects of financing and tax.	Consider whether the entity has a specified main business activity which can affect the classification of items. Review debt, lease, treasury and funding-related balances to determine correct classification.

New profit or loss structure

Revenue
Interest income
Add: other operating income items
Less: operating expense items
Operating profit (new)
Add/deduct investing category income and expense items
Share of the profit or loss of associates and joint ventures accounted for using the equity method
Profit before financing and income taxes (new)
Add/deduct financing category income and expense items
Profit before income taxes
Income tax expense
Profit from continuing operations
Profit/(loss) from discontinued operations
Profit (or loss)



Similar to AASB 101, AASB 18 also contains minimum line items that are to be presented in the statement of profit or loss. Not all of the line items required by AASB 18 are shown in the above table.

Foreign exchange differences

Foreign exchange differences are included in the statement of profit or loss 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.

For example, foreign exchange differences on:

a) A receivable denominated in a foreign currency is classified 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 denominated in a foreign currency is classified 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 activity and classifies the income and expenses from the liability in the operating category).

If allocating foreign exchange differences into different categories involves undue cost or effort, an entity instead classifies the affected foreign exchange differences in the operating category.

Derivatives and designated hedging instruments

Generally, gains and losses included in the statement of profit or loss on a financial instrument designated as a hedging instrument applying AASB 9 are classified in the same category as the income and expenses affected by the risks the financial instrument is used to manage.

However, AASB 18 prohibits the grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instruments where this would present in each category a larger gain or loss than occurred on the derivative as a whole. This could occur where:

a) An entity uses such financial instruments to manage the risks of a group of items with offsetting risk positions; and

b) The risks managed affect line items in more than one category of the statement of profit or loss.

In these situations, any gain or loss on the derivative is classified in the operating category.

Nexia Australia

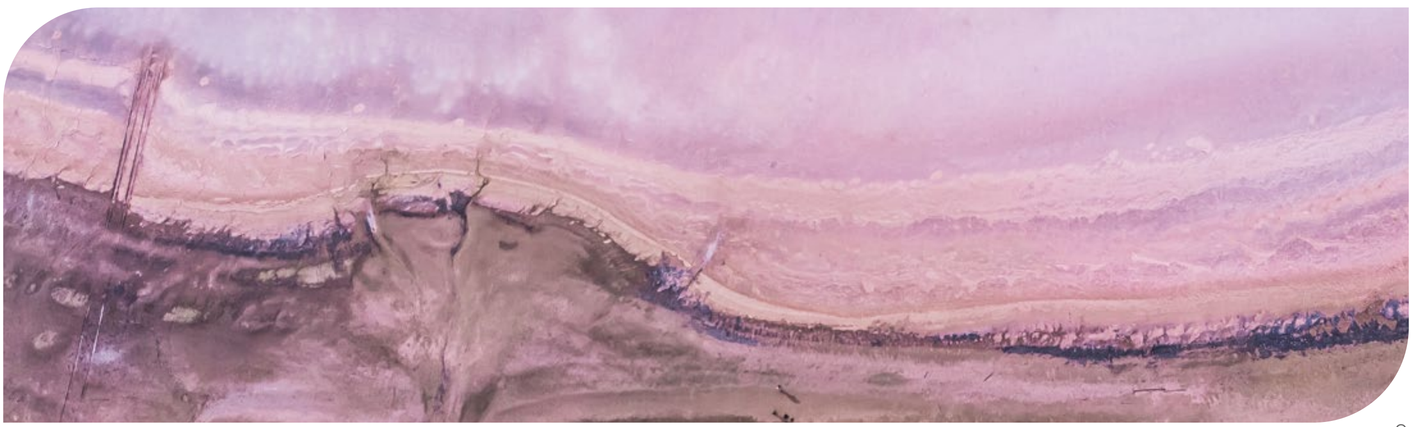
Worked examples: main business activities

Example one: Manufacturer not providing customer financing	Classification outcome
A manufacturer sells specialised equipment and does not provide financing to customers. The entity utilises foreign currency derivatives to manage foreign currency exposures on raw materials purchases.	The entity's main business activity is manufacturing and selling goods. Manufacturing revenue and related production and selling costs are operating. Income and expenses arising from derivatives that manage foreign currency exposures on raw materials purchases relate to an operating activity and are classified as operating. Interest expense on the entity's borrowings is classified in the financing category. Income and expenses arising from derivatives that manage interest rate risk on borrowings classified as financing activities are also classified as financing.

Line item	Classification for manufacturer not providing customer financing	Client takeaway
Sale of equipment	Operating	Core manufacturing revenue remains in operating profit.
Cost of manufactured goods and factory overheads	Operating	Production costs are operating expenses.
Selling and distribution costs	Operating	Costs incurred to sell and deliver manufactured goods remain operating.
Income and expenses arising from foreign currency derivatives on raw materials purchases	Operating	Income and expenses arising from derivatives that manage foreign currency exposures on raw materials purchases relate to an operating activity and are classified as operating.
Interest expense on general corporate borrowings	Financing	Borrowing costs are not operating merely because funds support the business generally.
Income and expenses arising from interest rate derivatives on borrowings	Financing	Income and expenses arising from derivatives that manage interest rate risk on borrowings classified as financing activities are also classified as financing.

Illustrative statement of profit or loss

	20X2 ($'000)	20X1 ($'000)
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	**145,000**	**125,000**
Other income	20,667	11,300
Selling expenses	(9,000)	(8,700)
Research and development expenses	(5,600)	(4,500)
General and administrative expenses	(19,200)	(21,000)
Goodwill impairment loss	(4,667)	—
Gains/(losses) on foreign currency derivatives	(800)	300
Share of profit of associates and joint ventures	35,100	30,100
Operating profit	**161,500**	**132,500**
Income from investments	3,800	4,000
Gain on disposal of financial assets measured at fair value through profit or loss	1,200	—
Profit before financing and income taxes	**166,500**	**136,500**
Interest expenses on borrowings and lease liabilities	(7,500)	(8,200)
Gains/(losses) on interest rate derivatives	(500)	700
Interest expenses on employee benefit liabilities	(1,000)	(1,000)
Profit before income taxes	**157,500**	**128,000**
Income tax expense	(40,000)	(32,000)
Profit for the year	**117,500**	**96,000**



Worked examples: main business activities

Example two: Retailer with customer finance as a specified main business activity	Classification outcome
A retailer sells goods through stores and online and also operates a branded in-house finance program. The finance program provides instalment loans to customers, is marketed as part of the sales proposition, is monitored by management using finance margin and credit-loss metrics, and is reported internally as a meaningful business activity.	Management identifies that providing financing to customers is a specified main business activity and related income and expenses are presented in operating profit. The retailer would generally classify sales income, cost of sales, finance income from customers and related finance costs and credit losses in the operating category. If separately identifiable, general corporate borrowing costs are classified in the financing category.

Illustrative statement of profit or loss

	20X2 ($'000)	20X1 ($'000)
Revenue	390,000	391,000
Cost of sales	(285,000)	(270,000)
Gross profit from the sale of goods	**105,000**	**121,000**
Interest revenue related to providing financing to customers	119,500	100,800
Interest expenses related to providing financing to customers	(110,000)	(90,500)
Net interest income	**9,500**	**10,300**
Selling expenses	(24,000)	(25,000)
Credit losses on customer financing receivables	(900)	(1,200)
Research and development expenses	(15,800)	(15,400)
General and administrative expenses	(22,900)	(23,600)
Other operating expenses	(4,500)	(5,400)
Operating profit	**46,400**	**60,700**
Income from investments	5,500	—
Profit before financing and income taxes	**51,900**	**60,700**
Interest on borrowings not related to providing financing to customers	(3,800)	(3,500)
Interest expenses on lease liabilities	(500)	(600)
Interest expenses on employee benefit liabilities	(3,100)	(9,600)
Profit before income taxes	**44,500**	**47,000**
Income tax expense	(10,125)	(10,500)
Profit for the year	**34,375**	**36,500**

Worked examples: main business activities

Example three: Investment entity	Classification outcome
An investment entity's assets consist mainly of shares in listed and unlisted companies and other short-term and long-term investments. It generates returns through share trading and dividend and interest income from those investments and incurs administrative costs.	The entity assesses whether investing in shares and other assets is a specified main business activity. If not, dividend income and gains or losses from those investments would generally be classified in the investing category. The entity determines that it has a main business activity of investing in shares, cash and cash equivalents, and other investments that generate returns individually and largely independently of other assets and, therefore, has a specified main business activity. Income, expenses and returns from those investments are classified in operating profit.

Line item	Where investing in shares and assets is a specified main business activity
Dividend income	Operating
Interest income	Operating
Fair value movements and impairment of investments	Operating
Gain or loss on disposal of investments	Operating
Administration costs	Operating
Interest expense on debt	Financing. The debt does not relate to providing financing to customers and is not operating. Interest and finance costs incurred on borrowings used for investing purposes are classified as financing.

Illustrative statement of profit or loss

	20X2 ($'000)	20X1 ($'000)
Dividend income	90,000	91,000
Interest income	19,500	20,800
Gain/(loss) on disposal of investments	25,000	31,000
Management expenses	(13,900)	(13,600)
Other administrative expenses	(4,500)	(5,400)
Operating profit	**116,100**	**123,800**
Profit before financing and income taxes	**116,100**	**123,800**
Interest expense on debt	(10,000)	(9,800)
Interest expense on lease liabilities	(500)	(600)
Interest expense on employee benefit liabilities	(3,100)	(9,600)
Profit before income taxes	**102,500**	**103,800**
Income tax expense	(30,125)	(31,000)
Profit for the year	**72,375**	**72,800**

Nexia Australia

Aggregation, disaggregation and labelling

AASB 18 strengthens the principles for grouping and disclosing information that enables users of the financial statements to understand the items presented, provide material information and not obscure information that is material to users.

Items should be aggregated when they share characteristics and disaggregated when their characteristics differ and disaggregating provides material information to users of the financial statements. The Standard reinforces that labels such as "other" should not obscure material information.

Area	What clients should review	Possible action
Aggregation and disaggregation	Ensure that aggregation and disaggregation in the financial statements do not obscure material information.	Disaggregate material balances from other balances and line items with different characteristics.
Line item descriptions	Whether labels faithfully represent the characteristics of the items.	Replace vague labels with specific descriptions where material.
"Other" balances	Whether "other" contains material or diverse items.	Disaggregate into separate lines or notes or disclose additional information.
Expenses by function	Whether additional expense disclosures are required.	Map depreciation, amortisation, employee benefits and other specified expenses to functional lines.
Notes versus primary statements	Whether information is placed where it best fulfils its role.	Use primary statements for structured summaries and notes for detail and explanation.

Management-defined performance measures (MPMs)

AASB 18 introduces new note disclosures for management-defined performance measures, often referred to as MPMs.

An MPM is a subtotal of income and expenses that is not separately required to be disclosed by Australian Accounting Standards, is used in public communications outside the financial statements, and communicates management's view of an aspect of the entity's financial performance as a whole.

Public communications include management commentary, press releases and investor presentations. For the purpose of defining MPMs, public communications exclude oral communications, written transcripts of oral communications and social media posts. Where management uses alternative subtotals and profit measures only for internal reporting purposes, those measures are not MPMs.
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 Australian Accounting Standards does not have an MPM.

Examples of measures that are not MPMs because they are not subtotals of income and expenses include:

a) Subtotals of only income or only expenses (for example, a standalone 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);

d) Measures of liquidity or cash flows (for example, free cash flow); or

e) Non-financial performance measures.

For each MPM, entities will generally need to disclose why the measure provides useful information, how it is calculated, a reconciliation to the most directly comparable subtotal or total required by Australian Accounting Standards, the income tax and non-controlling interest effects of reconciling items, and explanations of changes in calculation or use.

Potential MPM	Likely treatment	Why it matters
Underlying profit	May be an MPM if publicly communicated and calculated as a subtotal of income and expenses.	Requires explanation, reconciliation and consistency controls.
Adjusted EBITDA	May be an MPM depending on how it is used and communicated.	Adjustments need to be supportable and transparent.
Free cash flow	Not an MPM because it is not a subtotal of income and expenses.	May still be subject to other reporting or regulatory expectations.
Customer churn or carbon emissions	Not an MPM because it is a non-financial measure.	May be relevant elsewhere, but not within the AASB 18 MPM note.

Consolidated and standalone financial statements

AASB 18 requires an entity to 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 of a consolidated group and of an individual entity within that consolidated group could be different.

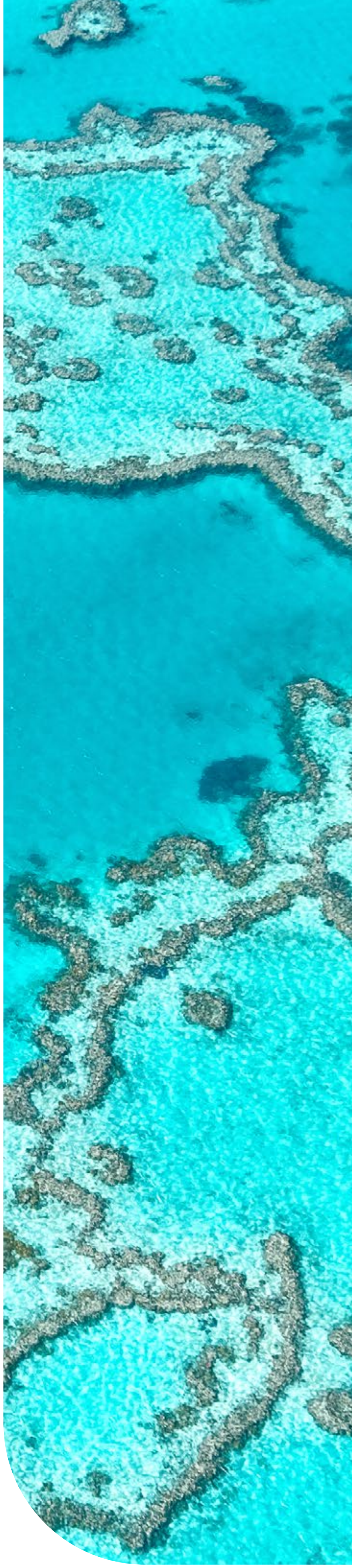
Cash flow statement

AASB 18 also results in consequential amendments to other Australian Accounting Standards. One practical area for clients is the statement of cash flows, where amendments to AASB 107 affect presentation requirements for interest and dividends. Entities should review whether existing classifications remain appropriate and whether systems can produce the required information consistently.

Tier 2 financial reporting under AASB 1060

At the date of this publication, AASB 18 is not effective for entities preparing Tier 2 general purpose financial statements under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. AASB 1060 continues to set the presentation and disclosure requirements for Tier 2 financial statements unless and until it is amended.

The AASB issued exposure draft ED 341 *Updating AASB 1060 to Align the Classification and Presentation Requirements with AASB 18* seeking feedback on amending AASB 1060 for the classification changes introduced by AASB 18. Until AASB 1060 is revised, Tier 2 entities cannot apply AASB 18's new profit or loss categories, mandatory subtotals or MPM disclosure requirements.



Consequences for not-for-profit entities

AASB 18 is intended to apply to not-for-profit entities preparing Tier 1 general purpose financial statements.

The AASB issued exposure draft ED 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation - for entities preparing Tier 1 general purpose financial statements*. The Board intends to issue amendments to remove inconsistency between AASB 18 and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, provide exclusions from certain requirements of AASB 18 and minimise the effect on public sector not-for-profit entities and government entities.

The AASB is also considering providing additional guidance to assist not-for-profit entities assess the classification of different types of grant income and the application of 'specified main business activity.'

Client question	Current position	Recommended action
Do Tier 2 entities applying AASB 1060 need to adopt AASB 18 now?	No. AASB 18 is not currently effective for Tier 2 financial reporting under AASB 1060.	Continue applying AASB 1060 and monitor future AASB amendments.
Should Tier 2 entities ignore AASB 18 entirely?	No. Some concepts may be considered by the AASB for future inclusion in AASB 1060.	Consider high-level impacts, especially if transitioning to Tier 1 or preparing group reporting packs.
Could AASB 18 still affect a Tier 2 entity indirectly?	Yes, for example where the entity is part of a Tier 1 group, prepares consolidation reporting packs, or communicates non-GAAP performance measures to lenders or owners.	Assess group reporting instructions, lender reporting and management reporting expectations.

Interim financial reporting

Consequential amendments have also been made to AASB 134 *Interim Financial Reporting* for consistency with AASB 18.

In the first financial year AASB 18 is applied, an entity presents its condensed interim financial statements using the format, headings and subtotals it expects to use in first applying AASB 18 rather than the requirements of AASB 101 and AASB 134.

It is also required to disclose reconciliations for each line item presented in the interim statement of profit or loss between:

a) The restated amounts presented applying the accounting policies for the comparative period when the entity applies AASB 18; and

b) The amounts previously presented applying the accounting policies for the comparative period when the entity applied AASB 101.

Nexia Australia

Transition and implementation roadmap

AASB 18 is applied retrospectively. This means entities should present comparative information as if the new presentation and disclosure requirements had always applied. Transition is expected to be mainly a presentation and disclosure exercise rather than a change to recognition or measurement; however, it can still be operationally significant because prior-period income and expense line items, subtotals, MPM reconciliations and disclosure groupings may need to be remapped and explained.

Transition requirement	What it means for clients	Practical action
Retrospective application	Comparative information is restated using the AASB 18 presentation structure and disclosure requirements.	Build a comparative-period mapping from existing line items to the new operating, investing, financing, tax and discontinued operations categories.
Comparative profit or loss reconciliation	In the first annual financial statements applying AASB 18, disclosure is required of each line item in the statement of profit or loss that has changed from the previous AASB 101 presentation to the new AASB 18 presentation for the immediately preceding comparative period.	A reconciliation is required for each affected statement of profit or loss line item for disclosure in the first financial report.
Interim reporting impact	Entities preparing interim financial reports will need AASB 18-compliant comparative information and reconciliations earlier than the first annual report.	For listed or interim reporters, comparative period remapping will be required for the first interim period.
Early application permitted	Entities may apply AASB 18 before the mandatory date, provided the Standard's requirements are applied consistently and required disclosures are made.	Consider early adoption only if systems, comparatives, governance and audit readiness are sufficiently advanced.

Our view: The transition challenge is not simply updating the face of the financial statements. We recommend beginning with a review of your current profit or loss presentation, chart of accounts mapping, management reporting, MPM documentation, and board reporting before the comparative period is finalised. This will identify the key judgements and process changes required before the mandatory period begins.

How we can help

Our financial reporting specialists can assist with an AASB 18 impact assessment, classification policy papers, draft financial statement formats, disclosure checklists, comparative-period dry runs, board and audit committee briefings, and implementation support for finance teams.

Nexia Australia

Australia

Adelaide office
Level 3, 153 Flinders Street, Adelaide SA 5000
p +61 8 8139 1111
receptionSA@nexiaem.com.au

Canberra office
Suite 2.01, Level 2, 17 Moore Street, Canberra ACT 2601
p +61 2 6279 5400
info@nexiacanberra.com.au

Darwin office
Level 2, 80 Mitchell Street, Darwin NT 0800
p +61 8 8981 5585
receptionNT@nexiaem.com.au

Melbourne office
Level 16, 600 Bourke Street, Melbourne VIC 3000
p +61 3 8613 8888
info@nexiamelbourne.com.au

Sydney office
Level 22, 2 Market Street, Sydney NSW 2000
p +61 2 9251 4600
info@nexiasydney.com.au

nexia.com.au

Last updated: September 2026

The material contained within this publication is for general information purposes only and does not constitute professional advice or recommendation from Nexia Australia. Professional advice should be obtained on your specific situation or circumstances by contacting your Nexia Advisor.

Nexia Australia refers to the Nexia Australia Pty Ltd Umbrella Group comprising separate independent Chartered Accounting firms. Nexia Australia Pty Ltd is a member of Nexia International, a leading, global network of independent accounting and consulting firms. For more information please see www.nexia.com.au/legal. Neither Nexia International nor Nexia Australia Pty Ltd provide services to clients.

Liability limited by a scheme approved under Professional Standards Legislation.