Hong Kong Institute of Certified Public Accountants 香港會計師公會

HKFRS 18 NAVIGATOR: *FROM THEORY TO PRACTICE*

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Previous editions of the HKFRS 18 Navigator explored key new requirements individually. This issue brings together the requirements relating to the new structure through a single illustrative example that focuses solely on the transformation of the statement of profit or loss from an HKAS 1 presentation to an HKFRS 18 presentation.

HOW WILL HKFRS 18 IMPACT THE CURRENT STATEMENT OF PROFIT OR LOSS?

This example features an entity with no specified main business activity that presents operating expenses by function because this provides the most useful structured summary. The example illustrates the classification of items into different categories, the two new mandatory subtotals and the principles of aggregation and disaggregation.

CURRENT PRACTICE UNDER HKAS 1

Revenue	390,000
Cost of sales	(245,000)
Gross profit	**145,000**
Selling and distribution expenses (A)	(9,000)
Administrative expenses	(20,000)
Other income (D)	17,600
Other expenses (E)	(5,100)
Finance costs (B)	(8,000)
Share of profit of associates (C)	35,100
Profit before tax	**155,600**
Income tax expense	(38,900)
Profit for the year	**116,700**

POTENTIAL PRESENTATION UNDER HKFRS 18

Revenue	390,000	OPERATING
Cost of sales	(245,000)	
Gross profit	**145,000**	
Selling expenses	(5,000)	
Distribution expenses	(4,000)	
Administrative expenses	(20,000)	
Other operating income	3,500	
Other operating expenses	(3,300)	
Operating profit	**116,200**	NEW MANDATORY SUBTOTAL
Share of profit of associates	35,100	INVESTING
Rental income	11,500	
Changes in fair value of investment properties	(1,200)	
Interest income from cash and cash equivalents	2,600	
Foreign exchange differences on cash and cash equivalents	(600)	
Profit before financing and income taxes	**163,600**	NEW MANDATORY SUBTOTAL
Interest expense on loans and borrowings	(8,000)	FINANCING
Profit before income taxes	**155,600**	
Income tax expense	(38,900)	
Profit for the year	**116,700**	

Note: Amounts are in currency units (CU) millions. *The fact pattern has been simplified for illustration only. An entity applying HKFRS 18 would need to assess its own facts and circumstances and apply the relevant requirements.*

LOOK BENEATH THE LINE ITEMS

In applying HKFRS 18, entities need to look beyond existing labels and consider the underlying income and expenses within each line item. This involves the grouping of items on the basis of similar and dissimilar characteristics so that material information is not obscured, using informative labels that faithfully represent the nature of each item, and classifying income and expenses into the operating, investing and financing categories.

A Selling and distribution expenses

Line item	HKAS 1	HKFRS 18	Category
Selling and distribution expenses	(9,000)		
Selling expenses		(5,000)	Operating
Distribution expenses		(4,000)	Operating

HKFRS 18 requires an entity to disaggregate items with dissimilar characteristics when the resulting information is material and to exercise judgement to determine how much detail is necessary to provide useful information, taking into account its activities and functions.

Selling expenses (such as marketing and promotion costs) and distribution expenses (such as logistics and delivery costs) differ in nature and function, so they are presented separately rather than as a single line item.

B Finance costs

Line item	HKAS 1	HKFRS 18	Category
Finance costs	(8,000)		
Interest expense on loans and borrowings		(8,000)	Financing

Under HKFRS 18, the description of a line item must faithfully represent the underlying nature of the transactions. The “Finance costs” balance comprises interest expense on loans and borrowings, so the line item has been relabelled accordingly. The interest expense arises from liabilities incurred to raise finance and is therefore classified in the financing category.

C Share of profit of associates

Line item	HKAS 1	HKFRS 18	Category
Share of profit of associates	35,100	35,100	Investing

HKFRS 18 requires income and expenses from associates accounted for using the equity method to be classified in the investing category.

LOOK BENEATH THE LINE ITEMS (CONTINUED)

D Other income

Line item	HKAS 1	HKFRS 18	Category
Other income	17,600		
Other operating income 1		3,500	Operating
Rental income 2		11,500	Investing
Interest income from cash and cash equivalents 3		2,600	Investing

E Other expenses

Line item	HKAS 1	HKFRS 18	Category
Other expenses	(5,100)		
Other operating expenses 1		(3,300)	Operating
Changes in fair value of investment properties 2		(1,200)	Investing
Foreign exchange differences on cash and cash equivalents 4		(600)	Investing

Other income and other expenses each combine items with dissimilar characteristics. Under HKFRS 18, these items are disaggregated, relabelled to describe their nature, and classified into different categories in the statement of profit or loss.

1. **Other operating income and other operating expenses:** After items with dissimilar characteristics were disaggregated, the remaining balances of other income and other expenses in the statement of profit or loss under HKAS 1 comprised immaterial items relating to operations. To provide more meaningful labels, the entity decided to relabel them as “Other operating income” and “Other operating expenses” and to classify them in the operating category.
2. **Investment properties:** The entity previously presented rental income from investment properties and changes in fair value of investment properties in “Other income” and “Other expenses”, respectively. Under HKFRS 18, these items are classified and presented separately in the investing category because property rental is not a main business activity of the entity and the investment properties are assets that generate a return individually and largely independently of the entity’s other resources.
3. **Interest income:** Interest income from cash and cash equivalents was previously presented in “Other income”. HKFRS 18 requires income and expenses from cash and cash equivalents to be classified in the investing category except for an entity that has a specified main business activity. Accordingly, this item is classified and presented separately in the investing category.
4. **Foreign exchange differences:** Foreign exchange differences on cash and cash equivalents were previously presented in “Other expenses”. HKFRS 18 requires foreign exchange differences to be classified in the same category as the income and expenses from the items that gave rise to the differences. As income and expenses from cash and cash equivalents are classified in the investing category, these exchange differences are now classified and presented separately in the investing category.

TRANSITION ALERT

An entity is required to apply HKFRS 18 retrospectively on transition, in accordance with HKAS 8 *Basis of Preparation of Financial Statements*. Accordingly, when HKFRS 18 is first applied on 1 January 2027, the 2026 balances (as presented and disclosed in the 2027 financial statements) must also be presented as if HKFRS 18 had been applied in that year.

Reconciliation of the comparative statement of profit or loss

In the financial statements in which an entity first applies HKFRS 18, the entity is required to disclose, for the comparative period, a reconciliation for each line item in the statement of profit or loss between:
(1) the restated amounts presented applying HKFRS 18; and
(2) the amounts previously presented applying HKAS 1.

Act now for 2026 comparative information and 2027 first-time application

2026: Assess + Capture	Restate + Reconcile	2027: Apply HKFRS 18
By now, entities should have started assessing how HKFRS 18 affects the presentation and disclosure of 2026 balances and should be implementing the necessary processes and changes.	Keep clear records of adjustments to comparative balances so that the required line-by-line reconciliation can be prepared without complications.	Present 2027 current-year information alongside the restated 2026 comparative information, and provide the required transition reconciliation.

HKFRS 18 IMPLEMENTATION SUPPORT

Use our HKFRS 18 resources to support you on your implementation journey

You can find all our guidance materials in our dedicated HKFRS 18 Resource Centre, including the HKFRS 18 Navigator and HKFRS 18 Webcasts, which help you understand key requirements and implementation considerations.

This publication has been prepared by staff of the HKICPA for information or illustration purposes. Members of the HKICPA and other users should also read the full HKFRS Accounting Standards, as set out in the HKICPA Members' Handbook for further reference, and seek professional advice where necessary.