

HKFRS 18 NAVIGATOR

NAVIGATING THE NEW STRUCTURE

MARCH 2026 ISSUE 2

How should income and expenses be classified under the new categories (operating, investing and financing), and which new subtotals are now required?

HKFRS 18 *Presentation and Disclosure in Financial Statements* introduces a new structure for the statement of profit or loss. In this issue, we highlight the key changes and their implications for current practices.

Key Points



Five categories for classifying income and expenses – **operating, investing, financing, income taxes** and **discontinued operations**



Two new mandatory subtotals – **operating profit** and **profit before financing and income taxes**



Additional classification requirements for **entities with specified main business activities**

UNDERSTANDING THE NEW CATEGORIES AND SUBTOTALS

HKFRS 18 requires entities to classify all income and expenses into defined categories in the statement of profit or loss. These categories have different meanings from those in the statement of cash flows and must be assessed independently. In addition, HKFRS 18 introduces two **mandatory** subtotals in the statement of profit or loss.

Entities with a specified main business activity (SMBA)

HKFRS 18 sets out specific classification requirements for entities whose main business activity is:

- investing in particular types of assets; or
- providing financing to customers.

Examples include banks and insurers. Where applicable, these requirements may result in different classification outcomes compared with other entities. We will explore the assessment of SMBA and the practical implications in the next issue.

Other classification requirements

HKFRS 18 also specifies how to classify:

- foreign exchange differences and gain or loss on the net monetary position; and
- gains and losses on derivatives and designated hedging instruments.



HKFRS 18 NAVIGATOR

NAVIGATING THE NEW STRUCTURE

MARCH 2026 ISSUE 2

Illustration of the new categories and subtotals

Categories	Examples
 Operating category <ul style="list-style-type: none"> All income and expenses arising from an entity's operations, irrespective of whether they are volatile, non-recurring or unusual Income and expenses that are not classified in any other category (a default category) 	<ul style="list-style-type: none"> Revenue Cost of sales Selling expenses General and administrative expenses
New mandatory subtotal	Operating profit or loss
 Investing category Income and expenses from: <ul style="list-style-type: none"> investments in associates, joint ventures and unconsolidated subsidiaries cash and cash equivalents other assets that generate a return individually and largely independently from other resources 	<ul style="list-style-type: none"> Share of profit of associates and joint ventures accounted for using the equity method Interest revenue from debt investments Dividends from equity investments Rental income and fair value gains or losses from investment properties
New mandatory subtotal	Profit or loss before financing and income taxes
 Financing category <ul style="list-style-type: none"> Income and expenses from liabilities arising from transactions that involve only the raising of finance Interest income and expenses and the effects of changes in interest rates from other liabilities 	<ul style="list-style-type: none"> Interest expenses on bank loans, bonds and mortgages Interest expenses on lease liabilities
 Income taxes <ul style="list-style-type: none"> Tax expense or tax income included in the statement of profit or loss applying HKAS 12 <i>Income Taxes</i> and any related foreign exchange differences 	<ul style="list-style-type: none"> Income tax expenses
 Discontinued operations <ul style="list-style-type: none"> Income and expenses from discontinued operations required by HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> 	<ul style="list-style-type: none"> Loss from discontinued operations
Existing required total	Profit or loss

HKFRS 18 NAVIGATOR

NAVIGATING THE NEW STRUCTURE

MARCH 2026 ISSUE 2

KEY IMPLICATIONS FOR PREPARERS

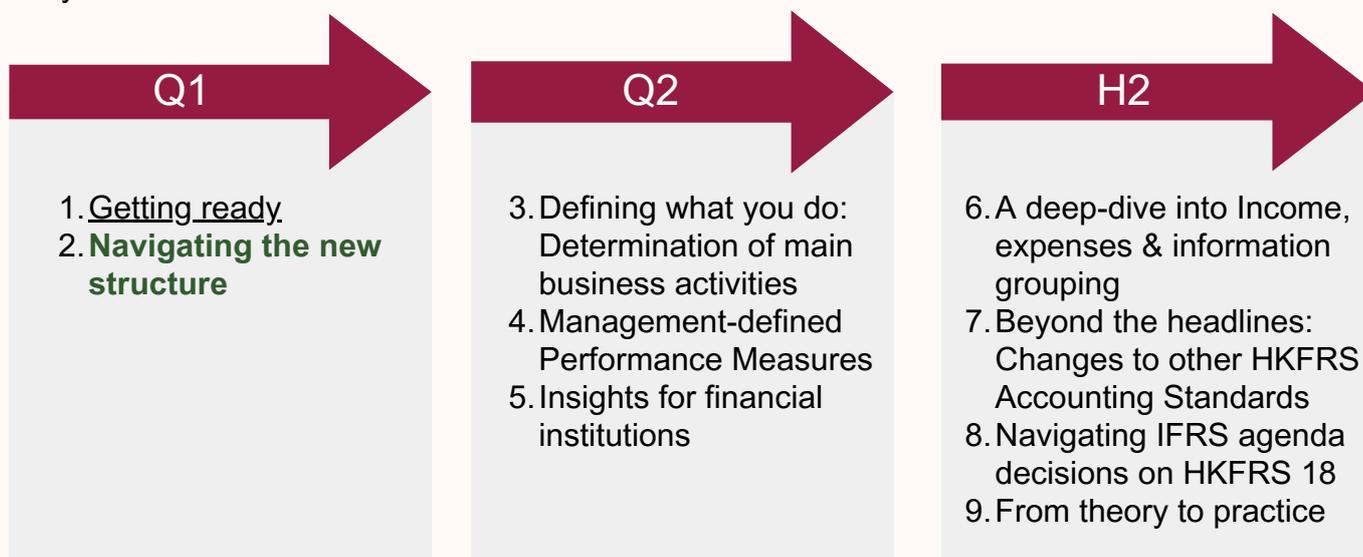
Entities will need to reassess the structure of their statement of profit or loss and evaluate how current presentation practices may change, including the following areas:

- 
Operating profit – assess whether items currently included in a subtotal labelled *operating profit* comply with HKFRS 18. For example, income and expenses from associates and joint ventures accounted for using the equity method can no longer be included.
- 
Earnings before interest and tax (EBIT) – assess whether EBIT currently presented meets the definition of *profit before financing and income taxes* under HKFRS 18.
- 
Existing subtotals – assess whether other existing subtotals fit within the new structure of the statement of profit or loss.

Changes to the structure of the statement of profit or loss may impact entities' current reporting practices, internal processes and accounting systems. As noted in [HKFRS 18 Navigator Issue 1](#), entities should conduct an early impact assessment to determine whether their financial reporting systems can support the new classification structure and produce the required comparative information.

LOOKING AHEAD: WHAT'S NEXT IN OUR SERIES

In the next issue, we will focus on entities with a SMBA, including how to assess whether an entity has a SMBA and how this affects classification outcomes.



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