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

HKFRS 18 NAVIGATOR
A DEEP-DIVE INTO INCOME, EXPENSES AND INFORMATION GROUPING

JULY 2026 ISSUE 6

In this issue, we focus on HKFRS 18's enhanced requirements for grouping and presenting information in financial statements, including the principles of aggregation and disaggregation, the presentation of operating expenses and the classification requirements for specific income and expenses.

PRINCIPLES OF AGGREGATION AND DISAGGREGATION

One of the key objectives of HKFRS 18 is to ensure that material information is communicated clearly and is not obscured by the way information is presented or disclosed. To achieve this objective, an entity is required to:

- aggregate items with similar characteristics and disaggregate items with dissimilar characteristics;
- group items in a way that does not obscure material information; and
- group items in the primary financial statements and the notes to fulfil their complementary roles.

When determining whether items should be aggregated or disaggregated, an entity considers characteristics, such as:

- nature
- function
- persistence
- measurement basis
- size
- geographical location

DESCRIPTION OF ITEMS

HKFRS 18 requires line items, subtotals and note disclosures to be labelled and described in a way that faithfully represents their characteristics and helps users understand them. In particular, an entity should:

- **Use specific and informative descriptions**, with generic labels such as "other" used only when no more specific description is appropriate; and
- **Provide further information about large, aggregated amounts** where users might question whether they include material items.

PRESENTING OPERATING EXPENSES

HKFRS 18 requires expenses in the operating category to be presented using **one or both** of the following characteristics:

By nature	By function
• Based on the nature of the economic resources consumed to accomplish the entity's activities. • Examples include depreciation, amortisation, employee benefits and raw materials.	• Based on the activity to which the consumed resource relates. • Examples include cost of sales, selling expenses, research and development expenses and administrative expenses.

DETERMINING THE PRESENTATION OF OPERATING EXPENSES

In determining how to present operating expenses, an entity should consider:

- what line items provide the most useful information about the main components or drivers of the entity's profitability;
- what line items most closely represent how the business is managed and how management reports internally;
- standard industry practice; and
- whether the allocation of particular expenses to functions would be arbitrary.

Important point
Management should apply judgement in determining which presentation method provides the most useful structured summary of the entity's operating expenses. The presentation method is not an accounting policy choice.

ADDITIONAL DISCLOSURES WHEN EXPENSES ARE PRESENTED BY FUNCTION

Where operating expenses are presented by function, HKFRS 18 requires an entity to disclose, in a single note, the total amount of each of the following specified expenses:

- depreciation
- amortisation
- employee benefits
- impairment losses and reversals of impairment losses
- write-downs and reversals of write-downs of inventories

For each of the above expenses, an entity is also required to disclose:

- the amount related to each line item in the operating category; and
- a list of any line items outside the operating category that also include amounts relating to the total.

Important point
The amounts disclosed are not necessarily the same as the amounts recognised as expenses during the period. For example, depreciation or employee benefit costs capitalised as part of the carrying amount of an asset may also be included in the disclosed amounts.

Illustrative example
Note 1 of HKFRS 18 IE 7 illustrates the additional disclosures required when expenses are presented **by function**.

CLASSIFICATION REQUIREMENTS FOR SPECIFIC INCOME AND EXPENSES

HKFRS 18 also includes specific requirements for classifying particular income and expenses. The following sections highlight requirements that may affect the classification of those items.

FOREIGN EXCHANGE DIFFERENCES

Foreign exchange differences are generally classified in the same category as the income and expenses arising from the items that give rise to those differences. For example, foreign exchange differences on bank loans are generally classified in the financing category. However, if applying this requirement would involve undue cost or effort, an entity is permitted to classify the foreign exchange differences in the operating category.

GAINS AND LOSSES ON DERIVATIVES AND DESIGNATED HEDGING INSTRUMENTS

Type of financial instrument	Classification of related income and expenses
Financial instrument designated as a hedging instrument applying HKFRS 9	**Same category** as the income and expenses affected by the risk the financial instrument is used to manage; **Operating category** if doing so would result in grossing up of gains and losses.
Derivative <u>not</u> designated as a hedging instrument, but used to manage identified risks	**Same category** as the income and expenses affected by the risk the financial instrument is used to manage; **Operating category** if doing so would result in grossing up of gains and losses or involve undue cost or effort.

Derivative <u>not</u> used to manage identified risks	**Does the derivative relate to a transaction that involves only the raising of finance?**
	• **No:** operating category.
	• **Yes:**
	  ◦ If the entity has a specified main business activity (SMBA) of providing financing to customers and the derivative relates to providing financing to customers: **operating category**.
	  ◦ If the entity has such an SMBA but the derivative does not relate to providing financing to customers: **accounting policy choice** — operating or financing category.
	  ◦ If the entity does not have an SMBA of providing financing to customers: **financing category**.

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INCOME AND EXPENSES FROM HYBRID CONTRACTS WITH HOST LIABILITIES

Type of hybrid contract		Classification of related income and expenses
The embedded derivative is required to be separated from the host contract		**Host liability**: apply the general classification requirements for liabilities.[1] **Separated embedded derivative**: apply the classification requirements for derivatives.[1]
The embedded derivative is **not** required to be separated from the host contract	The hybrid contract arises from a transaction that involves only the raising of finance	Apply the general classification requirements for liabilities that arise from such a transaction.[1]
	The hybrid contract does **not** arise from a transaction that involves only the raising of finance	**Financing category** for income and expenses specified in HKFRS 18.60 that arise after initial recognition, if the hybrid contract is a financial liability within the scope of HKFRS 9 and is measured at amortised cost.[2]
		Operating category if the hybrid contract is an insurance contract within the scope of HKFRS 17.
		Otherwise, **operating category**, except for interest income and expenses and the effects of changes in interest rates from other liabilities, which are classified in the **financing category**.

1. Consider whether the entity has an SMBA of providing financing to customers, as this may affect the classification of related income and expenses under HKFRS 18.
2. Even if the entity has an SMBA of providing financing to customers.

The above tables are prepared based on Figures 4 and 5 of the HKFRS 18 Illustrative Examples and the related requirements in HKFRS 18. Refer to those materials for detailed classification guidance.

LOOKING AHEAD: WHAT'S NEXT IN OUR SERIES

The next issue will explore amendments to other HKFRS Accounting Standards arising from the issuance of HKFRS 18.

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