



Australian Government

Australian Accounting Standards Board

ED 338 Discussion: Application of AASB 18 *Presentation and Disclosure in Financial Statements* by NFP Tier 1 entities

18 February 2026





Polling question 1

Please indicate the type of organisation you represent.

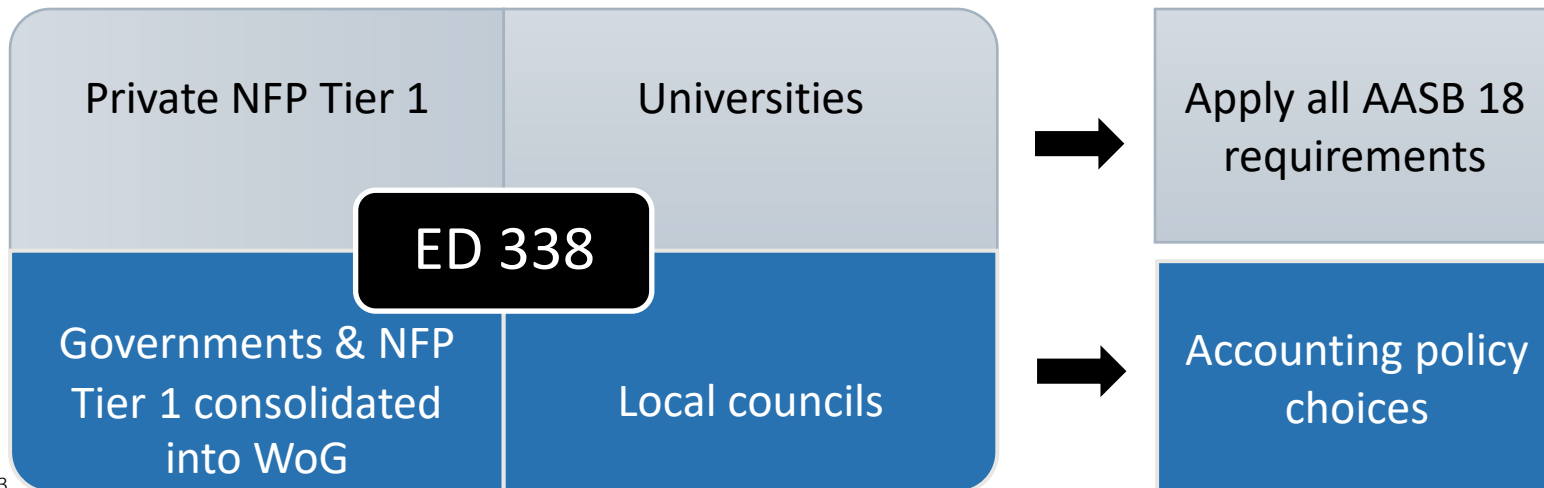




Introduction

AASB 18 → will replace AASB 101

- Applies to **NFP entities** for periods beginning on or after **1 January 2028**
- Introduces changes to presentation and disclosure requirements

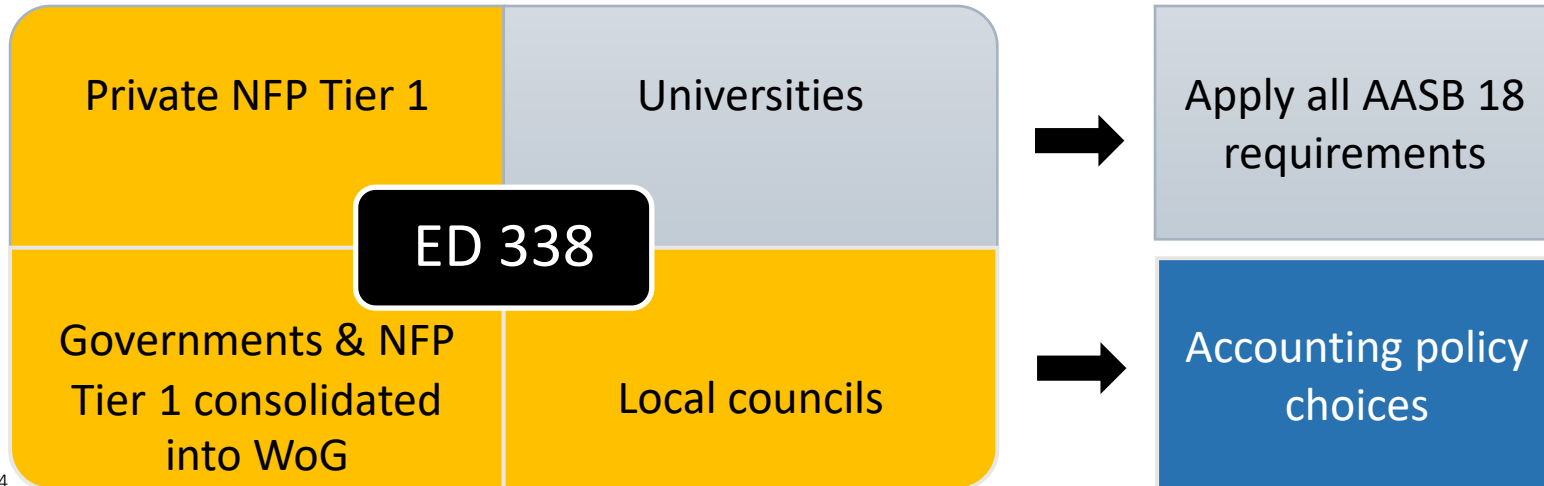




Introduction

AASB 18:

- Applies to **NFP entities** for periods beginning on or after **1 January 2028**
- Introduces changes to presentation and disclosure requirements





NFP Tier 2 entities and polling questions

AASB 18 application to Tier 2 entities has not yet been considered → ED anticipated in Q2 2026

Today's polling questions

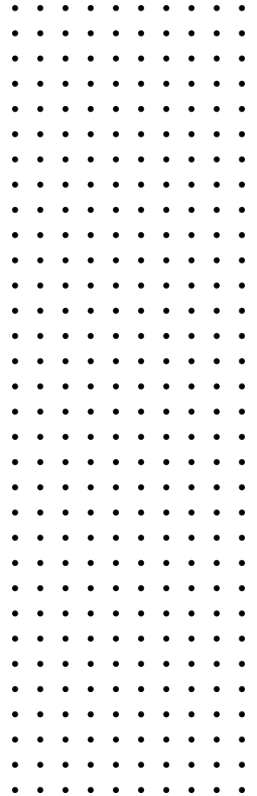
Q1	NFP private sector Tier 1 entities
Q2	NFP private sector Tier 2 entities
Q3	NFP public sector Tier 1 entities (including WoG and local councils)
Q4	NFP public sector Tier 2 entities

Option to
click
no
comment



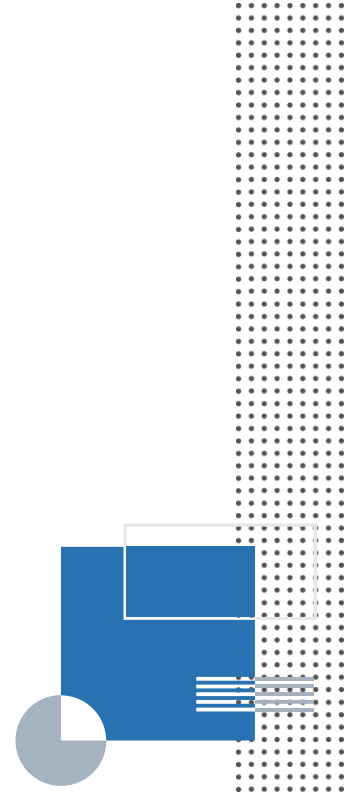
Topics for discussion

1. Objective of financial statements
2. Statement of profit or loss presentation
3. Presentation of operating expenses
4. Management-defined performance measures (MPMs)
5. Dividends and interest cash flow classification





Objective of financial statements





Objective of financial statements

- 9 The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the **prospects for future net cash inflows** to the entity and in assessing management's stewardship of the entity's economic resources.

Aus9.1

In respect of not-for-profit private sector and public sector entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with **the ability of the entity to achieve its objectives** (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows and management's stewardship of the entity's economic resources. Accordingly, where pertinent, references in this Standard to 'assessing prospects for future net cash inflows to the entity' and 'assessing management's stewardship of the entity's economic resources' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in the *Conceptual Framework for Financial Reporting* as identified in AASB 1048 *Interpretation of Standards*.



Polling question 2

Do you agree with adding paragraph Aus9.1?





Users of financial statements

B5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

AusB5.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). In relation to not-for-profit private sector and public sector entities, where pertinent, all references in this Standard to ‘existing and potential investors, lenders and other creditors’ (and related terms) should be read as a reference to this broader range of users.



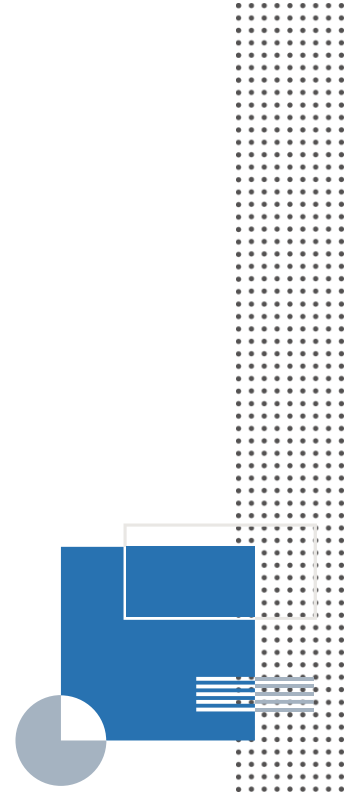
Polling question 3

Do you agree with adding paragraph AusB5.1?





Statement of profit or loss presentation





Income and expenses categories

47 An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):

- (a)** the operating category (see paragraph 52);
- (b)** the investing category (see paragraphs 53–58);
- (c)** the financing category (see paragraphs 59–66);
- (d)** the income taxes category (see paragraph 67); and
- (e)** the discontinued operations category (see paragraph 68).



Entities with specified main business activities

- 49 To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity – that is a main business activity of (see paragraphs B30–B41):
- (a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53);
or
 - (b) providing financing to customers.
- 50 Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the **operating category** some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.



Determining whether an entity has a specified main business activity

In general, investing in assets or providing financing to customers is **likely to be** a main business activity of an entity → if it uses a particular type of **subtotal** relating to investing or financing as an **important indicator of operating performance**.

Important indicators of operating performance might be subtotals that:

- Help explain operating performance externally; or
- Assess or monitor operating performance internally.



Polling question 4

Do you consider that NFP entities might have issues in determining whether they invest in assets or provide finance to customers as a main business activity?





Activities outside of specified main business activities

Operating

All income and expenses not classified in other categories

Investing

Income and expenses from

- investments in associates, JV, unconsolidated subs
- cash and cash equivalents
- other assets if they generate a return individually and largely independently of the entity's other resources

Financing

Income and expenses from

- Interests
- liabilities that arise from transactions that involve only the raising of finance
- **changes in interest rates** from liabilities that arise from transactions that do not involve only the raising of finance



Statement of profit or loss presentation

Extracted from the IASB's educational materials

Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expense
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit
Investing	Share of profit or loss of associates and joint ventures
	Other investment income
	Profit before financing and income tax
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before tax
	Income tax expense
	Profit



Operating category

*Staff-generated
NFP entity example
for illustrative
purposes only*

Operating

Revenue and income

Appropriations, grants

Sales of goods and services

Fees, charges, levies, rates, taxes, royalties

Assets and services received free of charge or for nominal consideration

Expenses

Employee expenses

Contracts for services, consultancies

Depreciation and amortisation

Grants and subsidies expenses

Lease expense (excluding interest)

Operating profit



Investing and financing categories

Staff-generated NFP entity example for illustrative purposes only

Investing	Interest income from the entity's cash and cash equivalents
	Dividend income
	Share of profit or loss of associates and joint ventures
Profit before financing and income tax	
Financing	Interest expense on borrowings
	Interest expense on lease liabilities
	Interest expense on defined benefit liabilities
	Interest expense on provisions
Profit before tax	
Income tax (or equivalent) expense	
Profit	



Income from grants, bequests or donations

NFP entities may receive grants, bequests or donations that are:

- undesignated or are designated as being for **operating purposes**
- designated as being for **capital purposes** – for example, to enable the entity to acquire or construct a recognisable non-financial asset.

How income designated as being for capital purposes is classified under AASB 18?



Polling question 5

Do you consider that NFP entities might have issues in determining how income designated as being for capital purposes is classified under AASB 18?





Statement of profit or loss – proposed relief for NFP public Tier 1

Statement of profit or loss

46 An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an Australian Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).

Aus46.1 For the purposes of paragraph 46 and notwithstanding paragraph 47:

- (a) ...; and
- (b) a not-for-profit public sector entity is not required to classify income and expenses into the operating, investing and financing categories in the statement of profit or loss. A not-for-profit public sector entity that elects to apply this relief shall not apply paragraphs 47–66, 69(a), 69(b), 70–74 and B30–B77. Such an entity shall treat references in this Standard to ‘operating expenses’ as expenses presented in the statement of profit or loss, including when applying paragraphs 75(a)(ii), 79–82 and 85.



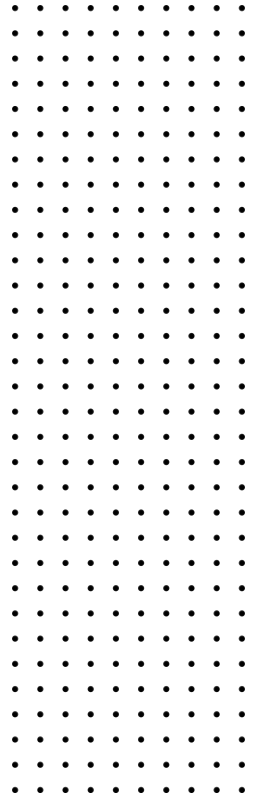
Reasons for proposing reliefs for NFP public sector Tier 1 entities

Users focus on service delivery over profitability, recurring vs non-recurring income and expenses

AASB 18 categories don't reflect how public sector operates → existing formats (e.g. net cost of services) meet user needs

Alignment with GFS is preferred for WoG consolidation and for comparability with budget papers

No issues with comparability within a jurisdiction → costs would outweigh benefits





Polling question 6

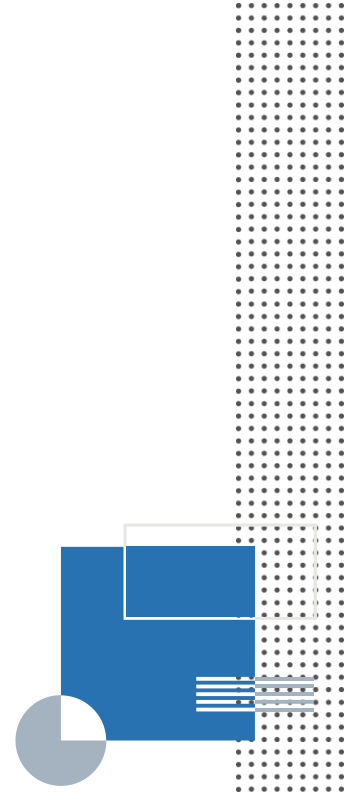
Do you agree:

- **NFP private sector** entities should be **required** to categorise income and expenses into the AASB 18 categories and present related subtotals?
- **NFP public sector** entities should be given an **accounting policy choice** to elect whether to categorise income and expenses into the AASB 18 categories and present related subtotals?





Presentation of operating expenses





Presentation of operating expenses

AASB 101

- 99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on **either their nature or their function** within the entity, whichever provides information that is **reliable and more relevant**.

AASB 18

- 78 In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the **most useful structured summary** of its expenses, using **one or both of these** characteristics (see paragraphs B80–B85):
- (a) the nature of expenses; or
 - (b) the function of the expenses within the entity.



Structured summary of expenses

AASB18.B80 requires an entity to consider:

- a) what line items provide the most useful information about the main components or drivers of the **entity's profitability**
- b) what line items most closely represent the **way the business is managed** and how management reports internally
- c) what standard **industry practice** entails
- d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a **faithful representation** of the functions



Proposed NFP guidance

AusB80.1

For the purposes of paragraph B80(a), consistent with paragraph Aus9.1, a not-for-profit private sector entity and a not-for-profit public sector entity electing to apply paragraph 78 shall consider what line items provide the most useful information to users of financial statements about the entity's operations or main activities.

Polling question 7: Do you agree with adding paragraph AusB80.1?



Proposed relief for NFP public sector Tier 1 entities

Aus78.1

Notwithstanding paragraph 78:

(a) ...; and

(b) a not-for-profit public sector entity is permitted to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. A not-for-profit public sector entity that elects to apply this paragraph shall not apply paragraphs 78 or B80–B82.

Consistent expense presentation
formats mandated by Treasuries

Expense by nature
aligns with GFS →
supports WoG
reporting

Propose accounting
policy choice to
permit Treasuries to
continue mandating a
consistent basis



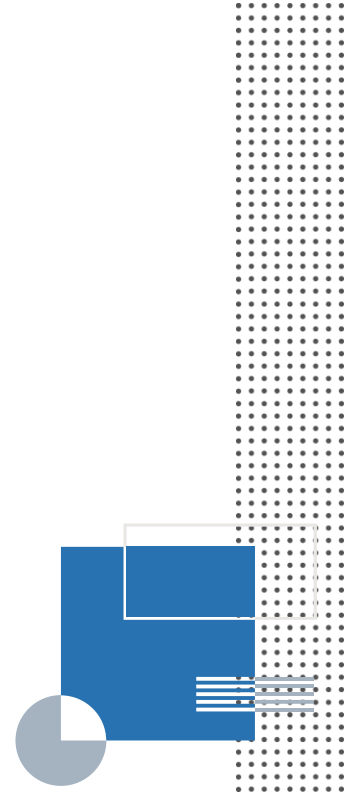
Polling question 8: Do you agree:

- **NFP private sector entities** should be **required** to apply the requirements to present expenses using nature and or function to provide a structured summary?
- **NFP public sector entities** should be given **accounting policy choice** to elect to continue presenting expenses by either nature or function presentation to provide reliable and relevant information, consistent with AASB 101.99?





Management-defined performance measures (MPMs)





Management-defined performance measures (MPMs)

117 *A management-defined performance measure is a subtotal of income and expenses that (see paragraphs B113–B122):*

- (a) an entity uses in public communications outside financial statements;**
- (b) an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole; and**
- (c) is not listed in paragraph 118, or specifically required to be presented or disclosed by Australian Accounting Standards.**

Adjusted profit e.g. EBITDA

Return on equity
Return on assets
Net debt
Free cash flow

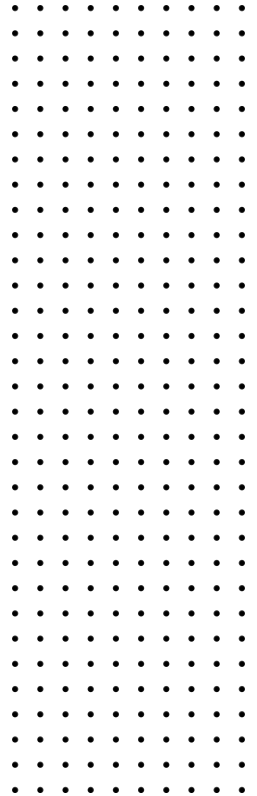
**✗ Not
MPMs**



Main AASB 18 MPM disclosure requirements

For each MPM, disclose:

- a description explaining how it **relates to the entity's financial performance** and **why it provides useful information**
- how it is **calculated**
- a **reconciliation** between the MPM and the most directly comparable subtotal required by Accounting Standards





MPMs – proposed relief for NFP public Tier 1

Aus117.1

Notwithstanding paragraphs 118–125 and B113–B142, a not-for-profit public sector entity is not required to identify and disclose information about management-defined performance measures.

IASB's concerns about alternative performance measures are less relevant in the NFP public sector → subtotals are well-defined and well-understood by users

Wide-range communication channels → Identifying every MPM would be costly and operationally burdensome → risk in assuring completeness of MPMs



Polling question 9

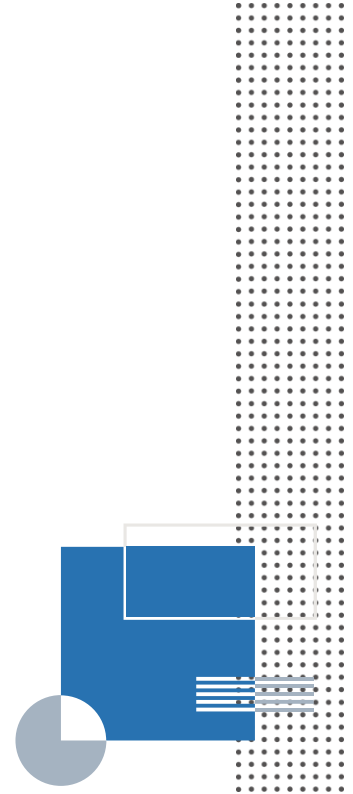
Do you agree:

- **NFP private sector** entities should be **required** to disclose information about MPMs?
- **NFP public sector** entities should be given **accounting policy choice** to elect whether to disclose MPM information?





Dividends and interest cash flow classification





Dividend and interest cash flows

Proposed requirement for
NFP private Tier 1

	Current classification choices	AASB 18 requirements	ED 338 proposal for NFP public Tier 1
Dividends paid	Operating or financing	Financing [AASB 107.33A]	Financing
Dividends received	Operating or investing	Investing [AASB 107.34A(b)]	Operating or investing
Interest paid	Operating or financing	Financing [AASB 107.34A(a)]	Operating or financing
Interest received	Operating or investing	Investing [AASB 107.34A(b)]	Operating or investing



Reasons for proposing reliefs for **NFP public sector Tier 1 entities**

Interest/dividend cash flows are used to fund operations

GFS requires dividend received and interest paid and received to be classified as operating cash flows



Polling question 10

Do you agree:

- **NFP private sector** entities should be **required** to classify dividends and interest cash flows in accordance with the revised AASB 107?
- **NFP public sector** entities should be permitted to continue classifying dividends received and interests paid and received as **operating** cash flows?





Effective date

Polling question 11

- Do you agree that AASB 18 should be applied by **NFP Tier 1** entities for **periods beginning on or after 1 January 2028** (earlier application permitted)?
- If AASB 18 presentation and classification requirements (including any relevant modifications) were to apply to **NFP Tier 2** entities, what would be an appropriate mandatory application date, assuming early adoption is permitted?





Next steps



ED 338 comments due 27 February, late submissions by 13 March



Written comments: www.aasb.gov.au/current-projects/open-for-comment



Email to standard@asb.gov.au



Polling question → enter contact details if you would like to provide further verbal feedback on ED 338





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