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Comment letter on Tentative Agenda Decision Scope of the Requirement to Disclose Expenses by Nature (IFRS 18)

Dear Members of the IFRS Interpretations Committee,

the Accounting Methodological Centre (AMC) appreciates the opportunity to comment on the Tentative Agenda Decision (TAD) on the scope of paragraph 83 of IFRS 18.

We understand that the Committee's technical conclusion is that paragraph 83 "contains no exceptions or exclusions" and therefore applies whenever an entity presents **any** line item comprising expenses classified by function in the operating category, including amounts required by IFRS 9 and IFRS 17 presented in that category.

We respectfully disagree that the existing wording of IFRS 18 provides an adequate basis to resolve this matter through a TAD. In our view, the question raised is not merely about "scope", but about **the conceptual meaning, usability and operability of paragraph 83(b)** when amounts are not expenses of the period and are instead capitalised into assets.

Our comments build on AMC's earlier response to ED/2019/7 (which later became IFRS 18), especially the point that an "analysis by nature" is **not an analysis of expenses**, but rather self-contained information about **changes in assets and liabilities** that must be presented in the statements regardless of whether these changes result in a decrease in equity or not. In that earlier submission we explained that presenting such information "inside P&L" as if it were an "expense analysis" is conceptually misleading and practically forces preparers into artificial reconciliation devices (for example, the infamous "changes in inventories of finished goods and work in progress"), and still does not solve the problem when costs are capitalised into raw materials or other assets such as PPE or intangibles.

1. Paragraph 83 mixes different information types and then requires a false "link" between them

IFRS 18 paragraph 83 requires two distinct disclosures:

(a) totals of depreciation, amortisation, employee benefits, impairment, and inventory write-downs (and reversals); and



(b) an allocation of each such total to each operating-category line item (plus identification of line items outside operating that also include amounts).

We agree that totals in paragraph 83(a) are generally useful for users. However, paragraph 83(b)(i) requires entities to present those totals **as if** they were meaningfully attributable to operating-category line items in the statement of profit or loss.

That may be workable only when the amounts in the total **are expenses recognised in profit or loss in the period** and are already part of the operating-category expense line items by design. But IFRS 18 itself explicitly contemplates that the amounts disclosed under paragraph 83 “**need not be the amounts recognised as an expense in the period**” and may include amounts capitalised into assets.

In other words, IFRS 18 openly acknowledges that paragraph 83 may capture amounts that are **not expenses of the period**. Yet paragraph 83(b)(i) still requires the preparer to present those amounts “related to each line item in the operating category”. This creates a structural inconsistency: paragraph 83(b) forces preparers **to mask information about capitalised costs as if it were information about expenses presented in P&L**.

2. The “qualitative explanation” in B84 does not fix the operability problem

Paragraph B84 says that if amounts disclosed applying paragraph 83(b) are not the amounts recognised as an expense in the period, the entity provides a qualitative explanation, identifying the assets involved.

But a qualitative explanation does not resolve the core issue: paragraph 83(b)(i) is still asking for a quantitative allocation to operating-category line items of amounts that, by definition, do not belong to those line items (because they were capitalised, not expensed).

The problem becomes particularly acute for manufacturing and other inventory-intensive entities. For example, depreciation and employee benefits may be included in:

- raw materials, work-in-progress, semi-finished goods, and finished goods inventories;
- multiple production stages; and
- multiple cost absorption bases.

Requiring an entity to “relate” capitalised depreciation to operating-category line items implies that the entity would need to track and “explain” the link between:

- depreciation included in inventories and the portion of those inventories sold during the period (affecting cost of sales), and
- depreciation still embedded in inventories on hand at different stages.

This is not simply burdensome; it is conceptually a different analytical model than the statement of profit or loss is designed to provide.

Indeed, our earlier ED/2019/7 comments explained why such attempts inevitably produce artificial “reconciliation tricks” and still do not overcome the underlying mathematics—especially when amounts are capitalised into PPE or intangibles, where the logic would push preparers toward additional “changes in fixed assets” adjustments, moving the disclosure far away from what users understand as profit or loss for the period.

3. The TAD addresses “scope” but not the real question: why would users benefit from this forced linkage?

The request to the Committee (as we understand it) was likely driven not by uncertainty about the literal wording of paragraph 83, but by the fact that complying with paragraph 83(b) in cases involving capitalised amounts is **not realistically achievable in a meaningful way**, and—crucially—it is unclear what user need such a linkage serves.



Our concern is not that users do not need information about cost structure “by nature”. Users often do. But cost structure “by nature” for the period describes resource consumption and cost accumulation, much of which is capitalised and will affect profit or loss in future periods. Treating this as “expense analysis” in relation to operating-category line items conflates two different types of information:

- information about expenses recognised in profit or loss (changes in equity), and
- information about changes in assets and liabilities (cost accumulation, capitalisation), which may not change equity in the period.

Essentially, we're talking about two different sides of the accounting double entry – debit and credit. A more accurate name for the analysis by function is the analysis of the debit side. And the analysis by nature is actually the analysis of the credit side.

From a user perspective, presenting one type of information “under the guise” of another can reduce understandability and comparability. Users may interpret paragraph 83(b) allocations as implying that the disclosed “depreciation” is an expense of the period included in those P&L line items, even when it is not.

4. Interaction with IFRS 9 / IFRS 17 highlights why this is a standard-setting issue, not a TAD issue

The TAD emphasises that the reason for classifying an expense by function is irrelevant and that paragraph 83 applies also to line items required by IFRS 9 and IFRS 17.

However, the question described in the submission (as summarised in the TAD) indicates that IFRS 17 insurance service expense might include amortisation of acquisition costs that were previously capitalised as part of insurance contract assets. This is precisely the kind of fact pattern where:

- the “total” in paragraph 83(a) may include components not recognised as expenses in the period (or components whose “expense” presentation is itself a specialised model), and
- paragraph 83(b) then demands a “relation” to operating-category line items that risks being arbitrary or misleading.

This again suggests that paragraph 83(b) needs clarification, relief, or redesign through standard-setting, rather than a confirmation of a literal “no exceptions” reading.

5. What we ask the Committee and the Board to do

Because the matter affects the meaning, operability and faithful representation of required disclosures, we do not believe the Committee should finalise the TAD as drafted.

Instead, we urge the Committee to recommend that the IASB undertake standard-setting (or an Interpretation) to clarify one of the following directions (or another solution that addresses the same root problem):

1. Limit paragraph 83(b)(i) to amounts recognised as expenses in profit or loss in the period, while allowing (or requiring) capitalised components to be disclosed separately by asset class (inventories, PPE, intangibles, insurance contract assets, etc.); or
2. Permit/require the paragraph 83(a) totals as a cost-structure disclosure without requiring the forced allocation to operating-category line items when such allocation would be arbitrary, not representationally faithful, or would require tracking through inventories and other asset capitalisation flows; or
3. Provide a principle-based approach for when and how an entity “relates” totals to P&L line items, distinguishing between (i) expenses of the period and (ii) cost accumulation capitalised into assets.



In our view, these are not drafting “scope” questions that can be closed by stating that paragraph 83 has “no exceptions”. They require the Board to decide what the disclosure is intended to represent and how it should interact with capitalisation mechanics across IFRS Accounting Standards.

We appreciate the Committee’s work on IFRS 18 implementation questions. We would be pleased to discuss our comments with the Committee or the staff, including through examples from manufacturing and other sectors where the capitalisation issue is fundamental.

Yours faithfully,

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Director