

May 2024

Welcoming IFRS 18 Presentation Disclosure in Financial Statements

IFRS 18 will not affect the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'.



Overview

IFRS 18 "Presentation and Disclosure in financial statements" issued in April 2024 "replaces IAS 1 'Presentation of Financial Statements'". IFRS 18 introduces a defined structure of the statement of profit or loss, required disclosures for management-defined performance measures and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general. IFRS 18 will also introduce some limited changes to the presentation and disclosure in the financial statements. Specifically, certain modifications will be made to the presentation in the statement of cash flows.

Though IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not affect the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. The IASB has issued IFRS 18 in response to investors' concerns regarding the comparability and transparency of entities' performance reporting. The new requirements introduced in IFRS 18 will help to achieve comparability of the financial performance of similar

entities, especially related to how 'operating profit or loss' is defined. The new disclosures required for some management-defined performance measures will also enhance transparency.

Key Changes

The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

In the statement of profit or loss, companies net profit will not change, what is changing is:

- new subtotals with the key change being the mandatory addition of 'operating profit or loss. Other needed subtotals include 'profit or loss' and 'profit or loss before financing and income taxes.

- incomes and expenses classified into one of five categories: operating, investing, financing, income taxes and discontinued operations.

Management may develop its own performance measures, also known as ‘alternative performance measures’ or ‘non- GAAP measures’. IFRS 18 defines a subset of these measures which relate to an entity’s financial performance as management-defined performance measures (‘MPMs’). Information related to these MPMs will be disclosed in the financial statements.

IFRS 18 provides more guidance on the principles of aggregation and disaggregation, which focus on grouping items based on common features. These principles are applied across the financial statements, and they are used in determining which line items are presented in the primary financial statements and what information is disclosed in the notes.

Other limited changes

The statement of cash flows is revised to use ‘operating profit or loss’ as a starting point for reconciling cash flows from operating activities, and the existing choices for presenting interest and dividend paid and received are eliminated.



When does it apply?

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. Retrospective application is required, and so comparative information needs to be prepared under IFRS 18.

Who is impacted?

All entities reporting under IFRS Accounting Standards will be impacted.

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